



Issue: Number 143
Date: 29 April 2011
Subject: AASB Meeting 116, 28 April 2011

GAAP/GFS Harmonisation – Post-Implementation Review of AASB 1049

The Board considered comments from respondents to the proposals in Part 1 of ED 211 *Proposed Amendments to AASB 1049*, issued in March 2011. Part 1 was open for comment until 6 April 2011. The proposals in Part 1 relate to the definition of the ABS GFS Manual, relief from adopting the latest version of the ABS GFS Manual, and related disclosures.

Since ED 211 was issued, the ABS clarified the content of the ABS GFS Manual on its website. Consistent with the ABS's approach, the Board decided that, for the purposes of AASB 1049, 'ABS GFS Manual' should be defined along the lines of:

Australian Bureau of Statistics (ABS) publications *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005* (ABS Catalogue No. 5514.0) and *Amendments to Australian System of Government Finance Statistics, 2005* (ABS Catalogue No. 5514.0) published on the ABS website.

The Board also decided that the date on which amendments to the ABS GFS Manual become effective should, for the purposes of AASB 1049, be the publication date if no effective date is specified by the ABS.

Subject to these decisions, and other editorial changes, the Board decided that the relevant proposals and related Basis for Conclusions paragraphs from ED 211 should be incorporated into a ballot draft Amending Standard and distributed soon to Board members for voting.

The remaining proposals in ED 211 are open for comment until 6 June 2011.

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

The Board received an update on the progress being made on its Control in the NFP Public and Private Sectors project. The Board noted that work is continuing on:

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- (a) a paragraph-by-paragraph review of the IASB staff draft of IFRS 10 *Consolidated Financial Statements* to identify the potential need for domestic NFP-specific modifications, such as an Aus paragraph clarifying the meaning of the term 'returns', which is expected to be used in the amended definition of control; and
- (b) a report addressing issues relating to applying the concept of control in the NFP public sector and a literature review of, and other research into, issues relating to applying control in the NFP private sector.

IPSASB Conceptual Framework

After confirming its views formed on the key issues considered at its March 2011 meeting, the Board made the following decisions on additional key issues arising from the following IPSASB Conceptual Framework consultation documents:

- (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*

The Board decided to include in its submission a comment that the IPSASB Framework should acknowledge that its (proposed) boundaries of a group reporting entity are in principle consistent with the notion of control adopted by standard setters in various jurisdictions.

- (b) IPSASB Consultation Paper *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements*

The Board decided to include the following comments in its submission:

- (i) constructive obligations should be included in the concept of a liability, although they might not meet the criteria for recognition as liabilities;
- (ii) it would prefer that net assets/equity be characterised as a residual interest;
- (iii) transactions with residual interest holders need not be identified as separate elements; however, it is important to define them; and
- (iv) recognition criteria should be neutral, both in requiring a neutral judgement of whether an element exists at the reporting date and in specifying the same recognition threshold for all assets and liabilities.

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- (c) IPSASB Consultation Paper *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements*

Consistent with its view formed at its March 2011 meeting, the Board decided to include in its submission a comment that the concepts of capital chosen should determine how to measure non-financial assets with alternative uses.

The IPSASB requests submissions on all three documents by 15 June 2011. At its next meeting, the Board will consider any constituent comments received before finalising its submissions.

IPSASB Meeting Update

The Board received an update on the March 2011 meeting of the IPSASB from Tim Youngberry, the Australian member of IPSASB, and discussed a range of issues. No decisions were made.

In particular, the Board noted that the IPSASB is now undertaking preliminary consultation on a proposed Consultation Paper concerning its governance and oversight arrangements, with the final Consultation Paper expected to be released for public comment later in the year.

The IPSASB also discussed at its March meeting issues concerning presentation and disclosure (phase 4 of the Conceptual Framework project), accounting for service concession arrangements by grantors (a final Standard is now being developed), new projects to be added to its work program, service performance reporting, entity combinations, narrative reporting (management commentary) and improvements to IPSASB Standards.

IPSASB ED 45 *Improvements to IPSASs 2011*

The Board decided to make a submission to the IPSASB on ED 45 to express concern about the proposals to amend IPSAS 16 *Investment Property* and IPSAS 17 *Property, Plant and Equipment* by removing material relating to exchange transactions that lack commercial substance. The Board noted that the IPSASB's rationale for the proposals seems to presume that all exchange transactions that lack commercial substance are non-exchange transactions, which is not necessarily the case – and there is no public sector (or NFP) specific reason to make such a presumption.

