



Issue: Number 142
Date: 18 March 2011
Subject: AASB Meeting 115, 16-17 March 2011

The AASB's March 2011 meeting was conducted over two days. The first day included sessions conducted jointly with the FRSB via video-conference, and AASB-only sessions. The second day was confined to AASB-only sessions.

Joint Meeting with New Zealand Financial Reporting Standards Board

NZ Standard Setting Arrangements

Standard setting in New Zealand is to be restructured with effect from 1 July 2011. At that date the existing New Zealand Accounting Standards Review Board (ASRB) is expected to be reconstituted as the External Reporting Board (XRB), together with two sub-Boards: the New Zealand Accounting Standards Board (NZASB) and the New Zealand Auditing and Assurance Standards Board (NZAuASB).

The Boards noted ASRB Communiqué 2011/2 (March 2011), which included announcements:

- (a) of the appointment of Michele Embling (ASRB Deputy Chair, and Managing Partner of the Auckland office of PricewaterhouseCoopers) as the inaugural Chair of the NZASB; and
- (b) the ASRB has concluded that the new accounting standards framework should consist of two sets of accounting standards: one to be applied by entities with a for-profit objective and the other to be applied by public benefit entities. The ASRB is preparing a Position Paper and two Consultation Papers on its multi-standards approach.

Fair Value Measurement

In relation to the forthcoming IFRS on Fair Value Measurement (which the IASB plans to issue in April 2011), the AASB considered the treatment of borrowing costs by not-for-profit (NFP) public sector entities when using depreciated replacement cost (DRC) to measure the fair value of property, plant and equipment. Under AASB 123 *Borrowing Costs*, NFP public sector entities may elect to recognise borrowing costs as an

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immediate expense instead of applying the capitalisation requirements in respect of qualifying assets that apply to other entities. The AASB considered and rejected an argument that a NFP public sector entity that makes such an election should, for 'consistency', be required to exclude borrowing costs from DRC estimates of the fair value of property, plant and equipment measured under the revaluation model in AASB 116 *Property, Plant and Equipment*.

The AASB decided to reactivate its project on the application of AASB 123 by NFP public sector entities, and test the above-mentioned election against its *Process for Modifying IFRSs for PBE/NFP*.

The AASB and FRSB decided to work jointly in developing their separate submissions to the International Valuation Standards Council on its Exposure Draft *Proposed Technical Information Paper 2 "Depreciated Replacement Cost"*, on which the IVSC requests comments by 31 May 2011. The focus of the submission will be on whether the IVSC ED is consistent with the forthcoming IFRS on Fair Value Measurement regarding the determination of DRC as an estimate of fair value.

Revenue from Contracts with Customers

The Boards noted the tentative decisions recently made by the IASB and FASB in their joint project to develop a Standard on Revenue from Contracts with Customers.

The AASB considered issues papers regarding the applicability of the Australian Accounting Standard that will incorporate the forthcoming IFRS on Revenue from Contracts with Customers, and whether that Standard, when first issued, should include any NFP-specific modifications.

In February 2011, the AASB decided the focus of the project on Income from Non-Exchange Transactions should be revenue recognition by NFPs, and the project's scope should not be limited to non-exchange transactions. Work on developing that revenue recognition model is based on the IASB's work in developing an IFRS on Revenue from Contracts with Customers, but modifying the draft IFRS where necessary to address NFP-specific issues.

At this meeting, the AASB decided that:

- (a) the Australian Accounting Standard incorporating the IFRS on Revenue from Contracts with Customers should initially apply to, and be permitted to be adopted early by, for-profit entities only;
- (b) when that Standard is first issued, Australian NFPs should continue for the time being to apply the existing Australian Accounting Standards dealing with revenue and other income, namely:
 - (i) AASB 118 *Revenue*, in respect of revenue from exchange transactions; and

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- (ii) AASB 1004 *Contributions*, in respect of revenue or other income from non-exchange transactions; and
- (c) it will continue, as a high priority, to develop a revenue recognition model for NFPs based on the IFRS on Revenue from Contracts with Customers, but modified where necessary to address NFP-specific issues.

