



Subject: Minutes of the 123rd meeting of the AASB
Venue: Ken Spencer Room, AASB offices
Level 7, 600 Bourke St, Melbourne
Time(s): Wednesday 18 April 2012 from 9.00 a.m. to 5.30 p.m.
Thursday 19 April 2012 from 8.30 a.m. to 3.15 p.m.

All agenda items except items 1 and 21 were discussed in public.

Attendance

Members	Kevin Stevenson (Chairman) Kris Peach (Deputy Chair) Victor Clarke Anna Crawford Jayne Godfrey Sue Highland John O'Grady (from 9.40 a.m., day 1) Liane Papaelias Carmen Ridley Roger Sexton (until 2.00 p.m., day 2) Robert Williams
Apologies	Michelle Embling Ian McPhee (Deputy Chair) Brett Rix
In Attendance: Staff	Clark Anstis (in part) Mischa Ginns (in part) Nikole Gyles (in part) Ahmad Hamidi Ravari (in part) Gunter Leng (in part) Sue Lightfoot (in part) Christina Ng (items 6, 14 and 15) (by telephone) Shu In Oei (in part) Angus Thomson
Other	Bryan Howieson (item 6) Brett Kaufmann (item 8) Peter Carey (item 11) Brad Potter (item 11) George Tanewski (item 11)
Other Apologies	Joanna Perry (Observer) Tim Youngberry (Observer) Peter Batten Robert Keys

Agenda, Declaration of Interests and Chairman's Report

Agenda item 13 was not used at this meeting.

Agenda Item 1

Declarations of Interest

Members indicated that, in the normal course of their day-to-day professional responsibilities, they deal with a broad range of financial reporting issues. Members have adopted the standing policy in respect of declarations of interest that a specific declaration will be made where there is a particular interest in an issue before the Board. Roger Sexton advised that he has recently become a member of the board of Perennial Investment Partners.

Chairman's Report

2013 meeting dates

The Chairman noted that seven meetings are proposed for calendar 2013, as outlined in agenda paper 1.2.

Asian-Oceanian Standard-Setters Group (AOSSG)

An informal AOSSG meeting was held in Kuala Lumpur on 25 March 2012 and members and IASB representatives discussed recent IFRS developments, a protocol on new AOSSG members, the strategy of building standard-setting capacity in the region and a progress report on planning for the 2012 annual AOSSG meeting in Nepal. The Chairman, John O'Grady, Angus Thomson and Christina Ng participated in the meeting.

The Chairman noted that in late April and early May 2012 he will be traveling to:

- Nepal to discuss progress on the AOSSG 2013 Annual meeting arrangements and the ideas for a centre of excellence on building standard-setting capacity in developing jurisdictions;
- Saudi Arabia to attend and present at a conference on IFRS; and
- Dubai to attend and present at a conference on IFRS.

Regional Policy Forum

The sixth Regional Policy Forum was held in Kuala Lumpur on 26 and 27 March 2012 and representatives from the IASB, treasuries/finance departments, securities regulators, standard-setters, standard-setting oversight bodies, users, auditors from many jurisdictions in the region discussed policy-level issues. Lynn Wood, FRC Chair presented at the Forum. The Chairman, John O'Grady, Robert Keys, Angus Thomson and Christina Ng attended the Forum.

International Forum of Accounting Standard-Setters (IFASS – formerly the National Standard-Setters Group)

An IFASS meeting was held in Kuala Lumpur on 29 and 30 March 2012. AASB staff presented on a revised draft Model for National Standard-Setters intended to outline the key characteristics to which a national accounting standard-setter should aspire. The Forum decided to issue the Model as a draft on members'



websites after a further out-of-session review process. Finalisation of the Model will await the outcome of a review of the IASB's Statement of Best Practice *Working Relationship between the IASB and other Accounting Standard-Setters*. The AASB Chairman presented on a process for electing the Chair of the IFASS. The FASB representatives outlined current developments at the US Securities and Exchange Commission in respect of a potential decision about IFRS adoption. The Chairman, John O'Grady, Robert Keys, Angus Thomson and Christina Ng attended the Forum.

