



Issue: Number 150
Date: 20 April 2012
Subject: AASB Meeting 123, 18-19 April 2012

1. Overview

At this meeting the Board discussed key not-for-profit (NFP) issues relating to:

- (a) control in the NFP public and private sectors (see section 2);
- (b) income from transactions of NFP entities (see section 3);
- (c) service performance reporting (see section 4);
- (d) NFP entities within the general government sector (see section 5); and
- (e) accounting for the carbon tax – government perspective (see section 6).

The Board also:

- (a) formed views to be included in its submission to the IPSASB on its Conceptual Framework Consultation Paper relating to Presentation (see section 7);
- (b) continued to monitor and form views on IASB projects addressing: Leases (see section 8); Financial Instruments (see section 9); and Insurance Contracts (see section 10);
- (c) made decisions relating to the Reduced Disclosure Regime – Tier 2 Amendments to Standards (see section 11) and received a report on the Differential Reporting research project (see section 12);
- (d) considered and formed views on its tentative Agenda Decision on resource rent taxes (see section 13);
- (e) received reports relating to the IFRS Interpretations Committee's March 2012 meeting (see section 14) and the IPSASB's March 2012 meeting (see section 15); and
- (f) considered EFRAG's Discussion Paper on business combinations under common control (see section 16).

Emerging issues are noted in section 17. A recently approved document is noted in section 18, and documents open for comment are listed in section 19.

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2. Control in the NFP Public and Private Sectors

The Board considered a revised draft ED that will propose Australian NFP entity implementation guidance for inclusion in AASB 10 *Consolidated Financial Statements*. The Board decided that the implementation guidance should be proposed as a separate appendix, integral to AASB 10. The Board also decided to propose in the ED the removal of the prohibition on early application of AASB 10 (and the related Standards) by NFP entities.

The Board also discussed with Associate Professor Bryan Howieson his reports addressing the findings from his research into control in the NFP public and private sectors.

3. Income from Transactions of NFP Entities

The Board considered a working draft of an ED entitled *Income from Transactions of Not-for-Profit Entities* and decided that:

- (a) as illustrated in the working draft ED, the ED should incorporate IASB ED/2011/6 *Revenue from Contracts with Customers* and NFP-specific modifications;
- (b) the ED should not apply to income recognised under the requirements of another Australian Accounting Standard, for example, income recognised from remeasurements of assets under AASB 140 *Investment Property* or AASB 141 *Agriculture*, and foreign currency gains recognised under AASB 121 *The Effects of Changes in Foreign Exchange Rates*;
- (c) the ED should apply to income from taxable events;
- (d) consistently with IASB ED/2011/6, the ED should propose that non-cash consideration received is to be measured at fair value;
- (e) the ED should propose that, when a NFP entity recognises a financial asset or financial liability arising from a transaction that includes a donation, the donation should be recognised for the difference between the transaction price and the fair value of the financial asset or financial liability plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability;
- (f) the ED should propose a NFP-specific amendment to paragraph B5.4.8 of AASB 9 *Financial Instruments* to facilitate the proposal in paragraph (e) above;
- (g) consistently with IASB ED/2011/6, the ED should propose that a NFP entity's promise to provide goods or services must be enforceable against the entity to qualify as a performance obligation. The promise must also be 'sufficiently specific' to qualify as a performance obligation;

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- (h) the ED should propose that the total amount of a NFP entity's performance obligations arising from a transaction or arrangement is to be measured at fair value, leading to immediate recognition of any donation component of the transaction or arrangement as income. To allocate that fair value amount to the separate performance obligations, the NFP entity would apply without modification the relative stand-alone selling price basis proposed in IASB ED/2011/6; and
- (i) the ED should not propose any amendments to the requirements for the recognition and disclosure of volunteer services received in AASB 1004 *Contributions*. However, the ED should propose permitting a NFP entity to elect to recognise as assets and income volunteer services that meet the general recognition criteria for assets.

The Board decided that the effective date of the Standard developed from the ED should be the same as the effective date of the IFRS on *Revenue from Contracts with Customers*, with early application permitted. The Board noted that, if the IFRS is issued after 31 December 2012, its effective date would be likely to be 1 January 2016.

The Board's goal is to approve the ED for issue in June 2012, to facilitate the issuance of a Standard on Income from Transactions of NFP Entities either as part of the Australian Accounting Standard incorporating the IFRS on *Revenue from Contracts with Customers* or contemporaneously with that Standard.