IPSASB Conceptual Framework:

The Boards received an education session on, and considered issues to address in their submissions on:

- (a) IPSASB Conceptual Framework Exposure Draft 1 *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity*;
- (b) IPSASB Consultation Paper *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements*; and
- (c) IPSASB Consultation Paper *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements*.

The IPSASB requests comment on all three documents by 15 June 2011.

IPSASB Exposure Draft 1

The Boards agreed to recommend to the IPSASB that its Framework should:

- (a) state the criteria it plans to use in assessing how the scope of financial reporting should evolve in response to users' information needs – in particular, in determining which useful information belongs within the scope of *financial* reporting and which useful information falls outside the scope of financial reporting;
- (b) identify a single objective of financial reporting, namely, to provide information useful for decision making by users of financial reports (consistent with the IASB's revised Conceptual Framework). This would help with identifying the financial information needs of users that GPFs should strive to meet and that Standards should be developed to require. The IPSASB Framework should also indicate that:
 - (i) discharging accountability is a key role of GPFs of public sector entities, which is achieved by providing financial information useful for decision making purposes, and therefore should not be identified as a separate objective; and
 - (ii) to provide confirmatory value to users, GPFs should provide information useful for evaluating past decisions;

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- (c) not identify primary users of GPFs. If it does, 'primary users' should include (among others) all parties performing a review or oversight function on behalf of other users;
- (d) explain its reference to providing information about phenomena other than 'economic phenomena' (the IASB's revised Conceptual Framework refers only to 'economic phenomena');
- (e) treat materiality as an entity-specific aspect of relevance (consistent with the IASB's revised Conceptual Framework), rather than as a constraint on reporting useful information; and
- (f) be consistent with the revised IASB Conceptual Framework's distinction between 'fundamental' and 'enhancing' qualitative characteristics, even though the Boards disagree in principle with the distinction, because there is not an apparent public sector specific reason to differ.

IPSASB Consultation Paper on Elements and Recognition

The Boards agreed to recommend to the IPSASB that its ED on this component of its Framework should:

- (a) propose an 'asset and liability-led approach' rather than a 'revenue and expense-led approach' to identifying the elements of financial statements. (Under a 'revenue and expense-led approach', revenues and expenses are defined on the basis of their applicability to the current period, leading to identifying 'deferred inflows' and 'deferred outflows' as elements of the statement of financial position, in addition to assets and liabilities);
- (b) reflect an approach to associating an asset with a specific entity that is based on control and/or access to rights. The Boards noted that rights to access a resource may in themselves be assets;
- (c) define assets and liabilities generically, i.e., without limiting them to items that would be recognised in financial statements. Accordingly, a government's rights/powers to tax and levy fees should be identified as assets, although they might not qualify for recognition until an event (such as the exercise of the rights/powers) occurs; and
- (d) identify features of liabilities as unconditional obligations and the entity not having a realistic ability to withdraw from the obligation. Examples of liabilities (not mutually exclusive) are obligations to transfer benefits, unconditional stand-ready obligations, performance obligations and obligations to provide access to a resource.

IPSASB Consultation Paper on Measurement of Assets and Liabilities

The Boards agreed to recommend to the IPSASB that its ED on this component of its Framework should:

- (a) attempt to identify an ideal measurement basis or model, regardless of whether it also includes conceptual guidance to help the IPSASB develop an improved mixed measurement model at a standards level;
- (b) evaluate various concepts of capital as the starting point for choosing between different measurement bases;
- (c) add fair value to the measurement bases evaluated; and

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- (d) give greater acknowledgement of the differences between market entry prices and market exit prices.

The Boards also agreed that, at this stage, it would be premature for them to propose a preferred measurement model in their submissions to the IPSASB.

At their respective next meetings, the Boards will consider papers setting out draft views on key issues for inclusion in their submissions to the IPSASB.

Topics dealt with by the AASB in its separate meeting

Control in the Not-for-Profit (NFP) Public and Private Sectors

The Board received an update on the progress being made on the Control in the NFP Public and Private Sectors project. The Board particularly noted:

- (a) the IASB's upcoming release of the ballot drafts for IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*;
- (b) staff is continuing its work on a paragraph-by-paragraph review of the IASB staff draft of IFRS 10 to identify potential needs for domestic NFP-specific modifications; and
- (c) staff is continuing its work on a report identifying application issues relating to control in the public sector and a literature review of issues relating to control in the NFP private sector.