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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 decided to include paragraphs 19 to 22 of IAS 1 *Presentation of Financial Statements* in AASB 101 *Presentation of Financial Statements*. These paragraphs 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.

The Board approved an Aus paragraph to be included in AASB 101 (together with paragraphs 19 to 22 of IAS 1) that specifically prohibits entities reporting under the Corporations Act, NFP entities (including governments) and entities applying Australian Accounting Standards – Reduced Disclosure Requirements (RDR) from applying paragraph 19.

Members noted they will shortly vote on three Standards representing the completion of phase 1 of the Australia–New Zealand Convergence project, which makes the Standards applying to Tier 1 for-profit entities virtually the same in both jurisdictions. Those three Standards are a separate Standard on additional Australian disclosures and two Amending Standards dealing with the deletion and relocation of requirements and the amendments connected with RDR.

Mutual Recognition Arrangements

The Board noted that the Chairs of the AASB and the FRSB had conveyed to the relevant government agencies a recommendation that, for Tier 1 for-profit entities, mutual recognition arrangements should be put in place for financial reports, including those of subsidiaries in groups that span both jurisdictions. The relevant regulators are now investigating how this might be achieved.

Fair Value Measurement

IFRS on Fair Value Measurement

The Board received a status report on the IASB's progress toward issuing an IFRS on Fair Value Measurement and on AASB staff's work on developing proposed Tier 2 disclosure requirements based on that expected IFRS. The IFRS is expected to be issued shortly as IFRS 13 *Fair Value Measurement*.

The Board noted that, in monitoring the IASB's work, staff identified a fair value-related issue in AASB 141 *Agriculture* that does not arise from the expected IFRS 13. The Board decided to write to the IASB to recommend an improvement to IAS 41 *Agriculture* by narrowing the context of the encouraged disclosure in

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paragraph 51 of that Standard. Paragraph 51 encourages separate disclosure of the components of the change in the fair value less costs to sell of biological assets due to physical changes and due to price changes. The Board will recommend that this disclosure should only be encouraged in relation to biological assets with fair value determined through current volume/price multiples, and not for fair value estimates based on the present value of future cash flows.

IVSC Exposure Draft on Depreciated Replacement Cost

The Board considered key issues regarding the consistency of International Valuation Standards Committee (IVSC) Exposure Draft 'Proposed Technical Information Paper 2 (TIP 2) *Depreciated Replacement Cost*' with the IASB's guidance on depreciated replacement cost (DRC) as an estimate of fair value, which is expected to be included in the forthcoming IFRS 13. The Board decided to include in its submission on ED TIP 2 a comment that TIP 2 should clearly identify which guidance therein is consistent with IFRS 13 regarding using the cost approach to measure fair value.

Financial Instruments

Portfolio Hedging

The Board received an update on the IASB's deliberation of issues identified from constituent feedback on ED/2010/13 *Hedge Accounting*. Issues discussed to date include:

- (a) designation of equity investments at fair value through other comprehensive income as hedged items;
- (b) hedging risk components in sub-LIBOR instruments;
- (c) eligibility of cash instruments as hedging instruments; and
- (d) treatment of forward points (difference between spot rate and forward rate) in foreign currency derivatives.

The Board also considered some preliminary issues raised by the IASB and its staff in respect of portfolio hedge accounting and the proposed timetable for the deliberation of issues. No decisions were made. The IASB is expected to publish its Exposure Draft on portfolio hedge accounting in the second half of 2011.

Offsetting Financial Assets and Financial Liabilities

The Board confirmed its support for the main IASB proposals in ED/2011/1 *Offsetting Financial Assets and Financial Liabilities* to essentially retain the limited circumstances under IAS 32 (AASB 132) *Financial*

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Instruments: Presentation in which presentation is on a net basis. In finalising its submission (due on 28 April) to the IASB on ED/2011/1, the Board decided against suggesting that the IASB allow gross presentation even when the criteria for set off are met.

Other Forthcoming IFRSs

The Board noted the progress that the IASB is making on a range of major topics for which the IASB is aiming to issue IFRSs (12 are scheduled) before the end of this year. The Board will continue monitoring that progress, and have regard to NFP (including public sector) perspectives and Tier 2 (RDR) disclosures at an appropriate time when each topic is sufficiently advanced. In due course, the Board will also consider whether, and if so what, additional due process is warranted on each of the topics.

Revenue from Contracts with Customers

The Board received an update on significant tentative decisions made by the IASB and the FASB in their joint project to develop a Standard on Revenue from Contracts with Customers and decided to write to the IASB to express concerns about some of the IASB's tentative decisions, including the decisions to:

- (a) require the presentation of an impairment loss on contracts with customers as contra revenue in the statement of comprehensive income;
- (b) develop separate revenue recognition models for goods and for services (the Board also decided to express concern about the appropriateness of those models); and
- (c) prescribe a measurement basis for uncertain consideration from customers that is inconsistent with other Standards and tentative decisions made in other projects.

