



Issue: Number 138
Date: 3 September 2010
Subject: AASB Meeting 111, 1-2 September 2010

Superannuation Plans and Approved Deposit Funds

The Board continued its redeliberations on its proposals in AASB ED 179 *Superannuation Plans and Approved Deposit Funds*.

The Board tentatively decided that the replacement Standard for AAS 25 *Financial Reporting by Superannuation Plans* should:

- (a) require a superannuation plan or approved deposit fund (ADF) to provide disaggregated financial disclosures consistent with the principles and requirements in AASB 8 *Operating Segments*. The Board also decided to consider whether additional specific guidance might be necessary to facilitate such a requirement;
- (b) deem a trustee company to be a related party of its plan or ADF. The Board also noted that an individual trustee or a director of a trustee would meet the definition of key management personnel in AASB 124 *Related Party Disclosures*;
- (c) consistent with the proposals in ED 179, not require a plan to disclose an 'accumulated benefit obligation';
- (d) consistent with the proposals in ED 179, require a plan to disclose information about the actuarial risks arising from any obligations for defined benefit members' accrued benefits but not preclude a plan disclosing sensitivity analyses in relation to significant actuarial assumptions; and
- (e) in light of the findings of the Cooper Review, discuss in more detail in the Basis for Conclusions the objectives and focus of general purpose financial statements as a source of information for superannuation members.

The Board also tentatively decided that a revised version of ED 179 should be exposed for comment, with questions asked about particular proposals in the revised ED.

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The Board discussed possible transitional arrangements and an application date for the replacement Standard for AAS 25. It decided to consider these issues at a future meeting prior to publishing the revised ED for comment.

Related Party Disclosures in the Public Sector

The Board considered an issues paper on applying AASB 124 *Related Party Disclosures* to not-for-profit public sector entities, in particular addressing:

- (a) the suitability in an Australian context of providing an exemption from making certain related party disclosures about Ministers along the lines of the exemption provided in NZ IAS 24 *Related Party Disclosures*; and
- (b) the key management personnel (KMP) disclosure requirements.

The Board decided to undertake further research into the implications of applying the principles in AASB 124 to Australian not-for-profit public sector entities, including in relation to disclosures about routine transactions and the definition of KMP, before deciding whether it is necessary to provide and, if so, how best to express, any exemption from or clarification of the principles.

Employee Benefits – Defined Benefit Plans

The Board considered key comments to be included in its submission to the IASB in response to ED/2010/3 *Defined Benefit Plans – Proposed amendments to IAS 19*, which is incorporated in AASB ED 195. Comments are due to the IASB by 6 September 2010.

The Board noted the proposals in ED/2010/3 are aimed at assisting the IASB to make short-term targeted improvements to the recognition, presentation and disclosure of assets and liabilities arising in respect of defined benefit plans. Accordingly, the ED does not address issues in relation to the measurement of assets and liabilities arising in respect of defined benefit plans and other post-employment benefits, which the IASB intends to address some time after June 2011.

The Board considered the comments it received from constituents on ED 195 and decided that its submission to the IASB should:

- (a) express broad support for the IASB's proposals to improve the transparency and comparability of information about defined benefit plans;
- (b) express support for the IASB's proposals to disaggregate defined benefit cost into service cost, finance cost and remeasurements, but only as a short-term measure aimed at reducing the complexity and diversity of practices under the current requirements. The Board noted that, if

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adopted, the proposals should be subject to the IASB's decisions in relation to its project on financial statement presentation as well as the IASB's anticipated review of the measurement of post-employment benefits. In particular, the Board noted that:

- (i) the absence of a generally accepted principle for determining which items should be presented in other comprehensive income (OCI) potentially undermines any benefits the proposals might provide to users in terms of improved information for decision making. Accordingly, until the issues are resolved conceptually, there should be an irrevocable option to classify the remeasurements component in 'profit or loss' or OCI; and
 - (ii) the proposals in respect of the finance cost component underscore the inconsistencies that currently exist across IFRSs with respect to the determination of discount rates, and thereby highlight the need for the IASB to undertake a comprehensive project on discount rates; and
- (c) express disagreement with a number of the proposals, in particular:
- (i) the proposed treatments of gains or losses on non-routine settlements, curtailments and plan amendments because they are inconsistent with the proposals to disaggregate defined benefit cost into its constituent components;
 - (ii) the proposed treatment of obligations for long-service leave and other similar long-term employee benefits because the changes are not sufficiently justified in the absence of a generally accepted principle for determining which items should be presented in OCI;
 - (iii) the proposals to disclose the present value of the defined benefit obligation, modified to exclude the effect of projected salary growth, and information about factors that could cause contributions to differ from service cost; and
 - (iv) the retrospective application of the sensitivity disclosure proposals because it is likely to be difficult to reliably determine at the application date what was a reasonably possible change in an assumption in prior reporting periods.

