



Issue: Number 160
Date: 6 September 2013
Subject: AASB Meeting 133, 4-5 September 2013

1. Overview

At this meeting the Board discussed:

- (a) comments made by constituents in response to AASB ED 238 *Consolidated Financial Statements – Australian Implementation Guidance for Not-for-Profit Entities* (see section 2);
- (b) potential issues involved in accounting for Emissions Trading Schemes (see section 3);
- (c) an update on AASB ED 243 *Withdrawal of AASB 1031 Materiality* (see section 4);
- (d) comments made by constituents in response to AASB ED 242 *Leases* (including through the roundtables and targeted outreach), to discern the key issues to raise in its submission to the IASB on IASB ED/2013/6 *Leases*, and sweep issues on the pre-ballot draft of the Tier 2 Supplement to ED 242 (see section 5);
- (e) comments made by constituents in response to AASB ED 244 *Insurance Contracts* (including through the first roundtable and targeted outreach), to discern the key issues to raise in its submission to the IASB on IASB ED/2013/7 *Insurance Contracts* (see section 6)
- (f) issues relating to revising the AASB Framework to incorporate the IASB's Chapters covering the objective of financial reporting and the qualitative characteristics (see section 7);
- (g) those aspects of the IASB's Conceptual Framework project relating to the definition of equity and the distinction between liabilities and equity instruments and whether different classes of equity should be remeasured independently of the carrying amount of assets and liabilities addressed in the IASB's Discussion Paper DP/2013/1 *A Review of the Conceptual Framework for Financial Reporting* (see section 8);
- (h) the IASB's *Discussion Forum – Financial Reporting Disclosure Feedback Statement* (see section 9);

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- (i) the outcomes of the IASB's post-implementation review of IFRS 8 *Operating Segments* (see section 10);
- (j) the Tier 2 Supplement in relation to ED 235 *Recoverable Amount Disclosures for Non-Financial Assets (Proposed Amendments to AASB 136)* (see section 11);
- (k) an update on the IASB's Financial Instruments project (see section 12)
- (l) an update on the IFRS Interpretations Committee activities (see section 13);
- (m) an emerging issue in relation to accounting for stapled entities (see section 14); and
- (n) the AASB strategic plan (see section 15).

Recently approved documents are listed in section 16 and documents open for comment are listed in section 17.

2. Australian Implementation Guidance for Not-for-Profit Entities

The Board considered the submissions received on ED 238 *Consolidated Financial Statements – Australian Implementation Guidance for Not-for-Profit Entities* and the staff collation of issues raised in the submissions. The Board provided staff with directions for progressing the project, including the following:

- (a) the implementation guidance should indicate that the examples might apply by analogy to types of entities other than those explicitly illustrated in the examples;
- (b) a further not-for-profit private sector entity example should be added to illustrate some control issues that are not illustrated in the other examples;
- (c) a number of examples should be revised to emphasise the identification of the 'relevant activities' of the investee and the identification of the rights of various entities in relation to those activities, rather than simply providing a list of substantive and protective rights;
- (d) the statement that a State government normally would not have the power to direct the relevant activities of a local government deploying resources through an elected council should be retained;
- (e) the local government example does not need to be extended to include a further example of a case in which it is concluded that the local government is controlled by another government;

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- (f) the guidance should be revised to acknowledge that rights specified in substantively enacted legislation could, in limited circumstances, amount to substantive rights that need to be considered in assessing control of an entity;
- (g) the guidance addressing delegation in the public sector should be revised to clarify that a delegate acts in their own right and cannot be directed by the delegator;
- (h) the Basis for Conclusions should indicate the Board's view that Ministerial rights to remove decision makers (e.g. delegates) is not a determinant of whether entities such as departments or statutory authorities control other entities;
- (i) the applicability of the implementation guidance should continue to be limited to not-for-profit entities and not extended to for-profit entities in the public sector; and
- (j) certain issues raised by respondents which were debated and which did not lead to change are to be documented in the Basis for Conclusions.

A pre-ballot draft of the revised authoritative implementation guidance will now be prepared by staff, with any sweep issues to be addressed at the October meeting. The aim is to finalise the guidance shortly after the October meeting, for application to annual reporting periods beginning on or after 1 January 2014, as proposed in ED 238.

3. Emissions Trading Schemes

The Board considered an issues paper on the recognition and measurement of emission liabilities arising from emission trading schemes (ETs). The Board noted that there is some published evidence of divergent practice around the world in recognising and measuring such liabilities. In particular some of that evidence suggests variable application of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. In particular, a mixed measurement approach has been adopted by some entities for measuring emission liabilities in which the value of the emission obligation is based on the carrying value of allowances already granted (which may be recognised at a nil value) and the purchase price of other allowances. Where allowances granted or purchased are insufficient, the balance of the liability is measured at the prevailing market price of allowances. Other entities have adopted a current value measurement basis for the entire emission liability.

