



Issue: Number 157
Date: 11 April 2013
Subject: AASB Meeting 130, 10 April 2013

1. Overview

At this meeting the Board discussed:

- (a) possible policy implications of research into special purpose financial statements (SPFSs) and a road map to implementation (see section 2);
- (b) financial reporting by superannuation entities (see section 3);
- (c) the IASB's proposals for limited amendments to standards in relation to joint operations, and sales or contributions of assets between an investor and its associate or joint venture (see section 4);
- (d) an update on the IASB's revenue from contracts with customers project (see section 5);
- (e) an update on IFRS Interpretations Committee activities (see section 6);
- (f) IPSASB public sector conceptual framework proposals (see section 8); and
- (g) a report on the March meeting of the IPSASB (see section 9).

Board members also received agenda papers relating to the IASB's Conceptual Framework project (see section 7) and a preliminary summary of submissions received on the AASB's proposals relating to Investment Entities (see section 10).

Recently approved documents are listed in section 11 and documents open for comment are listed in section 12.

2. Possible Policy Implications of Research into SPFSs and a Road Map to Implementation

Following on from discussions at its February 2013 meeting (see *Action Alert No. 156*), the Board continued discussing the results emerging from the research into special purpose financial reporting, the possible policy implications arising from the research and a tentative road map to addressing those implications.

The Board reflected back on its discussions in February and tentatively decided that:

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- (a) in light of the high incidence of SPFSs amongst lodged financial statements, there is doubt as to whether the reporting entity concept is being applied as intended by SAC 1 *Definition of the Reporting Entity* in identifying entities that should prepare GPFs;
- (b) a proportion of SPFSs lodged with the Australian Securities and Investments Commission (ASIC) appear not to have applied the recognition and measurement requirements of all applicable Australian Accounting Standards;
- (c) as the exemption from lodgement of financial statements of grandfathered large proprietary companies does not stem from accounting standards, if any changes were to be made to the lodging requirements applicable to such entities, they would need to arise from legislative change;
- (d) the reporting entity concept should continue to be used as the basis for identifying entities that, in concept, should be subject to general purpose financial reporting requirements. The concept would be used by the Board as the basis for its own deliberations on matters relating to general purpose financial reporting and for its discussions with others in the financial reporting environment. Accordingly, at this meeting, the Board tentatively decided that SAC 1 would not be part of the AASB Framework if there were to be a change of application focus from reporting entity to GPFs but that material based on SAC 1 could be made available in another form for use in the identification of entities that should, conceptually, be required to prepare and lodge GPFs (whether under Tier 1 or Tier 2);
- (e) in regard to the role of the Board as a standard setter:
 - (i) its mandate should be to set accounting standards for preparing general purpose financial statements under Tier 1 and Tier 2; and
 - (ii) reporting requirements for special purpose financial statements should be outside its mandate and should be a matter for consideration by preparers and identified users and regulators who are not dependent on general purpose financial statements;
- (f) consistent with the implementation road-map considered at this meeting, staff should liaise with regulators, including the Treasury, the ASIC, the Australian Charities and Not-for-profits Commission (ACNC) and relevant State government bodies, with a view to coordinating the Board's and those regulators' efforts in dealing with the issues emerging from the research. In regard to such liaison, staff reported the results of their recent meeting with staff of the ASIC; and
- (g) an Exposure Draft should be developed, based on a redeliberation of the ED 192 *Revised Differential Reporting Framework* proposals in relation to the change of the application focus of

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Australian Accounting Standards from 'reporting entity' to 'general purpose financial statements' and the clarification of general purpose financial statements in the Australian context, and include any amendments to those proposals that might arise from the research report and the liaison with other regulators in regard to any proposed transition.

Staff will report the results of its ongoing liaison with other regulators at future meetings.