The Board also decided to give further consideration to the implications of the disclosure proposals regarding defined benefit plans that share risks with entities under common control for public sector entities.

Fair Value Measurement

Disclosures

The Board considered key comments to be included in its submission to the IASB in response to ED/2010/7 *Measurement Uncertainty Analysis Disclosure for Fair Value Measurements*, which is incorporated in AASB ED 199. Comments are due to the IASB by 7 September 2010. The Board considered the comments it received from constituents on ED 199 and decided its submission to the IASB should:

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- (a) disagree with disclosing a measurement uncertainty analysis for fair value measurements categorised within Level 3 of the fair value hierarchy;
- (b) recommend instead that the proposed disclosures in paragraph 57(g) of IASB ED/2009/5 *Fair Value Measurement* be retained (consistent with paragraph 27B(e) of IFRS 7 *Financial Instruments: Disclosures*), and augmented to incorporate and disclose the effect of correlation between inputs (whether observable or unobservable) where inputs disclosed would otherwise be misleading; and
- (c) note that insufficient guidance is provided on applying the proposals to non-financial assets, such as specialised property, plant and equipment, measured at depreciated replacement cost as an estimate of fair value.

International Valuation Standards

The Board considered key comments to be included in its submission to the International Valuation Standards Board's (IVSB's) ED *Proposed New International Valuation Standards*. Comments are due to the IVSB by 3 September 2010. In noting that the definition of fair value in IFRSs is different from the definition of fair value in the existing International Valuation Standards, the Board decided that its submission should express support for the IVSB's work in aligning valuation standards with IFRSs. However, the Board agreed to comment that it does not consider it to be the role of the IVSB to define fair value for financial reporting purposes because of the risk of confusion arising from different definitions of fair value.

The Board agreed that its comment letter should also encourage the IVSB to assist the IASB and FASB in developing comprehensive guidance for measuring own credit risk in relation to the fair value of liabilities.

Financial Instruments

The Board considered key comments to be included in its response to the IASB Request for comment: *FASB Financial Instruments Exposure Draft*. Comments are due to the FASB and the IASB by 30 September 2010.

The Board decided to express its views on the issues from both conceptual and convergence perspectives. In that context, the Board:

- (a) accepts at this stage the IFRS 9 *Financial Instruments* mixed measurement model for financial assets;
- (b) supports the FASB's symmetrical accounting for assets and liabilities arising from hybrid instruments and considers that an option to bifurcate should be included in IFRS 9 for hybrid financial assets;
- (c) prefers the FASB's approach to identifying and presenting the impact of changes in 'own credit risk' in relation to financial liabilities at fair value;

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- (d) considers that the FASB's proposal on the re-measurement of demand deposit liabilities should be deferred for consideration by both the FASB and the IASB at a later stage;
- (e) considers that questions about the classification of amounts as 'profit or loss' or OCI are dependent on the principles underlying such a distinction, which are yet to be developed. Accordingly, the Board came to the view that those principles should be articulated, to provide a basis for determining the merits of the FASB proposal (that all equity investments should be measured at fair value through profit or loss) compared with the corresponding IFRS 9 provision (which permits an entity at initial recognition to make an irrevocable election to present in OCI subsequent changes in the fair value of an investment in an equity instrument not held for trading); and
- (f) compared with the IASB's proposed impairment model for financial assets held at amortised cost, prefers the FASB's model, which uses all available information relating to past events and existing conditions to make an assessment of impairment on an incurred but not reported basis.

The Board also received an update on the progress of the IASB's deliberations on comments on ED/2009/12 *Financial Instruments: Amortised Cost and Impairment* and its project on hedging activities.

