



**Issue:** Number 116  
**Date:** 4 August 2008  
**Subject:** AASB Meeting 89 (including meeting held jointly with NZ FRSB), 30-31 July 2008

## Joint Meeting with New Zealand Financial Reporting Standards Board

The AASB held a joint meeting with the FRSB as part of the Australia-New Zealand protocol regarding cooperation on corporations law and financial reporting. The FRSB hosted the meeting in Auckland.

## Conceptual Framework

The Boards received staff presentations on:

- (a) IASB Exposure Draft *The Objective of Financial Reporting and the Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information*, and the IASB Discussion Paper *The Reporting Entity*;
- (b) how the IPSASB's draft proposals on those topics (in its forthcoming Consultation Paper on Phase 1 of its Conceptual Framework project) compare with the IASB's proposals; and
- (c) the potential implications of applying the proposals in the IASB's Exposure Draft and the preliminary views in the IASB's Discussion Paper to not-for-profit entities/public benefit entities (having regard to the report of a monitoring group of standard setters on those potential implications).

The Boards identified various issues and concerns that each staff is to include in its respective Board's initial draft submissions on the IASB's and IPSASB's consultation documents.

## Criteria for Modifying IFRS Requirements in Respect of Not-for-Profit Entities

The Boards considered a draft policy paper on the criteria for determining when to modify IFRSs in respect of not-for-profit entities. The Boards tentatively agreed on a high-level principle that focusses on there being not-for-profit entity differences to justify a modification. The Boards also tentatively agreed on a range of factors that should be considered collectively on a case-by-case basis. The Boards plan to consider a further draft policy paper at their September meetings.

## Long-Term Fiscal Sustainability

The Boards noted the IPSASB's project on long-term fiscal sustainability reporting and the relevance to both Australia and New Zealand of the issues that the project will address. The Boards intend to monitor the project as it progresses, noting that one of the first milestones is the publication of an IPSASB Consultation Paper planned for the first half of 2009.

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## Service Concession Arrangements – Grantor Accounting

The AASB considered the submissions received from constituents in response to its Invitation to Comment ITC 16 “Request for Comment on IPSASB Consultation Paper *Accounting and Financial Reporting for Service Concession Arrangements*” (April 2008).

The AASB discussed a draft submission to the IPSASB and appointed several members to finalise the submission with staff. AASB members had concerns over various aspects of the IPSASB proposals, such as the treatment of residual interests, however in general they encouraged the IPSASB to continue with its project. The AASB's submission is expected to be finalised shortly and will then be published on the website.

## Revenue from Non-Exchange Transactions

In relation to their joint short-term project to develop a common Accounting Standard (which in Australia would replace AASB 1004 *Contributions*) based on IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, the Boards:

- (a) received a staff presentation on developments in the IASB-FASB project on revenue recognition. The Boards considered the potential implications of those developments for the treatment of revenue from exchange transactions as compared with the treatment of revenue from non-exchange transactions in IPSAS 23. The Boards reaffirmed their decision to develop an ED on revenue from non-exchange transactions that is based closely on IPSAS 23; and
- (b) discussed practical examples of how ‘advance receipts’ would be identified and treated under IPSAS 23. The Boards generally supported IPSAS 23 on this issue, and requested that the project team develop draft guidance to clarify when a transfer arrangement becomes binding. This would extend the circumstances under which liabilities would be recognised for non-exchange transactions in comparison with AASB 1004.

The Boards will also consider whether any other amendments to IPSAS 23 should be proposed in the ED, and, if so, what those proposed amendments should be. The Boards will consider whether to expand the scope of the project to address the accounting by transferors under non-exchange transactions.

## IPSASB Report

The Boards received a report from Mike Hathorn, IPSASB Chairman, on the IPSASB's work program and current activities. The Boards were informed that the IPSASB has established a liaison committee with the IASB with a view to enhancing relationships such as cooperation on approaches to issues and the need for interaction in respect of their conceptual framework projects. The Boards also noted the importance that the IPSASB places on developing and maintaining strong working relationships with national standard-setters and the input from both the AASB and the FRSB. Mr Hathorn also reported on the IPSASB's experience in applying its *Guidelines for Modifying IASB Documents*.

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## IASB Update

Warren McGregor, IASB member, provided an update on the current activities of the IASB. The Boards noted the progress of the US proposals relating to the adoption of IFRSs, current European developments, and current developments on the IASB's work program, particularly the acceleration of the projects relating to the IASB/FASB MoU. The Boards also noted the IASB's response to the credit crisis, including its impact on IASB projects on consolidations and special purpose entities and the establishment of an expert advisory group on the valuation of financial instruments in an illiquid market.

Mr McGregor also informed the Boards of interest from some Asian standard-setters about creating an Asia-Pacific standard-setters group to discuss accounting issues of interest and to more efficiently and effectively engage with and contribute to the IASB.

## IASB Standards Advisory Council (SAC) Report

Judith Downes, SAC member, provided an update on its activities and relationship with the IASB and explained the forthcoming changes in the composition of the SAC. The Boards noted that the IASB Foundation Trustees have indicated their intention to appoint members as representatives of organisations and not in a personal capacity.

