

MINUTES
AUSTRALIAN ACCOUNTING STANDARDS BOARD

Minutes of the eighty-ninth meeting of the Australian Accounting Standards Board (AASB), which was held jointly with the Financial Reporting Standards Board (New Zealand) at PricewaterhouseCoopers' offices, Level 22, 188 Quay Street, Auckland, New Zealand from 9:15 a.m. until 5:30 p.m. on Wednesday, 30 July 2008 and from 8:30 a.m. until 1:00 p.m. on Thursday, 31 July 2008. The AASB met separately from 1:30 p.m. until 2:40 p.m. on Thursday, 31 July 2008. All agenda items except Agenda items 5 and 6 (AASB only) were discussed in public.

ATTENDANCE

Members present

AASB

Bruce Porter (Acting Chairman)
Glenn Appleyard
Sue Highland
Mark Jenkin
Jan McCahey
John O'Grady
Frank Palmer
Kris Peach
Joanna Perry (AASB-only Day 2 from
1:30 p.m. to 1:45 p.m.)
Robert Williams

FRSB

Joanna Perry (Chairman)
Denise Hodgkins (Deputy Chairman)
Christine Burns
Mike Bradbury
Marcus Henry
Matt Pritchard
Richard Smyth
Steve Todd
Ken Warren

Apologies

David Boymal (Chairman)
Colin Parker
Brett Rix

Todd Beardsworth
Colin Notley

Observers

Peter Batten (IPSASB Member)

Greg Schollum (IPSASB Member)

In attendance

Judith Downes (SAC member) (Day 2, pm)
Mike Hathorn, IPSASB Chairman
Warren McGregor (IASB Member) (Day 2)

Terry McLaughlin, CEO, NZICA
(Day 1, afternoon)
Kevin Simpkins (Agenda item B1)

Staff present

AASB

Clark Anstis (in part)
Natalie Batsakis (in part)
Geoff Harris
Robert Keys
Jim Paul
Sabine Schühler (in part)
Joanne Spencer (in part)
Angus Thomson

FRSB

Bruce Bennett
Clive Brodie (in part)
Kimberley Crook
Annette Davis (in part)
Patricia McBride
Joanne Scott (in part)
Vanessa Sealy-Fisher
Joanna Yeoh (in part)

JOINT MEETING

CONCEPTUAL FRAMEWORKS

Agenda item B1

The Boards had before them:

- (a) a memorandum from Kimberley Crook entitled *IASB Conceptual Framework Project – Phases A and D*, dated 14 July 2008 (Agenda paper B1.1);
- (b) IASB Exposure Draft of *An improved Conceptual Framework for Financial Reporting: “Chapter 1: The Objective of Financial Reporting” and “Chapter 2: Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information”* (Agenda paper B1.2);
- (c) IASB Discussion Paper *Preliminary Views on an improved Conceptual Framework for Financial Reporting: “The Reporting Entity”* (Agenda paper B1.3);
- (d) a memorandum from Annette Davis and Jim Paul re IPSASB and IASB-FASB Conceptual Framework Projects, dated 21 July 2008 (Agenda paper B1.5);
- (e) *A Report on the Application to Not-for-profit Entities in the Private and Public Sectors of the IASB/FASB Conceptual Framework Project’s Exposure Draft of “An improved Conceptual Framework for Financial Reporting: Chapter 1: The Objective of Financial Reporting and Chapter 2: Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information” and Discussion Paper “Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Reporting Entity”* (July 2008) prepared by Chairs and Senior Staff of the Australian Accounting Standards Board, Canadian Accounting Standards Board, New Zealand Financial Reporting Standards Board and United Kingdom Accounting Standards Board (Agenda paper B1.6);
- (f) a memorandum from Kimberley Crook and Angus Thomson re IASB Conceptual Framework Project – PBE/NFP implications of Phases A and D, dated 22 July 2008 (Agenda paper B1.7).

The Boards received staff presentations on:

- (a) the IASB Exposure Draft and Discussion Paper (Agenda papers B1.2 and B1.3);
- (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 Discussion Paper to not-for-profit entities (having regard to the report of a monitoring group of standard setters on those potential implications, included as Agenda paper B1.6).

Board members 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 (see Attachment A to these minutes).

Action:

Staff

IPSASB REPORT

Agenda item B2

The Boards had before them:

- (a) an IPSASB Progress Report, dated 10 July 2008, prepared and presented by Mike Hathorn (Agenda paper B2.2); and
- (b) Proposed IPSASB Agenda Schedule 2008-2010 (Agenda paper B2.3).

Mr Hathorn, IPSASB Chairman, provided the Boards with an overview of the IPSASB's activities.