Regional Bodies meeting

A meeting of the Regional Bodies was held in Kuala Lumpur on 29 March 2012 and representatives of the AOSSG, Group of Latin American Standard-Setters (GLASS), the European Financial Reporting Advisory Group (EFRAG), the Pan-African Accounting Federation (PAFA) and the US Financial Accounting Standards Board (FASB) discussed how they might best liaise with one another and with the IASB. The meeting was attended by the Chairman, Robert Keys and Angus Thomson.

IFRS Regional Conference

The Chairman, Angus Thomson, Robert Keys and Christina Ng participated in an IFRS Regional Conference in Kuala Lumpur on 28 March 2012.

Investment Entities Roundtable

The Chairman participated in an IASB/FASB Investment Entities Roundtable in Kuala Lumpur on 28 March 2012 and Angus Thomson and Christina Ng attended as observers.

Outreach session on Revenue Recognition

The Chairman participated in an IASB/FASB outreach session on Revenue Recognition in Kuala Lumpur on 30 March 2012 and Angus Thomson, Robert Keys and Christina Ng attended as observers.

Revenue Recognition Roundtable – Tokyo

The Chairman participated in an IASB/FASB Revenue Recognition Roundtable in Tokyo on 4 May 2012 as AOSSG Chairman and Nikole Gyles participated as an AASB staff representative.

IFRS Advisory Council

The Chairman noted that he has been invited to contribute to a paper to the IFRS Advisory Council meeting, to be held on 18-19 June 2012, on improving the involvement of regional groups such as the AOSSG in the IASB's standard-setting process. He has also been invited to attend that Council meeting.

Financial Reporting Council

The Chairman noted that he had attended the FRC meeting on 9 March 2012 and reminded the Board about the FRC task forces on integrated reporting, complexity and the public sector. He noted the next FRC meeting is scheduled for 29 May 2012.



Australian Charities and Not-for-Profit Commission

The Chairman noted that he, Kris Peach, Robert Keys and Mischa Ginns have been liaising with the ACNC Taskforce, ACNC staff and relevant Treasury staff on financial reporting issues, including the reporting requirements that might apply to each of the three tiers of entity types the ACNC has identified.

Australian Bureau of Statistics

The Chairman noted that Robert Keys and Shu In Oei have been liaising with ABS staff and that this is intended to become a regular occurrence to help ensure that GAAP/GFS harmonisation issues are considered as they arise.

Superannuation Roundtables

Angus Thomson noted that the AASB conducted Roundtables on ED 223 *Superannuation Entities* on 12 April (Sydney) and 13 April (Melbourne) 2012 which were well-attended by a wide range of constituents and that the feedback obtained, together with written submissions (due by 30 April 2012) should greatly assist the Board in its re-deliberations on ED 223. He also thanked Anna Crawford and Sue Highland for attending the Roundtables.

Apologies, Minutes and Approvals Out of Session

Agenda Item 2

Apologies

Apologies were noted for Michelle Embling, Ian Mcphee and Brett Rix.

Minutes

The Board approved the minutes of the one hundred and twenty-second meeting held on 15-16 February 2012. There were no matters arising not otherwise addressed in the agenda.

Approvals Out of Session

The Board had before it a Voting Summary (Board only) (agenda paper 2.2). The Board noted its unanimous approval.

Other Business

Agenda Item 3

The Board had before it:

- (a) a memorandum from Gunter Leng, Peter Batten and Robert Keys dated 2 April 2012 re: Work Program and Consultation Submissions Pipeline (agenda paper 3.1);
- (b) Summary of AASB Work Program (March 2012) (agenda paper 3.1.1);
- (c) Detailed AASB Work Program (March 2012) (agenda paper 3.1.2);
- (d) Consultation Submissions Pipeline Report (31 March 2012) (Board only) (agenda paper 3.1.3);