Presentation of Financial Statements

The Board considered key comments to be included in its submission to the IASB in response to ED/2010/5 *Presentation of Items of Other Comprehensive Income*, which is incorporated in AASB ED 197. Comments are due to the IASB by 30 September 2010. The Board considered the comments it received from constituents on AASB ED 197 and decided that its submission to the IASB should:

- (a) express concern regarding the timing of this ED, considering the IASB has higher priority projects, such as revenue and leases;
- (b) express concern that the ED does not address some of the fundamental issues relating to the presentation of financial performance, in particular presenting items as part of profit or loss or OCI without a clear and consistent meaning of OCI. Even in the absence of a conceptual basis for the distinction between profit or loss and OCI, the Board disagrees with the notion of 'recycling';
- (c) recommend the IASB to reconsider the principles underlying the 'matrix format' considered by the IASB in 2001 and 2002 as part of the Performance Reporting Project;
- (d) encourage the IASB to address the issues concerning the presentation of items of OCI attributable to discontinued operations and non-current assets (disposal groups) held for sale;
- (e) question the need to change the title 'Statement of comprehensive income' to 'Statement of profit or loss and other comprehensive income'; and
- (f) support the following proposals, if the IASB proceeds with the proposals in the ED rather than fundamentally reconsidering its approach to:

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- (i) present all items of income and expense recognised in a period in a single statement with two sections – profit or loss and OCI;
- (ii) require entities to present items of OCI that will never be reclassified to profit or loss separately from those that will be reclassified to profit or loss (recycled) in subsequent periods upon derecognition; and
- (iii) allocate income tax on items of OCI between items that might be subsequently reclassified to profit or loss and those that will not be reclassified subsequently to profit or loss.

Revenue from Contracts with Customers

The Board considered key comments to be included in its submission to the IASB in response to ED/2010/6 *Revenue from Contracts with Customers*, which is incorporated in AASB ED 198. Comments are due to the AASB by 24 September 2010 and to the IASB by 22 October 2010. The Board raised the following key concerns with the IASB proposals:

- (a) the notion of transfer of control is too focused on the physical delivery of goods and services;
- (b) the measurement basis for a liability is different from the measurement bases for liabilities specified in other Standards; and
- (c) the inclusion of credit risk in the measurement of revenue.

The Board will consider constituent input on ED 198 in finalising its submission to the IASB.

Proposed Amendments to IFRS 1

The Board noted the IASB's publication of proposed amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, which would replace references to a fixed transition date of '1 January 2004' with 'the date of transition to IFRSs'. Comments are due to the IASB by 27 October 2010.

Insurance Contracts

The Board received an education session on the IASB's ED/2010/8 *Insurance Contracts*, which is incorporated in AASB ED 201. Comments to the AASB are due by 8 November 2010 and to the IASB by 30 November 2010. The Board discussed some of the main features of the ED, including the proposals to:

- (a) measure an insurance contract at an amount that includes an explicit risk adjustment and a residual margin to eliminate any day-one gains;
- (b) determine the risk adjustment at the level of a portfolio of insurance contracts;
- (c) require (rather than permit) an unearned premium (premium allocation) approach for the pre-claims liabilities of some short-duration insurance contracts;
- (d) require liabilities with cash flows that are not dependent on the performance of specific assets to be discounted at a rate that reflects the time value of money, with an adjustment for illiquidity; and

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- (e) require an insurer to recognise a gain when the amount ceded by the entity to a reinsurer is less than the expected present value of the reinsured cash flows plus a risk adjustment.

The Board also discussed its arrangements for liaising with constituents on the proposals in the ED. The Board noted that arrangements are currently being made for a roundtable discussion to be held on 29 October 2010 in Sydney, Melbourne and New Zealand (via videoconference).

Leases

The Board received an education session on the IASB's ED/2010/9 *Leases*, which is incorporated in AASB ED 202. Comments are due to the AASB by 12 November 2010 and to the IASB by 15 December 2010. Staff are organising meetings to discuss the ED with a range of constituents over the next month. At its next meeting, the Board will consider a summary of key issues to address in its comment letter to the IASB.

Emerging Issues

IFRS 9 – puttable instruments

The Board noted an issue for entities applying AASB 9/IFRS 9 to instruments with a contingent puttable feature that are classified as equity (from the issuer's viewpoint) but are not 'equity instruments' as defined. The Board noted the issue is a result of IFRS 9 not permitting the bifurcation of hybrid financial instruments. The Board decided to write to the IASB to convey its concerns about the issue.

