



Issue: Number 158
Date: 31 May 2013
Subject: AASB Meeting 131, 29-30 May 2013

1. Overview

At this meeting the Board discussed:

- (a) an update on financial instruments, including the key issues to raise in response to the IASB's exposure draft on impairment (see section 2);
- (b) comments received in response to the AASB's proposals dealing with investment entities (see section 3);
- (c) the IASB's Request for Information on rate regulation (see section 4);
- (d) an update on the IASB's conceptual framework project (see section 5);
- (e) some final matters in relation to the replacement standard for reporting by superannuation plans (see section 6);
- (f) repeat application of AASB 1 and the disclosure requirements for entities transitioning again to Tier 1 and Tier 2 (see section 7);
- (g) an update on IFRS Interpretations Committee activities (see section 8); and
- (h) issues relating to the proposed withdrawal of the AASB's standard on materiality (see section 9).

Recently approved documents are listed in section 10 and documents open for comment are listed in section 11.

2. Financial Instruments

The Board received an update on the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* with IFRS 9 *Financial Instruments* relating to hedge accounting, classification and measurement, and impairment.

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Hedge Accounting

The Board noted the IASB had completed its redeliberations on general hedge accounting and that the IASB had decided to provide entities with the following hedge accounting policy choices:

- (a) adopt the hedge accounting requirements of IFRS 9;
- (b) continue with the hedge accounting requirements of IAS 39; or
- (c) adopt the IFRS 9 hedge accounting requirements, except that for fair value hedges of the interest rate exposure of a portfolio of financial assets or financial liabilities, IAS 39 requirements are applied.

The Board noted that the IASB expects to issue a version of IFRS 9 that includes chapters on general hedge accounting in Q2 or Q3 2013. A Discussion Paper on macro hedge accounting is expected in Q3 2013.

Classification and Measurement

The Board noted that feedback on IASB ED/2012/4 *Classification and Measurement: Limited Amendments to IFRS 9* had been presented to the IASB's May meeting and that respondents to the ED had expressed mixed views on the proposed amendments to the contractual cash flows characteristics test and the introduction of a mandatory fair value through other comprehensive income (FVOCI) category for debt instruments.

The Board also noted that the IASB's survey of users on the proposed changes for financial assets is open until 31 May 2013 and that the IASB will continue its redeliberations on the proposals at a future meeting.

Impairment

The Board considered key issues to raise in its submission on IASB ED/2013/3 *Financial Instruments: Expected Credit Losses*, which is open for comment until 5 July 2013 (the IASB ED was incorporated into AASB ED 237, which was open for comment until 10 May 2013). The Board considered comments received on ED 237 and feedback from Roundtables held in Sydney and Melbourne and tentatively decided to express concerns with the IASB's dual measurement model in its submission to the IASB, including:

- (a) the proposed expected credit loss model is complex, difficult to relate to the underlying economics and could be burdensome for some financial institutions and non-financial institutions to implement;
- (b) the recognition of losses at initial recognition appears to result in the double counting of expected credit losses that are already factored into the pricing of instruments;

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- (c) stage 1 measurement of '12-month expected credit losses' employs an arbitrary time horizon for which there appears to be no conceptual basis. Some Board members would want to consider an alternative approach that would require expected credit losses for stage 1 to be determined based on the loss-emergence period experienced by the entity for particular product types, portfolios and markets;
- (d) the proposed rebuttable presumption that a significant increase in credit risk has occurred when payments are more than 30 days past due, if no other borrower-specific information is available, is likely to be rebutted in many cases and therefore would not appear to be useful. Some Board members would want to place more dependence on disclosure of the entity's policy for determining significant credit deterioration; and
- (e) the proposed simplifications for trade receivables, lease receivables, and investment-grade assets may not alleviate the operational burden.

Some Board members wondered whether the IASB approach could be expressed in a way that was less inclined to require tracking of credit quality by customer or instrument.

Those and other Board members suggested that the IASB model could be simplified and made more operational for smaller financial institutions and non-financial institutions. This might be achieved by (1) removing the requirement to recognise losses at initial recognition, and (2) subsequent to initial recognition, recognising a loss provision if losses that were not expected at initial recognition are then expected to occur.

Despite these suggestions some Board members expressed a view that an 'expected but not yet reported' model (which could build on the current 'incurred but not yet reported' model used under IAS 39) could be applied to reach a reliable estimate of impairment losses on a timely basis and would have merit conceptually.

