



Subject: Minutes of the 124th meeting of the AASB
Venue: Ken Spencer Room, AASB offices
Level 7, 600 Bourke St, Melbourne
Time(s): Wednesday 6 June 2012 from 9.00 a.m. to 5.30 p.m.
Thursday 7 June 2012 from 9.00 a.m. to 3.30 p.m.

All agenda items except items 1, 8 and 24 were discussed in public.

Attendance

Members
Kevin Stevenson (Chairman)
Ian McPhee (Deputy Chair), until 1pm day 2
Kris Peach (Deputy Chair)
Victor Clarke
Anna Crawford
Michelle Embling
Sue Highland
John O'Grady
Liane Papaelias
Carmen Ridley, on day 2 from 9:25am
Brett Rix
Roger Sexton, until 2pm day 2
Robert Williams, until 3:10pm day 2

Apologies
Jayne Godfrey

In Attendance:
Staff
Clark Anstis (in part)
Peter Batten(in part)
Nikole Gyles (in part)
Ahmad Hamidi Ravari (in part)
Robert Keys
Gunter Leng (in part)
Sue Lightfoot (in part)
Christina Ng (in part) (by telephone)
Shu In Oei (in part)
Angus Thomson

Other
Bruce Donald (FRC Secretary), item 8
Joanna Perry (Observer)
Lynn Wood (FRC Chair), item 8



Agenda, Declaration of Interests and Chairman's Report

Agenda item 17 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. No such declaration was made.

Chairman's Report

The Chair congratulated John O'Grady regarding his appointment to the IFRS Interpretations Committee.

The Chair expressed his appreciation to members who have been making presentations around the country at various professional body forums. He noted that there are more presentations scheduled in this calendar year. He also reminded the Board members, when approached to give such presentations, to advise AASB staff of those approaches to enable staff to coordinate the AASB's involvement.

Asian-Oceanian Standard-Setters Group (AOSSG)

The Chair advised that he had presented, as the AOSSG Chair, in Saudi Arabia, Dubai and Nepal. The focus was on IFRS adoption and liaison with AOSSG constituents in the region. He emphasised the need to maintain contacts in the region, particularly in those countries considering or making the transition to IFRS.

Involvement with Other Bodies

The Chair also advised that he had prepared a draft paper for the IFRS Advisory Council on options for structuring the liaison between regional groupings of standard setters (such as the AOSSG) and the IASB. This is also an issue for the IFRS Foundation Trustees in the context of having good due process and consultative mechanisms. A copy of the paper will be forwarded to Board members.

IMF Financial Stability Reviews were conducted in April and May 2012. Kris Peach and Angus Thomson participated from an AASB perspective. The reviews involved discussion of the Australian standard-setting framework.

An IPSASB briefing of Tim Youngberry and Ken Warren was conducted by AASB and NZASB staff on 5 June 2012.

Staff have commented on draft legislation for the ACNC in the context of financial reporting.

Other

The Board noted that Warren McGregor had recently presented the Ken Spencer memorial lecture. Board members were asked to make suggestions out of session for future presenters of the memorial lecture. The Board also noted recent and forthcoming staff movements and achievements.



Apologies, Minutes and Approvals Out of Session

Agenda Item 2

Apologies

An apology was noted for Jayne Godfrey

Minutes

The Board approved the minutes of the one hundred and twenty-third meeting held on 18-19 April 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, tabled). The Board noted its approval of ED 224 *Transition Guidance* (proposed amendments to AASB 10 *Consolidated Financial Statements*) issued under its delegated authority for the Chairman to issue IASB consultation documents where there is no significant additional Australian material.

Other Business

Agenda Item 3

The Board had before it:

- (a) a memorandum from Gunter Leng, Peter Batten and Robert Keys dated 31 January 2012 re: Work Program and Consultation Submissions Pipeline (agenda paper 3.1(r), tabled);
- (b) Summary of AASB Work Program (May 2012) (agenda paper 3.1.1);
- (c) Detailed AASB Work Program (May 2012) (agenda paper 3.1.2);
- (d) Consultation Submissions Pipeline Report (May 2012) [Board only] (agenda paper 3.1.3);
- (e) AASB Sub-committee membership listing as at 1 January 2012 [Board only] (agenda paper 3.2);
- (f) AASB Staff Comments on EFRAG Discussion Paper – Accounting for Business Combinations under Common Control (agenda paper 3.3);
- (g) Letter from Andrew Terracini, Water Accounting Standards Board Officer, Bureau of Meteorology to AASB Chairman dated 30 April 2012 re National Water Accounting Standards Board Update as of 27 March 2012 (agenda paper 3.4);
- (h) Letter from AASB Chairman to Technical Director, IPSASB dated 30 April 2012 re IPSASB Consultation Paper Reporting Service Performance Information (agenda paper 3.5);
- (i) Letter from AASB Chairman to RIA Benchmarking, Productivity Commission dated 14 May 2012 re *Issues Paper Regulatory Impact Analysis: Benchmarking* (agenda paper 3.6);
- (j) Letter from Neil Drabsch, CFO, QBE to IASB Chairman dated 5 April 2012 re Treatment of Insurance Contracts as a Monetary Item (agenda paper 3.7);



- (k) Letter from Neil Drabsch, CFO, QBE to IASB Chairman dated 29 March 2012 re Eligibility for Premium Allocation Approach (PAA) and related presentation and disclosure (agenda paper 3.8);
- (l) *Interim Commissioner's Column* by Susan Pascoe re: Not-For-Profits (agenda paper 3.9);
- (m) Report on International Forum of Accounting Standard-Setters (IFASS) – 29-30 March 2012 (agenda paper 3.10, tabled);
- (n) AASB Communications Report 18 April – 6 June 2012 [Board Only] (agenda paper 3.11, tabled); and
- (o) Staff Paper from IFRS Interpretations Committee re: Push Down Accounting request for views dated May 2012 & response from AASB Chairman dated 1 June 2012 (agenda paper 3.12, tabled).

