



**Subject:** Minutes of the 93<sup>rd</sup> meeting of the AASB

**Venue:** Ken Spencer Room, AASB offices  
Level 7, 600 Bourke St, Melbourne

**Time(s):** Wednesday 12 November 2008 from 8.30 a.m. to 5.30 p.m.  
Thursday 13 November 2008 from 8.30 a.m. to 3.50 p.m.

All agenda items except items 1, 2 and 10 were discussed in public.

## Attendance

Members	Glenn Appleyard (Meeting Chair) Mark Jenkin John O'Grady Frank Palmer Colin Parker Kris Peach Joanna Perry (Day 2) Brett Rix Robert Williams
Apologies	Bruce Porter (Acting Chairman) Sue Highland Jan McCahey Joanna Perry (Day 1)
In Attendance	Peter Batten (IPSASB Member)
Staff	Clark Anstis (in part) Dean Arden (in part) Natalie Batsakis (in part) Ahmad Hamidi (in part) Geoff Harris Rutendo Kaviya (in part) Robert Keys Latif Oylan (in part) Jim Paul (in part) Sabine Schühler (in part) Joanna Spencer (in part) Angus Thomson Raymond Yu (in part)

## Apologies, Agenda, Minutes, Matters Arising from Minutes and Declaration of Interests

Agenda Item 1

### Declarations of Interest

Members indicated that, in the normal course of their day-to-day professional responsibilities, they deal with a broad range of financial reporting issues. Members have adopted the standing policy in respect of declarations of interest that a specific declaration will be made where there is a particular interest in an issue before the Board.

### Minutes

The Board confirmed the minutes of the ninety-second meeting held on 10 October 2008.

### Matters Arising from the Minutes

The Board noted that AASB 2008-10 *Amendments to Australian Accounting Standards – Reclassification of Financial Assets* was made out of session with nine members voting in favour of making the Standard, one abstention and two members voting against making the Standard. One member did not vote.

Mr Palmer and Mr O'Grady informed the Board that they voted against making the Standard and Mr Palmer requested that his reasons for doing so be recorded in the minutes.

Mr Palmer advised the Board that he voted against making AASB 2008-10 for the following reasons:

- (a) the IASB and others had been taking earlier action to address concerns arising from the current market turmoil. For example:
  - (i) the IASB staff communicated that it considers the SEC-FASB clarification on fair value accounting issued in early October 2008 to be consistent with IAS 39;
  - (ii) the FASB issued Staff Position 157-3 to assist in determining fair values in an inactive market; and
  - (iii) the US SEC has begun its study of fair value accounting by financial institutions. The IASB should resist pressure for hasty changes.
- (b) while reclassifications have been brought more in line with US GAAP, the changes in accounting do not result in high quality and transparent financial reporting. Many professional analysts have been publicly critical of the changes as it gives greater opportunity for earnings management. In times of market turmoil, enhancing financial information is needed, not obscuring it.
- (c) the use of fair value measurement for various assets has increasingly found its way into financial reports. Past discussions have focussed on the difficulties when an asset does not have a price quoted in an active market. Nonetheless, where the IASB has required a fair value measure, it has:
  - (i) made the decision on the basis of decision usefulness to investors and analysts, and
  - (ii) provided additional guidance incorporating the use of model valuations and judgement.

The recent decision of the IASB not only raises a fundamental question of whether fair value measurement is an appropriate measurement basis, but along with having taken urgent action elevates the importance of following due process for public consultation on proposed changes before they are implemented; and

- (d) the change introduces further optional accounting treatments. Consequently, like transactions and events will be accounted for and reported differently. This reduces the comparability of financial information amongst entities.

## Chairman's Report

The meeting Chairman informed the Board:

- (a) of the appointment of Bruce Porter as the Acting Chairman on a part-time basis pending the appointment of a full-time Chairman;
- (b) of staff participation in a conference call involving national standard setters (NSS) to discuss the IASB's process on making amendments in respect of the classification of financial assets and further requests by the European Union for amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosure*. Members noted that the NSS would issue a communiqué supporting the IASB and its efforts to achieve global financial reporting standards, and continuing to have governance arrangements that ensure that the IASB is an independent standard setter with appropriate arrangements for consultation with its stakeholders;
- (c) David Boymal and Angus Thomson gave evidence to the Senate Committee Inquiry into the Disclosure regimes for Charities and not-for-profit organisations and that a principal concern of the Committee is the manner in which the provision of voluntary services are treated;
- (d) the Victorian Department of Treasury and Finance has issued a Discussion Paper on Review of Practices and that, while staff plans to provide input the Board does not normally respond to releases in a single jurisdiction;
- (e) the AASB Discussion Paper *Initial Accounting for Internally Generated Intangible Assets* was issued on 31 October and that comments to the NSS Secretariat are requested by 31 May 2008; and
- (f) the IASB and FASB are holding a series of roundtables on fair value measurement of financial instruments including one in Tokyo on 3 December 2008. Members indicated that it is desirable for the Board to be represented at the Roundtable and that it would be appropriate for the Acting Chairman to attend should he be available to do so.

Mr Williams informed the Board that he, Angus Thomson and Robert Keys, participated in a FRC Workshop on public sector accounting in Canberra on 5 November 2008. The Board was informed that:

- (a) there was general support for a transaction-neutral approach to standard setting; and
- (b) there are concerns about AASB 1049 *Whole of Government and General Government Sector Financial Reporting* but that a review of that Standard should be undertaken once there is further implementation experience.

