



Subject: Minutes of the 140th meeting of the AASB
Venue: Ken Spencer Room, AASB offices
Level 7, 600 Bourke St, Melbourne
Time(s): Wednesday 3 September 2014 from 9.30 a.m. to 5.15 p.m.
Thursday 4 September 2014 from 8.30 a.m. to 3.30 p.m.

All agenda items except Agenda and Declarations of Interests and Review were discussed in public.

Attendance

Members Angus Thomson (Acting Chair)
Ian McPhee (Deputy Chair)
John O'Grady (Deputy Chair)
Peter Carlson
Anna Crawford
Kimberley Crook
Regina Fikkers
Peter Gibson
Steve Mitsas
Carmen Ridley
Brett Rix
Taryn Rulton
Marc Smit (apology from 3.30pm on day 1)
Ann Tarca (apology from 3.00pm on day 2)

Observer Todd Beardsworth

In Attendance:
Staff Glenn Brady (in part)
Mitchell Bryce (in part)
Nikole Gyles
Kala Kandiah (in part)
Sue Lightfoot (in part)
Evelyn Ling (in part)
Christina Ng (in part)
Lisa Panetta
Jim Paul (in part)
Joanna Spencer (in part)

Agenda and Declaration of Interests

Agenda Item 1

Declarations of Interest

Members indicated that, in the normal course of their day-to-day professional responsibilities, they deal with a broad range of financial reporting issues. Members have adopted the standing policy in respect of



declarations of interest that a specific declaration will be made where there is a particular interest in an issue before the Board. No such matters arose in this meeting.

Acting Chair's Report

Deregulation agenda

Angus Thomson, the Acting Chair, noted that as part of the Government's deregulation agenda, each portfolio is conducting a stocktake of existing Commonwealth regulation to establish a baseline of costs (above 'business as usual' costs) against which reductions in red tape can be measured.

EU IFRS review

The Acting Chair and AASB staff member Glenn Brady noted that the European Commission is seeking input to a review of the application of IFRS in Europe.

Public Management Reform Agenda (PRMA)

The Government is progressing its PRMA. The Acting Chair and AASB staff member Joanna Spencer will be attending a PRMA information session on 11 September.

Stage 2 of the PMRA includes consideration of applying the Reduced Disclosure Regime to some agencies.

New Zealand

The NZASB Chair, Kimberley Crook, reported on key developments in New Zealand, including the completion of the tiers of PBE reporting requirements and the issuance of the New Zealand standard incorporating IFRS 9 *Financial Instruments*.

Trans-Tasman Forum

The Acting Chair noted that the NZASB Chair, AUASB staff member Howard Pratt and he are presenting at a Discussion Forum of Chartered Accountants Australia New Zealand on the manner in which accounting and auditing standards are set in Australia and New Zealand.

International meetings

The Acting Chair noted the following forthcoming meetings:

- (a) International Public Sector Accounting Standards Board (IPSASB) – 15 to 18 September – the main items to be considered include: Conceptual Framework – elements and recognition, measurement, presentation, review and approval of whole Conceptual Framework; and Reporting Service Performance;
- (b) Accounting Standards Advisory Forum – 25 and 26 September – the main items to be considered include: Leases; Discount Rates; IFRS 3 *Business Combinations* Post-implementation Review; Disclosure Initiative; Insurance; Conceptual Framework; Equity/Liabilities; and Inflation Accounting;
- (c) Asian-Oceanian Standard-Setters Group – 28 September;
- (d) World Standard-Setters – 29 and 30 September;



- (e) International Forum of Accounting Standard Setters – 1 October; and
- (f) IASB Research Forum – 2 October – Board Member Ann Tarca noted that she is one of the Forum organisers and the registrants are expected to be a mix of academics and standard setters, and that some sessions will involve academics presenting their papers followed by two commentators and general discussion; other sessions will have panels of speakers.

Center for Audit Quality

The Acting Chair noted that he and AASB staff member Sue Lightfoot met with the CEO of the [US] Center for Audit Quality, Cindy Fornelli, on 21 August to discuss issues of common interest including Tier 2/private company reporting, a US government-wide disclosure review and the IASB's Disclosure Initiative.

Apologies, Minutes and Approvals Out of Session

Agenda Item 2

Apologies

Apologies were noted for Marc Smit from 3.30pm on day 1 of the meeting and Ann Tarca from 3.00pm on day 2 of the meeting.

Minutes

The Board approved the minutes of the one hundred and thirty-ninth meeting held on 16-17 July 2014.

Approvals Out of Session

The Board had before it a memorandum from Lisa Panetta dated 19 August 2014 re Voting Summary – Board only (agenda paper 2.2).

