



Issue: Number 120
Date: 14 November 2008
Subject: AASB Meeting 93, 12-13 November 2008

Board Membership

The Board welcomed the appointment of Bruce Porter as Acting Chairman on a part-time basis pending the appointment of a full-time Chairman to the Board.

FRC Public Sector Workshop

The Board received a report from Robert Williams (Board member) and AASB staff who attended the Financial Reporting Council's Public Sector Workshop in Canberra on 5 November 2008.

NSS discussion of IASB

The Board received a report from AASB staff about a teleconference among National Standard Setters on 7 November 2008 about issuing a communiqué supporting the IASB and its efforts to achieve global financial reporting standards, and continuing to have governance arrangements that ensure the IASB is an independent standard setter with appropriate arrangements for consultation with its stakeholders.

Business Combinations (Not-for-Profit Entities)

The Board made AASB 2008-11 *Amendments to Australian Accounting Standard – Business Combinations Among Not-for-Profit Entities* [AASB 3] which applies to annual reporting periods beginning on or after 1 July 2009 with early adoption permitted for annual reporting periods beginning on or after 30 June 2007 but before 1 July 2009. AASB 2008-11 will be posted on the AASB website shortly.

AASB 2008-11 confirms that the revised AASB 3 *Business Combinations*, which is applicable from 1 July 2009, must be applied by not-for-profit entities, other than where there is common control. However, it requires restructures of local governments to be accounted for in a manner consistent with the superseded AAS 27 *Financial Reporting by Local Governments*. The requirements relating to restructures of local governments will be reviewed in due course in the light of the outcome of the Board's project on control in the public sector.

Assets Backing Insurance Liabilities

The Board agreed to develop an ED proposing to amend Australian specific application paragraphs of AASB 139 *Financial Instruments: Recognition and Measurement* to not permit the amendments relating to

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reclassification of financial assets in AASB 2008-10 *Amendments to Australian Accounting Standards – Reclassification of Financial Assets* being used by entities applying AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts* in respect of assets backing insurance liabilities and investment contract liabilities. The Board will consider a draft ED at its next meeting.

Superannuation Plans and Approved Deposit Funds

The Board considered a revised version of the draft ED and agreed to:

- (a) propose that obligations for defined contribution members' vested benefits (rather than their accrued benefits) be recognised as liabilities of a superannuation plan or approved deposit fund;
- (b) propose that non-controlling interests in a subsidiary be measured by a parent superannuation plan or parent approved deposit fund in a manner consistent with the requirements in AASB 127 *Consolidated and Separate Financial Statements*;
- (c) include examples in an appendix to the ED illustrating aspects of the measurement of a superannuation plan's obligation for defined benefit members' accrued benefits;
- (d) not require contributions surcharge amounts to be disclosed;
- (e) propose that a superannuation plan or approved deposit fund that comprises two or more 'sub-plans' disclose, among other things, the type and nature of the assets attributable to each sub-plan, the total fair value less transaction costs of the assets attributable to each sub-plan, and the financial risks to which each sub-plan is exposed; and
- (f) include example financial statements in an appendix to the ED.

The Board will consider a revised draft ED at its next meeting.

Interpretations – Australian Superannuation Contributions Tax

The Board discussed draft Proposed Interpretation 10XX *Australian Superannuation Contributions Tax*. The Board agreed that an employer sponsor of a defined benefit superannuation plan should include future tax on future contributions in the cash flows used to determine the present value of the defined benefit obligation when measuring the defined benefit liability as required by paragraph 54 of AASB 119 *Employee Benefits*.

Consistent with AASB Interpretation 14 *AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (paragraph 9), the Board noted the view that an employer sponsor should measure a defined benefit asset (surplus) assuming the maximum economic benefit that is available from refunds, reductions in future contributions or a combination of both. The Board noted that this approach would mean that a defined benefit asset would be measured as if the employer sponsor would use the surplus as a 'contributions holiday' to the extent feasible, in which case future tax on future contributions

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would be included in the cash flows. To the extent the employer sponsor could only receive the benefit of the asset as a refund from the plan, tax would not be included in the cash flows used to determine the present value of the defined benefit asset.