The Board also noted there is insufficient information at this stage to make decisions on Tier 2 (RDR) disclosures in relation to the Australian Accounting Standard that will incorporate the IFRS on Revenue from Contracts with Customers.

Leases

The Board received an update on IASB/FASB deliberations in April 2011 on the Leases project. The Board decided to write to the IASB to express concerns about some of the IASB's tentative decisions, including the decisions to:

- (a) have two models for lessee accounting for capitalised leases (i.e. finance leases and other-than-finance leases). The Board also decided to express concern about the appropriateness of those models; and

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- (b) exclude variable lease payments from the measurement of lease assets and liabilities.

Consolidation, Joint Arrangements and Investment Entities

The Board received an update on the progress of the IASB's Consolidation, Joint Arrangements and Investment Entities projects. The Board noted:

- (a) the IASB's release of near-final drafts of 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) likely new disclosures identified by staff through a review of the near-final draft of IFRS 12 concerning non-controlling interests and consolidated structured entities; and
- (c) the IASB's planned release of an Investment Entities exposure draft in May or June 2011.

RDR – Deferred Tax and Severe Hyperinflation

The Board considered the submissions received on Tier 2 Supplements to ED 204 *Deferred Tax: Recovery of Underlying Assets* and ED 206 *Severe Hyperinflation*. The Board decided not to reduce any disclosures for Tier 2 entities based on these proposals.

Other Matters

The Board decided that it would make a submission to the ASIC on Consultation Paper 150 *Disclosing financial information other than in accordance with accounting standards*, which is open for comment until 12 May 2011.

The Board decided to consider at a future meeting the extent to which current Accounting Standards might be expected to affect any disclosures that an entity might make in relation to significant impending legislation, such as exposure to a carbon tax. It also asked the staff to prepare an article drawing together the relevant existing requirements in Standards.

The Board noted that staff are undertaking preliminary planning for seminars to be held later in the year on Public Sector NFP issues. The seminars are expected to be held in Melbourne and Sydney.

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Recently Approved Exposure Drafts (EDs)

Since its March 2011 meeting, the Board has approved the following ED:

Date Approved	Topic	Submission Due Date
22 March 2011	Tier 2 Supplement to ED 210 <i>Financial Instruments: Impairment</i> (proposed amendments to AASB 7)	27 June 2011

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
AASB	Tier 2 Supplement to ED 195 <i>Defined Benefit Plans</i> (proposed amendments to AASB 119)	ED 195 Supp	9 May 2011	–
IPSASB	Conceptual Framework ED 1 <i>Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity</i>	–	20 May 2011	15 June 2011
IPSASB	Conceptual Framework Consultation Paper <i>Elements and Recognition in Financial Statements</i>	–	20 May 2011	15 June 2011
IPSASB	Conceptual Framework Consultation Paper <i>Measurement of Assets and Liabilities in Financial Statements</i>	–	20 May 2011	15 June 2011
AASB	Tier 2 Supplement to ED 208 <i>Hedge Accounting</i>	ED 208 Supp	2 June 2011	–
AASB	<i>Proposed Amendments to AASB 1049: Whole of Government and General Government Sector Financial Reporting</i> – remaining proposals	ED 211	6 June 2011	–
AASB	Tier 2 Supplement to ED 210 <i>Financial Instruments: Impairment</i> (proposed amendments to AASB 7)	ED 210 Supp	27 June 2011	–
IPSASB	Exposure Draft 45 <i>Improvements to IPSASs 2011</i>	–	–	30 June 2011

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Minutes

The Board approved the minutes of Meeting 115, held on 16-17 March 2011. These are now available on the AASB's website.

Next Meeting – 8-9 June 2011

It is expected that the Board will deal with the following items in June and the following meetings:

- Consolidation
- Fair Value Measurement
- Financial Statement Presentation (presentation of OCI)
- Post-employment Benefits
- RDR research re reporting entities and general purpose financial reports
- Leases
- Revenue Recognition
- Revenue of Not-for-Profit Entities
- Insurance Contracts
- IPSASB Conceptual Framework
- Financial Instruments
 - Impairment
 - Hedge Accounting
 - Asset and Liability Offsetting

2011 Meeting Dates

The remaining 2011 meeting dates are:

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

Unless indicated otherwise, meetings are held in Melbourne.

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