



Issue: Number 144
Date: 10 June 2011
Subject: AASB Meeting 117, 8-9 June 2011

Consolidation, Associates and Joint Arrangements (IFRS 10, 11 & 12; IAS 27 & 28 / AASB 10, 11, 12, 127 & 128)

The Board considered a number of issues in relation to the five new and revised IASB Standards issued in May 2011: 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*. The Board will vote out of session on whether to make each of the five Standards into Australian Accounting Standards – no Board member indicated an intention to oppose their adoption. The Standards would apply to annual reporting periods beginning on or after 1 January 2013, with early application permitted only by for-profit entities. The Board plans to address any issues concerning application of the Standards to not-for-profit (NFP) entities well before their application dates.

In addition, the Board will monitor implementation experience regarding the issues raised in its submissions on the IASB's related Exposure Drafts that have not been addressed by the IASB in these Standards and, where appropriate, bring issues to the attention of the IASB for consideration in its post-implementation review of the Standards.

An Exposure Draft to address Tier 2 reduced disclosure requirements is being prepared.

Fair Value Measurement (IFRS 13 / AASB 13)

The Board considered a number of issues in relation to IFRS 13 *Fair Value Measurement* issued in May 2011. The Board will vote out of session on whether to make IFRS 13 as an Australian Accounting Standard (AASB 13) – no Board member indicated an intention to oppose its adoption. The Standard would apply to annual reporting periods beginning on or after 1 January 2013, with early application permitted.

After noting that IFRS 13 does not address all of the concerns expressed in the Board's submissions on the IASB's related Exposure Drafts, the Board decided to write to the IASB reiterating those concerns and suggesting the IASB reconsiders them as part of a post-implementation review of IFRS 13. In addition, the

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Board will monitor Australian implementation experience regarding these issues and, where appropriate, bring issues to the attention of the IASB.

In relation to NFPs, the Board confirmed its earlier decision not to include any modifications to IFRS 13 in AASB 13. However, the Board decided to consider clarifying AASB 136 *Impairment of Assets*, to address the fact that AASB 13 treats depreciated replacement cost as a measure of fair value whereas for NFPs, AASB 136 treats depreciated replacement cost as a measure of value in use.

The Board also considered issues relating to its draft proposals for Tier 2 reduced disclosure requirements of the anticipated AASB 13. It is intended that the Tier 2 Exposure Draft and accompanying analysis be finalised out of session and issued about the same time as AASB 13.

Presentation of Other Comprehensive Income

The Board considered a number of issues in relation to the IASB's pre-ballot draft of *Presentation of Items of Other Comprehensive Income* (mainly amendments to IAS 1). The Board noted that, if the final Amending IFRS is consistent with the pre-ballot draft, there would be no reason for the Board not to make the relevant amendments to Australian Accounting Standards (mainly as amendments to AASB 101 *Presentation of Financial Statements*).

In relation to restructures of local governments, the Board also decided it would be appropriate for it to make an editorial amendment to paragraph Aus63.1 of AASB 3 *Business Combinations* – to make it clear that any gain or loss recognised in accordance with that paragraph should be recognised in profit or loss. In addition, the Board directed staff to undertake a detailed review of all other 'Aus' paragraphs and domestic Standards to determine whether other consequential amendments would be required for consistency with the imminent amendments.

The Board also decided it would be appropriate to make consequential amendments to paragraph 33 and the Illustrative Examples of AASB 1049 *Whole of Government and General Government Sector Financial Reporting* for consistency with the amendments.

After noting that the pre-ballot draft would not address some of the concerns expressed in the Board's submission on the IASB's related Exposure Draft (including the lack of a common principle for classifying items in profit or loss or other comprehensive income), the Board decided to write to the IASB in response to its forthcoming consultation on future agenda topics to reiterate this concern and encourage the IASB to add a project to its agenda to address this topic.

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Post-Employment Benefits

The Board considered NFP implications of making a revised IAS 19 *Employee Benefits* in respect of the forthcoming revised IAS 19. The Board decided it would be appropriate to:

- (a) retain paragraph Aus78.1 and to not include any additional NFP/public sector amendments in the revised AASB 119; and
- (b) make consequential amendments to AASB 1049 to reflect its classification of IAS 19 'remeasurements' as 'other economic flows' and to remove references to the 'corridor approach'.