4. Service Performance Reporting

The Board considered two papers designed to form a basis for developing principles for service performance reporting. The first paper addresses issues relating to a robust articulation of service performance reporting, such as whether that articulation should be in the form of a definition or a description. The second paper addresses users of service performance information and the purposes for which users require that information.

In relation to the first paper, the Board decided to initially describe service performance reporting as incorporating the following aspects:

- (a) the objectives of an entity;
- (b) obtaining and using resources;
- (c) providing outputs;
- (d) achieving outcomes; and
- (e) an entity's ability to continue to provide intended goods and services (i.e. sustainability).

As the project progresses, the description could develop further and form the basis for a robust definition.

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In relation to the second paper, the Board decided:

- (a) the users of service performance information are the same users as those outlined in the AASB Conceptual Framework, which could be articulated using more inclusive terminology. For example, 'investors' could be described as 'resource providers'; and
- (b) the purposes for which users require service performance information are to determine:
 - (i) whether the entity is performing efficiently and effectively against its objectives and is meeting or is able to meet the needs of its service recipients;
 - (ii) whether to commence or continue providing resources;
 - (iii) the amount of resources to contribute to support the entity's objectives; and
 - (iv) whether the entity will be able to continue to provide intended goods and services in future periods.

5. NFP Entities within the General Government Sector

The Board considered Part 1 of the collation of comments on ED 212 *Not-for-Profit Entities within the General Government Sector*, which focuses on the proposal to limit GAAP recognition and measurement options to those that align with GFS. The Board discussed various concerns arising from submissions, including those relating to implementation and ongoing costs, and transaction neutrality issues within the public sector and between sectors, tentatively deciding not to proceed with the proposal.

6. Carbon Tax – Government Perspective

The Board considered an issues paper relating to a staff paper being developed on the financial reporting implications of the carbon price mechanism for the Australian Government as scheme administrator and issuer of permits during the fixed-price phase. The purpose of the staff paper is to identify factors relevant to determining the appropriate accounting treatments for both emitter entities and the Government under existing Australian Accounting Standards.

The Board suggested revisions to the draft staff paper in relation to measuring liabilities arising from the sale of permits, the nature of shortfall charges and accounting issues relating to Australian Carbon Credit Units.

The staff noted that they plan to prepare a final draft of the staff paper for discussion at the June 2012 Board meeting.

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7. IPSASB – Conceptual Framework – Presentation

The Board considered the key issues arising from the IPSASB Conceptual Framework Consultation Paper entitled *Presentation in General Purpose Financial Reports*, for the purpose of making a submission to the IPSASB on that Paper. The Board decided its submission should comment that:

- (a) it does not support the Paper's proposal to use 'presentation' as the term that encompasses the selection, location and organisation of information in general purpose financial reports (GPFRs);
- (b) it does not support the Paper's proposed distinctions between 'core' and 'supporting' information and between 'display' and 'disclosure' of information in GPFRs;
- (c) decisions about presentation and disclosure principles should be preceded by decisions about the economic phenomena to be presented and disclosed. The IPSASB's work to date on its draft Conceptual Framework has not attempted to identify those economic phenomena in a structured manner. The Board decided to recommend that, to facilitate developing a coherent set of objective-driven (rather than topic-driven) disclosures, the IPSASB should identify the general characteristics of an entity (economic phenomena) that should be the subject of general purpose financial reporting; and
- (d) applying the qualitative characteristics of useful financial information would not, of itself, identify the information that should be presented and disclosed. The qualitative characteristics should be applied to information about the general characteristics of an entity, and therefore are not a substitute for identifying those economic phenomena.

8. Leases

The Board received an update on the tentative decisions made by the IASB and the FASB in their February 2012 meeting on the Leases project. The Board concluded that, whilst it has concerns about some aspects of the recent decisions, none of those decisions gave it cause to write to the IASB at this stage, given the IASB's decision to re-expose the Leases proposals in the second half of 2012.

9. Financial Instruments

The Board received an update on the IASB's deliberations on improvements to IFRS 9 *Financial Instruments* in respect of the cash flow characteristics test for classification of financial assets at amortised cost, and bifurcation of financial assets.

10. Insurance Contracts

The Board discussed the IASB's progress on its insurance contracts project, in particular, on the issues of whether there is one measurement model or two for insurance contract liabilities, the contract boundary, and

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the potential recognition of some components of the change in insurance contract liabilities in other comprehensive income (OCI).