In light of the evidence of divergent interpretations of IAS 37, and having had regard to the views on the interpretation of IAS 37 reflected in current and withdrawn IFRIC Interpretations, the Board decided to write to the IFRS Interpretations Committee to seek clarification on the issue of the measurement of liabilities. The

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Board noted that the clarification sought, though provoked by the question of ETS accounting, is likely to be relevant to how to account for liabilities under IAS 37 in other circumstances too. The Board noted the draft staff project plan and decided to continue the discussion of accounting issues arising under ETSS at future meetings.

4. Withdrawal of AASB 1031 Materiality

The Board received an update on the submissions received on AASB ED 243 *Withdrawal of AASB 1031 Materiality*. The Board noted that most of the submissions on ED 243 were received subsequent to the preparation of agenda papers for the meeting, and that views in the submissions received seem to be mixed. Accordingly, the Board decided to consider the responses more fully at a future meeting. The Board also noted that it expects further information about the IASB's proposed project on materiality to be available after the IASB meeting in September, and it will be useful to consider the comments on ED 243 in the context of information about the IASB's project.

5. Leases

Submission on IASB ED/2013/6

The Board considered the comments received from constituents on AASB ED 242 *Leases* (which incorporates ED/2013/6 *Leases*), feedback from Roundtables held in Sydney and Melbourne and targeted outreach meetings with constituents, with a view to identifying key issues to raise in its submission to the IASB.

The Board tentatively decided to express support for the broad direction of the proposals to bring assets and liabilities arising from lease arrangements onto the statement of financial position. The Board particularly noted that it did not support retaining the requirements of IAS 17 *Leases*.

Although expressing such broad support, the Board decided to express specific concerns with the proposals, including in relation to:

- (a) the overall complexity of the proposed model, which would involve a number of exceptions and concessions that further increase complexity;
- (b) the exclusion from the scope of the proposals of capacity leases over a portion of an asset;
- (c) disagreement with the dual model approach for both lessees and lessors, due to the lack of a robust conceptual basis (including its inherent assumption that some leases entered into by lessees do not include a finance component) and its potential to introduce unnecessary complexity;

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- (d) the 'practical expedient' to distinguish between Type A and Type B leases on the basis of the nature of the asset (in some but not all cases);
- (e) the apparent inconsistency with the Conceptual Framework in relation to the straight-line expense pattern proposed for Type B lessee accounting. The Board's view is that the proposed apportionment of amortisation over the life of the right-of-use asset would not faithfully represent the underlying economics of the transaction, nor would it capture the depletion of economic benefits embodied in the right-of-use asset. Furthermore, the Board has concerns with the potential interaction this amortisation could have with other aspects of the proposals, such as those relating to revaluations and impairment testing;
- (f) the potential double counting of the same asset by lessees and lessors in sub-lease accounting;
- (g) the calculation of the residual asset for lessors, which has the potential to obscure the meaning of the residual asset and hinder users' understanding of the amount, timing and uncertainty of cash flows arising from lease arrangements;
- (h) the overall volume of disclosures required in an already complex model; and
- (i) lack of conceptual basis for providing a short-term lease exception which may not be the best means of giving relief.

Tier 2 disclosure requirements

The Board considered and resolved sweep issues relating to a draft of the Tier 2 Supplement to ED 242 *Leases*. It is expected that the Supplement will be issued shortly for public comment.

6. Insurance

IASB ED/2013/7 Insurance Contracts

The Board noted that IASB ED/2013/7 is due for comment by 25 October 2013 and that AASB ED 244 *Insurance Contracts* (which incorporates ED/2013/7) is due for comment by 27 September 2013. The Board considered the feedback on the insurance contract proposals received so far from Australian constituents through targeted liaison and through a Roundtable conducted on 3 September 2013 via video-conference in Sydney and London involving some IASB members and staff. The Board also noted the forthcoming roundtable to be conducted on 12 September 2013 via video-conference in Melbourne and Auckland in association with the New Zealand Accounting Standards Board.