The Board also considered submissions on *Tier 2 Supplement to AASB Exposure Draft ED 195 Defined Benefit Plans* and, based on the comments received from constituents, decided to make one amendment to the proposals – namely, to exclude from Tier 2 disclosure requirements information about the basis used to determine any deficit or surplus in a plan where an entity participates in a multi-employer defined benefit plan and accounts for the plan as if it were a defined contribution plan.

In addition, the Board considered implications for Tier 2 reduced disclosure requirements arising from differences between disclosures proposed in ED 195R and the near-final draft of the revised IAS 19. The Board decided to make some amendments to the Tier 2 disclosure requirements; however, none of these amendments were considered to result in additional disclosure being required of Tier 2 entities. Accordingly, the Board decided it would not be necessary to re-expose the Tier 2 disclosure requirements and plans to proceed to a ballot draft if the final revised IAS 19 is not significantly different from the near-final draft.

Financial Instruments

Hedge accounting update

The Board received an update on the IASB's deliberation of issues identified in respect of ED/2010/13 *Hedge Accounting* based on constituent feedback. Issues considered include:

- (a) the proposal to account for the time value of options as an insurance premium;
- (b) whether a combination of options (that includes a written or net written option) should be eligible as a hedging instrument;
- (c) when to rebalance the hedge ratio; and
- (d) the proposal to prohibit voluntary discontinuation of hedge accounting.

The Board also noted that the IASB education session on macro hedging and is expected to publish its Exposure Draft on macro hedge accounting in Q4 2011.

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Financial Instruments: Impairment update

The Board received an update on progress, including recent IASB tentative decisions and an overview of feedback received by the IASB, on the *Supplement to ED/2009/12 'Financial Instruments: Impairment'*.

The IASB aims to issue a revised version of IFRS 9 by the end of Q3 of 2011. The AASB will continue to monitor the IASB's work.

Offsetting of Financial Assets and Liabilities

The Board noted recent developments on the offsetting project, including an overview of the feedback being considered by the IASB on ED/2011/1 *Offsetting Financial Assets and Financial Liabilities*.

Insurance Contracts

The Board discussed the IASB's tentative decisions on the Insurance Contracts project, in particular, on the issues of contract boundary, risk adjustments and the residual margin unit of account.

The Board agreed it should communicate to the IASB support for recent tentative decisions on contract boundary and risk margins, but also highlight some concerns on a number of other matters, such as the residual margin unit of account.

Leases

The Board received an update on the tentative decisions made by the IASB and the FASB in the 17 May 2011 and 1 June 2011 meetings on the leases project and discussed whether consequential amendments would need to be made to AASB 1049 when the Australian Accounting Standard adopting the IFRS on leases is issued. The Board decided that if the Standard on leases:

- (a) includes an optional treatment for short-term leases, this treatment should be added to paragraph 14 of AASB 1049 as an example of an optional treatment; and
- (b) requires lessees to apply a single approach to account for all leases (i.e., recognise right-of-use assets and lease liabilities for all leases and interest expense and amortisation), this would give rise to GAAP/GFS differences that should be added to paragraph 42(a) of AASB 1049 as an example of GAAP/GFS differences that require disclosures of reconciliations and explanations of the differences.

The Board also directed staff to undertake further analysis on:

- (a) the IASB's decisions to date on leases and the direction that the IPSASB is heading in relation to service concession arrangements from a grantor's perspective; and

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- (b) whether NFP and public sector modifications should be made to AASB 117 *Leases* and the Australian Accounting Standard adopting the IFRS on leases in relation to Crown lease arrangements, having regard to the requirements in AASB 1004 *Contributions* and the Board's project on Income of NFPs.

Revenue Recognition

The Board received an update on the significant tentative decisions made by the IASB and the FASB in the May 2011 meeting on the Revenue project. The Board decided to write to the IASB expressing concerns about the apparent inconsistency between the tentative decision that an entity recognises an asset for incremental costs that are expected to be recovered and are not in the scope of another Standard, and the IASB's tentative decisions on similar matters in other projects.