The Board agreed a revised project plan, which anticipates the issue by October 2011 of an exposure draft proposing NFP-specific modifications in AASB 10 *Consolidated Financial Statements* (incorporating IFRS 10).

Service Performance Reporting

The Board received an update on the progress being made on its Service Performance Reporting (SPR) project. In particular, the Board noted the following:

- (a) the project team has prepared working drafts of four papers intended to form the basis of any principles the Board might develop for SPR. The papers have been sent to Project Advisory Panel and Working Group members, any comments from whom will be considered for inclusion in the next draft of the papers, to be sent to the sub-committee for comment;
- (b) reflecting that the project is not a conceptual-level project, the papers express tentative views of the project team that the principles of SPR (including a working definition of SPR, the objective of SPR

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and the identification of SPR users and their needs) can and should be based on the current AASB Conceptual Framework; and

- (c) later stages of the project will consider the issues of how SPR relates to financial reporting and the IFRS Practice Statement *Management Commentary*; and also whether the outcomes of the project should result in voluntary or mandatory pronouncements. The Board commented that the project should also consider the implications of its findings for the scope of general purpose financial reporting.

The Board observed that the findings of the project might be applicable in a for-profit private sector context. However, for now, the project's focus should remain on private sector NFP entities, with a view to it being considered for the public sector in due course.

GAAP/GFS Harmonisation – Entities within the GGS

The Board considered a second pre-ballot draft ED XXX *Not-for-Profit Entities within the General Government Sector* and made a number of decisions. The more substantial decisions include the following:

- (a) Sweep issue 1 (whether entities should be prohibited from including GAAP/GFS harmonised classification information on the face of the financial statements): The ED should propose a choice between disclosure on the face or in the notes, and include a specific matter for comment on the issue;
- (b) Sweep issue 2 (whether disclosure of GAAP/GFS harmonised classification information should only be required to be disclosed at a GFS category level, rather than at a line item level, where it is presented in the notes): The ED should propose disclosure at the line item level, and include a specific matter for comment on whether information at a line item level is more beneficial than at the GFS category level;
- (c) Sweep issue 3 (whether AASB 1050 Administered Items should remain applicable): The ED should propose that AASB 1050 (applicable only to government departments) continues to apply. The Board re-affirmed its intention to fundamentally review AASB 1050 in due course as part of a separate project; and
- (d) Sweep issue 4 (whether budgetary reporting proposals should be extended to apply to administered items): The ED should propose that budgetary reporting requirements apply to both controlled and administered items. The Board noted the proposals would apply to administered items only if an entity presents budgeted administered financial statements to parliament.

The Board agreed that one member who has an alternative view to that reflected in the draft ED should have his view included in a separate section at the end of the Basis for Conclusions.

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The Board decided the ED should include a note that provides a context for the manner in which RDR is dealt with in the ED given that, under AASB 1053 *Application of Tiers of Australian Accounting Standards*, all entities that would be subject to the proposals in the ED are Tier 2 entities (albeit that they might be directed by a regulator to apply Tier 1 requirements).

A ballot draft ED reflecting the Board's decisions will be developed and forwarded to Board members for out-of-session voting in due course. The Board intends to host Roundtables in Sydney and Melbourne during the comment period, possibly in September 2011.

Employee Benefits

The Board noted recent developments on employee benefits accounting, in particular in relation to defined benefit obligations, and did not identify any issues at this stage that might prevent members from voting to make a revised AASB 119 *Employee Benefits* that adopts the forthcoming revised IAS 19 *Employee Benefits*.