The Board noted that from 1 July 2014 to 19 August 2014, the Board approved out of session the following pronouncements and Exposure Drafts:

- (a) *AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations;*
- (b) *AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation;*
- (c) Exposure Draft ED 251 *Revenue from Contracts with Customers – Tier 2 proposals;* and
- (d) Exposure Draft ED 252 *Proposal to supersede AASB Interpretation 1042 Subscriber Acquisition Costs in the Telecommunications Industry.*

Other Business

Agenda Item 3

The Board noted:



- (a) a memorandum from Lisa Panetta and Nikole Gyles dated 19 August 2014 re AASB Work Program – Standard Setting Directorate (agenda paper 3.1);
- (b) AASB Standard Setting Work Program and Meeting Pipeline as at 19 August 2014 [Board only] (agenda paper 3.1.1);
- (c) AASB Sub-committee membership as at 19 August 2014 (agenda paper 3.2) [Board only];
- (d) Memorandum from Mitchell Bryce dated 19 August 2014 re August 2014 Communications Report Highlights (agenda paper 3.3) [Board only];
- (e) Communications Report for the period 2 July – 19 August 2014 (agenda paper 3.3.1) [Board only];
- (f) Letter from AASB Acting Chair to Peter Lane dated 23 July 2014 re AASB 141 and Native Forestry (agenda paper 3.4);
- (g) Letter from AASB Acting Chair to IPSASB Technical Director dated 1 August 2014 re IPSASB Strategy Consultation (agenda paper 3.5);
- (h) Letter from IASB Chairman to AASB Acting Chair dated 24 July 2014 re Recognition of the Contractual Services Margin (agenda paper 3.6);
- (i) Letter from AASB Acting Chair to IASB Chairman dated 5 August 2014 re Submission on IASB ED/2014/1 *Disclosure Initiative* (agenda paper 3.7);
- (j) ED 249 *Disclosure Initiative* [submissions 5-7] (agenda paper 3.8);
- (k) Tier 2 ED 249 *Disclosure Initiative* [submission 1] (agenda paper 3.9); and
- (l) Agenda for ASAF Meeting – September 2014 (tabled agenda paper 3.10).

IFRS Interpretations Committee

Agenda Item 4

The Board had before it:

- (a) a memorandum from Nikole Gyles and Mitchell Bryce dated 19 August 2014 re IFRS Interpretations Committee Update (agenda paper 4.1);
- (b) an AASB staff issues paper – AASB Staff Summary of IFRS IC Decisions July 2014 (agenda paper 4.2); and
- (c) *IFRIC Update* July 2014 (agenda paper 4.3).

The Board received an update on the 15-16 July 2014 IFRS Interpretations Committee (the Committee) meeting and recent AASB staff responses to the Committee staff's outreach requests.

The Board noted the Committee's tentative agenda decision to remove the issue of accounting for core inventories from its agenda. The Board concurred with the outcome, but expressed concern about the Committee's reasoning for removing the issue from its agenda, which was that diversity in practice in accounting for core inventories is limited to being *between industries* as opposed to *within industries*. The



Board decided to write to the Committee to note that, in general, the accounting for such items should be industry-neutral.

The Board also noted the Committee's tentative agenda decision to remove from its agenda the issue of accounting for the net proceeds from sales over the costs of testing an item of property, plant and equipment in IAS 16 *Property, Plant and Equipment*. The Board noted, while the circumstances may be rare, practice is generally to credit the asset with any excess of net proceeds over the costs of testing. The Board expressed concern about the wording of the tentative agenda decision because it considers it unclear that an excess of net proceeds over the costs of testing should be recognised through profit or loss under paragraph 17(e) of IAS 16. The Board noted that this was a concern also expressed by some Committee members during the July 2014 Committee meeting. The Board decided, on the basis of varying interpretations of paragraph 17(e) of IAS 16, to write to the Committee noting its concern about the reasoning that led to tentatively removing the issue from its agenda.

The Board decided to finalise the letter addressing both concerns out of session via the Acting Chair.

Action:	Staff
	Acting Chair

Emerging Issues

Agenda Item 5

AASB 1053 Application of Tiers of Australian Accounting Standards

The Acting Chair noted that staff have identified some potential gaps in the requirements for transitioning between tiers under *AASB 1053 Application of Tiers of Australian Accounting Standards* that will need to be addressed. The staff plan to provide the Board with an issues paper on the topic later this year.

Revenue

Agenda Item 7

Tier 2 disclosure requirements and AASB Interpretation 1042

The Board had before it a memorandum from Mitchell Bryce and Joanna Spencer dated 19 August 2014 re Revenue Constituent feedback on Tier 2 proposals and a proposal to supersede AASB Interpretation 1042 (agenda paper 7.1).