Income of Not-for-Profit Entities

The Board considered a draft Basis for Conclusions on the Exposure Draft (ED) it is developing on Income of NFPs. This ED is being developed as a result of the Board's redeliberations of its proposals in AASB ED 180/FRSB ED 118 *Income from Non-exchange Transactions (Taxes and Transfers)*, having regard to the submissions received on that ED. The draft revised ED is broadly based on the IASB's work in developing *Revenue from Contracts with Customers*, but modified where necessary to address NFP-specific issues.

At this meeting, the Board decided:

- (a) to confirm its previous tentative decisions reflected in the draft Basis for Conclusions;
- (b) that the ED should apply to income of NFP entities rather than only to their revenue; and
- (c) that performance obligations of NFP entities should be measured at the fair value of the promised goods or services, using the fair value hierarchy in forthcoming AASB 13. Where stand-alone selling prices of promised goods or services (and hence of the performance obligation) cannot be observed or estimated reliably, the best indicator of the performance obligation's fair value may be the amount determined by applying AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

The Board discussed issues regarding whether the IASB's proposed criteria and methodology for recognising liabilities for onerous contracts should be applicable to NFP entities. The Board did not make a decision on this topic, but identified issues to be addressed in a staff paper for consideration at a future meeting.

The Board will continue to monitor the IASB's deliberations on its project to develop an IFRS on revenue from contracts with customers. It directed staff to draft an ED that is updated for IASB decisions as they are

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made, and to add examples of key transaction types (such as advance payments and multi-year grant arrangements) to illustrate the decisions set out in the draft Basis for Conclusions.

IPSASB Conceptual Framework

In relation to drafts of its submissions on the following IPSASB Conceptual Framework consultation documents, the Board considered sweep issues arising from comment letters received and from its Subcommittee's review:

- (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 Board made the following noteworthy amendments to its draft submission on (b) above:

- (a) it should emphasise more the Board's view that factors associating an asset or liability with an entity should be treated as recognition criteria. In relation to liabilities, the Board noted that examples of such factors are: (i) whether the obligations are unconditional; and (ii) whether the obligations leave the entity with no realistic alternative to avoid an outflow; and
- (b) also in relation to liabilities, it should clarify that the significance of a government's 'sovereign powers' to cancel or modify obligations to other parties is a recognition issue that is separate from how liabilities should be defined. The Board decided to propose that decisions about whether to recognise particular obligations as liabilities should be based on existing legislation.

The Board also decided that its submission on (c) above should argue that the treatment of an entity's own credit risk in the measurement of liabilities is a standards-level, rather than a concepts-level, issue.

Subject to these and other less significant decisions, the Board approved the submissions, which will be placed on the AASB website shortly.

Interpretations Update

The Board received an update on the IFRS Interpretation Committee's current projects, including its Stripping Costs project. The Board decided to write to the Committee highlighting some apparent inconsistencies between the revised Draft Interpretation DI/2010/1 *Stripping Costs in the Production Phase of a Surface Mine* (dated May 2011), and IAS 2 *Inventories* and IAS 16 *Property, Plant and Equipment*. The

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letter will also query whether the draft Interpretation would meet its intended purpose, on the basis that its principles are already evident in IAS 2 and IAS 16.

Emerging Issues

Implications of the IASB's SMEs Implementation Group (SMEIG) Guidance

The Board noted concerns raised by constituents and staff about the status and impact of guidance to be issued by the SMEIG. The SMEIG has so far published four draft Q&A documents relating to:

- (a) use of *IFRS for SMEs* in a parent's separate financial statements;
- (b) captive insurance subsidiaries;
- (c) interpretation of 'traded in a public market'; and
- (d) investment funds with only a few participants.

The Board noted that Guidance only relating to the *IFRS for SMEs* need not concern Australian Tier 2 entities because Tier 2 Standards are issued by the AASB following an independent due process. However, the Board decided staff should communicate with the SMEIG, IASB and the IFRS Interpretations Committee, noting that some aspects of the draft Q&As go beyond the *IFRS for SMEs* and could have implications for IFRS adopters (such as providing an interpretation of 'traded in the market') and emphasise that any matters that could have implications for IFRS adopters should be addressed through the normal IASB due process.

Individual KMP Disclosures

The Board received an update on recent developments, including staff progress on finalising a Regulation Impact Statement for the Amending Standard to remove the individual key management personnel disclosure requirements from AASB 124 *Related Party Disclosures* and a recent report from the Corporations and Markets Advisory Committee recommending changes to the law regarding remuneration reports.