The Board agreed that the submission to the IASB will be coordinated through the AASB's financial instruments impairment sub-committee. Staff will be seeking further input on the ED from some entities not yet covered through Roundtables and other outreach.

3. Investment Entities

The Board considered comments received in response to ED 233 *Australian Additional Disclosures – Investment Entities* and tentatively decided that staff prepare a pre-ballot draft of an amending standard to introduce into Australian Accounting Standards the IFRS exception to consolidation for entities that meet the definition of an investment entity, without Australian additional disclosures. The Board noted that a final

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decision on making an amending standard would depend on the views of all members, including those not present at this meeting.

The pre-ballot draft will be accompanied by a Basis for Conclusions and Dissenting Views.

4. IASB Request for Information: Rate Regulation

The Board discussed preliminary responses to questions in the IASB's Request for Information (RFI) on Rate Regulation, which aims to gather information about the range of rate-regulated schemes that exist in practice, to help the IASB identify the types of schemes that would be included within the scope of its project. The AASB Invitation to Comment ITC 28 (that incorporated the IASB RFI) was issued for comment by 7 May 2013. Although no comment letters were received, AASB staff undertook targeted outreach to various Australian constituents. The Board considered the information gathered from the outreach and decided to respond to each of the questions in the RFI and to provide a wide range of examples of rate regulation found in Australia, such as power and water utilities, postal services, port authorities and cemeteries.

5. IASB Conceptual Framework Project Update

The IASB is developing a Discussion Paper (DP) on a revised Conceptual Framework. The DP would not seek comments on the chapters already issued on the Objective and Qualitative Characteristics, or further comments on the 2010 ED of a Reporting Entity chapter. The DP is targeted for issue in July 2013, with a comment period of 180 days. At this meeting, the AASB conducted a non-deliberative, educational session on IASB staff papers preceding the draft DP, covering presentation in the statement of comprehensive income, and measurement. No decisions were made.

The Board will hold further sessions on the DP at future meetings.

6. Superannuation Entities

The Board considered what are expected to be the final 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) after noting that there is not a consistent approach across various Standards to measuring different types of liabilities and having regard to the nature of defined benefit liabilities and the regulatory environment in which superannuation entities operate, to confirm that defined benefit liabilities

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should be required to be measured as the present value of the projected accrued benefit payments relating to members' service to date on the basis of the expected timing of benefit payments;

- (b) in the context of this measurement principle for defined benefit liabilities, to:
- (i) provide an explanation for determining the discount rate, based on the expected notional returns (including fair value changes) on a portfolio of assets available to the entity that is judged by the trustees to be the optimal way to generate the cash inflows needed to meet benefit payments, with a realistic assessment of the relative risks and returns on those assets; and
 - (ii) provide associated guidance on determining that discount rate;
- (c) in addition to the disclosures on which the Board has previously tentatively decided, where the entity's actual investment portfolio differs from the notional portfolio referred to in (b)(i), to require disclosure of an explanation of why that is the case;
- (d) in relation to the sensitivity disclosures on which the Board has previously tentatively decided, to emphasise that the subject of the disclosure is significant assumptions for which there is a reasonably possible change that would have a significant impact on the defined benefit liability; and
- (e) to require recognition of an asset where there is a contractual or legislative arrangement to fully fund defined benefit liabilities that meets the definition and recognition criteria for an asset and, in the case of such a legislative arrangement, that the asset be measured based on a principle consistent with the principle underlying defined benefit liability measurement. In the context of this issue, the Basis for Conclusions should note the Board's deliberations on entities needing to assess the nature of their activities and the boundaries of the entity to determine whether they are superannuation entities or only custodial arrangements.

The Board decided that staff should commence preparing a pre-ballot draft and, once the Board has completed the pre-ballot process, it should be made available on the AASB's website for about 60 days to provide constituents with an opportunity to identify any fatal flaws. The Board acknowledged that this may extend the time by which it expects to finalise a replacement standard for AAS 25 to Q4 2013.

7. Repeat Application of AASB 1 and Disclosure Requirements

Amendments made to AASB 1 *First-time Adoption of Australian Accounting Standards* in June 2012 introduced an option concerning the repeat application of AASB 1 by an entity – either (a) apply AASB 1

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(including all of its disclosure requirements) again; or (b) apply Australian Accounting Standards retrospectively under AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* (as if the entity had never stopped applying Australian Accounting Standards or IFRSs), with two new disclosure requirements under AASB 1 (in paragraphs 23A and 23B).