The Board decided to inform the IASB of its concerns on a number of matters, including the potential recognition of some components of the change in insurance contract liabilities in OCI and the related potential amendment to IFRS 9 being considered by the IASB in relation to the measurement models available for financial assets.

11. Reduced Disclosure Regime – Tier 2 Amendments to Standards

Significant judgements and assumptions

The Board considered a staff analysis of examples applying different approaches to disclosures relating to significant judgements and assumptions for the purposes of Tier 2 requirements, as a basis for developing a principle that can be applied consistently in the future. The Board decided to retain disclosure requirements relating to significant judgements and assumptions where they meet the needs of users as outlined in the Tier 2 Disclosure Principles without significantly increasing costs. The Board decided each disclosure should be assessed on a case-by-case basis, which is consistent with the Tier 2 analysis performed for all other disclosure requirements.

Exposure Drafts

The Board considered submissions received on a number of EDs with a view to finalising Tier 2 disclosure requirements. The Board supported the proposals in the EDs except as identified below. An Amending Standard or Standards will now be prepared to implement the Board's final decisions.

ED 216 AASB 12 Disclosure of Interests in Other Entities: Tier 2 proposals

In contrast to the proposals in ED 216, for the purposes of the Reduced Disclosure Requirements, the Board decided to:

- (a) retain paragraphs 15 and 17 of AASB 12, which relate to information about financial support for consolidated structured entities; and
- (b) exclude paragraph 20(b) of AASB 12, which relates to information about risks associated with interests in joint ventures and associates.

ED 217 AASB 127 Separate Financial Statements: Tier 2 proposals

The Board decided to finalise the proposals in ED 217 with one clarifying editorial amendment to paragraph RDR17.1.

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ED 218 Presentation of Items of Other Comprehensive Income: Tier 2 Proposals

The Board decided to finalise the proposals in ED 218 without amendment.

Tier 2 Supplement to ED 222 Revenue from Contracts with Customers

The Board tentatively decided to finalise the proposals in the Tier 2 Supplement to ED 222 without amendment, subject to any substantive changes made by the IASB to the proposed disclosure requirements in IASB ED/2011/6 *Revenue from Contracts with Customers*.

ED 207 Amendments to AASB 7: Tier 2

In contrast to the proposals in ED 207, for the purposes of the Reduced Disclosure Requirements, the Board decided to:

- (a) exclude paragraphs 10(a) and 10(c) of AASB 7, which relate to information about the effects of changes in credit risk of financial liabilities designated at fair value through profit or loss;
- (b) exclude paragraphs 29 and 30 of AASB 7, which relate to situations when fair value information is not required;
- (c) retain paragraphs 42A, 42B(b), 42D(c) and 42E(c) of AASB 7, which relate to information about transferred financial assets;
- (d) amend the RDR footnote in AASB 7 to clarify cross-references to paragraphs that are only partially excluded from Tier 2 requirements;
- (e) exclude paragraph 82(aa) of AASB 101, which relates to information about gains and losses from derecognised financial assets measured at amortised cost; and
- (f) retain paragraph 82(ca) of AASB 101, which relates to information about any gain or loss arising on reclassifying a financial asset so that it is measured at fair value.

12. Differential Reporting Research Project

The Board received a preliminary draft of a report on the differential reporting research project, which was initiated to address whether the population of non-reporting entities has consistent characteristics and the nature of the accounting policies adopted by non-reporting entities. The draft report focuses on the reporting practices of entities that lodge financial statements with the Australian Securities and Investments Commission under the *Corporations Act 2001*.

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The draft report, among other things, includes the researchers' preliminary findings about:

- (a) the consistency in the population of entities currently being treated as non-reporting entities based on the criteria in SAC 1 *Definition of the Reporting Entity*; and
- (b) the quality of the financial statements of those entities based on the nature of the accounting policies adopted and other factors.

The Board asked the researchers to provide more information on the nature and degree of compliance with recognition and measurement requirements of Australian Accounting Standards by those non-reporting entities that the draft report has identified as not being fully compliant.

The research is continuing, and will include extending statistical tests to further samples of some categories of entities lodging under the Corporations Act. Similar research is also in progress in relation to financial statement practices of entities lodging with state registrars for Cooperatives and Associations.