- (e) AASB Sub-committee membership listing as at 31 March 2012 (Board only) (agenda paper 3.2);
- (f) A memorandum from Peter Batten dated 2 April 2012 re the ACNC Nominee to the Service Performance Reporting Sub-committee positions (Board only) (agenda paper 3.2.1);
- (g) IFRS Advisory Council Meeting, 20-21 February 2012: Notes prepared by Judith Downes (Confidential, Board only) (agenda paper 3.3);
- (h) Letter from AASB Chairman and CEO dated 27 February 2012 to Susan Pascoe AM, Interim Commissioner and Head, Australian Charities and Not-for-profits Commission Implementation Taskforce re: Discussion Paper *Australian Charities and Not-for-profits Commission: Implementation design* (agenda paper 3.4);
- (i) AASB Communications Report (Board only) (agenda paper 3.5, tabled);
- (j) Letter from AASB Chairman and CEO dated 14 March 2012 to the IASB Chairman re: *IASB Exposure Draft ED/2011/6 Revenue from Contracts with Customers* (agenda paper 3.6);
- (k) Article from Financial Times (14 March 2012), by Adam Jones, Accountancy Correspondent re: *FRC set for reform as critics thwarted* (agenda paper 3.7);
- (l) Letter from AASB Chairman and CEO dated 2 April 2012 to the IASB Chairman re: *Investment Entities* (agenda paper 3.8);
- (m) Media Release re AOSSG Informal Meeting on 25 March 2012 in Kuala Lumpur (agenda paper 3.9);
- (n) Communique re 6th Regional Policy Forum on 26-27 March 2012 in Kuala Lumpur (agenda paper 3.10);
- (o) Letter from AASB Chairman and CEO dated 3 April 2012 to Mr Maijoor, Chair European Securities and Markets Authority re Consultation Paper Considerations of Materiality in Financial Reporting (agenda paper 3.11);
- (p) Letter from AASB Chairman and CEO dated 30 March 2012 to International Accounting Standards Board Chairman re IASB Exposure Draft ED/2011/7 *Transition Guidance* (Proposed amendments to IFRS 10) (agenda paper 3.12).
- (q) Letter from AASB Chairman and CEO dated 5 April 2012 to Technical Director, International Public Sector Accounting Standards Board re IPSASB Exposure Draft 46 *Reporting on the Long Term Sustainability of a Public Sector Entity's Finances* (agenda paper 3.13);
- (r) AASB staff comments to ABS on draft Chapter 2 of IMF Government Statistics Manual 2012 (GFSM12) (agenda paper 3.14);
- (s) AASB staff comments to ABS on draft Chapters 5 and 6 of GFSM12 (agenda paper 3.15);
- (t) AASB staff comments to ABS on draft Chapters 7 to 10 of GFSM12 (agenda paper 3.16); and

- (u) Copy of letter from HOTARAC Chair dated 11 April 2012 to Technical Director, International Public Sector Accounting Standards Board re Consultation Paper: *Reporting Service Performance Information* (agenda paper 3.17).

The Board noted the agenda papers.

IFRS Interpretations Committee

Agenda Item 4

The Board had before it:

- (a) a memorandum re IFRS Interpretations Committee update from Peter Batten, Nikole Gyles and Gunter Leng and dated 3 April 2012 (agenda paper 4.1);
- (b) AASB Staff Summary of IFRS IC Decisions – March 2012 (agenda paper 4.2); and
- (c) IFRIC Update March 2012 (agenda paper 4.3).

The Board received a report (Agenda paper 4.1) 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.

Income from Transactions of Not-for-Profit Entities

Agenda Item 5

The Board had before it:

- (a) a memorandum from Jim Paul dated 3 April 2012 (Agenda Paper 5.1);
- (b) a staff issues paper on a Working Draft Exposure Draft entitled *Income from Transactions of Not-for-Profit Entities* (Agenda Paper 5.2); and
- (c) the Working Draft Exposure Draft (Agenda Paper 5.3).

The Board decided that:

- (a) as illustrated in the Working Draft ED, the ED should incorporate IASB ED/2011/6 *Revenue from Contracts with Customers* and not-for-profit (NFP) entity specific modifications, with the Australian Implementation Guidance for NFP entities in Appendix E being an integral part of the proposed Standard;
- (b) in relation to NFP entities, the ED should apply to income from transfers of assets to the entity from transactions and from events;
- (c) 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*. However, other Standards



would be proposed to be amended where inconsistent with the principles in the ED, particularly in relation to initial measurement of assets received;