The Board noted the agenda papers.

IFRS Interpretations Committee

Agenda Item 4

The Board had before it:

- (a) a memorandum re Interpretations from Gunter Leng and Nikole Gyles dated 23 May 2012 (agenda paper 4.1);
- (b) AASB May 2012 Staff Summary of IFRS Interpretations Committee (agenda paper 4.2, tabled); and
- (c) *IFRIC Update May 2012* (agenda paper 4.3).

The Board noted the progress the Committee is making on various projects. In particular, the Board noted that two new draft Interpretations had been issued, and these would be considered by the AASB at its next meeting. Although no specific matters gave rise to the Board deciding to write to the Committee at this time, the Board noted that, as a general matter, the Committee should have regard to transitional arrangements on an issue-by-issue basis, and whether there are 'corrections of errors' implications arising from the release of an Interpretation.

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

Agenda Item 5

The Board had before it:

- (a) a memorandum from Shu In Oei (agenda paper 5.1);
- (b) part 2 of a collation of written submissions on ED 212 *Not-for-Profit Entities within the General Government Sector* (agenda paper 5.2); and
- (c) a late written submission on ED 212 (agenda paper 5.3).

The Board considered agenda paper 5.2, focusing on comments received on the proposal to require disclosure (on the face of the financial statements or in the notes) of information based on GAAP/GFS harmonised classification and presentation principles for controlled items and, separately, administered items.



In considering the agenda paper, it was noted that at the time ED 212 was issued members had mixed views as to whether the proposal could be justified on cost/benefit grounds (see paragraph BC6 of ED 212). The issuing of the ED demonstrated the Board's willingness to explore whether the benefits, including the benefits of improved comparability across jurisdictions and of more closely coupling the presentation of controlled and administered items, would outweigh the cost of implementing the proposals. Therefore, the purpose of the discussion at this meeting was to primarily assess the merits of the arguments in submissions relating to costs and benefits of the proposal.

The outcomes of the Board's ensuing discussion are tentatively as follows:

- (a) Although not explicitly raised in the submissions on ED 212, the Board noted the argument that unless mandated by the AASB (as an independent standard setter), some might perceive that if a jurisdiction elects to impose the proposal on its entities, that the jurisdiction is doing so inappropriately for its own benefit. However, the Board noted that this is not a sufficient basis for it to mandate the proposal in a standard because additional information (such as that which would arise under the proposal) is allowed to be presented and disclosed under AASB 101 *Presentation of Financial Statements* in any case.
- (b) The Board noted the arguments that the proposal would increase the time and resources required to prepare financial statements, due to their increased complexity and a lack of preparers' understanding of GFS concepts. In that regard, the Board acknowledged there is potentially a lack of GFS knowledge in entities within the GGS, which would likely lead to an increased reliance on advice from staff of the Australian Bureau of Statistics. However, the Board noted that advocates of the proposal commented that the overall cost of implementation would not be unreasonable, with training and assistance likely to be provided by Treasuries. The Board decided that, to assess the merits of the arguments relating to costs, the focus should be on whether the proposal would provide useful information for users of general purpose financial statements of entities within the GGS. Accordingly, the Board's subsequent discussion particularly focused on issues related to the benefits of the proposed information.
- (c) The Board discussed the main 'benefit' arguments for the proposal as follows:
 - (i) It would provide 'line-of-sight' from an individual entity's financial statements to the whole-of-government financial statements – the Board noted that this argument seems to be related to the benefits that could be derived from users' familiarity with presentation formats rather than anything more substantive. Accordingly, consistent with the fact that AASB 101 does not mandate specific presentation formats, the Board arrived at a view that 'line-of-sight' is not a sufficient basis to mandate the proposal in a standard;
 - (ii) It would provide useful information that would assist users in understanding an entity's contribution to the whole-of-government's result – the Board considered that this benefit would be limited due to:
 - (A) the possible existence of intra-government transactions that would be eliminated in preparing whole-of-government financial statements; and



- (B) potential recognition and measurement accounting policy differences between entities within the GGS and whole-of-government that might arise (consistent with the Board's decision in April 2012), because AASB 127 *Consolidated and Separate Financial Statements* does not require subsidiaries to adopt the accounting policies of the parent entity;
- (iii) It would increase comparability between entities within the GGS both within and across jurisdictions – the Board considered that any benefit from comparability would be limited due to the different structures and functions of entities across jurisdictions. Furthermore, some Board members considered that enhanced comparability could be better achieved through a project to develop a framework for disaggregated disclosures at the whole-of-government-level, rather than through a requirement for a particular presentation format at the entity-level as proposed in ED 212; and
- (iv) It would improve the information content of the financial statements by indicating the relative degree of control over, or predictability of events giving rise to, recognised items (by classifying items in the financial statements using GAAP/GFS harmonisation principles). The Board particularly discussed the relationship between information provided by the current GAAP distinction between 'profit and loss items' and 'other comprehensive income items' and information that would be provided through a distinction between the GFS notions of 'transactions' and 'other economic flows', and the benefits that might be derived from the latter. Some Board members expressed a view that the GFS transactions/other economic flows classification basis is, although somewhat crude, directionally superior to the current GAAP profit or loss/other comprehensive income classification basis. Other Board members noted that the GAAP basis and GFS basis are broadly aligned and therefore overlaying the GAAP classification basis with the GFS classification basis as proposed in ED 212 would not add significantly to the usefulness of the information. The Board considered that it should have regard to this potential benefit (together with the other 'benefit' arguments above) in the context of related IASB and IPSASB work on the presentation of financial statements, as noted in the following.