The Boards were informed that:

- (a) one of the strategic themes of the IPSASB's current work program is on a convergence program relating to the use of IASB Standards as the basis for IPSASs and that the IPSASB's 'rules of the road' (*Guidelines for Modifying IASB Documents*) is providing a useful starting point for staff in reviewing IFRSs prior to them being discussed by the Board;
- (b) a liaison committee has been established with the IASB with a view to enhancing relationships and cooperation between the Boards. This committee plans to discuss aspects of the Boards' respective conceptual framework projects. The first projects for discussion are the definition of a liability and the issues relating to Government Business Enterprises (GBEs). The Boards were informed that the committee noted the possibility of forming joint working parties/committees on issues relating to accounting for government grants and not-for-profit entities as a result of these liaison activities;
- (c) the IPSASB is holding discussions with the IMF in respect of GBEs and their inclusion in whole of government financial statements;
- (d) in progressing its work program the IPSASB is placing increasing importance on working in conjunction with national standard setters and is exploring the development of partnership arrangements in some circumstances;
- (e) the IPSASB plans to release a consultation paper on Phase 1 of its conceptual framework project in September 2008 and that the AASB has made a significant contribution to the development of that paper; and
- (f) the IPSASB valued the contributions of Mr Schollum, the New Zealand member, who will retire from the IPSASB later in 2008.

Members noted that they will discuss significant IPSASB projects on service concession arrangements and long-term fiscal sustainability as part of their joint agenda.

CRITERIA FOR MODIFYING IFRS REQUIREMENTS IN RESPECT OF NOT-FOR-PROFIT ENTITIES

Agenda item B3

The Boards had before them:

- (a) a memorandum from Angus Thomson and Kimberley Crook, dated 22 July 2008 (Agenda paper B3.1); and
- (b) the IPSASB's 'rules of the road' (Agenda paper B3.2).

The Boards noted that:

- (a) in October 2007, they agreed staff should jointly develop a paper on criteria that could be used as the basis for a joint policy for identifying when there is a not-for-profit reason for modifying IFRSs;
- (b) the New Zealand ASRB announced it would re-examine its own criteria in relation to the standards set by the FRSB, and FRSB staff have been working with the ASRB to progress this matter; and
- (c) the memorandum has been prepared using the high-level principle identified by the ASRB as a starting point – namely:

In most cases, the intended overall effect of modifying or introducing additional requirements for public benefit entities should be to reflect differences between the sectors, including differences in user information needs that warrant a different accounting requirement or additional guidance for public benefit entities. Occasionally, it may also be appropriate to modify an IFRS requirement or introduce additional requirements for other reasons, for example, because of regulatory requirements.

The Boards decided that:

- (a) the high level principle should be retained, but that the last six words “for example, because of regulatory requirements” should be deleted, and the FRSB would recommend this to the ASRB. The Boards noted the high level principle leaves the potential for changing an IFRS for other than not-for-profit specific reasons, and that they considered this would only rarely occur;
- (b) one of the criteria in the policy paper should be the ‘nature of transactions and events and their impact on not-for-profit entities’, which would incorporate the following issues identified in the memorandum – ‘non-exchange transactions’ and ‘non-cash generating activities’;
- (c) the following should continue to be identified as criteria in the policy paper:
 - (i) ‘costs and prevalence of transactions’; and
 - (ii) ‘benefits and prevalence of transactions’, which would incorporate the following issues identified in the memorandum – ‘nature of the benefits identified by the IASB’, ‘and ‘improvements in advance of IFRSs’;
- (d) the approach taken by the IPSASB, relevant national standard setters and Government Finance Statistics should not be identified as criteria, but as factors that the Boards would consider when determining any alternative not-for-profit treatments;
- (e) the meaning of ‘regulatory impediments’ should not be explained in the policy paper;
- (f) the criteria should not be ranked or subclassified, and it should be explained that all of the criteria would need to be considered collectively and assessed on a case-by-case basis;
- (g) the policy paper should note that it does not necessarily include all the factors that the Boards may consider in determining whether to modify and IFRS in respect of not-for-profit entities; and

- (h) the policy paper would be an evolving document that should be made publicly available once the Boards have agreed the content.

The Boards plan to consider a revised draft policy paper at their September 2008 meetings.

Action:

Staff

REVENUE RECOGNITION – EXCHANGE AND NON-EXCHANGE TRANSACTIONS Agenda item B4

The Boards had before them:

- (a) tabled copies of PowerPoint slides entitled *IASB-FASB Revenue Recognition Project: Status Report and Implications for Revenue for Non-Exchange Transactions*, to which the staff spoke in their presentation to the Boards on revenue recognition (Agenda paper B4.1);
- (b) a memorandum from Clive Brodie, dated 21 July 2008, re the IASB-FASB Revenue Recognition Project (Agenda paper B4.2);
- (c) a memorandum from Clark Anstis, Annette Davis and Jim Paul on Income from Non-Exchange Transactions, dated 22 July 2008 (Agenda paper B4.3);
- (d) a staff paper on Advance Receipts under IPSAS 23 (Agenda paper B4.3.1);
- (e) a staff note on the Treatment of the IPSAS 23 Examples in Agenda paper B4.3.1 under AASB 1004 *Contributions* (Agenda paper B4.3.2);
- (f) a staff note on the Treatment of the IPSAS 23 Examples in Agenda paper B4.3.1 under current New Zealand practice for public benefit entities (Agenda paper B4.3.3);
- (g) *IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers)* (Agenda paper B4.4); and
- (h) *AASB 1004 Contributions* (Agenda paper B4.5).