Fair Value Measurement

The AASB considered an issues paper on whether any NFP-specific modifications to the forthcoming IFRS on Fair Value Measurement are warranted in the light of comments received on AASB ED 181 *Fair Value Measurement* and ED 199 *Measurement Uncertainty Analysis Disclosure for Fair Value Measurements* regarding the proposed IFRS. The AASB particularly considered comments from some constituents that the following disclosures for fair value measurements categorised within Level 3 of the fair value hierarchy would give rise to costs exceeding the related benefits, and therefore should not be required of NFPs:

- (a) a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs might result in a significantly different fair value; and
- (b) a description of any interrelationships between the inputs mentioned in (a) and other unobservable inputs used in the fair value measurement.

The AASB decided that, if the IASB proceeds with its proposals:

- (a) there is not a NFP-specific reason to provide an exemption from the above-mentioned disclosures; and
- (b) none of the other issues in the issues paper warrant a NFP-specific modification to the forthcoming IFRS on Fair Value Measurement when it is incorporated in an Australian Accounting Standard.

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Australia-New Zealand Convergence – True and Fair View

The Board noted that, as part of the project to converge Australian and New Zealand Standards for for-profit entities, it has decided to include paragraphs 19 to 22 of IAS 1 *Presentation of Financial Statements* (which deal with extremely rare circumstances in which management concludes that compliance with a requirement in a Standard would be so misleading that it would conflict with the objective in the Framework) in AASB 101 *Presentation of Financial Statements*.

The Board asked staff to prepare an 'Aus paragraph' to be included in AASB 101 (together with paragraphs 19 to 22 of IAS 1) that specifically prohibits entities that report under the Corporations Act, or are NFP entities (including governments) or entities applying the RDR from applying paragraph 19, and to consider any implications for NFP entities that are able to, and are interested in, being IFRS compliant.

The Board agreed that the matter should be reconsidered at its April 2011 meeting. The Board noted its intention to complete the convergence changes to its Standards by 30 June 2011.

Financial Instruments: Asset & Liability Offsetting

The Board noted that IASB ED/2011/1 *Offsetting Financial Assets and Financial Liabilities* (AASB ED 209) is not expected to change the existing offsetting criteria under IAS 32 *Financial Instruments: Presentation*, but it proposes new guidance on how to apply the offsetting criteria and new disclosures when offsetting is applied.

The Board identified key issues and comments to be included in its submission to the IASB in response to IASB ED/2011/1. The Board agreed with most of the matters identified in the Board papers and noted that the IASB should clarify its intention in proposing to require an 'unconditional right' to offset in all circumstances, including in times of bankruptcy and insolvency, and how that relates to other Standards using the term.

The Board supported the IASB's proposed criterion to assess management's intention to settle net or simultaneously.

Comments to the AASB on ED 209 are due by 11 April 2011 and comments to the IASB on ED/2011/1 are due by 28 April 2011.

Reduced Disclosure Requirements (RDR)

Differential reporting research project

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The Board considered an update on the status of the differential reporting research project. It noted that the thrust of the research is to profile the characteristics of lodging entities and their accounting policies with a view to shedding light on: (a) whether there is consistency in the population of entities currently identified as non-reporting entities; and (b) the nature of the accounting policy choices being made by non-reporting entities.

Staff informed the Board that there has been extensive liaison with various regulators in the for-profit and NFP sectors to facilitate access to the required data and that the research project has now entered the sampling stage.

RDR due process

The Board noted that some constituents have commented that Tier 2 supplements should not be issued concurrently with Tier 1 EDs; rather, they should await the finalisation of Tier 1 Standards. The Board noted that it views Tier 1 and Tier 2 requirements as a single body of Standards and accordingly, it is the AASB's intention that, when feasible, Tier 2 proposals should be included in Tier 1 EDs for constituent comment. The Board also noted that, in some circumstances, because of the timing of Tier 1 proposals, the Board may seek comment separately in a Tier 2 Supplement issued as soon as practicable after the publication of the related Tier 1 ED.

ED 210 Tier 2 Supplement

The Board considered issues relating to disclosures in ED 210 *Financial Instruments: Impairment* that are proposed to be retained or excluded for Tier 2 reporting. The Tier 2 Supplement to ED 210 will be published for comment shortly.