The Board considered the relative merits of these 'benefit' arguments in light of the fact that, the IASB intends restarting its Conceptual Framework project as a matter of priority and that the IPSASB is currently undergoing a project for harmonising IPSASs with International GFS. On balance, given:

- (i) the relationship between the ED 212 proposals and what is likely to be discussed in the IASB fundamental review of presentation and disclosure (and perhaps as part of the IPSASB project);
- (ii) the overlap in time frames now likely to occur between when the ED 212 proposals might otherwise become applicable and the IASB work (and perhaps the IPSASB's project); and
- (iii) the prospect of a more robust basis of classification arising from such global consideration of the issues;

the Board tentatively decided not to proceed with the proposal.



The Board noted that users would not be disadvantaged by this decision because AASB 101, as noted in (a) above, allows an entity or jurisdiction to disclose and present additional information if it is relevant to an understanding of the financial statements. Furthermore, the Board noted that, overall, the nature of the responses to ED 212 did not appear to provide a strong mandate for the Board to proceed.

- (d) In relation to administered items, in addition to the reasons reflected in the decisions above, the Board agreed that aspects of the proposal relating to administered items should not be progressed at this time because issues concerning administered items would be more fundamentally reviewed under the AASB Control in the Not-for-Profit project.

After making the above tentative decisions, the Board considered whether to issue a standard or guidance that would specify requirements to be applied only if an entity/jurisdiction elects to present GAAP/GFS harmonised information. The Board decided against issuing such a standard. It concluded that AASB resources could be more productively focused on making demonstrable improvements to financial reporting through other projects such as Service Performance Reporting and Budgetary Reporting. Furthermore, the Board noted that such guidance would need to be maintained and in any event, presumably those who elect to present GAAP/GFS harmonised information would already have the expertise that would render such guidance unnecessary.

For the July 2012 meeting, the Board aims to redeliberate the remaining proposals in ED 212, and noted the principal remaining proposal relates to budget versus actual reporting.

Action: Staff

Income from Transactions of Not-for-Profit Entities

Agenda Item 6

The Board had before it:

- (a) a memorandum from Jim Paul dated 23 May 2012 (agenda paper 6.1);
- (b) a letter from the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) dated 7 May 2012 regarding the Board's project on Income from Transactions of Not-for-Profit Entities (agenda paper 6.2); and
- (c) a staff paper on issues raised in the HoTARAC letter (agenda paper 6.3).

The Board expressed appreciation that HoTARAC provided this valuable input at such a timely point in its project on Income from Transactions of Not-for-Profit (NFP) Entities. In relation to the issues raised in the HoTARAC letter and, in relation to the forthcoming AASB ED on Income from Transactions of NFP Entities the Board:

- (a) reaffirmed its decision that performance obligations of NFP entities would fall within the scope of 'contracts' as defined in IASB ED/2011/6 *Revenue from Contracts with Customers*, because the 'commercial substance' test for a contract in the IASB ED does not require a commercial/profit



objective. The IASB ED says a contract has commercial substance if the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract. The Board observed that the IASB's proposed 'commercial substance' test focuses on whether a contract is substantive (that is, gives rise to substantive rights and obligations), and decided to clarify this aspect in the context of NFP entities in its ED;

- (b) noted that a 'directive' is just one example of an enforcement mechanism. It decided the draft guidance that a directive given by a Minister or government department to a public sector entity to provide specified goods or services gives rise to a promise that is legally enforceable, should be broadened to avoid focusing on a specific mechanism giving rise to legal authority;
- (c) decided the ED should provide examples of arrangements entered into by a NFP entity (involving transactions giving rise to income) that clearly are legally enforceable. During the ED's comment period, staff should conduct research into circumstances in which it is less clear whether an arrangement is legally enforceable;
- (d) noted that, based on the information provided, grant arrangements between the Commonwealth and State Governments, including those described as 'National Partnership Payment arrangements', appear not to be 'joint arrangements' as defined in AASB 11 *Joint Arrangements*;
- (e) reaffirmed its decision that a transferor's capacity or threat to withhold future funding to which the transferee is not presently entitled is a source of economic compulsion that does not, of itself, make a promise enforceable upon a transferee. This is distinct from circumstances in which the transferor presently holds refund rights, or has the capacity to impose a severe penalty, in the event of the transferee's non-performance, but might choose to effect such a refund or penalty by deducting that amount from a future transfer. For example, such a transferor's capacity or threat to withhold future funding to which the transferee is not presently entitled would be distinct from any circumstances in which:
 - (i) a transferor could demand a refund of granted assets in the event of the transferee's non-performance, regardless of whether it makes any future transfers to the transferee, but chooses for convenience to 'settle net' by deducting the refund amount from a future transfer; and
 - (ii) funding for two projects is negotiated jointly, with funding for the second dependent on satisfactory performance of the first (in which case there would be, in substance, one contract or other arrangement and enforceability should be assessed for the contract/arrangement as a whole).