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 exposure draft 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 (which extends the circumstances under which liabilities would be recognised for non-exchange transactions in comparison with AASB 1004) and requested that the project team:
 - (i) develop draft guidance to clarify when a transfer arrangement becomes binding; and

- (ii) prepare a staff analysis of how multi-year grants would be accounted for under IPSAS 23, particularly how to identify when such grants become binding; and
- (c) decided, in regard to recent correspondence between Mr Boymal (AASB Chairman) and Mr Ian McPhee (Auditor-General for Australia) in respect of accounting by grantors (included as Agenda paper 6.2 of the AASB's separate meeting), to consider later whether to expand the scope of the project to address the accounting by transferors under non-exchange transactions. The Boards decided to continue their consideration of the accounting by transferees under non-exchange transactions without waiting to analyse transferor accounting.

The Boards will consider next whether any amendments to IPSAS 23 (other than adding guidance on binding arrangements) should be proposed in the exposure draft, and, if so, what those proposed amendments should be. The Boards indicated an intention to consider these issues by no later than November 2008.

Action:

Staff

LONG-TERM FISCAL SUSTAINABILITY

Agenda item B5

The Boards had before them:

- (a) PowerPoint Slides "Long-Term Fiscal Sustainability Reporting" (Agenda paper B5.1);
- (b) IPSASB Project Brief *Long-Term Fiscal Sustainability Reporting* (for noting) (Agenda paper B5.2); and
- (c) AASB submission to the IPSASB on the various IPSASB consultation documents relating to social benefits (for noting) (Agenda paper B5.3).

Mr Warren gave a presentation to the Boards, based on the PowerPoint Slides (Agenda paper B5.1). The presentation included a background to the project and the establishment of the IPSASB Task Force on Long-Term Fiscal Sustainability Reporting. The Boards noted that Mr Warren is a member of this task force. It also included identification of the range of issues that are expected to be addressed, in the first instance, in an IPSASB Consultation Paper planned to be published in the first half of 2009.

The Boards expressed support for the IPSASB undertaking the project and asked staff to keep the Boards informed of progress, given the relevance of the issues in both the Australian and New Zealand contexts.

Action:

Staff

IASB REPORT

Agenda item B6

The Boards had before them:

- (a) IASB work program as at 30 June 2008 (Agenda paper B6.2); and
- (b) IASB response to the credit crisis (Agenda paper B6.3).

Mr McGregor provided an update on the current activities of the IASB. The Boards noted the IASB work program as at 30 June 2008 and information on IASB's response to the credit crisis.

The Boards were informed of the:

- (a) progress of the US adoption of IFRSs;
- (b) current European developments;
- (c) current developments on the IASB's work program including the acceleration of the projects relating to the Memorandum of Understanding with the FASB and the current progress on the related parties and leases projects;
- (d) IASB's response to the credit crisis including establishing an expert advisory group on the valuation of financial instruments in an illiquid market and its implications for projects on consolidations and derecognition;
- (e) recent Asian national standard setters regional meeting in Singapore and that there is interest from some Asian standard setters about creating an Asia-Pacific group of standard setters to discuss accounting issues of mutual interest and to more efficiently and effectively engage with and contribute to the IASB; and
- (f) current linkages between IASB and IPSASB and the formation of a liaison committee.

The Boards also noted that the IASB is tentatively planning to hold roundtables on consolidations in London and Brussels in September 2008 during the IASB meeting week and roundtables on fair value measurements in London, Hong Kong and New York in the last quarter of 2008.

The Boards noted it would be helpful if the IASB were to hold the roundtables on consolidations at a location that is more convenient to constituents in Australia and New Zealand. The Boards noted that constituents in Australia and New Zealand have valuable experience in applying consolidations based on the concept of control. Mr McGregor encouraged the Boards to write to the IASB to request that roundtables be held in more convenient locations.

The Boards discussed the current IASCF constitution review and how to encourage linkages between IASB and IPSASB. The Boards noted that it may be useful to express their views to the IASCF Trustees on this issue.

Action:

Staff

IFRS 3 *BUSINESS COMBINATIONS* – NOT-FOR-PROFIT ENTITY (NFP) IMPLICATIONS Agenda item B7

The Boards had before them a memorandum from Natalie Batsakis and Vanessa Sealy-Fisher dated 22 July 2008 (Agenda paper B7.1).