The Board received an update on the outcomes of the two adverse-comment Exposure Drafts ED 251 *Revenue from Contracts with Customers – Tier 2 Disclosures* and ED 252 *Proposal to supersede AASB Interpretation 1042 Subscriber Acquisition Costs in the Telecommunications Industry*.

The Board noted that no adverse comments were received in respect of the proposals in either ED. Consequently, the Board decided to proceed to balloting out of session *AASB 15 Revenue from Contracts with Customers*, incorporating the Tier 2 reduced disclosure requirements and the supersession of AASB Interpretation 1042.



Action: Staff
Board

IASB/FASB Revenue Transition Resource Group

The Board had before it a memorandum from Glenn Brady dated 19 August 2014 re Summary of the operation of IASB/FASB Revenue Transition Resource Group (agenda paper 7.2).

The Board received an update on the operation and objectives of the Joint Transition Resource Group (TRG) on revenue, which is a limited-life group established by the IASB and the FASB to guide preparers in the implementation of IFRS 15 and Topic 606 of the FASB's Accounting Standards Codification. The first TRG meeting was held on 18 July 2014 and a second meeting is planned for 31 October 2014. The Board directed staff to provide an update on the issues raised with the TRG at the next AASB meeting.

Action: Staff

ED 250 *Investment Entities: Applying the Consolidation Exception*

Agenda Item 8

The Board had before it:

- (a) a memorandum from Kala Kandiah dated 19 August 2014 (agenda paper 8.1);
- (b) AASB staff issues paper – AASB ED 250 *Investment Entities: Applying the Consolidation Exception* (agenda paper 8.2);
- (c) AASB ED 250 *Investment Entities: Applying the Consolidation Exception* (agenda paper 8.3); and
- (d) Submissions received in response to AASB ED 250 (agenda paper 8.4).

The Board considered constituents' comments on AASB ED 250 *Investment Entities: Applying the Consolidation Exception* (which incorporates IASB ED/2014/2) and decided that its submission to the IASB should express concerns in relation to the proposal to amend IFRS 10 *Consolidated Financial Statements* to confirm that the exemption from preparing consolidated financial statements in paragraph 4(a) of IFRS 10 continues to be available to an intermediate parent entity that is a subsidiary of an investment entity, even when the investment entity measures its interests in subsidiaries at fair value. The Board was concerned that this could result in the loss of relevant information for users of the financial statements of the intermediate parent entity as no consolidated information would be available higher up in the group.

The Board also decided to express concerns in relation to the proposal to amend IAS 28 *Investments in Associates and Joint Ventures* to clarify that a non-investment entity venturer in an investment entity joint venture cannot, when applying the equity method, retain the fair value measurement applied by the investment entity joint venture to its interests in subsidiaries. The Board considered that a non-investment entity investor should apply the equity method using the same approach to the group financial statements of both an investment entity associate and an investment entity joint venture, and that approach should be to retain the fair value measurement of the associate's/joint venture's interests in subsidiaries. This is because



associates and joint ventures and their subsidiaries are not part of the investor's group and the equity method should be applied to measure the investment in an associate or joint venture as a whole.

The Board decided to finalise its submission to the IASB on ED/2014/2 out of session via the Acting Chair.

Action:	Staff
	Acting Chair

AASB 10 scope exclusions

Agenda Item 9

The Board had before it:

- (a) a memorandum from Nikole Gyles dated 19 August 2014 re: Scope Exclusions in AASB 10 and AASB 128 (agenda paper 9.1); and
- (b) AASB staff issues paper – Scope exclusions in AASB 10 and AASB 128.

The Board considered whether to amend the scope exclusion in AASB 10 *Consolidated Financial Statements* and/or the exemption from applying the equity method in AASB 128 *Investments in Associates and Joint Ventures* for an Australian group with a foreign parent that prepares consolidated financial statements.

The Board directed staff to undertake further outreach on the AASB 10 scope exclusion to further understand and address concerns raised by constituents in response to staff targeted outreach; in particular, concerns relating to whether this is a standard-setting issue or a broader regulatory issue.

The Board decided to reinstate the related Australian-specific requirement (previously included in AASB 128 (2007), paragraph 13(c)(iv)) that narrows the exception from applying the equity method of accounting to cases when the ultimate Australian or any intermediate parent of the investor (or venturer) produces consolidated financial statements available for public use that comply with IFRSs.

The Board directed staff to prepare an Exposure Draft proposing the amendment to be approved for issue through a vote by the Board out of session.