- (d) consistently with the proposed scope of the ED in paragraph (b) above, the ED should apply to income from taxable events;
- (e) consistently with IASB ED/2011/6, the ED should propose that non-cash inflows received are to be measured at fair value. This is consistent with existing 'Aus' paragraphs in various Australian Accounting Standards stating that, for NFP entities, the 'cost' of an asset acquired at no cost or for a nominal cost is the asset's fair value as at the date of acquisition. Adopting the proposed IFRS text would provide an opportunity to consolidate that principle into one Standard;
- (f) the draft consequential amendments to Australian Accounting Standards (in relation to NFP entities) in Appendix D of the Working Draft ED should be amended to reflect the decision in paragraph (e) above. For example, Appendix D of the ED should not (as drafted) propose measuring government grants related to biological assets of not-for-profit entities at their fair value less costs to sell;
- (g) the ED should propose that, when a NFP entity recognises a financial asset or financial liability arising from a transaction that includes a donation:
 - (i) 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; and
 - (ii) the principle in (i) immediately above is to be applied regardless of whether the fair value of the financial instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets;
- (h) the ED should propose a NFP-specific amendment to paragraph B5.4.8 of AASB 9 *Financial Instruments* to facilitate the proposal in paragraph (g)(ii) above. The Board's basis for this proposal is that the general presumption in AASB 9 that the fair value of a financial instrument is initially represented by the transaction price is not valid for NFP entities, because various transactions of NFP entities giving rise to financial instruments include a donation component;
- (i) 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. In this regard, staff are to develop suggestions for strengthening the draft guidance on what constitutes a 'sufficiently specific' promise;
- (j) the ED should propose that the total amount of a NFP entity's performance obligations arising from a transaction is to be measured at fair value, leading to immediate recognition of any donation component of the transaction 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. Consequently, the treatment of performance obligations would be the same regardless of whether the transaction giving rise to them has a donation component. This approach should be illustrated by an example of multiple performance obligations arising from a transaction that customarily takes place at a discount (that joint price being the total fair value of the performance obligations), with:

- (i) donation income recognised immediately for the difference between the transaction price and the total fair value of the performance obligations; and
 - (ii) the total fair value of the performance obligations allocated to the separate performance obligations pro rata to the stand-alone selling price of each performance obligation;
- (k) the ED should also illustrate transactions in which NFP entities provide goods or services at a discount to their total fair value (i.e., the transaction includes a donation made by the NFP entity), and the transaction price is allocated to the separate performance obligations pro rata to the stand-alone selling price of each performance obligation (the Board has yet to consider whether there is a NFP-specific reason to exempt NFP entities from the 'onerous performance obligations' test proposed in IASB ED/2011/6); and
- (l) 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 (rather than the more restrictive recognition criteria for volunteer services in AASB 1004). The Board's view is that recognition of volunteer services, the fair value of which can be measured reliably, would provide useful information for users of financial statements of NFP entities, but extending the scope of the recognition requirements for those services would raise significant practical issues that warrant extensive due process. Undertaking that additional due process would significantly delay the issuance of a Standard on Income from Transactions of NFP Entities and the related replacement of the general income recognition requirements in AASB 1004. Therefore, the Board considers that the cost of proposing to extend the scope of the recognition requirements for volunteer services would outweigh the benefits. Instead, a review of the requirements for the recognition and disclosure of volunteer services received should be undertaken in a future project. These Board views are to be set out in the Basis for Conclusions on the ED.

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.

Action: Staff

Control in the Not-for-Profit Public and Private Sectors

Agenda Item 6

The Board had before it:

- (a) a memorandum from Clark Anstis and Daisy Yang dated 12 April 2012 (agenda paper 6.1);
- (b) a draft ED, including Appendix E *Australian Implementation Guidance for Not-for-Profit Entities* (agenda paper 6.2);
- (c) a Research Paper *Defining the Reporting Entity in the Not-for-Profit Private Sector (including consideration of the concept of control)*, by Bryan Howieson (April 2012) (agenda paper 6.3); and
- (d) the Executive Summary from Research Paper *Defining the Reporting Entity in the Not-for-Profit Public Sector (including consideration of the concept of control)*, by Bryan Howieson (April 2012) (agenda paper 6.4).