Emerging Issues and Other Business

Emissions trading/carbon pricing

The Board received a high level verbal update from AASB staff of the recent Australian Government announcement about a fixed-price emission scheme. Possible accounting treatments by the Government and by emitting entities of the transactions arising from the proposed scheme were discussed. The Board noted that any discussion of accounting for such transactions is very preliminary at this stage. The AASB staff will monitor developments with a view to updating the Board periodically.

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Leases project

The Board received an update on the IASB/FASB deliberations to date on the Leases project. The Board asked staff to obtain further details on the targeted outreach being conducted by the IASB/FASB staff in relation to the Leases project.

Recently Approved Accounting Standards and Exposure Drafts (EDs)

Since the February 2011 meeting, the Board has approved the following Accounting Standards and EDs.

Date Approved	Topic	Date effective from [Standard] / Date Submissions Due [ED]
10 February 2011	ED 210 <i>Financial Instruments: Impairment</i>	16 March 2011
10 February 2011	ED 209 <i>Offsetting Financial Assets and Financial Liabilities</i>	11 April 2011
3 March 2011	Tier 2 Supplement to ED 208 <i>Hedge Accounting</i>	2 June 2011
7 March 2011	ED 211: AASB 2010-X <i>Proposed Amendments to AASB 1049 (on Whole of Government and General Government Sector Financial Reporting)</i> <ul style="list-style-type: none">Relief from applying latest version of ABS Manual and clarification as to which versionRemaining proposals	<ul style="list-style-type: none">6 April 20116 June 2011

Board Membership

This was the first meeting attended by new Board member Jayne Godfrey.

Minutes

The Board approved the minutes of Meeting 114, held on 9-10 February 2011. These are now available on the AASB's website.

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Documents Open for Comment

The following documents are open for comment.

AASB submissions to the IASB, IFRS Interpretations Committee, IFRS Foundation or IPSASB are published on the AASB website.

Originating Organisation	Topic	AASB No.	AASB Due Date	Other Organisation Due Date
IASB	<i>Financial Instruments: Impairment</i> (proposed amendments to AASB 7 and AASB 139)	ED 210	16 Mar 2011	1 Apr 2011
AASB	Proposed Amendments to AASB 1049: <i>Whole of Government and General Government Sector Financial Reporting</i> – relief from applying the latest version of the ABS Manual and clarification as to which version applies	ED 211	6 April 2011	–
IASB	Offsetting Financial Assets and Financial Liabilities (proposed amendments to AASB 7 and AASB 132, and proposal relating to Tier 2 disclosure requirements)	ED 209	11 Apr 2011	28 Apr 2011
IPSASB	Conceptual Framework ED 1 – Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity	-	-	15 June 2011
IPSASB	Conceptual Framework Consultation Paper – Elements and Recognition	-	-	15 June 2011
IPSASB	Conceptual Framework Consultation Paper – Measurement of Assets and Liabilities	-	-	15 June 2011
AASB	Tier 2 Supplement to ED 195 <i>Defined Benefit Plans</i> (proposed amendments to AASB 119)	ED 195 Supp	9 May 2011	–
AASB	Tier 2 Supplement to ED 208 <i>Hedge Accounting</i>	ED 208 Supp	2 June 2011	–
AASB	Proposed Amendments to AASB 1049: <i>Whole of Government and General Government Sector Financial Reporting</i> – remaining proposals	ED 211	6 June 2011	–

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Next Meeting on 27-28 April 2011

It is anticipated that the Board will deal with the following items:

- Australia – New Zealand Convergence – True and Fair View
- Control in the Not-for-Profit sector (public sector issues)
- Disclosures – Unconsolidated Entities
- Revenue from Contracts with Customers
- Income from Non-Exchange Transactions (revenue of not-for-profit entities)
- Fair Value Measurement
- IASB Request for Views: Three-yearly consultation
- IPSASB Conceptual Framework
- GAAP/GFS Harmonisation – Post Implementation Review
- Financial Instruments – Portfolio Hedging
- Reduced Disclosure Requirements

2011 Meeting Dates

Remaining 2011 meeting dates are:

- 27-28 April
- 8-9 June
- 13-14 July
- 14-15 September
- 26-27 October
- 7-8 December

Unless indicated otherwise, meetings are held in Melbourne.

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