The Board agreed it would make a decision about defined benefit assets after considering worked examples to illustrate the effect of including future tax in the cash flows when a defined benefit asset exists.

The Board expects to consider a revised draft Proposed Interpretation at its next meeting.

Income from Non-Exchange Transactions

The Board is carrying out a short-term project jointly with the NZ FRSB to develop a common Standard based on IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

The Board discussed drafting issues concerning an ED and preferred that the ED use definitions and terminology consistent with Australian Accounting Standards, with a table of concordance to allow comparison with IPSAS 23 instead of presenting Australian paragraphs as additions to the IPSAS text.

The Board discussed the approach to accounting for advance receipts in IPSAS 23 and draft additional guidance in the draft ED on when a transfer arrangement becomes binding. The Board generally supported the view that revenue should be recognised by a transferee when grant monies are received in advance of the period for which they are intended to be used, unless there are performance obligations that could only be satisfied during that period. In other words, the specification of a time basis for grants is not sufficient for the deferral of revenue and the recognition of a liability instead.

The Board will consider these issues further at its next meeting.

Differential Reporting

The Board redeliberated the proposal in ITC 12 *Request for Comment on a Proposed Revised Differential Reporting Regime for Australia and IASB Exposure Draft of A Proposed IFRS for Small and Medium-sized Entities* that:

“... notwithstanding a company being exempt from lodging under the Corporations Act, if it is required under that Act to prepare a financial report in accordance with Australian Accounting Standards, its financial report is regarded as a general purpose financial report.”

The Board tentatively decided that while Accounting Standards apply to general purpose financial statements (GPFs), not all financial statements prepared in accordance with Accounting Standards under the Corporations Act, other legislation, or otherwise are GPFs. The Board agreed that the existence of dependent users is the key to determining the general purpose nature of financial statements and not the mere preparation in accordance with Accounting Standards.

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The Board also tentatively agreed that 'preparation in accordance with Accounting Standards' means the application of all Accounting Standards and not a subset of those Standards. The Board also noted that the term 'Accounting Standards' can mean the full suite of AASB standards, a future IFRS for Private Entities (formerly 'IFRS for SMEs') as adopted in Australia or any other suite of reporting requirements that might be promulgated by the AASB for the preparation of GPFs.

Related Party Disclosures by Not-for-Profit Public Sector Entities

The Board considered an issues paper *Users and Preparers of Related Party Information in the Not-For-Profit Public Sector* and agreed to explore further the types of related party disclosure requirements that might be developed for Australian not-for-profit public sector entities.

The Board decided to develop an issues paper containing preliminary suggestions for such requirements, based on an analysis of the requirements in AASB 124 *Related Party Disclosures* and IPSAS 20 *Related Party Disclosures*. The paper will be structured to deal with key management personnel (KMP) disclosure issues separately from other related party disclosure issues (including those in respect of common control relationships). The KMP section will consider remuneration disclosure issues separately from non-remuneration disclosure issues (e.g. conflict of interest).

The paper will provide a useful basis for consultation with constituents early in the project, particularly in discussing with users of financial reports the types of related party information they need for decision-making purposes.

The Board expects to consider the issues paper at its February 2009 meeting.

Borrowing Costs (IPSASB)

The Board received a briefing on the IPSASB's ED 35 *IPSAS 5 Borrowing Costs*. The Board also received an update on the application of IAS 23 *Borrowing Costs* in the New Zealand public sector. The Board agreed that its comments on the IPSASB's ED 35 should note that it would prefer the IPSASB to either better justify its proposed departures from IAS 23 in the context of its process for reviewing and modifying IFRSs or to develop an approach based on conceptual grounds.

The Board will consider a draft submission to the IPSASB at its next meeting.

Improvements to Australian Accounting Standards

The Board considered submissions on ED 165 *Improvements to Australian Accounting Standards*, which incorporates the IASB ED *Improvements to IFRSs*, and agreed to finalise its submission to the IASB out of session. The Board's submission will be placed on the website shortly.

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Presentation of Financial Statements

The Board decided to request constituents' comments on the IASB/FASB Discussion Paper *Preliminary Views on Financial Statement Presentation* by 24 March 2009, and agreed to hold roundtables in Canberra, Sydney and Melbourne in early March 2009.