Action:	Staff
	Board

Borrowing Costs of Not-for-Profit Public Sector Entities

Agenda Item 10

The Board had before it:

- (a) a memorandum from Evelyn Ling dated 19 August 2014 re Borrowing Costs of Not-for-Profit Public Sector Entities – Removal of the Expense Option (agenda paper 10.1);
- (b) AASB staff issues paper – Application of the Process for Modifying IFRSs for PBE/NFP to Borrowing Costs (agenda paper 10.2);



- (c) AASB staff issues paper – Transitional Provisions and Proposed Application Date – Proposed Amendments to AASB 123 (agenda paper 10.3);
- (d) AASB staff issues paper – Due Process – Proposed Amendments to AASB 123 (agenda paper 10.4); and
- (e) AASB *Process for Modifying IFRSs for PBE/NFP* (agenda paper 10.5) [for information only].

The Board considered, applying its *Process for Modifying IFRSs for PBE/NFP*, the option in AASB 123 *Borrowing Costs* for not-for-profit public sector entities to immediately expense all borrowing costs. Board members had mixed views as to whether there were NFP public sector specific reasons for departing from the requirements of IAS 23 *Borrowing Costs*. The Board noted the prevalence of fair value measurement in the NFP public sector and that fair value measurement significantly limits any benefits that might arise from capitalising borrowing costs in the initial measurement of property, plant and equipment. In this context, the Board decided that the involved costs in capitalising borrowing costs for not-for-profit public sector entities outweigh the benefits of achieving full compliance with IAS 23, and accordingly decided to retain the current relief from capitalisation of borrowing costs directly attributable to the acquisition, construction or production of qualifying assets.

The Board decided to add an AASB Basis for Conclusions to AASB 123 to update its position on the treatment of borrowing costs for not-for-profit public sector entities. The Board will vote on the Basis for Conclusions out of session.

Action:	Staff
	Board

Discussion Paper: Accounting for Dynamic Risk Management

Agenda Item 11

The Board had before it:

- (a) a memorandum from Sue Lightfoot dated 19 August 2014 re: Accounting for Dynamic Risk Management (agenda paper 11.1);
- (b) AASB Accounting for Dynamic Risk Roundtable Discussion Questions (agenda paper 11.2); and
- (c) Notes from Accounting for Dynamic Risk: Roundtable on 19 August 2014 (tabled agenda paper 11.3) [Board only].

The Board considered feedback received to date on Invitation to Comment ITC 31 *Accounting for Dynamic Risk Management: A Portfolio Revaluation Approach to Macro Hedging*, which incorporates IASB Discussion Paper DP/2014/1, including feedback from a roundtable conducted on 19 August 2014. A further roundtable was held on 4 September 2014, subsequent to the Board meeting.

The Board noted that it is scheduled to consider the feedback on ITC 31 at its next meeting with a view to identifying the main comments to be included in its submission to the IASB on DP/2014/1.



Action: Staff
Acting Chair

Insurance Contracts

Agenda Item 12

The Board had before it:

- (a) a memorandum from Sue Lightfoot dated 19 August 2014 re: Insurance Contracts (agenda paper 12.1);
- (b) Appendix to Agenda Paper 12.1 (agenda paper 12.2); and
- (c) A letter from the IASB Chairman to the AASB Acting Chair dated 24 July 2014 re: Recognition of Contractual Service Margin (agenda paper 12.3).

The Board received an update on recent tentative decisions made by the IASB on its Insurance Contracts project.

The Board decided the Acting Chair should raise concerns with the IASB at the next ASAF meeting in relation to the tentative decisions made at the IASB's July 2014 meeting regarding use of locked-in rates for disclosure and interest rate accretion. The Board noted that its concerns relate to having an historical cost component (discount rates at inception) in an otherwise current value measure, and the fact that this would require entities to track rates from inception. Systems and processes would therefore need to be in place to capture the amounts relating to both current and historical discount rates. The Board also noted its concern that the disclosures relating to amounts based on discount rates at inception would be inconsistent with the recognition and measurement accounting policy of an entity that chooses to recognise the impact of changing discount rates in profit or loss.

Other than these concerns, the Board decided there were no further issues that need to be raised again with the IASB at this stage.

Action: Staff
Acting Chair

Service Performance Reporting

Agenda Item 13

The Board had before it:

- (a) a memorandum from Joanna Spencer dated 19 August 2014 re Service Performance Reporting (agenda paper 13.1);
- (b) a PowerPoint Presentation – A comparison of current Service Performance Reporting Projects – AASB, NZASB and IPSASB (agenda paper 13.2);
- (c) AASB staff issues paper – Service Performance Reporting – Summary of AASB research to date (agenda paper 13.3);



- (d) Extracts from draft of NZASB Exposure Draft PBE FRS 4[X] *Service Performance Reporting* (July 2014 NZASB Board paper 7.2) (agenda paper 13.4);
- (e) IPSASB 'At a Glance' Exposure Draft Summary – Recommended Practice Guideline *Reporting Service Performance Information* (agenda paper 13.5); and
- (f) IPSASB ED 54 *Reporting Service Performance Information* (agenda paper 13.6).