In these two cases, the transferor could enforce against the transferee (the reporting entity) a promise to provide specified goods or services;

- (f) noted that, in making its decision in (e), a NFP-specific consideration is that a threat to withhold future funding is sometimes the only mechanism with which a government can coerce another government (or other NFP entity) to perform as promised. However, the Board concluded this is not



an adequate reason to create an exemption from the Board's general policy that economic compulsion does not create a liability. In this regard, the Board noted that creating such an exemption could imply some NFP public sector entities have liabilities to provide social benefits over a long future period because, arguably, those entities are economically/politically compelled to continue to provide those social benefits;

- (g) decided to clarify that the enforcement mechanism of a severe penalty is not limited to a refund of money provided;
- (h) decided to add guidance that an acquittal process might be indicative of both an enforceable promise and a 'sufficiently specific' promise, but is neither necessary nor sufficient, of itself, to ensure a performance obligation exists. In this regard, the Board noted that the nature, and level of detail, of processes for assessing whether promises to perform are met can vary widely;
- (i) decided to propose a principle that a 'sufficiently specific' stipulation must specify the goods or services to be transferred in sufficient detail to enable identification of how and when the performance obligation is satisfied. The Board decided to largely retain its draft examples of 'sufficiently specific' stipulations (while amending the reference to the "nature or type of goods/services" to accord with the principle), but to:
 - (i) clarify that those examples are indicative and not a substitute for meeting the principle; and
 - (ii) provide examples illustrating when promises are, respectively, clearly 'sufficiently specific' and clearly not 'sufficiently specific', while noting that judgement would need to be applied in many cases;
- (j) decided to clarify that, if a transfer of assets to a NFP entity increases equity and neither:
 - (i) gives rise to a performance obligation; nor
 - (ii) is a contribution by owners,it should immediately be recognised as income under the proposed Standard. Therefore, for example, even if an arrangement does not give rise to identifiable rights of the transferor, it would be accounted for under the Board's proposed Standard;
- (k) decided to clarify that its proposed NFP entity-specific modification of IASB ED/2011/6 to require any donation component of a transaction to be recognised immediately as income is not a departure from transaction neutrality, because the modification addresses a common phenomenon in the NFP sector that should seldom be significant to for-profit entities in their contracts with customers;
- (l) noted that staff of the Australian Bureau of Statistics (ABS) informally indicated an initial view that the working draft ED considered by the Board in April 2012 seems consistent with the ABS Manual and therefore that a Standard consistent with that ED would not be expected to give rise to GAAP/GFS harmonisation differences. The Board requested AASB staff to draft the ED's guidance on the nature of taxes from a GAAP perspective in a way that helps minimise the risk of any GAAP/GFS harmonisation differences;



- (m) reaffirmed its decision not to address grantor accounting for grants in the ED, and decided to explain its reason for this decision in the ED's Basis for Conclusions. The Board's reason is that dealing with grantor accounting would raise additional issues that would delay the finalisation of a Standard dealing with recognition of income from transactions of NFP entities. Such an outcome would be inconsistent with the Board's intention to withdraw AASB 118 *Revenue* and AASB 111 *Construction Contracts* contemporaneously with the IASB's withdrawal of IAS 18 *Revenue* and IAS 11 *Construction Contracts* upon issuing an IFRS on *Revenue from Contracts with Customers*;
- (n) noted that some issues raised by HoTARAC regarding the June 2011 draft Basis for Conclusions placed on the Board's website have been resolved by subsequent developments. These issues are:
- (i) the previous proposal to apply enforceability at a performance obligation level rather than a contract level—now amended in keeping with IASB ED/2011/6;
 - (ii) a concern that income-generating transactions without performance obligations would fall outside the scope of the ED [see decision (j) above]; and
 - (iii) the previous proposal to extend the requirements for the recognition of volunteer services by NFP entities to any circumstances in which their fair value can be measured reliably—which was subsequently reversed at the Board's April 2012 meeting; and
- (o) decided the comment period for the ED should be substantial, but should not exceed four months, and should be scheduled having regard to the expected timing of the forthcoming IFRS on *Revenue from Contracts with Customers*.

The Board noted that staff will prepare an issues paper for consideration by the Board at its next meeting on whether any NFP entity-specific modification of IASB ED/2011/6 should be made in the ED in relation to the application of an 'onerous performance obligations' test.

Action: Staff

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

Agenda Item 7

The Board had before it:

- (a) a memorandum from Clark Anstis and Daisy Yang dated 22 May 2012 (agenda paper 7.1);
- (b) draft revised ED – extract re delegated power (agenda paper 7.2); and
- (c) extract of Legal Briefing No. 74, *Delegations, Authorisations and the Carltona Principle*, Australian Government Solicitor (December 2004) (agenda paper 7.3).

The Board considered the remaining issues regarding its draft ED, which will propose Australian NFP entity implementation guidance for inclusion in AASB 10 *Consolidated Financial Statements*.

The Board discussed the significance of the scope of the decision-making authority in assessing whether a decision maker was acting as a principal in its own right or as an agent of an investor. Members generally supported the revised example in the draft revised ED extract concerning whether a department controls a



statutory authority. Members agreed that paragraph IG19(b) should be amended to indicate that a department acts as a principal under a delegation of power from a Minister if it acts with its own discretion and without direction by the Minister.