The Board discussed with Associate Professor Bryan Howieson his reports addressing the findings from his research into control in the NFP public and private sectors. The Board noted that judgement will be required in many circumstances when NFP entities apply the principles in AASB 10 *Consolidated Financial Statements*, such as considering the significance of financial and non-financial returns, in assessing whether one entity controls another. The Board also noted that the findings in the research papers concerning control by an entity had been taken into account by staff in developing the draft ED.

The Board considered a revised draft ED that would propose Australian NFP entity implementation guidance for inclusion in AASB 10. The Board decided that the implementation guidance should be proposed as a separate appendix, integral to AASB 10, and not as Aus paragraphs in the body of the Standard, but with an Aus paragraph referencing the appendix. 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 made the following decisions in respect of the ED:

- (a) the draft examples are appropriately located in various places in the draft Appendix E, based on the various matters that are significant to each of the examples;
- (b) Example IG3 (the university) should be extended to better illustrate the activities under the university's own direction and also to provide a more specific case for the alternative outcome scenario (i.e. control by aGovernment);



- (c) Example IG4 (delegated power in the public sector) should be reconsidered with the Board's sub-committee for this project;
- (d) the relationship between a trust and its trustee should be clarified in terms of whether a trustee can control a trust; and
- (e) the ED should seek comments on deferring the 1 January 2013 application date of AASB 10 for NFP entities, given that that application date would require AASB 10 to be reflected in the typical financial year comparative period of 2012/13.

The Board intends to consider the outstanding issues at the next meeting and to approve the ED out of session after that meeting with the final changes.

The Board noted a number of additional issues affecting NFP entities in the context of AASB 10 and the related Standards, such as equity accounting in the absence of equity instruments and consolidation of mixed for-profit/NFP groups, and decided that they should not be considered in this project.

Action:	Staff
	Sub-committee

Service Performance Reporting

Agenda item 7

The Board had before it:

- (a) a memorandum from Mischa Ginns dated 2 April 2012 (Agenda Paper 7.1);
- (b) a staff paper: Defining or describing 'Service performance Reporting' (Agenda item 7.2); and
- (c) a staff paper: Users of service performance information and the purposes for which users require that information (Agenda Paper 7.3).

The Board considered the two staff papers, noting that they were 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.

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:
- (i) to determine 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) to determine whether to commence or continue providing resources;
 - (iii) to determine the amount of resources to contribute to support the entity's objectives; and
 - (iv) to determine whether the entity will be able to continue to provide intended goods and services in future periods.

Action:

Staff

Financial Reporting Implications of a Carbon Tax

Agenda Item 8

The Board had before it:

- (a) a memorandum from Ahmad Hamidi dated 3 April 2012 (agenda paper 8.1); and
- (b) an Issues paper – Financial Reporting Implications of the Carbon Price Mechanism for the Australian Government as Scheme Administrator and Issuer of Permits (Carbon Units) during the Fixed Price Phase (agenda paper 8.2).

The Board continued its discussion of the accounting implications from the Government perspective of the carbon price mechanism (CPM) under existing Australian Accounting Standards during the fixed price phase. The Board discussed the views expressed in the issues paper with the purpose of providing input to a staff paper that is being developed on the topic. The purpose of the staff paper is to identify factors relevant to determining appropriate accounting treatments from the perspectives of the emitters and the Government under existing Australian Accounting Standards.

Based on the discussion, staff will incorporate into the paper:

- (a) a clarification in relation to measuring liabilities arising from the sale of permits;
- (b) an explanation of the nature of shortfall charges; and



- (c) a discussion of accounting issues related to Australian Carbon Credit Units (ACCUs). It was noted that consideration should be given to the possible existence of transactions involving the Government on both the allocation of ACCUs to eligible entities and their surrender by liable entities.

Staff plan to prepare a final draft of the paper incorporating possible accounting implications of the CPM for emitters and the Government for discussion at the AASB's June 2012 meeting.

Action: Staff

IPSASB Conceptual Framework: Presentation

Agenda Item 9

The Board had before it:

- (a) a memorandum from Jim Paul dated 3 April 2012 (Agenda Paper 9.1);
- (b) a copy of PowerPoint slides spoken to in the staff presentation (Agenda Paper 9.2, tabled);
- (c) IPSASB Conceptual Framework Consultation Paper: *Presentation in General Purpose Financial Reports* (Agenda Paper 9.3); and
- (d) IPSASB Consultation Paper Summary: *Presentation in General Purpose Financial Reports* (Agenda Paper 9.4).