The Board discussed a comparison of Service Performance Reporting projects of the AASB, the New Zealand Accounting Standards Board (NZASB) and the IPSASB.

The Board noted that without a clear objective of what service performance reporting is attempting to achieve, it was uncertain what aspects of other projects should be included.

The Board also discussed the scope of the AASB's project, including the potential to adopt a 'phased' approach – with private sector NFP entities in an initial phase and public sector entities addressed in a future phase.

The Board directed staff to prepare a paper articulating the objective of service performance reporting, a summary of previous decisions made by the Board and a high-level project plan for a phased approach for the project.

Action: Staff

Research Report

Agenda Item 14

The Board had before it a memorandum from Angus Thomson dated 19 August 2014 (agenda paper 19.1).

The Board noted progress on research projects and related matters since the Board's July 2014 meeting, including the following:

- (a) liaison with representatives from the Commonwealth Treasury, the ASIC and the Chair of the FRC Financial Reporting Taskforce on progressing work related to the application of accounting standards to entities required by the *Corporations Act 2001* to lodge financial statements, but which do not regard themselves as reporting entities;
- (b) liaison conducted with constituents on the application of AASB 1056 *Superannuation Entities*; in particular, in relation to measuring defined benefit liabilities and disclosure of disaggregated information; and
- (c) a response from Research Centre staff to a request for information from IASB staff on the information that is presented in relation to initial public offerings when restructurings take place, which involve business combinations under common control.



Service Concession Arrangements

Agenda Item 15

The Board had before it:

- (a) a memorandum from Christina Ng and Glenn Brady dated 26 August re: Service Concession Arrangements: Grantor's Perspective (agenda paper 15.1);
- (b) AASB staff issues paper – Assessing whether service concession arrangements are within the scope of IFRS 15 *Revenue from Contracts with Customers* from the grantor's perspective (agenda paper 15.2); and
- (c) AASB staff issues paper – Application of IFRS 15 on the Right to Charge Users of a Service Concession Asset (agenda paper 15.3).

The Board considered the implications of applying the main revenue model in IFRS 15, either directly or by analogy, to account for a grantor's rights and obligations in a service concession arrangement.

The Board tentatively decided that, from a grantor's perspective, a service concession arrangement in which the grantor promises to transfer an intangible asset to the operator would not be a contract with a customer within the scope of IFRS 15. The Board considered that the intangible asset the grantor promises to transfer to the operator in exchange for the operator's services is in the nature of a financing arrangement for the construction of the service concession asset and, as such, would not be an output of the government's ordinary activities.

In light of its tentative conclusion that, from a grantor's perspective, a service concession arrangement would not be a contract with a customer, the Board directed the staff to analyse alternatives other than IFRS 15 for accounting for a grantor's rights and obligations. The Board noted that some aspects of IFRS 15 may not be particularly suitable for application to service concession arrangements, but other aspects could be suitable for application by analogy to a grantor's rights and obligations. In developing other alternatives, the Board directed the staff to consider aspects from other pronouncements, including IPSAS 32 *Service Concession Arrangements: Grantor*.

Action: Staff

Fair Value Measurement – Implementation Issues

Agenda Item 16

The Board had before it:

- (a) a memorandum from Evelyn Ling and Jim Paul dated 19 August 2014 re Fair Value Measurement – Implementation Issues of Not-for-Profit entities (agenda paper 16.1);
- (b) AASB staff issues paper – AASB 13 *Fair Value Measurement* Disclosures for Not-for-Profit Entities – Implementation Issues (agenda paper 16.2);



- (c) AASB staff issues paper – The Relationship between Current Replacement Cost as a Measure of Fair Value and Depreciated Replacement Cost as a Measure of Value in Use (agenda paper 16.3);
- (d) AASB staff issues paper – Potential Inconsistencies between AASB 13 and Other Australian Accounting Standards (agenda paper 16.4);
- (e) correspondence from Sydney Water dated 8 July 2014 (agenda paper 16.5);
- (f) a memorandum from Evelyn Ling dated 1 September 2014 re Feedback on Agenda Paper 16.2 (tabled agenda paper 16.6); and
- (g) correspondence dated 1 September 2014 from NSW Local Councils (tabled agenda paper 16.6.1).

Fair value disclosures for not-for-profit public sector entities

The Board considered formal submissions and informal feedback from local government entities about their concerns in relation to some of the disclosures specified by AASB 13 *Fair Value Measurement*.