The Board noted that as its work progresses, that work will help inform the Board on what further work should be undertaken. At this stage, the Board intends publishing a paper setting out its assessment of the policy implications of the research conducted on entities lodging with the ASIC and the two State jurisdictions that supplied research data, after it has consulted with the relevant regulators. That paper is expected to be published concurrently with the research report.

3. Superannuation Entities

The Board considered matters that need to be resolved to enable staff to prepare a pre-ballot draft replacement standard for AAS 25 *Financial Reporting by Superannuation Plans*. The Board tentatively decided:

- (a) APRA-regulated superannuation entities whose only assets are insurance policies that match liabilities should be required to apply the replacement standard in full, rather than being relieved from some of the requirements of that standard;
- (b) the replacement standard should specify the presentation of a separate statement of changes in equity/reserves and include in the Basis for Conclusions the Board's deliberations on materiality in this context;
- (c) in relation to defined benefit liabilities, disclosure should be required of the following:
 - (i) information on policies for managing those liabilities and related deficits/surpluses;
 - (ii) each significant assumption, a sensitivity analysis of each significant assumption, the basis or method for determining each significant assumption (where that is relevant to understanding the assumptions) and any significant changes to the basis or method from the previous period; and
 - (iii) the impact of changes from the previous period, separately in respect of demographic assumptions and financial assumptions;
- (d) in relation to the tentative decisions outlined in (c), the illustrative examples should include example disclosures for a multi-plan superannuation entity;

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- (e) there should be no specific disaggregated information disclosure requirements, but there should be a general requirement to disclose disaggregated information when that would help to explain the risks to which different categories of members are exposed;
- (f) in relation to insurance arrangements:
 - (i) guidance consistent with that in other standards that address agency relationships should be provided on determining when superannuation entities are likely to be acting only as agents, and an outline of the Board's deliberations on materiality in this context should be included in the Basis for Conclusions;
 - (ii) liabilities arising from insurance arrangements provided to members (defined benefit and defined contribution) should be recognised in a manner consistent with the way in which defined benefit liabilities are recognised (and the Board noted that this would be further considered in a future meeting when finalising the defined benefit liability recognition and measurement requirements); and
 - (iii) reinsurance assets should be recognised and measured consistent with the insurance liability recognition and measurement; and
- (g) a transition period of at least two years should be provided from the date of issuing the replacement standard for AAS 25, with early adoption permitted. Retrospective application and the presentation of comparative information in accordance with AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* would be required.

The Board noted plans to consider further sweep issues at its next meeting and that it expects to finalise a replacement standard for AAS 25 in the third quarter of 2013.

4. IASB Proposals for Limited Amendments to IFRSs

IASB ED/2012/6 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (proposed amendments to IFRS 10 and IAS 28)

The Board considered the comments it received on AASB ED 232 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (which incorporated IASB ED/2012/6 [open for comment until 23 April 2013]) and decided its submission should support the IASB's proposals.

In addition, the Board noted the proposals relate to the accounting for the sale or contribution of a business, and therefore clarity regarding the definition of 'business' is critical. The Board decided to recommend that the IASB considers providing additional guidance on that definition.

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IASB ED/2012/7 *Acquisition of an Interest in a Joint Operation* (proposed amendments to IFRS 11)

The Board considered the comments it received on AASB ED 234 *Acquisition of an Interest in a Joint Operation* (which incorporated IASB ED/2012/7 [open for comment until 23 April 2013]) and decided its submission should support the IASB's proposals.

The Board also decided to recommend that the IASB considers providing guidance on related issues, for example, the accounting for a step-up of an interest in a joint operation. As noted above for IASB ED/2012/6, these proposals are based on transactions that involve a business (being the acquisitions of interests in joint operations that are a business) and thus the clarity of the definition of a business is important.

