



**Issue:** Number 128  
**Date:** 25 September 2009  
**Subject:** AASB Meeting 101, 23-24 September 2009

## Board Membership

The Chairman announced that members Ian McPhee and Bruce Porter have kindly agreed to be Deputy Chairs of the AASB.

## Differential Reporting

The Board agreed with a draft consultative paper prepared by the AASB staff, intended to form part of a joint AASB, Commonwealth Treasury and FRC paper, proposing a second tier of reporting requirements for general purpose financial statements of certain entities in both the private and public sectors.

The proposed regime would involve significantly reduced disclosures compared with full IFRS, whilst retaining the full IFRS recognition and measurement requirements. The minimum disclosures under this reduced-disclosure regime would be determined by applying principles similar to those used by the IASB in determining disclosures under the IFRS for SMEs.

In the for-profit private sector, entities that are not publicly accountable as defined by the IFRS for SMEs (supplemented by examples of publically accountable entities in the Australian context) would be permitted to apply the reduced-disclosure regime. The reduced-disclosure regime (suitably modified) would also be available as a choice for entities in the not-for-profit private sector and for certain entities in the public sector.

The Board's intention is to capture quickly many of the benefits of the IASB's IFRS for SMEs. Whether that standard would be adopted fully in Australia would depend on how widely it is adopted in other jurisdictions and how future changes in the standard would help satisfy Australian financial reporting needs.

The joint consultative paper is expected to be published for public comment before the end of the year with the hope that disclosure requirements can be reduced for June 2010 year ends if possible. The Treasury is working on other aspects of the Corporations Law with a view to proposing other ways of reducing costs.

## Rate-regulated Activities

The Board received an education session on the IASB's ED/2009/8 *Rate-regulated Activities* with staff providing an overview of the proposals and the preliminary comments received through constituent liaison. The Board noted the issues concerning the scope of the proposals and the reasoning behind the proposals to recognise regulatory assets and liabilities in particular circumstances. It is intended that a draft submission be considered at the joint AASB/FRSB (NZ) meeting in October 2009, at which the Board will consider constituent comment letters on AASB ED 185 *Rate-regulated Activities*.

## Insurance Contracts

The Board considered a staff paper comparing the liability measurement approaches considered by the IASB in its Insurance Contracts project with the liability measurement approaches under AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. The Board noted that the IASB's forthcoming ED on insurance contracts is likely to:

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- propose an approach based on an updated IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as the principal measurement approach for all types of insurance contracts; and
- include a discussion on an alternative current fulfilment value approach that includes a composite margin.

In light of the IASB's intention to publish an ED on insurance contracts by December 2009, the Board decided not to provide input to the IASB on selected insurance issues at this stage. However, it intends to actively promote discussion of the ED and to make comment thereon.

The Board decided that insurance contracts should be included on the agenda for the joint meeting with the FRSB in October 2009.

## Fair Value Measurement

The Board approved its submission on the IASB's ED/2009/5 *Fair Value Measurement*, subject to incorporating changes agreed at the meeting. In considering the draft submission, the Board had regard to the submissions received to date from Australian constituents. The Board decided to indicate that its support for defining fair value as an exit price is provided only in the context of the ED's objective (i.e. to provide guidance on how to measure fair value, not to identify when to use fair value) and in the light of other decisions made by the IASB in individual projects and standards. The Board will consider its views on the appropriate measurement attribute for financial reporting when the IASB issues a proposed Measurement Chapter of its Conceptual Framework.

## Financial Instruments

The Board noted its submissions to the IASB since the AASB meeting in July 2009, the expected completion dates of the various financial instruments projects and received an update on the financial instrument activities of the IASB since July 2009. The AASB noted that, at the September 2009 IASB meeting, the main focus of the agenda items on financial instruments was to consider responses received on the various exposure drafts and discussion papers, and to direct IASB staff on how to progress the various projects being:

- financial instrument classification and measurement;
- impairment of financial assets;
- hedging;
- derecognition;
- credit risk in liability measurement; and
- classification of rights issued in foreign currency.