The Board discussed the pervasiveness of disclosures about fair values of non-financial assets under AASB 13 for not-for-profit public sector entities. The Board noted that many revalued non-financial assets of state and local government entities would be categorised as Level 3 in the fair value hierarchy and therefore sensitivity analysis disclosures, amongst others, would often be required. The Board discussed concerns expressed by constituents that the cost of these disclosures would exceed the resulting benefits to users of financial statements. The Board's discussion included the role of materiality in assessing the extent of disclosures required, which the Board noted is separate from assessment of the materiality of the fair value of the asset itself.

The Board decided that it would undertake a project to assess whether the disclosures specified by AASB 13 should be modified for not-for-profit public sector entities. The Board noted that its decision is likely to be strongly influenced by cost-benefit considerations. The Board was conscious of the need for any output on this project to be issued on a timely basis, and accordingly directed staff to perform further targeted outreach and to report back to the Board by early next year.

Using current replacement cost under AASB 13 and depreciated replacement cost under AASB 136

The Board discussed a request for clarification of the implications of depreciated replacement cost (DRC) being used as a measure of value by not-for-profit entities of particular assets under AASB 136 *Impairment of Assets* for the use of current replacement cost (CRC) by for-profit entities. The Board noted that the role of DRC as a measure of value in use for not-for-profit entities does not preclude for-profit entities from using CRC as a measure of fair value under AASB 13, and requested that the Acting Chair write to advise the submitter of this observation.

The Board also discussed the relationship between CRC as a measure of fair value, for any entity, under AASB 13 and DRC as a measure of value in use, for not-for-profit entities, of particular assets under AASB 136. In the context of a submitter's contention that the properly determined CRC of a non-financial asset would always represent faithfully that asset's fair value, the Board decided not to provide an interpretation of the cost approach to determining the fair value of an asset under AASB 13. The Board was



conscious of the need to avoid interpreting AASB 13 more generally, and decided that it should approach any amendments to Australian Accounting Standards on the relationship between CRC and DRC from the perspective of DRC as a measure of value in use for particular assets of not-for-profit entities.

The Board noted that under AASB 136, DRC would be used to measure an asset's value in use only if the not-for-profit entity would, if deprived of the asset, replace its remaining future economic benefits. The Board also noted that a non-financial asset's CRC under AASB 13 reflects the highest and best use of that asset by market participants, which is not necessarily the asset's existing use. Therefore, the Board decided DRC as used in AASB 136 does not have the same meaning as CRC as used in AASB 13. The Board decided to develop proposed amendments to AASB 136 in the form of additional or revised 'Aus' paragraphs to make this clarification. The Board directed staff to draft a due process document reflecting its decision.

The Board also briefly discussed whether CRC should assume:

- (a) replacement of the existing asset in its current form and scale; or
- (b) replacement of the necessary capacity to provide outputs that the entity can use (i.e. service potential) without the asset necessarily being replaced in its current form and scale. This approach is often referred to as 'optimised DRC', where replacement is assumed to occur in the form that achieves the lowest cost per unit of service potential.

Board members noted that AASB 13 provides some guidance on this issue.

Concerns about potential inconsistencies between AASB 13 and other Standards

The Board discussed whether obsolescence as used in AASB 13 is substantively the same as depreciation and amortisation in AASB 116 *Property, Plant and Equipment* and AASB 138 *Intangible Assets*. The Board considered that obsolescence has a different meaning from depreciation and amortisation. The Board directed staff to consider the implications of that view for the issue raised by staff as to whether DRC and CRC are determined gross or net of obsolescence, depreciation and amortisation.

Action: Staff
Acting Chair

Property, Plant & Equipment – Residual Value

Agenda Item 17

The Board had before it:

- (a) a memorandum from Mitchell Bryce re Property, Plant and Equipment – Residual Value (agenda paper 17.1);
- (b) AASB staff issues paper – Definition and application of residual value (agenda paper 17.2);
- (c) Submission 1 on AASB 116 – *Definition of Residual Value* – DG & AB Maxwell (agenda paper 17.3);
and
- (d) Submission 2 on AASB 116 – *Definition of Residual Value* – intenus Chartered Accountants (agenda paper 17.4).



The Board discussed a request for additional Australian-specific requirements for NFP entities in relation to determining the residual value of an asset in AASB 116 that is subject to being recycled into a new asset of the entity.

The Board noted the submitter's concerns in relation to the definition and application of the term 'residual value', which might be read as limiting the recognition of residual values to those cases when an entity will receive consideration from the sale of an item of property, plant and equipment (PPE) at the end of its useful life.

The Board noted the various principles in AASB 116 for accounting for items of PPE, specifically the application of those principles for an asset that is subject to being recycled into a new asset of the entity. The Board considered the issue detailed in the submission is not limited to the NFP sector and could apply to a range of recyclable assets.