Conceptual Framework (IPSASB)

The Board discussed an IPSASB Conceptual Framework Consultation Paper on the objectives and scope of financial reporting, the qualitative characteristics of financial information and the concept of a reporting entity, and gave directions to the staff for preparing a draft submission to the IPSASB. Comments on the Consultation Paper (which has been placed on the AASB website) are due to the IPSASB by 31 March 2009. The Board has requested that Australian constituents comment on the Consultation Paper by 13 February 2009 to assist it in formulating its own response to the IPSASB.

The Board has yet to decide how it will use the IPSASB Conceptual Framework for not-for-profit entities. The Board has a policy of transaction neutrality and currently adopts the existing IASB *Framework* without amendment in respect of for-profit entities, and with limited modifications in respect of not-for-profit entities.

The IASB is developing a Conceptual Framework with the FASB, which will result in a revised IASB *Framework*. It plans to reissue the IASB *Framework* in stages as those stages of the Conceptual Framework project are completed. The AASB intends to adopt each stage in respect of for-profit entities.

The IASB has decided to consider the applicability to private sector not-for-profit entities of the various amendments it makes to the IASB *Framework* at a later phase of its project. The Board's current intention is that, if the IASB makes substantial amendments to a part of its *Framework* before it considers the applicability of the revised concepts to not-for-profit entities, Australian not-for-profit entities would continue to apply the existing *Framework* as an interim measure.

The Board has encouraged the IASB and IPSASB to work together on not-for-profit entity issues so that their Frameworks are as consistent as possible. If differences occur between those Boards' Frameworks, the Board has yet to decide the basis for determining the text of its revised *Framework* that is applicable to not-for-profit entities. Therefore, the extent to which the IPSASB *Framework* would influence that text is undecided.

The Board will continue to monitor, and contribute to, the development of the revised IASB *Framework* and the IPSASB *Framework*.

IPSASB Report

The Board received a report on the IPSASB meeting held in October 2008. Topics considered by the IPSASB included conceptual framework (the phase on the elements of financial statements); social benefits

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and long-term fiscal sustainability; service concession arrangements; reporting information about service performance; its process for reviewing and modifying IASB documents; the definition of government business enterprises; and IFRS convergence projects on financial instruments, intangible assets and agriculture.

Modifying IFRSs for Not-for-Profit Entities

The Board received an update on New Zealand developments in respect of preparing guidelines on modifying IFRSs for application to not-for-profit entities. The Board will consider a draft document that reflects the most recent New Zealand thinking at its next meeting.

Policy Statements

The Board considered the status of Policy Statements (PS 1 *The Development of Statements of Accounting Concepts and Accounting Standards*, PS 2 *The AASB Consultative Group*, PS 3 *AASB Project Advisory Panels* and PS 4 *International Convergence and Harmonisation Policy*), agreed to withdraw them immediately and to develop a separate document setting out its key policies and strategies.

Minutes

The Board approved the minutes of Meeting 92 held on 10 October 2008. These are now available on the website.

Next Meeting on 17-18 December 2008

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

- Differential Reporting
- Superannuation Plans and Approved Deposit Funds
- Interpretations (including Australian Superannuation Contributions Tax)
- Income from Non-Exchange Transactions
- GAAP/GFS Harmonisation for Entities within the GGS
- Borrowing Costs (IPSASB ED)
- Revenue Recognition (AASB Preface to IASB/FASB Discussion Paper)
- Earnings per Share (ED 166)
- Discontinued Operations (ED 167)
- First-time Adoption of IFRSs (ED 168)
- Financial Instruments (ED 169 & reclassification effective date)

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2008 Meeting Dates

The Board will hold its final meeting for 2008 on 17-18 December 2008 in Melbourne.

2009 Meeting Dates

Meeting dates for 2009 are:

- 5 February
- 4-5 March
- 22 April
- 20-21 May
- 24-25 June
- 29-30 July
- 23-24 September
- 28-29 October
- 9-10 December

Unless indicated otherwise, meetings are expected to be held in Melbourne.

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