The Board considered 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.



The Board decided a draft submission should be reviewed out of session by its IPSASB Conceptual Framework Subcommittee (Jayne Godfrey, Brett Rix, Kevin Stevenson and Robert Williams) prior to approval by the Chairman. The submission is due by 31 May 2012.

Action:	Staff
	Project Subcommittee
	Chairman

Reduced Disclosure Regime – Tier 2 Disclosures

Agenda Item 10

The Board had before it:

- (a) a memorandum from Nikole Gyles and Sue Lightfoot dated 3 April 2012 (agenda paper 10.1);
- (b) a memorandum from Nikole Gyles dated 3 April 2012 – Reduced Disclosure Requirements – Disclosure of accounting judgements (agenda paper 10.2);
- (c) staff analysis of the Application of Approaches 1 and 2 to Examples of Tier 2 Disclosure of Significant Judgements and Assumptions (agenda paper 10.2.1);
- (d) a memorandum from Nikole Gyles dated 3 April 2012 – ED 216 & ED 217: Comment letter analysis (agenda paper 10.3);
- (e) Comment letter analysis – ED 216 AASB 12 *Disclosure of Interests in Other Entities: Tier 2 proposals* and ED 217 AASB 127 *Separate Financial Statements: Tier 2 proposals* (agenda paper 10.3.1);
- (f) comment letters received in response to ED 216 (agenda paper 10.3.2);
- (g) comment letters received in response to ED 217 (agenda paper 10.3.3);
- (h) a memorandum from Nikole Gyles dated 3 April 2012 – ED 218: Comment letter analysis (agenda paper 10.4);
- (i) comment letter received in response to ED 218 (agenda paper 10.4.1);
- (j) a memorandum from Nikole Gyles dated 3 April 2012 – Tier 2 Supplement to ED 222: Comment letter analysis (agenda paper 10.5);
- (k) Comment letter analysis – Tier 2 Supplement to ED 222 *Revenue from Contracts with Customers* (agenda paper 10.5.1);
- (l) comment letters received in response to Tier 2 Supplement to ED 222 (agenda paper 10.5.2);
- (m) a memorandum from Sue Lightfoot dated 3 April 2012 – ED 207: Comment letter analysis (agenda paper 10.6);
- (n) comment letter analysis – ED 207 *Amendments to AASB 7: Tier 2* (agenda paper 10.6.1); and
- (o) comment letters received in response to ED 207 (agenda paper 10.6.2).

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 possible approaches considered by the Board were:

- (a) Approach 1: presume specific disclosures relating to significant judgements and assumptions are excluded from Tier 2 requirements unless those disclosures are considered to be critical in the context of financial statements as a whole; and
- (b) Approach 2: apply the Tier 2 Disclosure Principles relating to costs versus benefits to each specific disclosure and assess whether to retain or exclude the disclosure on a case-by-case basis.

Within Approach 2, two alternative approaches were also considered:

- (a) Approach 2A – consistent with the approach that has been taken by AASB staff when applying the Tier 2 Disclosure Principles; and
- (b) Approach 2B – disclosure of significant judgements and assumptions does not meet the ‘user needs’ and ‘cost-benefit’ principles in the Tier 2 Disclosure Principles.

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 (Approach 2A). 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.

Action: Staff

Exposure Drafts

The Board considered submissions received on a number of EDs with a view to finalising Tier 2 disclosure requirements.

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

The Board decided to finalise the proposals in ED 216, with the exception that:

- (a) paragraphs 15 and 17 of AASB 12, which relate to information about financial support for consolidated structured entities, be retained on the basis that the cost to entities of disclosure required by these paragraphs would not be expected to exceed the benefits to users; and
- (b) paragraph 20(b) of AASB 12, which relates to information about risks associated with interests in joint ventures and associates, be excluded on the basis that cost to entities of disclosure required by this paragraph would be expected to exceed the benefits to users.

A ballot draft of the Amending Standard reflecting the above decisions will be sent to Board members for out-of-session voting.