The Board directed staff to conduct targeted outreach on the issue, in both the for-profit and NFP sectors, to assess the prevalent accounting treatment for recyclable assets and whether diversity in practice exists.

Action: Staff

Cross-referencing in Australian Accounting Standards

Agenda Item 18

The Board had before it:

- (a) a memorandum from Evelyn Ling dated 19 August 2014 re References in Australian Accounting Standards to Incorporation of Information by Cross-Reference (agenda paper 18.1); and
- (b) AASB staff issues paper – Deletion of Cross-References from Australian Accounting Standards – (agenda paper 18.2).

The Board discussed the references in Australian Accounting Standards to certain disclosures being able to be provided by cross-reference from the financial statements, provided certain conditions are met. The Board decided to issue an Exposure Draft to expose the Board's decision to, as a general rule, remove such references from Australian Accounting Standards. The Exposure Draft would also specifically propose removing references in AASB 1 *First-time Adoption of Australian Accounting Standards* and AASB 119 *Employee Benefits* to being able to make specified disclosures by cross-reference to information outside the financial statements. The Board decided that the ED would propose that the amendments are to apply to annual reporting periods beginning on or after 1 July 2015, and that comparative information would be required.

In addition, the Board discussed the forthcoming IASB Annual Improvement to IAS 34 *Interim Financial Reporting* to clarify the meaning of "elsewhere in the interim financial report". The Board tentatively decided, consistent with its decisions in relation to paragraphs 21B, 35C and B6 of IFRS 7 *Financial Instruments: Disclosures*, not to incorporate the amendments to IAS 34, when made, into AASB 134, to the extent the



amendments refer to entities providing the information specified by paragraph 16A of AASB 134 by cross-reference from the interim financial report.

Action: Staff

Income from Transactions of NFP Entities

Agenda Item 19

The Board had before it:

- (a) a memorandum from Jim Paul and Glenn Brady dated 19 August 2014 (agenda paper 19.1);
- (b) AASB staff issues paper – Review of AASB’s Tentative Decisions regarding Not-for-Profit modifications of IFRS 15 *Revenue from Contracts with Customers* that would be included in the AASB ED on Income from Transactions of Not-for-Profit Entities (agenda paper 19.2);
- (c) Summary of AASB’s tentative decisions regarding NFP modifications of the IASB ED preceding IFRS 15 (agenda paper 19.3); and
- (d) Extracts from working staff draft of ED on Income from Transactions of NFP Entities (agenda paper 19.4) [Board only].

The Board previously decided to pause its development of an ED on Income from Transactions of Not-for-Profit Entities while it awaited the finalisation of IFRS 15. In light of the issuance of IFRS 15, the Board reviewed the NFP modifications tentatively decided by the Board in relation to the IASB ED preceding that IFRS. The Board tentatively reaffirmed its decisions to include in the ED:

- (a) guidance that references to ‘customer’ used in IFRS 15 are to be read by NFP entities as references to another party to the transaction;
- (b) NFP-specific examples of arrangements that would, or would not, contain enforceable rights and obligations;
- (c) NFP-specific guidance that a promise to transfer a good or service would represent a performance obligation if the promise is stipulated in sufficient detail to be able to determine when the performance obligation is satisfied. Judgement would be necessary in applying this principle, and would take into account whether the following are stipulated:
 - (i) the nature or type of goods or services to be transferred; and
 - (ii) one or more of:
 - (A) the cost or value of the promised goods or services;
 - (B) the volume of the promised goods or services; and
 - (C) the period over which the promised goods or services must be transferred;
- (d) In relation to (c) above, the Board directed staff to:



- (i) ensure the draft ED emphasises the relationship between enforceability of arrangements and specificity of promises to transfer goods or services; and
 - (ii) prepare examples illustrating instances in which promises to transfer goods or services are, and are not, stipulated in sufficient detail to be able to determine when the performance obligation is satisfied; and
- (e) a NFP-specific modification of IFRS 15 that would not require the transaction price to be allocated only to each performance obligation. This is to enable separate recognition of any identifiable donation component of a contract.

The Board tentatively decided to amend its draft proposal that would have required any donation component of a contract to be accounted for separately as income when the donation is received or receivable, regardless of the nature of the evidence for the existence and amount of such a component. Instead, the Board tentatively decided to explore an approach under which a NFP entity would be required to account separately for a donation component of a contract only if a particular evidence threshold is met (e.g. the stand-alone selling prices of all of the promised goods or services in the contract are observable).

The Board directed staff to prepare illustrative examples of contracts that do, and do not, include donation components, based on various indicative factors.

The Board discussed where its NFP entity guidance on income from transactions outside contracts with customers (e.g. taxes and transactions that are wholly composed of donations) should be located. The Board tentatively decided that, in view of some types of income (e.g. donations) potentially arising either within or outside contracts with customers, its NFP entity guidance on accounting for income from transactions should (except for income specifically dealt with in another Australian Accounting Standard, e.g. AASB 141 *Agriculture*) be located in one Standard.