5. Revenue from Contracts with Customers

The Board received an update on the progress made by the IASB and the FASB on their joint revenue recognition project. The Board noted that the IASB and the FASB have completed redeliberations on their proposals in IASB ED/2011/6 *Revenue from Contracts with Customers*. In particular, the Board noted the IASB decided that the forthcoming revenue standard will apply to annual reporting periods beginning on or after 1 January 2017 and the IASB decided, at its March 2013 meeting, to permit early application of the standard. Drafting of the revenue standard is under way, with the most recent IASB work plan identifying that it is targeting completion of the standard by the end of June 2013.

The AASB will continue to monitor the project as the IASB and the FASB finalise the drafting of the standard.

6. IFRS Interpretations Committee Update

The Board received an update on the decisions (both tentative and final) and discussions of the IFRS Interpretations Committee at its March 2013 meeting.

The Board particularly noted the Committee's decisions on IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* – Interpretation on Levies, and decided to monitor the development of the Interpretation and consider any scope implications of the Interpretation at a future meeting.

The Board decided there were no issues that ought to be raised with the Committee at this stage.

7. IASB Conceptual Framework Project Update

The Board's agenda papers included a brief report on developments in the IASB's Conceptual Framework project. They noted the IASB is expected to issue, by early in the third quarter of 2013, a Conceptual Framework Discussion Paper on definition, recognition/derecognition, measurement, presentation and disclosure of the elements of financial statements. The AASB noted that the Chairman participated in

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discussion of the IASB's project at the IASB's Accounting Standards Advisory Forum (ASAF) meeting held on 8-9 April 2013.

The AASB will consider the IASB's work on the Conceptual Framework at future Board meetings.

8. IPSASB Public Sector Conceptual Framework Proposals

Elements and Recognition

The Board considered IPSASB Conceptual Framework ED *Elements and Recognition in Financial Statements*, which is open for comment until 30 April 2013, and tentatively decided to include the following key points in its submission on the ED, subject to confirming them out of session in light of any comments from constituents:

- (a) the Board does not support the IPSASB's proposals to define 'deferred inflows' and 'deferred outflows' as elements of financial statements and consequently to identify 'net financial position' in addition to net assets;
- (b) the definitions of assets and liabilities should be broad, and should exclude factors that associate the element with an entity (such as control, in respect of assets) – such factors should form part of the recognition criteria;
- (c) explicit neutral recognition criteria should be included. The same criteria should apply to both recognition and derecognition of an element; and
- (d) the proposed definitions of the elements of financial statements should be amended to cater for remeasurements of assets and liabilities that do not represent inflows or outflows of resources, for example, revaluations of property, plant and equipment (either by amending the definitions of revenues and expenses to refer to enhancements or diminutions of resources, or by identifying capital maintenance adjustments as elements).

Measurement

The Board considered IPSASB Conceptual Framework ED *Measurement of Assets and Liabilities in Financial Statements*, which is open for comment until 30 April 2013, and tentatively decided to include the following key points in its submission on the ED, subject to confirming them out of session in light of any comments from constituents:

- (a) historical cost is generally less relevant than current value as a measurement basis for assets and liabilities. However, whether a current value is, in concept, the most useful measurement basis for a

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particular asset or liability would also depend on whether it can faithfully represent the economic phenomena that it purports to represent; and

- (b) in Section 3 of the proposed Measurement chapter, 'market value' should be replaced with 'fair value'.

Some Board members also commented that:

- (a) they support identifying a measurement objective to guide the selection of measurement bases; and
- (b) if the IPSASB decides on a mixed measurement model in concept, it should identify criteria for assisting in the appropriate choice of measurement basis in different circumstances.

9. IPSASB Update

The Board received a report on the March 2013 IPSASB meeting, particularly noting the following:

- (a) the IPSASB approved an ED *Presentation in General Purpose Financial Reports* in relation to Phase 4 of its Conceptual Framework project;
- (b) the IPSASB considered the nature of the pronouncements that it might issue and decided that in the short term it should issue only two types of pronouncements: (1) mandatory standards (IPSASs) relating to general purpose financial statements, and (2) Recommended Practice Guidelines (RPGs) regarding other areas of financial reporting;
- (c) progress on various IPSASB projects – long-term sustainability of an entity's finances (RPG), financial statement discussion and analysis (RPG), first-time adoption of IPSASs, an update of its IPSASs on consolidation and joint arrangements, public sector combinations, and government business enterprises; and
- (d) the Monitoring Group had decided not to extend the oversight activities of the Public Interest Oversight Board (PIOB) to cover the IPSASB. The World Bank and the IMF are addressing possible oversight arrangements for the IPSASB.