The Board also discussed the potential relationship between a trust and its trustee. Members considered that the trustee of a trust would control the trust if the control criteria were satisfied, notwithstanding any fiduciary obligation to act in the best interests of the beneficiaries. Members agreed that the ED should include examples illustrating circumstances where a charity controls a trust and where a charity does not control a trust, based on the power criterion.

The Board discussed paragraph B65 of AASB 10, which addresses substantive removal rights, and decided that it does not give rise to NFP specific issues. It also decided to seek clarification of the intention of the paragraph from the IASB, given different views as to whether the paragraph meant that controlled entities could not act as principals where the controlling entity had the right to remove the key executives or directors of the controlled entity.

The Board decided to finalise the draft ED out of session, for issue as soon as practicable.

Action:	Staff
	Board Members

AASB Business Plan

Agenda Item 8 (closed session)

The Board had before it:

- (a) a memorandum from Kevin Stevenson dated 4 June 2012 re AASB Strategic Plan [Board Only] (agenda paper 8.1, tabled);
- (b) slides summarising strategic directions and member's comments [Board Only] (agenda paper 8.2, tabled); and
- (c) a draft Strategic Plan [Board Only] (agenda paper 8.3, tabled).

The Board considered the draft strategic plan, which included discussion of likely international developments, domestic requirements and its resources, and prioritised its broad objectives within the overall aspiration of a single set of high quality global accounting standards for the private and public sectors. The draft plan will be developed further for review by the Board, out of session to the extent possible.

The FRC Chair, Lynn Wood, who attended this session, assisted discussions by providing background on the activities of the FRC, including the work of its Task Forces on complexity in financial reporting, public sector financial reporting, promoting board understanding of financial reporting, and integrated reporting. In relation to integrated reporting, Ms Wood particularly noted the FRC submission on an International Integrated Reporting Committee (IIRC) Discussion Paper (refer to http://www.frc.gov.au/reports/submissions/FRC_submission_IIRC_final.pdf). Ms Wood informed the Board of subsequent correspondence from the Chair of the IIRC that advises that the Integrated Report is not



intended to replace financial statements. Relevant extract's from Professor King's correspondence to M/s Wood (FRC Chair) were subsequently supplied and are as follows:-

"In regard to your FRC submission, it has never been the intention of the IIRC that the Integrated Report would replace financial statements. It is interesting that in the many submissions that we had in regard to the discussion paper, integrated thinking was generally accepted. The only debate was the form of the Integrated Report. The framework contains guidelines and certainly at this stage there is no intent to have standards. There are excellent standards in financial reporting such as the IFRS, and in sustainability reporting as with the G3 standards. There is much guidance already on management commentary, governance and remuneration."

"With reference to your points, the annual report will be the annual Integrated Report; the Integrated Report will, as the discussion paper indicates, show how the financial has impacted on the non-financial and vice versa but it does not replace the financial report; the Integrated Report does not change the financial statements; the Integrated Report should replace certain forms of reporting but not financial reporting. For example, the Integrated Report may result in there being no need for a Chairman's report and/or a Chief Executive's report. A lot of information which may have been contained in the management commentary could be in the Integrated Report."

Superannuation Entities

Agenda Item 9

The Board had before it:

- (a) a memorandum from Angus Thomson and Daisy Yang dated 22 May 2012 (agenda paper 9.1);
- (b) a collation of comments on ED 223 *Superannuation Entities* [incorporating staff observations and views] (agenda paper 9.2);
- (c) comment letters on ED 223 (agenda paper 9.3);
- (d) notes on APRA Discussion Paper *Prudential standards for superannuation* (Stronger Super) – 28 September 2011 (agenda paper 9.4);
- (e) Definitions/explanations of terms used in the superannuation industry (agenda paper 9.5); and
- (f) Selected statistics on the Australian superannuation industry (agenda paper 9.6).

The Board considered comments received through submissions on ED 223 *Superannuation Entities* and the AASB's April 2012 Roundtables on ED 223 and other staff liaison with constituents. [ED 223 is the most recent consultative document in the project to develop a replacement standard for AAS 25 *Financial Reporting by Superannuation Plans*.]

The Board noted that staff consultation with constituents, in particular those in the public sector, is continuing on a number of issues and that staff are liaising with the Australian Prudential Regulation Authority (APRA) in the context of the Stronger Super reforms.

The Board also noted that it is particularly important that the replacement standard for AAS 25 be principle-based because it should be:

- (a) for the long term and able to cope with the evolving industry environment (rather than being overly influenced by the current industry environment); and



- (b) relevant to the wide range of circumstances of superannuation entities in both the private and public sectors.

The Board decided:

- (a) Issue 1(a) – an income statement and a statement of changes in member benefits should be presented by superannuation entities as separate statements, primarily on the basis that contributions and benefit payments are not revenues and expenses. The Board acknowledged that if there are concerns about the relationships between certain pieces of information in the two statements (such as tax information), superannuation entities could highlight those relationships in various ways, including by presenting the two statements on the same page;
- (b) Issue 1(b) – a statement of changes in equity should be presented by superannuation entities when relevant. The Board noted that AASB 101 *Presentation of Financial Statements* acknowledges an entity might need to adapt the presentation to suit its circumstances; including, for example, using different terminology (such as ‘statement of changes in reserves’);
- (c) Issue 1(c) – a statement of cash flows should be presented by superannuation entities and guidance should note the relief provided in AASB 107 *Statement of Cash Flows* for reporting cash flows on a net basis to deal with concerns about showing gross cash flows associated with some regular purchases and sales of investments;
- (d) Issue 1(d) – the granularity of presentation and disclosure should be a matter for professional judgement exercised in accordance with AASB 101, and the general requirement to disclose information that provides users with a basis for understanding the nature and amounts of expenses should be retained and an indicative list (rather than a required list) of expense disclosures should be provided in guidance, which includes ‘advertising and sponsorship expenses’;
- (e) Issue 2(a) – defined contribution benefit liabilities should, in principle, be measured as accrued benefits, which in the vast majority of cases would be the same as the vested benefits payable on demand. Accordingly, defined contribution benefit liabilities should be measured at their vested amount and guidance should be provided on the meaning of ‘payable on demand’ in a superannuation context (in particular, to avoid any impression that the funds would necessarily be released to a member outside the superannuation environment);
- (f) Issue 2(b) – defined benefit liabilities should, in principle, be measured as accrued benefits in a manner that recognises the ultimate cost of meeting defined benefit obligations in relation to service to date, but not necessarily in accordance with AASB 119 *Employee Benefits*. Staff should prepare a paper that considers factors relevant to that measurement, including the determination of future cash flows and the types of risks that should be considered in measuring the liability. The Board noted this might mean that different approaches may be used to measure this obligation depending on the circumstances. The Board agreed to defer consideration of the comments on proposals for qualitative disclosures on the risks relating to defined benefits [issue 2(c)] until it considers the staff paper on measuring defined benefit liabilities;



- (g) Issue 3 – any insurance assets and liabilities should be measured consistently with the principles underpinning the measurement of defined benefit accrued benefits and guidance should be included that acknowledges (in respect of insurance coverage of members) that insurance entities might:
- (i) act only as agents and not have insurance assets and liabilities;
 - (ii) have insurance contracts of such short duration that they would not be expected to be exposed to material insurance risks and, therefore, not have material insurance assets and liabilities;
 - (iii) bear material insurance risks and therefore would be expected to recognise insurance premiums, claims, assets and liabilities; and
- (h) Issue 4 – the principles in AASB 8 *Operating Segments* should be applied by superannuation entities and guidance should be provided on the key aspects of those principles that might apply in a superannuation context.

The remaining issues identified in agenda paper 9.2 (including: some disclosure issues; consolidation; the need for Tier 2 requirements; and transitional arrangements) were deferred for consideration at a future meeting. Further papers dealing with the decisions made at this meeting and with issues that may emerge from further liaison with public sector superannuation entities and APRA will also be considered at a future meeting.

Action: Staff

Financial Reporting Implications of a Carbon Tax

Agenda Item 10

The Board had before it:

- (a) a memorandum from Ahmad Hamidi dated 22 May 2012 (agenda paper 10.1); and
- (b) a draft staff paper – Possible Financial Reporting Implications of the Fixed Price Phase of the Carbon Pricing Mechanism for Emitter Entities and the Government (agenda paper 10.2).

The Board continued its discussion of tentative staff views on the financial reporting implications of the carbon pricing mechanism for both emitter entities and the Commonwealth Government during the fixed price phase. The purpose of the discussion was to provide further input to staff papers being developed on the topic. The Board noted that the intention of the staff papers is to draw out for constituents various financial reporting issues that may arise during the fixed price phase and possible accounting treatments in respect of those issues based on current Australian Accounting Standards. The staff papers are intended to be published on the AASB website as soon as practicable.

Board members made the following comments in relation to agenda paper 10.2:

- (a) the paper could usefully include an executive summary, possibly in the form of a table showing different types of permits, entities and relevant accounting standards;



- (b) the paper could usefully state that there are quite a number of issues involved in accounting for the carbon tax, some of which are open to accounting policy choices which would require that professional judgement be exercised when applying existing standards;
- (c) the paper should clarify that the emission threshold set out in the legislation is to identify entities subject to carbon tax, and that any consequent tax is applied to the emitter entity's total emissions. The Board noted that this clarification would have implications for paragraph 4 and the example in paragraph 23;
- (d) the second sentence in paragraph 12 should be amended to be expressed along the following lines "The AASB will consider providing financial reporting guidance under Australian Accounting Standards in regard to the flexible price phase, should it be established that a pronouncement from the IASB will not be forthcoming in time";
- (e) the argument in paragraph 17 regarding the satisfaction of a financial liability as a reason for treating the free permits as a financial asset could be reconsidered;
- (f) the approaches set out in paragraph 23 could be regarded as different ways to interpret AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and should be worded to reflect accounting requirements under that Standard;
- (g) paragraph 25(c) could be amended to acknowledge that entities engaged in non-production activities might be subject to carbon tax in more cases than the paragraph implies;
- (h) paragraph 31 on recognition of free permits in the Australian context could be amended to clarify the relationship between AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* and AASB 139 *Financial Instruments: Recognition and Measurement* and the need for consistency. For example, if permits are treated as financial assets, it would not be appropriate to use the nominal amount approach under AASB 120;
- (i) the section on accounting for Australian Carbon Credit Units (ACCUs) (paragraphs 34-41) could be generalised. The paper could clarify that the accounting treatment for ACCUs would depend on whether or not they are treated as government grants. In that regards, it might be useful to consider the current accounting treatment adopted for Renewable Energy Certificates;
- (j) paragraph 66 could be amended to reflect a more balanced view about the measurability of emissions whilst acknowledging the potential measurement difficulties;
- (k) paragraph 70(b) could clarify that the treatment of proceeds from the sale of permits that are treated as financial instruments does not seem to be relevant to the fixed price phase as the proceeds are in the nature of tax received in advance. However, the argument in that paragraph could be relevant to the flexible price phase where a market for permits exists;
- (l) paragraph 79 raises the question of the accounting implications of the transition from the fixed price phase to the flexible price phase;
- (m) paragraph 93 could usefully clarify that the creation of a fund does not create a liability; and