The Boards discussed the issues and tentatively decided that, in principle, there is no conceptual basis for accounting for restructures of local governments or universities differently from other, analogous, types of business combinations. However, the Boards noted that the accounting for business combinations may differ depending on whether entities, such as local governments or universities, are commonly controlled entities. Therefore, the AASB decided that further work should be undertaken on its 'control in the public sector' project, which should include consideration of whether local governments and universities 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 by AASB 2007-9) into revised AASB 3 (March 2008, as amended), subject to a review of the wording of the requirements, to ensure that they integrate appropriately with revised AASB 3.

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

The Boards agreed that, in the absence of a conceptual basis to justify a departure from those requirements, there should not be an exemption from the requirements of revised AASB 3 or revised NZ IFRS 3 in accounting for any other types of combinations among NFP entities in either the private or public sectors.

The AASB also agreed to consider the definition of 'business' in the context of not-for-profit entity combinations, taking into consideration the changes made to revised NZ IFRS 3 (March 2008). AASB staff will liaise with FRSB staff to ascertain the reasons why the FRSB changed the definition of a business.

Action:

Staff

EMISSION TRADING SCHEMES

Agenda Item B8

The Boards had before them:

- (a) a memorandum from Joanna Spencer, Joanna Yeoh and Sendirella George dated 22 July 2008 (Agenda paper B8.1); and
- (b) a copy of the IASB's project plan on Emission Trading Schemes dated June 2008 (Agenda paper B8.2).

The Boards:

- (a) received an update on the status of Emission Trading Schemes (ETS) in Australia and New Zealand including identifying the key factors in the Australian Government's Green Paper on a Carbon Pollution Reduction Scheme. The Boards noted that the Green Paper proposes a cap and trade scheme with a commencement date of 2010 having the following features:
 - the issue of granted and auctioned permits that are tradeable;
 - the unlimited banking of permits;
 - a wide coverage of industries but excluding agriculture until possibly 2015;
 - auditing of large emitters;
 - the allowance of linkages between other markets for carbon offsets; and
 - the possibility of free permits being granted to trade exposed and strongly affected industries;
- (b) noted that, the NZ scheme is similar to the Australian scheme (e.g. a 'cap and trade' approach), and that the limited differences were unlikely to result in differences in accounting implications and the differences between the two schemes are more likely to be in pricing and trade mechanisms and the timing of their implementation;

- (c) were informed that the IASB has progressed its Emission Trading project and has decided that it will have a broad scope which addresses accounting for all tradeable emission rights and obligations arising from all types of emission trading schemes. The Boards noted that the IASB plans to issue an Exposure Draft in 2009 and a final Standard in 2010;
- (d) noted that both Boards had, at prior separate meetings, agreed that it is preferable to await the outcome of the IASB's project rather than develop an accounting pronouncement for application in their respective jurisdictions. However, it was noted that some constituents are concerned about not having accounting guidance should the IASB not achieve its timeline;
- (e) agreed that AASB staff should develop a paper which outlines alternative approaches in the event that the IASB does not meet its timeline, including an analysis of the processes and possible timetable. The Boards noted that one option to be included in the plan would be to expose IFRIC 3 *Emission Rights* (which was withdrawn by the IASB) and seek public comment on its suitability. Some members expressed the view that even if the IASB does not meet its timeline it would be preferable to await the outcome of the IASB's project and, in the meantime, to allow entities to interpret the requirements of existing IFRSs; and
- (f) directed staff to undertake some work on whether the Board should consider the accounting implications for an Emission Trading Scheme from the Government perspective also taking into consideration the State schemes operating in Australia.

Action:

Staff

SERVICE CONCESSION ARRANGEMENTS – GRANTOR ACCOUNTING Agenda item B9

The Boards had before them:

- (a) a memorandum from Clark Anstis and Annette Davis dated 15 July 2008 (Agenda paper B9.1);
- (b) a copy of slide presentation on Service Concession Arrangements (Agenda paper B9.2);
- (c) Invitation to Comment ITC 16 Request for Comment on the IPSASB Consultation Paper *Accounting and Financial Reporting for Service Concession Arrangements* (Agenda paper B9.3);
- (d) submissions received from AASB constituents on ITC 16 (Agenda paper B9.4); and
- (e) draft AASB submission to the IPSASB on IPSASB Consultation Paper *Accounting and Financial Reporting for Service Concession Arrangements* (Agenda paper B9.5).