Differential Reporting

The Board received a presentation from the external consultants engaged in the differential reporting research project. The Board noted the project was initiated to research the following issues:

- (a) the characteristics of the population of non-reporting entities; and
- (b) the nature of the accounting policies adopted by non-reporting entities.

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The consultants provided an explanation of their research methodology, the size and category of samples of lodged financial statements selected, the criteria used in assessing the characteristics of lodging entities and the quality of financial information. The Board acknowledged the consultants' research efforts carried out in conjunction with the AASB staff and requested similar periodic updates throughout the research project.

Presentation by Merran Kelsall (AUASB Chair)

The Board received a presentation from Merran Kelsall, Chairman of the Auditing and Assurance Standards board (AUASB), on international developments in auditing and matters of particular interest to the AASB. This followed a presentation by the Chair of the AASB to the AUASB. Ms Kelsall advised that as a result of the Global Financial Crisis (GFC), the role and relevance of the external audit is under scrutiny particularly in Europe and the US. She advised that the International Auditing and Assurance Standards Board (IAASB) is of the view that its revised "Clarity" auditing standards, which have been adopted by Australia, have already addressed issues such as Accounting Estimates, that might have been areas of concern. The IAASB has also issued Consultation Papers in the following areas:

- (a) Financial Reporting and Disclosures. The AUASB held a roundtable to identify constituents' views and advised the IAASB that note disclosures are 'auditable'; however further guidance would be helpful, particularly for qualitative notes and complex areas of judgement, such as going concern, estimation uncertainty, remuneration reports, etc.; and
- (b) Enhancing the Value of Auditor Reporting. The AUASB will hold a roundtable in June to discuss this paper, which canvasses amending the standard *Audit Report*, expanding *Auditor Commentary* to reduce the so-called 'information gap', and longer term possibilities of extending the scope of audit, to address the 'expectations gap'.

Merran also discussed the IAASB task force project working on producing a framework for Audit Quality.

Other Matters

The Board noted that seminars focusing on NFP, including public sector, financial reporting issues are planned to be held in Melbourne and Sydney on 15 and 19 August 2011, respectively.

Recently Approved Accounting Standards

Since its April 2011 meeting, the Board has approved the following Accounting Standards:

Date Approved	Topic	Date effective from
11 May 2011	AASB 1054 <i>Australian Additional Disclosures</i>	1 July 2011
11 May 2011	AASB 2011-1 <i>Amendments to Australian Accounting Standards arising from the Trans-Tasman</i>	1 July 2011

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	<i>Convergence Project</i>	
11 May 2011	<i>AASB 2011-2 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements</i>	1 July 2013
20 May 2011	<i>AASB 2011-3 Amendments to Australian Accounting Standards – Orderly Adoption of Changes to the ABS GFS Manual and Related Amendments [AASB 1049]</i>	1 July 2012

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
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	Questionnaire on the initial accounting for intangible assets	–	Extended to 15 July 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
IFRS Foundation	Report of the Trustees Strategy Review “IFRSs as the Global Standard: Setting a Strategy for the Foundation’s Second Decade”	–	–	25 July 2011
IPSASB	Key Characteristics of the Public Sector with Potential Implications for Financial Reporting	–	–	31 August 2011

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Board Membership

This was the final meeting attended by Joanna Perry in her capacity as an AASB member. The Board thanked Ms Perry for her considerable contribution to the Board's work. She will continue to assist the Board in her capacity as a member of the IFRS Interpretations Committee.

Minutes

The Board approved the minutes of Meeting 116, held on 28 April 2011. These are now available on the AASB's website.

Next Meeting – 13-14 July 2011

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

- Service Concession Arrangements – Grantor
- Leases
- Revenue from Contracts with Customers
- Income of NFPs
- Financial Instruments update
- Service Performance Reporting by NFP Private Sector Entities
- GAAP/GFS Harmonisation – Post-implementation Review of AASB 1049
- IPSASB Consultative Document on key characteristics of the public sector
- IPSASB Report
- IFRS Foundation Trustees Strategy Review for its Second Decade
- AASB Business Plan
- Value in Use for NFPs

2011 Meeting Dates

The remaining 2011 meeting dates are:

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

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