- (n) the drafting style of Part 2 of the draft paper on Government perspective could usefully better align with the drafting style in Part 1, Emitters' perspective. This could include: (i) clarifying paragraphs 82 and 84 and deleting paragraph 83; (ii) reversing the order of discussing recognition of income (paragraphs 63 onwards) and the recognition of liability; and (iii) expanding the discussion of ACCUs and the argument in paragraph 90

The Board noted that each part of agenda paper 10.2 could be split into two parts and each published as a separate paper. Although Part 2 relates to one entity (the Commonwealth Government), Board members noted that users of financial statements of the Commonwealth Government could benefit from the staff analysis.

Board members were invited to provide any editorial or more substantive suggestions to staff out of session.

Staff will consider the above comments in finalising the papers.

Action:	Staff
	Board members to provide editorial suggestions

Revision of AASB 1048 *Interpretation of Standards*

Agenda Item 11

The Board had before it:

- (a) a memorandum from Clark Anstis and Masha Marchev dated 22 May 2012 (agenda paper 11.1);
- (b) draft revised AASB 1048 *Interpretation of Standards* – clean copy (agenda paper 11.2); and
- (c) draft revised AASB 1048 – marked up from the existing AASB 1048 (June 2010) (agenda paper 11.3).

The Board considered a draft revised version of AASB 1048, amended to list AASB and UIG Interpretations that are mandatory for any periods ending on or after 30 June 2012. The Board noted that changes to the draft revised version would be required as a result of amending Standards expected to be made by the Board prior to the end of June 2012.

The Board decided that AASB 1048 should be reissued and decided to vote out of session on an updated version of AASB 1048 by the end of June 2012.

Action:	Staff
	Board Members

Related Party Disclosures by Not-for-Profit Public Sector Entities

Agenda Item 12

The Board had before it:

- (a) a memorandum from Clark Anstis and Daisy Yang dated 22 May 2012 (agenda paper 12.1);



- (b) staff collation of submissions and roundtable comments (with staff comments and views) (agenda paper 12.2);
- (c) the submissions received from constituents on ED 214 *Extending Related Party Disclosures to the Not-for-Profit Public Sector* (July 2011) (agenda paper 12.3);
- (d) staff summary of significant matters raised at roundtables (October 2011) (agenda paper 12.4); and
- (e) AASB Exposure Draft ED 214 (agenda paper 12.5).

The Board reviewed the submissions received in response to ED 214 and the comments of participants in roundtable discussions that were held in October 2011.

The Board requested staff to develop examples and guidance that would assist NFP public sector entities to apply AASB 124 *Related Party Disclosures*. For example, the Board considered that guidance should emphasise the principles of the definition of 'key management personnel' (KMP), which could mean that some government Ministers would not be regarded as KMP of the government in the particular circumstances of the jurisdiction.

The Board decided to further consider whether the remuneration of Ministers who are KMP should be included in the aggregate KMP remuneration disclosures of each public sector entity or, given existing disclosure requirements for Ministers, whether a descriptive disclosure concerning Ministerial remuneration might be sufficient where the remuneration is appropriately disclosed elsewhere.

In relation to related party transactions, the Board considered that the application of the materiality principle is sufficient to distinguish transactions that ought to be disclosed and that no specific exemption is required regarding Ministerial related party transactions. Board members noted that the development of some illustrative examples would help in applying the principle.

The Board did not consider all of the issues that had been raised in the agenda papers. The Board plans to consider those issues and draft examples and guidance at its next meeting.

Action: Staff

Income Tax – Substantive Enactment

Agenda Item 13

The Board had before it

- (a) a memorandum from Nikole Gyles dated 23 May (agenda paper 13.1); and
- (b) an issues paper - AASB 112 *Income Taxes – Substantive enactment* (agenda paper 13.2).

The Board received a staff analysis of AASB Interpretation 1039 *Substantive Enactment of Major Tax Bills in Australia*. The analysis included consideration of implementation issues and a comparison of how related matters are dealt with in other jurisdictions. In the first instance, the Board asked staff to send a copy of AASB Interpretation 1039 to the IFRS Interpretations Committee and to advise the Committee of the



apparent diversity in practice internationally with a view to ascertaining whether the issue of substantive enactment might be an issue needing the Committee's attention.

Action: Staff

EFRAG Discussion Paper – Income Tax

Agenda Item 14

The Board had before it:

- (a) a memorandum from Nikole Gyles dated 23 May 2012 (agenda paper 14.1);
- (b) an Issues Paper: Tentative AASB Staff Comments on European Financial Reporting Advisory Group (EFRAG) Discussion Paper – *Improving the Financial Reporting of Income Tax* (agenda paper 14.2); and
- (c) EFRAG Discussion Paper – *Improving the Financial Reporting of Income Tax* (agenda paper 14.3).

The Board decided that the staff should provide broad comments to EFRAG on the Discussion Paper, based on the tentative AASB staff comments in Agenda Paper 14.2.