The Boards:

- (a) received a short presentation from Mr Anstis outlining the major proposals in the IPSASB Consultation Paper *Accounting and Financial Reporting for Service Concession Arrangements*, which is the subject of the AASB's ITC 16;
- (b) were advised that the central issue in the Consultation Paper of determining whether the grantor or the operator should recognise the infrastructure (or property) underlying a service concession arrangement, based on whether the criteria for control by the grantor are satisfied and noted that there are some obvious and some subtle differences between the proposed criteria and the control criteria in AASB Interpretation 12 concerning:

- (i) whether a grantor “controls or regulates” the operator’s use of the property; and
 - (ii) whether the grantor controls “the” [IPSASB] or “any significant” [Interpretation 12] residual interest in the property at the end of the arrangement;
- (c) considered the seven submissions received from constituents in response to the Invitation to Comment, discussed a number of the recognition and measurement issues and noted that the differences between the two sets of grantor control criteria could lead to asymmetrical accounting as between grantors and operators;
- (d) expressed 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.

Members expressed general support for the draft AASB submission to the IPSASB and the AASB appointed Ms Peach and Mr Williams as a subcommittee to finalise the submission with staff, in consultation with the Chairman of the AASB.

Action:

Subcommittee
Staff

FINANCIAL STATEMENT PRESENTATION: PHASE B
Agenda item B10

The Boards had before them:

- (a) a Powerpoint presentation by Warren McGregor (Agenda paper B10.1); and
- (b) a memorandum from Joanne Scott dated 10 July 2008 (Agenda paper B10.1).

The Boards received an education session from Mr McGregor on the joint IASB/FASB Financial Statement Presentation Project and noted:

- (a) that an aim of the project is to reduce the focus on single line performance measures and to improve the accessibility of the information in the financial statements;
- (b) that the scope of the project has recently been narrowed as the IASB and the FASB are no longer proposing to reconsider the treatment of certain items that are currently recognised in other comprehensive income or revenues and expenses and subsequently recycled;
- (c) the importance of engaging with constituents in respect of these proposals; and
- (d) that an IASB Preliminary Views Discussion Paper is expected to be published in this quarter and agreed to consider this issue further at future meetings.

The Boards agreed to consider this issue further at future meetings and directed staff to investigate whether the IASB or FASB plan to produce any educational materials for this project.

Action:

Staff

DIFFERENTIAL REPORTING**Agenda item B11**

The Boards had before them:

- (a) a memorandum from Vanessa Sealy-Fisher dated 4 July 2008 (Agenda paper B11.1);
- (b) a memorandum from Ahmad Hamidi dated 9 July 2008 (Agenda paper B11.2); and
- (c) a memorandum from Vanessa Sealy-Fisher and Ahmad Hamidi dated 4 July 2008 re an IFRS for SMEs project (Agenda paper B11.3).

The Boards received status reports on the current differential reporting regime in Australia, the AASB proposals for a revised differential reporting regime, the differential reporting regime in New Zealand and the status of the IASB's project on an IFRS for Private Entities.

Action:

Staff

SAC REPORT**Agenda item B12**

Ms Downes provided members with a briefing on the recent activities of the IASB's Standards Advisory Committee (SAC).

Members noted:

- (a) the proposals to change the composition of SAC so that organisations would be invited to nominate representatives;
- (b) that the SAC is considering the possibility of holding one meeting each year in a region other than Europe; and
- (c) that SAC members currently focus on providing input to the IASB on the implementation of IFRSs and their impacts in a variety of jurisdictions with different institutional, regulatory and cultural influences.

APPRECIATION

Mr Porter thanked the FRSB and staff of the New Zealand Institute of Chartered Accountants for their hospitality and organisation of the meeting and PricewaterhouseCoopers for hosting the meeting

CLOSE OF JOINT MEETING

The Chairman closed the meeting at 1:00 p.m. on 31 July 2008.

AASB ONLY**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. Ms McCahey indicated an interest in an IFRIC agenda rejection statement on accounting for trailing commissions.

Minutes

The Board confirmed the minutes of the 88th meeting held on 25-26 June 2008.

CHAIRMAN'S REPORT

The Board noted a statement in the FRC Bulletin 2008/3 – 11 June 2008 relating to developing a paper canvassing the alternative approaches to developing a Standard on emissions trading schemes for application in Australia.

The Board confirmed its earlier decision that it would encourage the IASB to give a higher priority to its project and that it would only consider developing an Australian pronouncement on emission trading schemes in the event that the IASB did not develop a Standard on a timely basis. The Board also noted that, if it were to develop a pronouncement, it could only do so within the framework of current IFRSs whereas the IASB has the flexibility to develop a Standard without the constraint of the existing literature.

Quorum

Ms Perry left the meeting at 1:45 p.m. from which time meeting did not have a quorum. The remaining members continued discussion of the agenda items without taking any decisions.