The IASB proposes to hold additional meetings to help ensure it meets its timeline for the three phases of its project to replace IAS 39. The AASB will continue to monitor the meetings and decisions made by the IASB and is intending to match the IASB's timetable for publishing exposure drafts and final standards.

## Discount Rate for Employee Benefits

The Board considered a draft submission on the IASB's ED/2009/10 *Discount Rate for Employee Benefits* together with a collation of constituents' written submissions in response to AASB ED 187 *Discount Rate for Employee Benefits*. The Board also considered a staff paper on whether to delete or amend paragraph Aus78.1 of AASB 119 *Employee Benefits* (which applies to not-for-profit public sector entities) in light of the proposals in ED/2009/10.

The Board decided that its submission to the IASB should express disagreement with the proposal to eliminate the requirement to use market yields on government bonds to determine the discount rate for employee benefit obligations. This is because there is no clear rationale for requiring the discount rate to be

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determined by reference to market yields on high quality corporate bonds, and consistency in using only one type of discount rate is not of itself a sufficient justification for the proposal. The Board was also concerned that the proposed change by the IASB would, after only a limited exposure process, have a profound effect on Australian reporting, which might need to be reversed at some point when the IASB more fully reconsiders IAS 19 *Employee Benefits*.

The Board agreed to suggest that the IASB progress a specific project on discount rates that could be applied in the context of all IASB Standards that require discounting.

The Board decided to defer any decision on whether to delete or amend paragraph Aus78.1 of AASB 119 *Employee Benefits*.

## **AASB 2009-9 Amendments to Australian Accounting Standards – Additional Exemptions for First-time Adopters**

The Board made AASB 2009-9 *Amendments to Australian Accounting Standards – Additional Exemptions for First-time Adopters*. The Standard makes amendments to AASB 1 *First-time Adoption of Australian Accounting Standards* in relation to the initial measurement of oil and gas assets and the determination of whether an arrangement contains a lease.

AASB 2009-9 is applicable to annual reporting periods beginning on or after 1 January 2010. The Standard will be available on the website shortly.

## **Superannuation Roundtables**

The Board received a report on the main issues discussed with constituents at its roundtable discussions held in August 2009 on the proposals in ED 179 *Superannuation Plans and Approved Deposit Funds*, including:

- the preparation and presentation of consolidated financial statements;
- insurance contracts;
- defined benefit obligations;
- presentation of financial statements; and
- disclosure of segregated information.

The Board noted that submissions on ED 179 are due by 30 September 2009.

## **Policy for modifying IFRSs for Not-for-profit Entities**

The Board agreed on the *Process for Modifying IFRSs for PBE/NFP*, which is a joint document with the FRSB, subject to final agreement being achieved with the FRSB. The *Process* document aims to provide the two Boards with a common basis for assessing whether there is a need to modify an IFRS for application by not-for-profit entities.

## **Not-for-profit Entity Definition**

The Board considered clarifying the current definition and issuing guidance on the classification of not-for-profit entities. After deliberation, the Board decided not to change the current definition or issue guidance, as they had noted no significant divergence in practice in the application of the current definition.

## **Disclosure for Private Sector Not-for-profit Entities Project**

The Board considered a range of threshold issues pertinent to service performance reporting by private sector not-for-profit entities, which is part 1 of phase 1 of the project, for the purpose of identifying working assumptions upon which to develop the project.

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The Board tentatively decided that work should proceed on the assumption that service performance reports might comprise both financial and non-financial information of a quantitative or qualitative nature, and might include disaggregated/program financial information that is pertinent to an assessment of an entity's service performance.