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In respect of its submission to the IASB on ED/2013/7, the Board tentatively decided to:

- (a) express overall support for the exposure draft proposals, including those matters on which comment is not formally being sought by the IASB;
- (b) support the proposal to remeasure the contractual service margin, including adjusting the margin in respect of the impact of changes in assumptions relating to future services and coverage;
- (c) note that a potential improvement could be to treat the impact of changes in assumptions relating to risk associated with future coverage as adjustments to the risk margin;
- (d) support the proposals regarding the 'mirroring approach' when contracts require the entity to hold underlying items and specify a link to returns on those items and noted, however, that there are some significant practical difficulties with applying this approach in some circumstances;
- (e) support the proposals regarding the presentation of insurance contract revenue and expenses and noted, however, that there are some practical difficulties on which further guidance may be needed;
- (f) express very serious concerns about the proposal that the impact on insurance liabilities of discount rate changes between contract inception and the reporting date be presented in other comprehensive income (OCI) on the basis that:
 - (i) it would introduce yet another hybrid measurement model that presents related changes in values between OCI (discount rate changes) and profit or loss (all other value changes) in a manner that has potential to obscure their relationships and is an apparent retrograde step to current Australian requirements and practice; and
 - (ii) it would not be practicable to implement because of the issues associated with tracking discount rates that applied at inception to policies or portfolios of policies; and
- (g) support the proposals on transition, which involve retrospective application consistent with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The Board noted that it plans to finalise its submission at its October meeting, after considering any further feedback received from Australian constituents on ED/2013/7.

ED 241 Amendments to AASB 1038 arising from AASB 10 in relation to consolidation and interests of policyholders

The Board considered the comment letters received on AASB ED 241 and decided to proceed with the proposals to delete paragraphs in AASB 1038 *Life Insurance Contracts* relating to determining the interests to be included in consolidation financial statements on the basis that AASB 10 *Consolidated Financial*

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Statements should be the sole standard dealing with consolidation. The Board also decided the amendments should apply (as proposed) to periods beginning on or after 1 January 2014.

The Board noted that it does not expect changes to current practice, given the current mix of insurance products on issue.

The Board noted that it will vote on making the amendments out-of-session.

7. AASB Framework

The Board considered how it would be best to incorporate the completed IASB Chapters (Chapter 1 *The objective of general purpose financial reporting* and Chapter 3 *Qualitative characteristics of useful financial information*) of the IASB *Conceptual Framework for Financial Reporting* (issued by the IASB in September 2010) into Australian requirements. In anticipation of further revisions to the IASB Conceptual Framework, the Board decided, as an interim approach, to supersede the corresponding paragraphs of the AASB *Framework for the Preparation and Presentation of Financial Statements* with the two Chapters – and thereby retain unamended the other parts of the AASB Framework. The Board also decided that the Chapters, adapted as appropriate to address not-for-profit specific issues, would apply to both for-profit and not-for-profit entities.

8. IASB Conceptual Framework Project

The Board conducted a non-deliberative ‘educational’ session on Section 5 of AASB ITC 29 *A Review of the IASB’s Conceptual Framework for Financial Reporting* (July 2013), which incorporates IASB DP/2013/1. Section 5 discusses the definition of equity, the distinction between liabilities and equity instruments, and whether different classes of equity should be remeasured independently of the carrying amount of assets and liabilities (i.e as reallocations with the total amount of equity). No decisions were made.

The Board will hold further sessions on the DP at future meetings. In addition, the Board will hold forums on ITC 29 in Sydney (15 October 2013), Melbourne (18 October 2013) and Canberra (21 October 2013).

Details for registering to attend those forums will be announced shortly on the AASB website.

9. Financial Reporting Disclosure Feedback Statement

The Board considered the key issues discussed in the IASB’s *Discussion Forum – Financial Reporting Disclosure Feedback Statement*, which was issued in May 2013. The Board decided there were no issues that ought to be raised with the IASB before the IASB publishes proposals in relation to this topic.

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10. Post implementation review IFRS 8 *Operating Segments*

The Board considered the IASB's Report and Feedback Statement on the post-implementation review issued in July 2013 together with an AASB staff analysis of some aspects of the feedback statement. The Board decided to write to the IASB to provide further comments that the Board thinks would benefit the process of improving the Standard in regard to the identification of the chief operating decision maker (CODM) and the application of entity-wide disclosures.

11. Recoverable Amount – Tier 2 disclosure requirements

The Board considered:

- (a) the submission received on Tier 2 Supplement to ED 235 *Recoverable Amount Disclosures for Non-Financial Assets*; and
- (b) the implications for Tier 2 disclosures arising from differences between the disclosures in ED 235 and Amending Standard AASB 2013-3 *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets*.

The Board decided to proceed to a ballot draft of an Amending Standard reflecting the Reduced Disclosure Requirements.

12. 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 classification and measurement, impairment and general hedge accounting.