INTERPRETATIONS**Agenda item 3**

The Board had before it:

- (a) a memorandum from Joanna Spencer, dated 22 July 2008 (Agenda paper 3.1);
- (b) a note on Interpretations Issues in Progress (Agenda paper 3.2);
- (c) a memorandum from Joanna Spencer, dated 22 July 2008 re IFRIC 15 and IFRIC 16 (Agenda paper 3.3);
- (d) IFRIC 15 *Agreements for the Construction of Real Estate* (Agenda paper 3.4);
- (e) IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* (Agenda paper 3.5);
- (f) a memorandum from Joanna Spencer, dated 22 July 2008 re (Agenda paper 3.6); and
- (g) *IFRIC Update* (July 2008) (Agenda paper 3.7).

Members noted the issuance of IFRIC 15 and IFRIC 16 and requested staff to prepare equivalent draft Australian Interpretations for consideration for approval at the August meeting.

Action:

Staff

RELATED PARTY DISCLOSURES IN THE PUBLIC SECTOR

Agenda item 4

The Board had before it:

- (a) a memorandum from Sabine Schührer dated 15 July 2008 (Agenda paper 4.1); and
- (b) a paper *Related Party Disclosures in the Australian Not-for-Profit Sector – Project Plan* (Agenda paper 4.2).

Members:

- (a) considered the project plan on related party disclosures by not-for-profit public sector entities and agreed with the plan in principle and that further research on existing requirements and practices in Australian jurisdictions and in other countries should be undertaken;
- (b) agreed that the requirements of AASB 124 *Related Party Disclosures* and IPSAS 20 *Related Party Disclosures* would be considered as points of reference;
- (c) agreed that the users and preparers of related party information need to be identified; and
- (d) considered that Roundtables should form part of the consultation process.

Action:

Staff

CONCISE FINANCIAL REPORTS

Agenda item 5

The Board had before it:

- (a) a memorandum from Geoff Harris, dated 15 July 2008 (Agenda paper 5.1);
- (b) draft proposed AASB 2008-X *Amendments to Australian Accounting Standard AASB 1039 Concise Financial Reports* (marked-up copy) (Agenda paper 5.2);
- (c) draft proposed AASB 2008-X *Amendments to Australian Accounting Standard AASB 1039 Concise Financial Reports* (clean copy) (Agenda paper 5.3); and
- (d) an extract from Report of Joint Parliamentary Committee on Corporations and Financial Services *Better Shareholders – Better Company* (Agenda paper 5.4).

Members discussed:

- (a) the recommendation of the Joint Parliamentary Committee in respect of the repeal of section 314 of the Corporations Act 2001 and indicated tentative support for the recommendation. Members sought further information on the number of companies that might issue concise financial reports; and

- (b) the proposed amendments to AASB 1039 to achieve consistency with the drafting of the segment disclosures in AASB 8 *Operating Segments*. Members also noted that consequential amendments would flow from the revised AASB 101 *Presentation of Financial Statements* (issued in September 2007) and that it is preferable to deal with both sets of amendments at the same time.

Action:

Staff

OTHER BUSINESS AND CORRESPONDENCE

Agenda item 6

The Board had before it:

- (a) a letter from David Boymal, AASB Chairman, to Merran Kelsall, AUASB Chairman, dated 27 June 2008 re GGS reports (Agenda paper 6.2);
- (b) a letter from David Boymal, AASB Chairman, to Ian McPhee, Auditor-General for Australia, dated 3 July 2008 re accounting by grantors (Agenda paper 6.2);
- (c) a letter from David Boymal, AASB Chairman, to Jeffrey Lucy, FRC Chairman, dated 3 July 2008 re AASB 1049 (Agenda paper 6.3);
- (d) a letter from David Boymal, AASB Chairman, to Bede Fraser, Manager, Financial reporting Unit, Treasury, dated 16 June 2008 re KMP Disclosures (Agenda paper 6.4);
- (e) *FRSB Alert* (9 July 2008) (Agenda paper 6.5).

Members noted the correspondence.

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

Members noted that AASB 2008-7 *Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* that was made out of session would soon be published on the website. 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* and that this message should be included in the Action Alert.

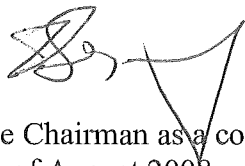
Action:

Staff

CLOSE OF MEETING

The Chairman closed the meeting at 2:40 p.m. on 31 July 2008.

APPROVAL



Signed by the Chairman as a correct record
this 27th day of August 2008.

Attachment A

CONCEPTUAL FRAMEWORKS

Agenda item B1

Detailed Notes of Discussions—Joint Session of AASB and FRSB

The issues and concerns that Board members identified for each staff to include in its respective Board's initial draft submissions on the IASB's and IPSASB's consultation documents are noted below.