The Board will consider further whether information about service performance falls within the scope of general purpose financial statements. Irrespective of the outcome of that consideration, the Board decided that it has an interest in the form and content of service performance reports. In that regard, the Board adopted a working assumption that it will develop at least some mandatory requirements, expected to be in the nature of high-level principles. The Board acknowledged the challenges it might face in developing such principles. One principle to be considered is a 'through the eyes of management' approach (whereby the performance indicators reported are those used by the entity's management to monitor the entity's performance) as a means of identifying appropriate indicators of an entity's service efficiency, effectiveness and quality. The focus will be on providing information that can be used by users as input to their analysis, rather than providing an analysis. However, this should not preclude analysed information that an entity's management might regard as pertinent to reporting service performance from being included in a service performance report.

The Board will also further consider whether, and if so what, constraining principles should be placed on the information the AASB might decide should be included in service performance reports. This will include consideration of at least the following possible constraints:

- (a) information that explains amounts recognised in the financial statements; and
- (b) information that is directly related to the principal, not-for-profit, objective of the entity.

The Board also considered the range of entities that might be affected by this project and decided to:

- (a) formally consider the project in the light of its *Process for Modifying IFRSs for PBE/NFP*, before determining whether the project should have implications for for-profit entities. In the meantime, the focus will continue to be on not-for-profit entities; and
- (b) reconsider whether the project should have implications for public sector entities after it has discussed the project with the FRSB. The AASB noted that the FRSB's project on service performance reporting has a scope of both private and public sector not-for-profit entities. The extent to which the respective projects might be progressed jointly will be discussed at the joint AASB/FRSB meeting in October 2009.

## GAAP/GFS Harmonisation for entities within the GGS

Mr Tim Youngberry, Acting General Manager – Financial Management Group, from the Department of Finance and Deregulation of the Australian Government, outlined to the Board the Department's view of the benefits that users of the general purpose financial statements of entities within the GGS might derive if the Board were to issue GAAP/GFS harmonisation requirements based on the proposals in Exposure Draft ED 174 *Amendments to Australian Accounting Standards to facilitate GAAP/GFS Harmonisation for Entities within the GGS [AASBs 101, 107 and 1052]*. The Board will consider the matters raised during the discussion, together with earlier comments made by other constituents in response to ED 174, at its October 2009 meeting with a view to determining the Board's next step in relation to the project.

Mr Youngberry also indicated that his Minister had written to the Chairman of the AASB on the matter, but this letter had not yet been received by the Chairman. It will be circulated to members.

## IPSASB Report

The Board received a report on the IPSASB's September 2009 meeting, at which the IPSASB discussed:

- (a) the responses received on its EDs concerning financial instruments, entity combinations from exchange transactions, intangible assets and agriculture; and

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- (b) its projects on the conceptual framework (measurement), long-term fiscal sustainability, and service concession arrangements.

An update on the IPSASB's activities will be included in the next edition of *Transparency*, the AASB's e-newsletter.

## Interpretations

The Board reviewed the Interpretation issues in progress and noted that the Draft Interpretation D25 *Extinguishing Financial Liabilities with Equity Instruments* was issued by the IFRIC in August 2009. The Board considered the proposals in Draft Interpretation D25 and decided that its submission to the IFRIC should support these proposals subject to clarification of the scope.

The Board also noted a response from IASB staff to a joint letter from the Chairs of the AASB and FRSB requesting that the IASB clarify whether the definition of key management personnel in IAS 24 *Related Party Disclosures* includes entities as well as individuals. The response suggests that the AASB and the FRSB refer the matter to the IFRIC for clarification. The Board decided that even though the issue had previously been referred to and rejected by the IFRIC, staff should develop a further issues paper.

## IASB Update

Warren McGregor, IASB Board member, gave an update on the activities of the IASB including the following:

- the revisions to IAS 39 *Financial Instruments: Recognition and Measurement* are progressing rapidly;
- an ED on financial asset impairment is planned for issue by the end of 2009;
- preliminary discussions have been conducted on simplifying hedge accounting;
- the Memorandum of Understanding between the IASB and FASB is proceeding as planned;
- liability measurement is likely to be a significant issue, particularly in the context of revenue recognition, insurance, provisions, employee benefits and fair value measurement; and
- the IASB still expects to issue an ED on emissions trading in early 2010 with a view to finalising a standard by 2011.

