



Issue: Number 141
Date: 11 February 2011
Subject: AASB Meeting 114, 9-10 February 2011

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

The Board noted the concern of some constituents that the draft proposed relief from adopting the latest version of the ABS GFS Manual might not be incorporated into AASB 1049 before 30 June 2011. The concern particularly arises from the implications of the latest version of the Manual for the measurement of defence weapons platforms. In acknowledging this concern, the Board decided that an Exposure Draft proposing all the amendments arising from the post-implementation review of AASB 1049 should be issued as soon as possible, and should provide:

- (a) a 30-day comment period for the proposals relating to the relief from adopting the latest version of the ABS GFS Manual; and
- (b) a 90-day comment period for the other proposals.

The Board noted this approach should enable it to issue an Amending Standard focused solely on the relief before 30 June 2011.

Extending Relief from Consolidation, the Equity Method and Proportionate

Consolidation

The Board considered constituents' comments on ED 205 *Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation*, which was issued in September 2010 for comment by 12 January 2011. The Board received seven submissions and all respondents broadly supported the ED's proposals.

The Board decided to proceed with its proposals and incorporate some of the suggestions for improvements made by respondents. It agreed that two Amending Standards should be issued, to clarify the application dates of the amendments, having regard to the dates pertinent to the Reduced Disclosure Requirements (RDR). The first Amending Standard would include non-RDR amendments, applying from 1 July 2011 with early application permitted from 1 January 2005. The second Amending Standard would include the RDR-related amendments, applying from 1 July 2013 with early application permitted from 1 July 2009.

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Related Party Disclosures in the NFP Public Sector

The Board considered an Issues Paper concerning the application of AASB 124 *Related Party Disclosures* to NFP public sector entities and the possibility of exempting such entities from disclosing aggregated information about certain routine related party transactions with government Ministers.

The Board decided not to propose adding an explicit exemption to AASB 124, based on the view that the principles in AASB 124 already adequately deal with routine related party transactions. Paragraph 18 refers to information “necessary for users to understand the potential effect of the [related party] relationship on the financial statements”, and the requirements of the Standard are subject to materiality.

The Board discussed the application of AASB 124 by local governments and decided, for the same reasons, that no specific disclosure exemption for routine transactions with councillors is needed.

An Exposure Draft will be drafted for the Board’s approval and issued for public comment.

Income from Non-Exchange Transactions

Following on from its redeliberations of submissions received on AASB ED 180/FRSB ED 118 *Income from Non-exchange Transactions (Taxes and Transfers)*, the Board is working with the FRSB to develop a model for identifying and measuring liabilities of NFPs, in the public and private sectors, arising from non-exchange transactions. That model is tentatively based on the proposed guidance on performance obligations in IASB ED/2010/6 *Revenue from Contracts with Customers*, modified where necessary to address NFP issues. It is significantly different from the model proposed in ED180/ED 118.

At this meeting, the Board decided that:

- (a) the revised ED should apply to revenue recognition by NFPs and its scope should not be limited to non-exchange transactions. The Board tentatively decided that the existence of, and appropriate measurement basis for, an asset or liability should not depend on whether the transaction concerned was ‘exchange’, ‘non-exchange’ or a combination of both;
- (b) financial assets, financial liabilities [although see (d) and (e) below] and non-financial assets of NFPs arising from transactions within the scope of the revised ED should initially be measured in accordance with the measurement requirements of the Standard applying to that class of assets or liabilities (e.g., AASB 9 *Financial Instruments* and AASB 116 *Property, Plant and Equipment*);

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- (c) non-financial liabilities (such as performance obligations) of NFPs resulting from transactions within the scope of the revised ED should initially be measured consistently with the principles underpinning IASB ED/2010/6, but those principles should be expressed in a manner leading to recognition of income from transactions or components of transactions that do not give rise to liabilities;
- (d) return obligations that are not advance receipts should be measured consistently with the proposed measurement basis for 'refund liabilities' in IASB ED/2010/6, namely, the probability-weighted amount of consideration that the entity expects to refund; and
- (e) liabilities in the form of advance receipts of taxes and transfers should be measured at the amount that would be required to be returned if the taxable event did not occur or the transfer arrangement did not become binding.

The Board will continue to monitor the IASB's deliberations on its project to develop an IFRS on *Revenue from Contracts with Customers* and to redeliberate issues in ED 180/ED 118 having regard to the submissions received on that ED. At its next meeting, it intends to consider a document that articulates its tentative decisions to date on the identification and measurement of elements addressed in the project, and its reasons for those decisions.

Treasury Consultation Paper: Scoping Study for a National Not-for-Profit Regulator

The Board noted this Consultation Paper, the purpose of which is to initiate discussion of policy options to inform the Government's future policy direction. The Board decided to respond to the Consultation Paper by acknowledging the issues raised and expressing support for the development of a regulatory framework that acknowledges the role of the AASB as the accounting standard-setter.