- (a) regarding the objective of financial reporting:
 - (i) the Boards noted that the objective of financial reporting proposed in the Phase A exposure draft has broadened from that originally proposed in the IASB's Phase A discussion paper—in particular, to acknowledge that providing information about the stewardship of the entity's management is a component of the objective. However, some members expressed concern that the objective may not have been broadened enough to be suitable also for application to not-for-profit entities (NFPs) or because (as elaborated below) they think that:
 - (a) there remains insufficient emphasis on accountability/stewardship, especially (but not exclusively) in respect of NFPs; and
 - (b) it places undue emphasis on providing information for the entity's capital providers;
 - (ii) some members argued that there is insufficient emphasis placed on financial reports providing information about the accountability or stewardship of management. For example, they consider that including 'accountability' only as a component of 'decision usefulness' places insufficient emphasis on accountability, and therefore that accountability should be identified as a separate objective. Some other members argued instead that users of financial reports assess accountability or stewardship as part of making decisions; otherwise, there would be no purpose for making those assessments. Therefore, they argued, it is appropriate to include 'accountability' within the 'decision usefulness' objective. Nevertheless, they did not disagree with the view of other members that greater emphasis should be placed on 'accountability', especially for NFPs and public sector entities. Other comments by members include that:
 - (a) accountability is an important objective for financial reporting by private sector businesses, particularly when businesses operate under financial stress and users wish to assess whether management has acted prudently in managing resources entrusted to it;
 - (b) in the public sector, the primary report related to resource allocation decisions is the budget—in contrast, financial reports are concerned with outcomes (including those against budget) and therefore are primarily directed at discharging accountability. Conversely, some members argued that financial reports provide information that is the starting point for budget formulation, and therefore provide information useful for resource allocation decisions in the public sector; and
 - (c) it would be a concern if accountability were a stand-alone objective of financial reporting, because that might lead to broadening the scope of financial reporting too far—for example, it might seem to encompass environmental reporting;

- (iii) some members argued that, in contrast to resource allocation decisions, accountability assessments are concerned with the past performance of management in respect of its stewardship for the resources entrusted to it (and therefore are directed at meeting the information needs of present owners, rather than potential owners). They argued that financial reports should not serve primarily to enable users to forecast the future performance of an entity. Some other members argued that financial reports should provide information both for future-oriented decision making and for assessing the past performance of management in respect of its stewardship for the resources entrusted to it. Some of these other members argued that the IASB exposure draft includes insufficient discussion of the tensions between these two objectives; for example, regarding whether to use current values or historical measures of the elements of financial statements, whether to measure revenue at fair value or the customer consideration amount, and whether the primary financial statement should be the statement of financial position or statement of financial performance;
- (iv) the IPSASB Chairman noted that, in addition to deciding that decision usefulness would be an incomplete objective of public sector financial reporting, the IPSASB had noted that ‘accountability’ is less universal in meaning and relevance than ‘transparency’. Some members argued that ‘transparency’ would be less meaningful in Australia and New Zealand than ‘accountability’, and observed that the IASB had considered transparency as a potential qualitative characteristic, rather than a potential objective (and rejected it because applying other qualitative characteristics should achieve transparency). Some other members argued that transparent reporting is a means of achieving both accountability and decision usefulness objectives of financial reporting;
- (v) some members argued that the term ‘capital providers’ is potentially misleading, as it implies including only lenders or equity holders, when it is actually intended to include all parties with claims against the entity’s assets. Also, the term may be of limited application in the public sector, because it would seem to only include creditors;
- (vi) board members noted that the IASB exposure draft proposes identifying capital providers as the primary users of financial reports. Some members argued that the needs of a broad range of users should be considered when setting standards for NFPs, rather than being limited by the conceptual framework to catering for the needs of only a primary group of users. On the basis that different standard setting decisions might result depending on the needs of the identified primary user group, some members expressed concern that, if the user group is too narrowly defined or not well defined, standards developed may inappropriately emphasise the needs of particular users and give rise to a risk that financial reports become special-purpose rather than general-purpose in nature;
- (vii) some members argued that, for NFPs, a wider range of users should be considered because users are not necessarily ‘capital providers’. They noted that the IPSASB has identified a broader range of users than capital providers to cater for the significantly broader range of potential users of public sector financial reports. The IPSASB Chairman noted that the IPSASB has adopted the view that identifying a primary user group would be detrimental to its goal of catering for the wide range of entities and jurisdictions for which it develops a single set of international public sector Standards, and that no group of users should be disenfranchised by identifying a primary user group that is used to identify users’ information needs. He noted also that the IASB’s constituency generally has more experience than the IPSASB’s constituency in applying a conceptual framework, and that it is logical to expect that the IASB’s framework would define the users of financial reports more precisely than the

IPSASB's framework. Therefore, it is appropriate at this stage for the IPSASB to define the users of financial reports more broadly, to avoid alienating particular user groups or jurisdictions;