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.



A ballot draft of the Amending Standard reflecting the above decisions will be sent to Board members for out-of-session voting.

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 Proposals

The Board decided to finalise the proposals in ED 207, with the exception that:

- (a) 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, be excluded based on paragraph 5 of 'Tier 2 Disclosure Principles', in relation to cost-benefit;
- (b) paragraphs 29 and 30 of AASB 7, which relate to situations when fair value information is not required, be excluded based on paragraph 3 of 'Tier 2 Disclosure Principles' (consistent with paragraph 25 which is excluded);
- (c) paragraphs 42A, 42B(b), 42D(c) and 42E(c) of AASB 7, which relate to information about transferred financial assets, be retained based on paragraph 3 of 'Tier 2 Disclosure Principles', in relation to cost-benefit (paragraphs 42A and 42D(c)) and paragraph 7 of 'Tier 2 Disclosure Principles' (paragraphs 42B(b) and 42E(c));
- (d) the RDR footnote in AASB 7 be amended to clarify cross-references to paragraphs that are only partially excluded from Tier 2 requirements;
- (e) paragraph 82(aa) of AASB 101, which relates to information about gains and losses from derecognised financial assets measured at amortised cost, be excluded based on paragraph 3 of 'Tier 2 Disclosure Principles'; and
- (f) 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, be retained based on paragraph 6(d) of 'Tier 2 Disclosure Principles', in relation to accounting policy choice.

A ballot draft of the Amending Standard reflecting the above decisions will be sent to Board members for out-of-session voting.

Action:

Staff

Board Members

Progress Report on the Differential Reporting Research Project

Agenda item 11

The Board had before it:

- (a) a memorandum from Ahmad Hamidi (agenda paper 11.1); and
- (b) a report on Financial Statement Reporting Practices of Entities Lodging under the Corporations Act – Preliminary First Draft (agenda paper 11.2, confidential).

The Board received a preliminary draft of a report from the contractors, Peter Carey, Brad Potter and George Tanewski, on the differential reporting research project addressing 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*.

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 Statement of Accounting Concepts 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:

- (a) 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;
- (b) assess whether non-compliance noted in (a) has a correlation with the size of entities involved; and
- (c) identify whether disclosures in the notes other than accounting policy notes give an indication of accounting standards applied.

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

Action:	Staff
	Contractors

EFRAG Discussion Paper – Business Combinations under Common Control

Agenda Item 12

The Board had before it:

- (a) a memorandum from Nikole Gyles dated 3 April 2012 (agenda paper 12.1);



- (b) an Issues Paper: Tentative AASB Staff Comments on EFRAG Discussion Paper – *Accounting for Business Combinations under Common Control* (agenda paper 12.2); and
- (c) EFRAG Discussion Paper – *Accounting for Business Combinations under Common Control* (agenda paper 12.3).

The Board decided that the staff should provide comments to EFRAG on its Discussion Paper *Accounting for Business Combinations under Common Control*, along the lines of those reflected in agenda paper 12.2.

Action: Staff

Insurance Contracts

Agenda Item 14

The Board had before it:

- (a) a memorandum from Angus Thomson and Sue Lightfoot dated 2 April 2012 (agenda paper 14.1); and
- (b) Issues paper: A broad outline of progress to date on Insurance Contracts – updated as at 3 April 2012 (agenda paper 14.2).

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 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 *Financial Instruments* being considered by the IASB in relation to the measurement models available for financial assets.

Action: Staff

Financial Instruments

Agenda Item 15

The Board had before it a memorandum from Sue Lightfoot dated 3 April 2012 (agenda paper 15.1).

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.



Leases

Agenda Item 16

The Board had before it a memorandum from Nikole Gyles dated 3 April 2012 (agenda paper 16.1).

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.

IPSASB Report

Agenda Item 17

The Board had before it:

- (a) a memorandum from Clark Anstis dated 2 April 2012 (agenda paper 17.1); and
- (b) a report on the IPSASB meeting, March 2012, prepared by Ken Warren, NZ member of IPSASB (agenda paper 17.2).