13. Resource Rent Taxes

The Board discussed whether to proceed with issuing a formal Board Agenda Decision on accounting for the starting base allowance market value uplift, in light of the IFRS Interpretations Committee issuing a Tentative Agenda Decision. Because the IFRS Interpretations Committee is expected to finalise its Tentative Agenda Decision at its July 2012 meeting, the Board decided its own Agenda Decision is not needed as it would only give the same message.

14. IFRS Interpretations Committee

The Board received a report on the tentative decisions made by the IFRS Interpretations Committee at its March 2012 meeting. The Board decided there were no issues that should be raised with the Committee at this stage.

15. IPSASB Report

The Board received a report on the March 2012 meeting of the IPSASB, particularly noting the following:

- (a) progress on various IPSASB projects (including the Conceptual Framework, Entity Combinations, Financial Statement Discussion and Analysis, and First-time Adoption of IPSASs);
- (b) the IPSASB intends to consult with constituents on projects that should be added to its work program in 2013-14;
- (c) proposals by the Monitoring Group and the Public Interest Oversight Board concerning their governance arrangements make reference to the possibility of expanding their remit to cover the IPSASB; and

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- (d) the International Federation of Accountants (IFAC) has issued Policy Position 4, *Public Sector Financial Management Transparency and Accountability: The Use of International Public Sector Accounting Standards* (March 2012).

16. EFRAG Discussion Paper – Business Combinations Under Common Control

The Board decided that the staff should provide comments to EFRAG on its Discussion Paper *Accounting for Business Combinations under Common Control*.

17. Emerging Issues

Substantive enactment

The Board noted emerging issues relating to the determination of substantive enactment and decided to confirm its project to review AASB Interpretation 1039 *Substantive Enactment of Major Tax Bills* in light of the meaning of ‘substantive enactment’ under IFRS.

Employee benefits discount rate

The Board noted that existing practice in determining the discount rate to be used in measuring long-term employee benefit liabilities under AASB 119 *Employee Benefits* appears generally consistent, but decided to monitor practice for any emerging divergence.

18. Recently Approved Document

Since its February 2012 meeting, the Board approved out of session AASB 2012-1 *Amendments to Australian Accounting Standards – Fair Value Measurement – Reduced Disclosure Requirements*, effective from 1 July 2013 with early application permitted.

19. Documents Open for Comment

The following documents are open for comment. AASB submissions are published on the AASB website.

Originating Organisation	Document	AASB No.	AASB Due Date	Other Organisation Due Date
AASB	Disclosures on Transition to AASB 9 [proposed amendments to AASB 9 (December 2009), AASB 9 (December 2010) and AASB 7] (Invitation to Comment)	ITC 26	20 April 2012	–
AASB	Superannuation Entities	ED 223	30 April 2012	–

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Originating Organisation	Document	AASB No.	AASB Due Date	Other Organisation Due Date
EFRAG	Accounting for Business Combinations Under Common Control (Discussion Paper)	–	–	30 April 2012
IPSASB	Conceptual Framework – Presentation in General Purpose Financial Reports (Consultation Paper)	–	–	31 May 2012
EFRAG	Improving the Financial Reporting of Income Tax (Discussion Paper)	–	–	29 June 2012
IPSASB	Financial Statement Discussion & Analysis (Exposure Draft)	–	–	31 July 2012

20. Board Minutes

The Board approved the minutes of Meeting 122, held on 15-16 February 2012. These are now available on the AASB website.

21. Next Meeting – 6-7 June 2012

It is expected the Board will deal with the following items:

- Not-for-Profit Entities within the General Government Sector – further issues for re-deliberation
- Income from Transactions of NFP Entities – sweep issues
- Control in the NFP Public and Private Sectors – sweep issues
- Related Party Disclosures – NFP Public Sector – collation of ED and Roundtable comments
- Service Concession Arrangements – Grantors
- Carbon Tax
- Superannuation Entities – collation of ED and Roundtable comments
- Financial Instruments
- Consolidation – Investment Entities
- Leases
- Income Tax – substantive enactment and EFRAG discussion paper
- AASB Business Plan (to be considered in private)

22. Future Meetings

The remaining 2012 meeting dates are:

- 6-7 June

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- 25-26 July
- 5-6 September
- 31 October – 1 November
- 12-13 December

The meeting dates currently scheduled for 2013 are:

- 21-22 February
- 10-11 April
- 29-30 May
- 16-17 July
- 4-5 September
- 23-24 October
- 11-12 December

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