At this meeting, the Board considered the application of this option to Tier 2 entities and its relationship with the existing Tier 2 transition requirements in AASB 1053 *Application of Tiers of Australian Accounting Standards*. The Board decided that:

- (a) AASB 1053 should be amended so that it is clearly consistent with the availability of the AASB 108 option under AASB 1;
- (b) Tier 2 entities should be able to avail themselves of the AASB 108 option under AASB 1 in similar circumstances as Tier 1 entities; and
- (c) paragraph 18 of AASB 1053 should be amended to also allow the transition of relevant entities to Tier 2 using the approach of retrospective application of accounting policies under AASB 108 rather than AASB 1. However, transition to Tier 1 for such entities would continue to require application of all relevant requirements of AASB 1.

The Board proposed that Tier 2 entities applying the AASB 108 option under AASB 1 should comply with the disclosure requirements of paragraphs 23A and 23B of AASB 1, i.e. there should be no exemption in respect of these paragraphs for Tier 2 entities.

8. IFRS Interpretations Committee Update

The Board received an update on recent IFRS Interpretations Committee activities and decided there were no issues that need to be raised with the Committee at this stage.

The Board also received an update on the results of staff research into the implications of accounting standards permitting financial statements to include a cross-reference to disclosure of information outside the financial statements. This issue arises in the context of paragraph 16A of IAS 34 *Interim Financial Statements* and paragraph B6 of IFRS 7 *Financial Instruments: Disclosure* (which the AASB has omitted from AASB 7).

The Board considered whether paragraph B6 of IFRS 7 should be included in AASB 7 and whether a clarifying footnote should be added to paragraph 16A of AASB 134. The Board decided that a footnote to paragraph 16A of AASB 134 is not necessary. The Board asked staff to continue investigating the possible implications of inserting IFRS 7 paragraph B6 for consideration by the Board at a future meeting.

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9. Proposed Withdrawal of AASB 1031 *Materiality*

The Board noted staff's progress in preparing a pre-ballot draft of an ED proposing the withdrawal of AASB 1031 and consequential amendments. The Board considered whether the scope of the project should be expanded to address a broader consideration of terminology associated with materiality as used in a range of standards and decided that the scope of the project should remain narrow.

10. Recently Approved Documents

Since the last Board meeting (10 April 2013), the Board has approved out of session the following Agenda Decision and Exposure Drafts:

- (a) AASB Agenda Decision *GAAP/GFS Harmonisation for Entities Within the GGS*;
- (b) Tier 2 Supplement to ED 235 *Recoverable Amount Disclosures for Non-Financial Assets*; and
- (c) ED 241 *Amendments to AASB 1038 arising from AASB 10 in relation to consolidation and interests of policyholders*.

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 240 *Regulatory Deferral Accounts*, which incorporates IASB ED/2013/5; and
- (b) ED 242 *Leases*, which incorporates IASB ED/2013/6.

11. 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	Financial Instruments: Expected Credit Losses (Exposure Draft)	ED 237	closed	5 July 2013

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Originating Organisation	Document	AASB No.	AASB Due Date	Other Organisation Due Date
IASB	Defined Benefit Plans: Employee Contributions (proposed amendments to IAS 19) (Exposure Draft)	ED 239	24 June 2013	25 July 2013
AASB	Consolidated Financial Statements – Australian Implementation Guidance for Not-for-Profit Entities (Exposure Draft)	ED 238	30 June 2013	–
AASB	Recoverable Amount Disclosures for Non-Financial Assets (Exposure Draft)	Tier 2 Supplement to ED 235	15 July 2013	–
IASB	Regulatory Deferral Accounts (Exposure Draft)	ED 240	5 August 2013	4 September 2013
AASB	Amendments to AASB 1038 arising from AASB 10 in relation to consolidation and interests of policyholders (Exposure Draft)	ED 241	7 August 2013	–
IASB	Leases (Exposure Draft)	ED 242	14 August 2013	13 September 2013
IPSASB	Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Presentation in General Purpose Financial Reports (Exposure Draft)	–	–	15 August 2013

12. Board Minutes

The Board approved the minutes of Meeting 130, held on 10 April 2013. These are now available on the AASB's website.

13. Next Meeting 17-18 July 2013

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

- Financial Instruments
- IASB Conceptual Framework project update
- Leases
- Insurance

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- Consolidation – Not-for-Profit Entities
- IPSASB Conceptual Framework
- Defined Benefit Plans: Employee Contributions
- Regulatory Deferral Accounts
- Amendments to IFRS 13

14. Future Meetings

The remaining 2013 meeting dates are:

- 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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