Major Public Sector/NFP Projects

The Board received an update on the progress being made on its major domestic public sector/NFP projects. The Board particularly noted the following:

- (a) GAAP/GFS Harmonisation for Entities within the GGS – staff anticipate bringing any sweep issues to the Board's March meeting, with the possibility of finalising the ED for issue mid-April with a four-month comment period;
- (b) Service Performance Reporting – staff have documented a significant amount of empirical research on current practice. The documented research incorporates comments from the Project Advisory Panel and the AASB/FRSB Sub-Committee. Staff are now aiming to distribute, by the end of

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February, further papers for comment by Project Advisory Panel members. These papers relate to the framework for, objective of, users of, users' needs for, and the definition of, service performance reporting; and

- (c) Control in the NFP Public and Private Sectors – work is under way on a paragraph-by-paragraph review of the IASB staff draft of IFRS 10 *Consolidated Financial Statements* to identify potential areas for domestic NFP/public sector paragraphs. The Board reconfirmed its aspiration to issue a Standard applicable to NFP public and private sector entities by December 2011, but acknowledged that this might not be feasible given the Board's other priorities. Therefore the objective should be to at least issue a Standard prior to the forthcoming IFRS 10 becoming mandatory.

The Board is also undertaking significant work on Income from Non-exchange Transactions (see above).

Individual KMP Disclosures

The Board noted recent developments regarding requirements to disclose information about individual key management personnel (KMP), including recent Treasury proposals regarding companies and the review of remuneration report requirements by the Corporations and Markets Advisory Committee. The Board also noted that the IASB plans to deal with amendments to IAS 24 *Related Party Disclosures* as a 2011 *Annual Improvement* with a view to resolving issues about entities (such as managed investment schemes) that are governed through other entities as opposed to being governed by employees who are KMP.

In view of these developments, the Board agreed to issue an Amending Standard that would withdraw from AASB 124 *Related Party Disclosures* the individual KMP disclosure requirements (i.e. paragraphs Aus 29.1 – Aus 29.9.3) on the basis that those disclosures are in the nature of governance matters best dealt with in the law; and in the interests of removing differences from IFRSs and convergence with New Zealand Standards. The Board agreed that the Amending Standard should have a two-year transition period with early adoption prohibited, and noted that during this time Parliament might include further individual KMP disclosures in the law.

The Board will vote on the Amending Standard out of session.

Financial Instruments: Hedge Accounting

The Board considered issues for inclusion in its submission on the IASB's Exposure Draft ED/2010/13 *Hedge Accounting* (open for comment to the IASB until 9 March 2011) – which is the subject of AASB ED 208, open for comment to the AASB until 18 February 2011. The Board noted that the proposals are aimed at improving and simplifying the requirements for hedge accounting.

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The Board decided to express broad support for the IASB's proposals on the basis that they are more principled than the current IAS 39 requirements.

The Board agreed to comment to the IASB on:

- (a) the link to an entity's risk management strategy in the objective;
- (b) the treatment of the fair value of the time value of options that are designated as hedging instruments;
- (c) the potential for confusion around hedge effectiveness and how it will be implemented in practice;
- (d) the transition requirements and the potential for a one-off retrospective adjustment; and
- (e) the types of hedge transactions that would not qualify for hedge accounting under the proposals.

An additional concern of the Board is that the IASB is yet to establish a general principle for determining which items should be presented in other comprehensive income (OCI).

The Board directed staff to draft the submission for review by a sub-committee and members of the Financial Instruments Advisory Panel. The submission will be finalised out of session.

Financial Assets: Impairment

The Board noted that the IASB Supplement to ED/2009/12 *Financial Instruments: Impairment* (incorporated into AASB ED 210) applies to financial assets measured at amortised cost that are managed on an open portfolio basis, and excludes lease receivables and financial assets such as short-term trade receivables.

The Board identified key issues and comments to be included in its submission to the IASB in response to the Supplement. In general, the Board considered that the proposed supplement model lacks a clear measurement principle because it incorporates lifetime expected losses, including forecasted losses, into a cost measurement.

The Board considered that the incurred but not reported (IBNR) loss model is probably broadly similar to the IASB's proposed 'foreseeable future loss' approach when assessing for impairment in a 'good book' portfolio. In addition, consistent with its earlier comment letter to ED/2009/12, the Board considered that the IBNR model is a form of forward-looking impairment model that the IASB should consider.

Comments to the AASB on ED 210 are due by 16 March 2011 and to the IASB by 1 April 2011.

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Islamic Finance

The Board received an information session on Islamic finance, including some of the implications of Islamic finance on accounting for revenue under contracts with customers, insurance contracts and leases.

The Board noted that AASB staff are involved with the Asian-Oceanian Standard-Setters Group's Islamic Finance Working Group, which has commented to the IASB on recent Exposure Drafts.