## Business Combinations – Not-for-Profit Entities

The Boards discussed combinations among not-for-profit (NFP/PBE) entities in the private and public sectors in the context of applying the requirements of revised AASB 3 *Business Combinations* and revised NZ IFRS 3 *Business Combinations*.

The AASB tentatively decided that, in principle, there is no conceptual basis for accounting for restructures of local governments differently from other, analogous, types of business combinations. However, the AASB noted that the accounting for business combinations may differ depending on whether entities, such as local governments, are commonly controlled entities. Therefore, the AASB decided that the issue needs to be addressed in the context of further work on the 'control in the public sector' project, which should include consideration of whether local governments within a jurisdiction are subject to common control.

In the meantime, the AASB decided to maintain the status quo in respect of accounting for restructures of local governments by incorporating the requirements originally transferred from AAS 27 *Financial Reporting by Local Governments* to superseded AASB 3 (as amended in December 2007 as a result of AASB 2007-9) into revised AASB 3 (March 2008, as amended), subject to a review of:

- (a) the wording of the requirements, to ensure that they integrate appropriately into revised AASB 3; and
- (b) the definition of 'business' in the context of NFP/PBE entity combinations – taking into consideration the changes made to revised NZ IFRS 3 (March 2008) and the reasons for those changes.

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The AASB noted that its approach is pragmatic and a consequence of the past requirements in AASB 27, which were not adopted in NZ, and, therefore, it is expected that a difference between AASB and FRSB requirements will continue to exist in the medium term.

The Boards agreed that no exemption should be made to the requirements of revised AASB 3 or revised NZ IFRS 3 for accounting for any other types of combinations among NFP/PBE entities in either the private or public sectors in the absence of a conceptual basis to justify a departure from those requirements.

## **Emission Trading Schemes**

The Boards received an update on emission trading schemes in both Australia and NZ and the status of the IASB's emission trading schemes project. The Boards noted that the Australian scheme is proposed to commence in 2010. The Boards noted that, while the Australian and NZ schemes are similar, there are likely to be differences between the two schemes in the pricing and trading mechanisms of carbon allowance permits. However, these differences are unlikely to result in differing accounting implications. The Boards noted that the ideal situation would be for the IASB to have progressed its project so that no separate action was required by either of the Boards. The Boards directed staff to develop a paper that outlines possible processes the Boards could follow should the IASB project not progress in a timely manner. The Boards also directed staff to consider the accounting implications from the government's perspective.

## **Financial Statement Presentation – Phase B**

Mr McGregor made a presentation to the Boards on the status of the IASB's project. The Boards noted the progress that the IASB has made on the project and the objectives and scope of the project. The Boards also noted the technical issues that have been considered by the IASB to date and that the IASB expects to issue a Discussion Paper/Preliminary Views document in this quarter.

## **Differential Reporting/SMEs**

AASB and FRSB staff outlined the respective positions in each jurisdiction, including summaries of decisions taken to date.

## **Topics dealt with by the AASB in its separate meeting**

### **Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate**

Following its June meeting the Board approved amending Standard AASB 2008-7 *Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* out of session. The requirements of AASB 2008-7 are applicable from 1 January 2009, with early adoption permitted. Members noted that if an entity applies the changes to AASB 127 *Consolidated and Separate Financial Statements* for an earlier period, it would need to disclose that fact and, in that period, apply the related amendments to AASB 118 *Revenue*, AASB 121 *The Effects of Changes in Foreign Exchange Rates* and AASB 136 *Impairment of Assets*.

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These requirements are contained in AASB 2008-7.

## Interpretations

Members noted that the IASB has issued IFRIC Interpretations IFRIC 15 *Agreements for the Construction of Real Estate* and IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* and agreed to consider their adoption in Australia at the August meeting.

## Concise Financial Reports

Members noted that there is a need to amend the segment disclosure requirements in AASB 1039 *Concise Financial Reports* to achieve consistency with AASB 8 *Operating Segments*, which applies for annual reporting periods beginning on or after 1 January 2009. Members agreed that the changes of terminology in AASB 101 *Presentation of Financial Statements* should also be included in AASB 1039.

## Related Party Disclosures in the Public Sector

Members considered a plan for a project on related party disclosures by not-for-profit public sector entities. They agreed with the project plan in principle and that further research on existing requirements and practices in Australian jurisdictions and in other countries should be undertaken. As part of the project, the requirements of AASB 124 *Related Party Disclosures* and IPSAS 20 *Related Party Disclosures* would be considered as points of reference.

## Minutes

The Board approved the minutes of the meeting held on 25-26 June 2008. These are now published on the website.

## Next Meeting on 27 August 2008

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

- Superannuation Plans and ADFs
- Concise Financial Reports
- Interpretations
- IASB Annual Improvements Project (2008)

## 2008 Meeting Dates

Remaining 2008 meeting dates are:

- 27 August
- 24-25 September
- 12-13 November
- 17-18 December

Meetings are held in Melbourne.

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