The Board noted:

- (a) at its July 2013 meeting the IASB tentatively decided to defer the mandatory effective date of IFRS 9 from annual periods beginning on or after 1 January 2015 and that the revised mandatory effective date should not be determined until the requirements for classification and measurement and impairment are finalised. The existing versions of IFRS 9 (2009 and 2010) will continue to be available for early application;
- (b) the IASB tentatively decided to make the 'own credit requirements' available for early application before the completed version of IFRS 9 is issued. The amendments to IFRS 9 relating to the own credit requirements would be made at the same time as the general hedge accounting requirements, which the IASB targets to issue by Q4 of 2013 (formerly expected to be issued in Q3 of 2013); and

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- (c) the IASB and FASB received a preliminary summary from their staff of the feedback received on their respective impairment proposals. The IASB and FASB staff will provide a more detailed and complete analysis of feedback on the proposals at the joint meeting in September 2013.

The scheduled Board education session on macro hedge accounting was deferred and is now expected to take place at the October 2013 AASB meeting.

13. IFRS Interpretations Committee Update

The Board received an update on recent IFRS Interpretations Committee (Committee) activities and decided there were no issues that need to be raised with the Committee at this stage. However, the Board decided to comment on the topic of accounting for a structure that appears to lack the physical characteristics of a business in its submission to the IASB on ED/2013/6 *Leases*.

14. Emerging Issues – Stapled Entities

The Board received a verbal report on ASIC Class Order [CO 13/1050] *Financial reporting by stapled entities*, which permits the presentation of combined or consolidated financial statements covering all of the entities in a stapled group. The Class Order also permits all of the stapled entities in a stapled group to present their financial statements in one financial report. The Board asked staff to liaise with the ASIC and other interested parties to assess the potential impact of AASB 10 *Consolidated Financial Statements* on stapled entities.

In this context, the Board noted that there are broader questions that arise on the interrelationship between AASB 10 and AASB 3 *Business Combinations*. Therefore, the Board also asked staff to liaise further with the ASIC and other interested parties on these questions, with a view to informing the Board in writing to the IFRS Interpretations Committee on the interaction of the IFRS 3 requirement for entities to identify an acquirer, with the requirement in IFRS 10 for entities to prepare consolidated financial statements when control exists.

15. AASB Strategic Plan

The Board discussed a number of issues pertinent to a review of its 5-year Strategic Plan, in light of the Board being 12 months into that Plan. The Board noted that the core aspects of the original Plan remain pertinent, although the Plan should be updated to reflect the current environment within which the Board is operating. The direction of the plan was agreed and an edited version is now to be finalised. The Financial Reporting Council (FRC) Chair, Lynn Wood, who attended this session, assisted discussions by providing an overview of the FRC Strategic Plan and the activities of the FRC.

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16. Recently Approved Documents

Since the last Board meeting (17-18 July 2013), the Board has approved out-of-session the following Standards:

- (a) AASB 2013-4 *Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting*; and
- (b) AASB 2013-5 *Amendments to Australian Accounting Standards – Investment Entities*.

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

- (a) ITC 29 *A Review of the Conceptual Framework for Financial Reporting*, with comments due by 8 November 2013 to the AASB and 14 January 2014 to the IASB.

17. 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	Leases (Exposure Draft)	ED 242	14 August 2013	13 September 2013
AASB	Financial Instruments: Expected Credit Losses (Tier 2 Supplement)	ED 237	16 September 2013	–
AASB	Classification and Measurement: Limited Amendments to AASB 9 (Tier 2 Supplement)	ED 230	16 September 2013	–
IASB	Insurance Contracts (Exposure Draft)	ED 244	27 September 2013	25 October 2013
IASB	Bearer Plants (Exposure Draft)	ED 245	1 October 2013	28 October 2013
IASB	A Review of the IASB's Conceptual Framework for Financial Reporting (Invitation to Comment)	ITC 29	8 November 2013	14 January 2014

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18. Board Minutes

The Board approved the minutes of Meeting 132, held on 17-18 July 2013. These are now available on the AASB's website.

19. Next Meeting 23-24 October 2013

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

- Emissions Trading Schemes
- IASB Conceptual Framework
- Withdrawal of Materiality
- Agriculture: Bearer Plants
- Insurance
- Financial Instruments

20. Important dates – 2013

Date	Meeting
September 19-20	International Forum of Accounting Standard Setters (IFASS)
September 22	Asian-Oceanian Standard-Setters Group (AOSSG)
September 23-24	World Standard Setters (WSS)
September 25-26	Accounting Standards Advisory Forum (ASAF)
October 23-24	Australian Accounting Standards Board
November 27-28	Asian-Oceanian Standard-Setters Group (AOSSG)
December 5-6	Accounting Standards Advisory Forum (ASAF)
December 11-12	Australian Accounting Standards Board

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21. Meetings 2014 – AASB

AASB Meetings scheduled for 2014 are:

- 19-20 February
- 8-9 April
- 28-29 May
- 16-17 July
- 3-4 September
- 22-23 October
- 3-4 December

All meetings are scheduled to be held in Melbourne.

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