Action: Staff

Monitoring Group Consultation Paper: Oversight of International Public Sector Accounting Standards Board

Agenda Item 15

The Board had before it:

- (a) a memorandum from Clark Anstis dated 22 May 2012 (agenda paper 15.1);
- (b) Monitoring Group Request for Comments and Consultation Paper, *Public consultation on the governance (with special focus on organisational aspects, funding, composition and the roles) of the Monitoring Group, the PIOB and the standard setting boards and Compliance Advisory Panel operating under the auspices of IFAC* (March 2012) (agenda paper 15.2); and
- (c) AASB submission (September 2010) to the Monitoring Group's Consultation Paper, *Review of the IFAC Reforms* (June 2010) (agenda paper 15.3).

The Board decided to make a submission to the international Monitoring Group, which is supported by the International Organization of Securities Commissions (IOSCO), in response to the Monitoring Group's Consultation Paper (CP) regarding the governance arrangements for the standard-setting boards of the International Federation of Accountants (IFAC), including the IPSASB. The CP proposals include the possibility of extending the remit of the Public Interest Oversight Board (PIOB) to cover the IPSASB, in addition to its existing coverage of the other IFAC standard-setting boards.

The Board's submission is to emphasise that the development of oversight arrangements for the IPSASB, based on best practice, is very important in broadening support for the work of the IPSASB and that such arrangements therefore should be established as soon as possible.



The Board decided that the submission should be finalised by the Chairman out of session.

Action: Staff
Chairman

IASB ED: Annual Improvements 2010-2012

Agenda Item 16

The Board deferred consideration of this item to the next meeting.

Financial Instruments

Agenda Item 18

The Board had before it:

- (a) a memorandum from Sue Lightfoot and Christina Ng dated 22 May 2012 re Financial Instruments: Update on IASB progress (agenda paper 18.1); and
- (b) a slide presentation 'Financial Instruments Impairment Update' (agenda paper 18.2).

IASB Developments

The Board received an update on the 'impairment' and 'classification and measurement' phases of the IASB's Financial Instruments project. The Board noted the IASB's tentative decision at its May 2012 meeting to include a category of debt instruments measured at fair value through other comprehensive income. The Board also noted the IASB has broadly completed its development of an impairment approach based on the general deterioration of credit quality that would require entities to categorise financial assets into three 'buckets'. The Board decided there were no issues that ought to be raised with the IASB at this stage.

General Hedge Accounting – Due Process

The Board decided to notify constituents of the release of the forthcoming IASB staff 'fatal flaw' draft IFRS for general hedge accounting via an AASB website alert, and to place the IASB staff draft on the AASB website.

Disclosures on Transition to AASB 9 – Due Process

The Board noted the comment period for the AASB's Invitation to Comment ITC 26 *Disclosures on Transition to AASB 9* had closed with no comments received. A ballot draft of the Amending Standard will shortly be sent to Board members for out-of-session voting.

Action: Staff
Board Members

Leases

Agenda Item 19

The Board had before it

- (a) a memorandum from Nikole Gyles dated 23 May (agenda paper 19.1); and

- (b) a tabled agenda paper – Leases project update (agenda paper 19.2).

The Board received an update on the discussion by the IASB and the FASB in their May 2012 meeting on the Leases project. The Board decided there were no issues arising from the Boards' May meeting that ought to be raised with the IASB at this stage.

Revenue from Contracts with Customers

Agenda Item 20

The Board had before it

- (a) a memorandum from Nikole Gyles dated 23 May (agenda paper 20.1); and
(b) a tabled agenda paper – Revenue project update (agenda paper 20.2).

The Board received an update on the discussion by the IASB and the FASB in their May 2012 meeting on the Revenue from Contracts with Customers project. The Board decided there were no issues arising from the Board's May meeting that ought to be raised with the IASB at this stage.

IASB Post-Implementation Review: IFRS 8 Operating Segments

Agenda Item 21

The Board had before it

- (a) a memorandum from Nikole Gyles dated 23 May (agenda paper 21.1); and
(b) a tabled agenda paper – IFRS 8 post-implementation review project update (agenda paper 21.2).

The Board received an update on the tentative decisions made by the IASB in its May 2012 meeting on the IASB's planned approach to the post-implementation review of IFRS 8. The Board decided there were no issues arising from the IASB's May 2012 meeting that ought to be raised with the IASB at this stage.

NZ developments including differential reporting

Agenda Item 22

Michelle Embling, Chair of the New Zealand Accounting Standards Board, updated the Board on current developments regarding accounting standards in New Zealand.

Emerging Issue

Agenda Item 23

Matters raised included:

- (a) the ongoing global financial crisis and its impact on accounting standard developments;
(b) that a number of NFP entities are planning to early adopt AASB 9 *Financial Instruments*;
(c) Minerals Resource Rent Tax – measurement of deferred tax assets and assessment of recoverability;



- (d) the application of discount rates and the meaning of 'deep markets' and 'government bond rate' under AASB 119 *Employee Benefits*;
- (e) whether there might be any further request for deferral of the application of fair value measurement under AASB 1049 *Whole of Government and General Government Sector* to defence weapons platforms;
- (f) that the IFRS Foundation is seeking comment on the IASB and IFRS Interpretations Committee draft Due Process Handbook by 5 September 2012; and
- (g) possible developments in GFS/GAAP.

Review

Agenda Item 24

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 3.30 p.m. on Thursday 7 June 2012.

Approval

Signed by the Chairman as a correct record
this twenty-fifth day of July 2012