AASB 101 – parent entity audit fee disclosures

The Board noted that some constituents are uncertain about the applicability of parent entity specific audit fee disclosures in paragraph Aus138.1 of AASB 101 *Presentation of Financial Statements* in light of the recent changes made by the *Corporations Amendment (Corporate Reporting Reform) Act 2010*. The Act allows entities to provide summarised parent entity information in the notes to the consolidated financial statements rather than preparing (full) parent entity financial statements.

The Board agreed that paragraph Aus138.1 of AASB 101 would not apply to parent entity information disclosed in the notes to the consolidated financial statements on the basis that those financial statements are those of the group, not the parent. It was also noted that this issue would be further clarified if the Board proceeds with its audit fee disclosure proposal in AASB ED 200B *Proposed Separate Disclosure Standards*.

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Interpretations

The Board noted the following matters:

- (a) the IFRS Interpretations Committee published a draft Interpretation DI/2010/1 *Stripping Costs in the Production Phase of a Surface Mine*. Comments are due to the IASB by 30 November 2010; and
- (b) the IFRS Foundation published a Consultation Document *The annual improvements process: Proposals to amend the Due Process Handbook for the IASB*. Comments are due to the IFRS Foundation by 30 November 2010.

AASB Policies and Processes

The Board considered a revised draft document of its policies and processes that outlines matters such as the AASB's due process for setting Standards, including information about Reduced Disclosure Requirements.

The Board decided to restructure the document around its key strategies and add material on the criteria for assessing whether to re-expose proposed changes to Standards. The Board also agreed to include an outline of its process for developing Reduced Disclosure Requirements as the underlying Standards change, with a link to a document describing the principles used in formulating Reduced Disclosure Requirements.

A further revised draft of the document will be considered by the Board out of session, and once it is finalised it will be made available on the AASB's website. The document will be subject to review periodically.

Minutes

The Board approved the minutes of Meeting 110 held on 29-30 July 2010. These are now available on the website.

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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
IASB	Defined Benefit Plans (proposed amendments to IAS 19)	ED 195	Closed	6 Sep 2010
IASB	Measurement Uncertainty Analysis Disclosure for Fair Value Measurements (Limited re-exposure of proposed disclosure)	ED 199	Closed	7 Sep 2010
IASB	Revenue from Contracts with Customers	ED 198	24 Sep 2010	22 Oct 2010
IASB	Presentation of Items of Other Comprehensive Income (proposed amendments to IAS 1)	ED 197	Closed	30 Sep 2010
AASB & FRSB	Proposals to Harmonise Australian and New Zealand Standards in Relation to Entities Applying IFRSs as Adopted in Australia and New Zealand	ED 200A	8 Oct 2010	8 Oct 2010
AASB & FRSB	Proposed Separate Disclosure Standards	ED 200B	8 Oct 2010	8 Oct 2010
IASB	Proposed amendments to IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i>	TBD	TBD	27 Oct 2010
IASB	Insurance Contracts	ED 201	8 Nov 2010	30 Nov 2010
IASB	Leases	ED 202	12 Nov 2010	15 Dec 2010
IFRS Interpretations Committee	Draft Interpretation <i>Stripping Costs in the Production Phase of a Surface Mine</i>	TBD	TBD	30 Nov 2010
IFRS Foundation	Consultation Document <i>The annual improvements process: Proposals to amend the Due Process Handbook for the IASB</i>	-	-	30 Nov 2010

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Next Meeting on 27-28 October 2010

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

- GAAP/GFS Harmonisation: Entities within the GGS
- Control in the Public Sector
- Income from Non-exchange Transactions
- Revenue from Contracts with Customers
- Leases
- Insurance Contracts (in addition, a roundtable discussion will be held on 29 October 2010)
- Employee Benefits
- Australia/New Zealand Convergence
- Interpretations - Stripping Costs in the Production Phase of a Surface Mine

2010 Meeting Dates

Remaining 2010 meeting dates are:

- October 27-28 (Joint meeting with FRSB via video conference)
- December 8-9

Unless indicated otherwise, meetings are held in Melbourne.

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