The Board received an update 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) the European Commission is studying the suitability of IPSASs for adoption by EU member states. Eurostat has issued a Public Consultation Paper *Document accompanying the public consultation on the suitability of the International Public Sector Accounting Standards for EU Member States*. The Board decided that it should make a submission that encourages the adoption of IPSASs; and
- (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).

The Board also noted that proposals by the Monitoring Group and the Public Interest Oversight Board concerning the governance arrangements of IFAC's standard-setting boards make reference to the possibility of expanding their remit to cover the IPSASB. The Board decided that it should make a submission to the Monitoring Group on the proposals.

Action: Staff
Chairman

Proposed Minerals Resource Rent Tax

Agenda Item 18

The Board had before it:

- (a) a memorandum from Nikole Gyles dated 3 April 2012 (agenda paper 18.1); and
- (b) IFRS Interpretations Committee staff papers 8 and 8A *Presentation of payments of non-income taxes* (agenda paper 18.2).

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 related to the topic. In view of the expectation that the IFRS Interpretations Committee will 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.

Emerging Issues

Agenda Item 19

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.

ED 212 Not-for-Profit of Entities within the General Government Sector

Agenda Item 20

The Board had before it:

- (a) a memorandum from Shu In Oei (agenda paper 20.1);
- (b) part 1 of a collation of written submissions on ED 212 *Not-for-Profit Entities within the General Government Sector* (agenda paper 20.2);
- (c) written submissions on ED 212 (agenda paper 20.3);
- (d) summary of significant comments from Sydney and Melbourne roundtables for ED 212 (agenda paper 20.4 – previously provided to the Board as agenda papers 13.2 and 13.5 of its October 2011 meeting); and



- (e) a summary of significant comments from meetings in Canberra for ED 212 (agenda paper 20.5 – previously provided to the Board as agenda paper 13.7 of its October 2011 meeting).

The Board noted its decision at its October 2011 meeting to deliberate on the proposals in ED 212 on an issue-by-issue basis.

ED 212 proposal to limit GAAP options to align with GFS

The Board considered Part 1 of the collation of comments on ED 212, which focused on the proposal to limit GAAP recognition and measurement options to those that align with GFS.

The Board discussed whether it is the role of a standard setter to limit accounting options, given that the approach under AASB 127 *Consolidated and Separate Financial Statements* does not mandate that subsidiaries adopt the accounting policies *elected* for the group, noting that in this case the accounting policies are *mandated* for the group (i.e. whole of government and GGS) under AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. The Board noted the view that mandating the accounting policies for the group through AASB 1049 is appropriate as GFS is directly applicable at the group level, whilst mandating the accounting policies for the entities within the GGS would not be appropriate as GFS is not directly applicable to them.

On this basis, the Board considered that the same GAAP recognition and measurement options that are available to other public sector entities should also be available to not-for-profit entities within the GGS.

In addition, the Board deliberated on the cost of implementation of the proposal. In that context, the Board noted that one of the key impacts of the proposal is that property, plant and equipment (PPE) of not-for-profit entities within the GGS would be required to be measured at fair value (to align with GFS measurement at market value). The Board noted the concern expressed by some respondents that, despite the fact that most state governments already mandate many entities within their GGSs apply fair value to the measurement of PPE for consolidation purposes, the materiality threshold will be lower at the entity level and therefore capture PPE not otherwise captured at the whole of government level – which would have cost implications.

The Board also noted that the proposal would not only affect fair value vs cost of PPE, but also other GAAP options.

Based on the above, the Board tentatively decided not to proceed with the proposal to limit GAAP recognition and measurement options to align with GFS.

Transitional arrangement for defence weapons platforms (DWPs)

The Board received an update on the consultation between staff and the Department of Defence (Defence) in relation to transitional arrangements for fair valuing DWPs. The Board noted that input from Defence that could help the Board in its deliberations might be available for the AASB's June 2012 meeting. The Board also noted that the fair valuation of DWPs is an issue that arises under AASB 1049 because DWPs are material at the whole of government level. No decisions were made.

Action:

Staff



Review

Agenda Item 21

The Board did not have any substantive comments, other than those reflected in relevant items above.

Close of Meeting

The Chairman closed the meeting at approximately 3.15 p.m. on Thursday 19 April 2012.

Approval

Signed by the Chairman as a correct record
this seventh day of June 2012