The Board decided it would need to consider its approach to the issuance of IPSASB RPGs at a future meeting. The IPSASB next meets in June 2013.

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10. Investment Entities

The Board noted a preliminary summary of submissions received on AASB ED 233 *Australian Disclosures – Investment Entities*. A comprehensive analysis and collation of submissions will be considered by the Board at its next meeting.

11. Recently Approved Documents

Since the last Board meeting (20-21 February 2013), the Board has approved out of session the following Standards and Exposure Draft:

- (a) AASB 1055 *Budgetary Reporting*;
- (b) AASB 2013-1 *Amendments to AASB 1049 – Relocation of Budgetary Reporting Requirements*;
- (c) AASB 2013-2 *Amendments to AASB 1038 – Regulatory Capital*; and
- (d) ED 238 *Consolidated Financial Statements – Australian Implementation Guidance for Not-for-Profit Entities*.

In addition, the following consultation documents were issued under the Board's policy of delegated authority for the Chairman to issue consultation documents where there is no significant additional Australian material. They are:

- (a) ED 236 *Novation of Derivatives and Continuation of Hedge Accounting*, which incorporated IASB ED/2013/2;
- (b) ED 237 *Financial Instruments: Expected Credit Losses*, which incorporates IASB ED/2013/3;
- (c) ED 239 *Defined Benefit Plans: Employee Contributions*, which incorporates IASB ED/2013/4; and
- (d) ITC 28 *Invitation to Comment on IASB Request for Information on Rate Regulation*, which incorporates the IASB Request for Information.

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12. 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	Document	AASB No.	AASB Due Date	Other Organisation Due Date
IASB	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (proposed amendments to IFRS 10 and IAS 28) (Exposure Draft)	ED 232	closed	23 April 2013
IASB	Acquisition of an Interest in a Joint Operation (proposed amendment to IFRS 11) (Exposure Draft)	ED 234	closed	23 April 2013
ACNC	Consultation Paper: 2014 Annual Information Statement	–	–	26 April 2013
IPSASB	Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements (Exposure Draft)	–	–	30 April 2013
IPSASB	Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements (Exposure Draft)	–	–	30 April 2013
IASB	IASB Request for Information on Rate Regulation (Invitation to Comment)	ITC 28	7 May 2013	30 May 2013
IASB	Financial Instruments: Expected Credit Losses (Exposure Draft)	ED 237	10 May 2013	5 July 2013
IASB	Defined Benefit Plans: Employee Contributions (proposed amendments to IAS 19) (Exposure Draft)	ED 239	24 June 2013	25 July 2013

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Originating Organisation	Document	AASB No.	AASB Due Date	Other Organisation Due Date
AASB	Consolidated Financial Statements – Australian Implementation Guidance for Not-for-Profit Entities (Exposure Draft)	ED 238	30 June 2013	–

13. Board Minutes

The Board approved the minutes of Meeting 129, held on 20-21 February 2013. These are now available on the AASB's website.

14. Next Meeting 29-30 May 2013

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

- Policy Implications of Research into SPFSs
- Investment Entities
- Superannuation Entities
- Financial Instruments
- IASB Conceptual Framework project update
- IASB Request for Information on Rate Regulation

15. Future Meetings

The remaining 2013 meeting dates are:

- 29-30 May
- 17-18 July
- 4-5 September
- 23-24 October
- 11-12 December

All meetings are scheduled to be held in Melbourne.

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