## Update from National Standard Setters and World Standard Setters

The Chairman and FRSB Chair outlined the key topics considered at the September 2009 National Standard Setters (NSS) and World Standard Setters meetings, which included recent developments on financial instruments and the extent to which various jurisdictions are likely to use the IFRS for SMEs. The Board noted that AASB staff presented at the NSS meeting on the comments received in response to the Discussion Paper *Initial Accounting for Internally Generated Intangible Assets*. It was further noted that the NSS agreed AASB staff would prepare a project plan for a post-implementation review of IFRS 3 *Business Combinations* in relation to the recognition and measurement of acquired intangible assets, for consideration at the next NSS meeting in April 2010.

## Emerging Issues

The Board discussed how staff should proceed with regard to obtaining constituent feedback on the working draft of a Discussion Paper on Extractive Activities prepared by the research project team in August 2009. It was agreed that any feedback received on the draft paper would be forwarded to the research project team with a view that significant comments/concerns could be incorporated into the final drafting of the Discussion Paper prior to its issuance by the IASB in early 2010. The AASB will consider conducting AASB Roundtable discussions when the Discussion Paper is formally issued for comment.

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## Policy on Informal or Confidential Submissions

The Board agreed on a policy in relation to informal or confidential submissions subject to a final out of session review process. The policy is aimed at helping to ensure a transparent due process and will initially be published with the September 2009 minutes. It is likely to form part of the Board's forthcoming revised Policy Statement on its policies and processes.

## Minutes

The Board approved the minutes of Meeting 100, held on 29-30 July 2009. These are now available on the website.

## Documents Open for Comment

The following documents are open for comment – once finalised, all submissions to the IASB, IFRIC or IPSASB are available on the AASB website.

Originating Organisation	Topic	AASB No	AASB Due Date	IASB/IFRIC /IPSASB Due Date
IASB	Fair Value Measurement	ED 181	Closed	28 Sep 2009
IPSASB	Improvements to IPSASs	N/A	N/A	30 Sep 2009
IASB	Discount rate for Employee Benefits	ED 187	Closed	30 Sep 2009
AASB	Superannuation Plans and Approved Deposit Funds	ED 179	30 Sep 2009	N/A
IFRIC	Extinguishing Financial Liabilities with Equity Instruments	N/A	Closed	5 Oct 2009
IASB	Rate-regulated Activities	ED 185	9 Oct 2009	20 Nov 2009
IASB	Improvements to IFRS	ED 188	30 Oct 2009	24 Nov 2009
AASB	Income from Non-exchange Transactions	ED 180	30 Nov 2009	N/A
IASB	Management Commentary	ED 183	31 Dec 2009	1 Mar 2010
IASCF	Proposals for Enhanced Public Accountability	N/A	N/A	30 Nov 2009

## Next Meeting on 28-29 October 2009

The AASB and New Zealand FRSB are expected to jointly deal with the following items:

- Differential Reporting
- Financial Instruments
- New Zealand/Australia Convergence
- IPSASB Report
- Rate-regulated Activities
- Conceptual Framework – Measurement
- Service Performance Reporting by Not-for-profit Entities
- Insurance Contracts
- AASB/FRSB Joint Work Program

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The AASB is expected to deal with:

- GAAP/GFS Harmonisation
- Annual Improvements
- IASCF *Proposals for Enhanced Public Accountability*

## 2009/2010 Meeting Dates

Remaining meeting dates for 2009 are:

- 28-29 October (joint meeting with FRSB)
- 9-10 December

Meeting dates for 2010 are:

- 3-4 February
  - 17-18 March
  - 28-29 April
  - 9-10 June
  - 28-29 July
  - 15-16 September
  - 27-28 October
  - 8-9 December
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