Australia/New Zealand Convergence – True and Fair View

The Board re-considered the basis on which it is including in AASB 101 *Presentation of Financial Statements* the 'true and fair view' paragraphs from IAS 1 *Presentation of Financial Statements*, which require an entity to depart from Standards if compliance would not give a true and fair view. The Board noted that these paragraphs would apply only when the relevant regulatory framework requires, or otherwise does not prohibit, such departures from Standards.

The Board noted that it is including the 'true and fair view' paragraphs for the sake of IFRS convergence, and agreed to also include an Aus paragraph that prohibits entities from using the paragraphs when the AASB and its Standards form part of an entity's regulatory framework.

Management Commentary

The Board considered its options with regard to the IFRS Practice Statement *Management Commentary*, which was issued by the IASB in December 2010. The Practice Statement is a broad framework for the presentation of narrative reporting to accompany financial statements prepared in accordance with IFRSs. The Board noted that, although the IASB concluded that management commentary is within the scope of financial reporting, the Practice Statement is not an IFRS, and consequently entities applying IFRSs are not required to comply with the Practice Statement, unless otherwise required in their jurisdiction.

The Board also noted that broadly similar guidance on management commentary already exists in Australia, particularly in the private sector. Accordingly, the Board decided to publish the IASB's Practice Statement on the AASB's web site, making it available for all entities but noting that existing guidance might take precedence. In addition, the Board agreed to suggest that other relevant regulators, such as the Australian Stock Exchange, could consider reviewing their existing guidance in light of the Practice Statement.

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Forthcoming IFRSs

The Board noted the significant number of, and the wide range of topics to be addressed in, IFRSs expected to be issued and incorporated into Australian Accounting Standards in the short term. For each forthcoming IFRS, where relevant, the Board's deliberations will include consideration of RDR implications and the extent to which public sector/NFP issues will need to be addressed.

The Board particularly noted recent developments regarding the IASB's projects on consolidation and joint arrangements, including that:

- (a) both IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements* are expected to be issued in quarter 1 of 2011; and
- (b) IAS 28 *Investments in Associates* requirements regarding potential voting rights would not be amended to be consistent with the forthcoming IFRS 10. The inconsistency could be addressed as part of a more comprehensive review of IAS 28 if such a project were to be added to the IASB's agenda after June 2011.

AASB Submissions

The Board noted the range of consultative documents that are currently on issue or expected to be issued in the short term by various bodies, including the IASB and the IPSASB. The Board intends to consider and make a submission on each document.

Policy Statement

The Board considered a revised draft Statement *AASB Policies and Processes* and agreed a number of changes. A ballot draft of the Statement will be circulated for voting to members shortly and the finalised Statement will be placed on the AASB's web site.

IFRS Foundation Monitoring Board

The Board noted the IFRS Foundation Monitoring Board *Consultative Report on the Review of the IFRS Foundation's Governance*, particularly that some of the questions relate directly to the IASB. The Board will consider, out of session, whether to comment on the report and, if so, the nature of any comments to be made.

Australian Water Accounting Standards Board (WASB)

The Board noted that the WASB had issued an Exposure Draft of Australian Water Accounting Standard 1 *Preparation and Presentation of General Purpose Water Accounting Reports* together with Associated Model Reports, seeking comments by 30 June 2011. The proposed Standard deals with reporting balances,

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inflows and outflows of water by a water entity on a quantity, not value, basis. The Board agreed that staff should comment briefly as appropriate, assisted by a Board sub-committee where required.

Board Membership

This was the first meeting attended by new Board members Anna Crawford and Roger Sexton, and by the new Board Secretary, Peter Batten. The appointment of Kris Peach as joint Deputy Chair was announced.

Minutes

The Board approved the minutes of Meeting 113, held on 8-9 December 2010. These are now available on the AASB's web site.

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
IFRS Foundation	Consultation Document – Status of Trustees' Strategy Review	–	–	24 Feb 2011
IASB	Hedge Accounting	ED 208	18 Feb 2011	9 Mar 2011
AASB	Amendments to AASB 7: Tier 2	ED 207	28 Feb 2011	–
IASB	Financial Instruments: Impairment (proposed amendments to AASB 7 and AASB 139)	ED 210	16 Mar 2011	1 Apr 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
AASB	Tier 2 Supplement to ED 195 Defined Benefit Plans (proposed amendments to AASB 119)	ED 195 Supp	9 May 2011	–

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Next Meeting – 16-17 March 2011

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

Joint AASB/FRSB:

- Fair Value Measurement
- Control in the Not-for-Profit sector (public sector issues)
- Disclosures – Unconsolidated Entities
- Revenue from Contracts with Customers
- IPSASB Conceptual Framework

AASB only:

- GAAP/GFS Harmonisation – Entities within the GGS
- Income from Non-Exchange Transactions
- Financial Instruments – asset and liability offsetting
- Post-employment Benefits
- True and Fair View
- Reduced Disclosure Requirements

2011 Meeting Dates

The remaining 2011 meeting dates are:

- 16-17 March (joint meeting with FRSB, via video conference)
- 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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