For the purposes of its ED on Income from Transactions of NFP Entities, the Board tentatively decided its NFP-specific proposals should generally be presented as a supplement to the requirements of IFRS 15, consistent with the approach to presenting NFP-specific guidance on IFRS 10 *Consolidated Financial Statements*.

Action: Staff

Leases

Agenda Item 20

The Board had before it:

- (a) a memorandum from Nikole Gyles dated 19 August 2014 re: Leases – project update (agenda paper 20.1); and
- (b) AASB staff issues paper – Leases Project Update July 2014 (agenda paper 20.2).



The Board received an update on recent tentative decisions made by the IASB and the FASB on their Leases project and did not consider there were any issues arising out of those decisions that need to be raised with the IASB at this stage.

Disclosure Initiative

Agenda Item 21

The Board had before it:

- (a) a memorandum from Lisa Panetta dated 19 August 2014 re: IASB's Disclosure Initiative – Project Update (agenda paper 21.1); and
- (b) AASB staff issues paper – Disclosure Initiative Project Update July 2014 (agenda paper 21.2).

The Board received an update on the recent tentative decisions made by the IASB in its Disclosure Initiative project.

The Board expressed concern in relation to the IASB's proposals to require reconciliation of liabilities related to financing activities. The Board requested AASB staff to raise its concerns with IASB staff, including:

- (a) the need for a clear articulation of the benefits of the proposed reconciliations;
- (b) the requirement would add complexity to disclosure requirements; and
- (c) whether the IASB plans to remove any other disclosure requirements if it introduces the reconciliation.

In addition, the Board expressed concerns regarding the proposed disclosure about restrictions on cash and cash equivalents. The Board considered the first step to this project should be to review the definition of 'cash and cash equivalents' before requiring any further disclosures for cash and cash equivalents, since the current definition is potentially outdated. The Board requested AASB staff to raise this issue with IASB staff.

Furthermore, the Board expressed concern regarding the IASB's tentative decision to develop guidance on the use of cross-referencing disclosures in the financial statements. The Board considered the role of the IASB does not extend to indicating where disclosures are required or permitted to be located, and that this should be a matter for each jurisdiction. The Board requested that the Acting Chair express its concerns to the IASB at the upcoming ASAF meeting.

The Board agreed with the IASB's tentative decision to add a project on Performance Reporting to its Research Program.

Action:	Staff
	Acting Chair

Financial Instruments

Agenda Item 22

The Board had before it:

- (a) a memorandum from Sue Lightfoot dated 19 August 2014 re: Financial Instruments (agenda paper 22.1);



- (b) IASB Summary of IFRS 9 – July 2014 (agenda paper 22.2); and
- (c) IFRS 9 *Financial Instruments* (2014) (agenda paper 22.3) [Board only].

The Board received an overview of the requirements of IFRS 9 *Financial Instruments* issued by the IASB in July 2014, including impairment and revised classification and measurement requirements. AASB 9 *Financial Instruments*, incorporating IFRS 9, is anticipated to be made by the Board in Q4 2014. The Board decided that AASB 9 should include the early application provisions equivalent to IFRS 9, including the prohibition on applying earlier versions of AASB 9 for dates of initial application from 1 February 2015.

The Board decided to permit the date of initial application, for the purposes of the transition provisions, to be the beginning of the first reporting period after 24 July 2014 (i.e. the date IFRS 9 was issued). However, the Board also noted that Australian entities planning to early adopt the standard would be required to meet the relevant requirements of the standard at their date of initial application (e.g. for hedge accounting, determining classification of financial instruments based on business model and in making designations for elective accounting treatments, such as the fair value option).

In addition, consistent with its previous decisions in respect of AASB 7 *Financial Instruments: Disclosures* paragraph B6 and the second two sentences of paragraph 21B, the Board decided to delete paragraph 35C from AASB 7 concerning incorporation of information by cross-referencing to disclosures outside the financial statements.

The Board also noted concerns about the clarity of the transition provisions in relation to the date of initial application and decided to raise its concerns with the IASB's Impairment Transition Group. The concern relates to retrospective application of IFRS 9 when an entity has a date of initial application of IFRS 9 that is not the beginning of an annual reporting period.

The Board noted that staff need to finalise a Regulation Impact Statement and association cost calculations before the Board can vote on making a complete version of AASB 9.

Action:	Staff
	Board

Close of Meeting

The Acting Chair closed the meeting at 3.30 p.m. on Thursday 4 September 2014.

Approval

Signed by the Acting Chair as a correct record
this twenty-second day of October 2014