- (viii) some other members argued that 'capital providers' or their equivalent (whether 'claimants', 'resource providers', or 'funders and financial supporters') should be identified as the primary user group in the public sector, and that identifying recipients of goods and services as users risks diffusing the focus of financial reporting because their information needs may differ from those of 'capital providers' or their equivalent. Some members suggested a compromise position of identifying recipients of goods and services as users and meeting their information needs unless those needs are inconsistent with those of 'capital providers' or their equivalent;
 - (ix) some members argued that the primary users of financial reports of public sector entities are parliamentarians, rather than members of the community (whether 'capital providers' or their equivalent, or recipients of goods and services). Some other members disagreed;
 - (x) paragraph OB4 of the IASB exposure draft includes: "General purpose financial reporting stems from the information needs of users who lack the ability to prescribe all of the financial information they need from an entity and must therefore rely, at least partly, on the information provided in financial reports." Some members argued that the 'users' to whom general purpose financial reports are directed should not be limited to only 'dependent users'. They said 'users' should also incorporate those who may choose to use general purpose financial reports simply because general purpose financial reports are the easiest and most efficient source of information for them. As such, 'users' should incorporate a much wider range of known and potential users;
 - (xi) some members argued that the IASB exposure draft's degree of emphasis on providing information useful in assessing the entity's cash flow prospects would be inappropriate for NFPs, because the primary objective of those entities is not the generation of net cash inflows. Some other members disagreed because all entities require cash inflows to finance their operations, because assets held by NFPs represent savings in the cash outflows they would otherwise need to make to acquire the services embodied in those assets, and because, in the long run, cash inflows of NFPs will equal those entities' cash outflows. Some members said they do not disagree in principle with that view, but they disagree (from a NFP perspective) with the IASB exposure draft's particular explanations of the information that would be useful for assessing an entity's cash flow prospects. Some members said that, to cater for NFPs, it may be sufficient for the framework to note that economic benefits are equivalent to service potential, and to include additional guidance on performance reporting along the lines of the additional guidance that has been included in the current New Zealand Framework; and
 - (xii) some members argued that, although the IASB is not yet considering the implications of the framework for NFPs, the IASB should still consider profit oriented entities within the public sector on the basis that such entities should apply IFRSs, not IPSASs. As such, these entities should be considered at this stage of the IASB-FASB conceptual framework project and not only in Phase G of that project. Some members also argued that such entities, even though they are profit-oriented, have a greater need for their financial reports to report on the stewardship and accountability of management because they report within the public sector, and that the IASB should not inadvertently neglect to consider these entities;
- (b) regarding the qualitative characteristics of financial information:

- (i) Board members noted that the IASB's proposed qualitative characteristics are not intended to be significantly different from the qualitative characteristics in the current framework; and
 - (ii) some members argued that identifying 'fundamental' qualitative characteristics and distinguishing these from 'enhancing' qualitative characteristics may be useful, but may lead to overemphasising the fundamental characteristics at the expense of the enhancing characteristics; and
- (c) regarding the definition of a reporting entity:
- (i) some Board members argued that it may be more appropriate to define control at a standards level, rather than within the conceptual framework. They argued that the Boards' submissions to the IASB on its Reporting Entity discussion paper should note that an important reason for this view is the experience of the Boards and their constituents with applying a concept of control. However, some other Board members were of the view that the concept of control should be considered at the framework level because it impacts not only on business combinations Standards but also on other Standards and, therefore, needs to be established at a higher level than at a standards level;
 - (ii) some members argued that, if the concept of control is defined within the conceptual framework, that concept should be further elaborated on to more clearly explain what is intended by the components of control: 'power' and 'benefits'. They particularly emphasised the need to clarify the meaning of the 'benefits' component;
 - (iii) some members argued that the Boards' submissions to the IASB on its Reporting Entity discussion paper should express a preference for the economic entity approach (rather than the parent entity approach) to consolidated financial statements, but should suggest that, in an international context, more reasons need to be provided in support of the economic entity approach;
 - (iv) some members argued that neither the economic entity approach nor parent entity approach is ideally suited to fulfilling all capital providers' information needs, due to the widely differing information needs of various capital providers. Therefore, they argued, even though the economic entity model should be preferred, the varying information needs of different capital providers will need to be considered;
 - (v) some members argued that the case for using the common control model, and the articulation of that model with the controlling entity model, are unclear. They asked whether financial reports prepared using the common control model are specific-purpose rather than general-purpose in nature; and
 - (vi) the IPSASB Chairman reported that the term 'control' is avoided by the IPSASB, due to the differing understanding and context of the term in various jurisdictions around the world. Instead, rather than using the term 'control', the IPSASB refers in its forthcoming Phase 1 Consultation Paper to the components of control to communicate the substance of the concept for determining the boundaries of a group reporting entity. Also, the IPSASB proposes to expand the 'benefit' component of control to also include exposure to the risk of loss.

Regarding general considerations for the conceptual framework project, the Boards noted that it may be necessary to clarify terminology in any new framework, as it is important to use terminology that is familiar or understandable to constituents in order to effectively communicate with them.