Action:

Acting Chairman  
Staff

## Superannuation Plans and Approved Deposit Funds

Agenda item 3

The Board had before it:

- (a) a memorandum from Dean Ardern, dated 29 October 2008 (Agenda Paper 3.1);
- (b) an issues paper providing a worked example of a business combination prepared in accordance with paragraphs 28 – 29 and AG44 – AG50 of draft ED 16X *Superannuation Plans and Approved Deposit Funds* (Agenda Paper 3.2);
- (c) an issues paper providing an alternative approach to that provided in Agenda Paper 3.2 for measuring non-controlling interests under draft ED 16X (Agenda Paper 3.2.1 – Tabled);

- (d) example financial statements presented in accordance with draft ED 16X (Agenda Paper 3.3);
- (e) a memorandum from Dean Ardern, dated 6 November 2008 (Agenda Paper 3.4); and
- (f) draft ED 16X *Superannuation Plans and Approved Deposit Funds* (Agenda Paper 3.5).

The Board considered Agenda Papers 3.2 and 3.2.1 and agreed that draft ED 16X should:

- (a) propose that any non-controlling interests in a subsidiary be measured by the parent superannuation plan or parent approved deposit fund in a manner consistent with the requirements in AASB 127 *Consolidated and Separate Financial Statements*;
- (b) include a question asking constituents whether at each reporting date a parent superannuation plan or parent approved deposit fund should be permitted to measure any non-controlling interests in a subsidiary in a manner consistent with either of the approaches under AASB 127 or whether all parent entities should be restricted to applying one of the measurement options for non-controlling interests under AASB 127;
- (c) include a question asking constituents whether a parent superannuation plan or parent approved deposit fund should be permitted or required to measure any non-controlling interests in a subsidiary:
  - (iii) in a manner consistent with the approach in Agenda Paper 3.2.1; or
  - (iv) at fair value;
- (d) include an appendix that has worked examples demonstrating a business combination prepared in accordance with:
  - (i) draft ED 16X;
  - (ii) draft ED 16X except that non-controlling interests are measured in accordance with the approach in Agenda Paper 3.2.1; and
  - (iii) draft ED 16X except that non-controlling interests are measured at fair value at each reporting date.

In addition, the Board agreed that the worked examples appended to the ED should be simplified further than the worked examples in Agenda Papers 3.2 and 3.2.1 and that any income tax assets and liabilities recognised by a subsidiary in the examples should be adjusted for fair value remeasurements recognised as a consequence of consolidation.

The Board considered Agenda Paper 3.3 and agreed that the example financial statements should:

- (a) be included in an appendix to draft ED 16X to assist constituents to understand the proposals;
- (b) not include example notes; and
- (c) not require contribution surcharge amounts to be disclosed separately; and
- (d) clarify that annuities can be received and receivable on behalf of defined contribution or defined benefit members.

The Board considered Agenda Paper 3.5 and agreed that draft ED 16X should:

- (a) not provide definitive lists of the Australian Accounting Standards that contain disclosure principles and requirements that a superannuation plan or approved deposit fund would or would not apply under the replacement Standard. Instead, draft ED 16X should provide guidance in the form of an overall disclosure principle that clarifies:

- (i) where the disclosure principles and requirements in the draft ED address the same items or events as the disclosure principles and requirements in other relevant Australian Accounting Standards, a superannuation plan or approved deposit fund would apply the disclosure principles and requirements in the draft ED instead of the disclosure principles and requirements in the other relevant Australian Accounting Standards;
  - (ii) where a superannuation plan or approved deposit fund applies the recognition or presentation requirements in other Australian Accounting Standards, when relevant, the plan or fund would also apply any associated disclosure principles and requirements in the other Australian Accounting Standards; and
  - (iii) given the use of fair value in the draft ED, cost-based disclosure principles and requirements in other Australian Accounting Standards would not apply to a superannuation plan or approved deposit fund;
- (b) propose that a superannuation plan or approved deposit fund recognise defined contribution members' vested benefits (rather than their accrued benefits) as liabilities;
  - (c) include examples in an appendix to the draft ED illustrating some aspects of the measurement of a superannuation plan's obligation for defined benefit members' accrued benefits; and
  - (d) be amended in accordance with the changes described in Attachment A to these minutes.

The Board agreed to continue its deliberations on draft ED 16X at its December meeting. The Board also agreed that staff should prepare a timetable for the completion of draft ED 16X for consideration at its next meeting.

Action:

Staff

## **Related Party Disclosures in the Not-for-Profit Public Sector**

Agenda item 4

The Board had before it:

- (a) a memorandum from Sabine Schührer and Rutendo Kaviya, dated 5 November 2008 (Agenda paper 4.1); and
- (b) a paper Users and Preparers of Related Party Information in the Not-For-Profit Public Sector (Agenda paper 4.2).

The Board:

- (a) considered whether the project should be based on users identified in the AASB *Framework and Statement of Accounting Concepts (SAC) 2 Objective of General Purpose Financial Reporting* or the users stated in the IPSASB Draft *Conceptual Framework* and agreed to explore further the types of related party disclosure requirements that might be developed for Australian not-for-profit public sector entities;
- (b) directed staff to develop an issues paper containing preliminary views about users and suggestions for related party disclosure requirements, based on an analysis of the requirements in AASB 124 *Related Party Disclosures*, IPSAS 20 *Related Party Disclosures* and NZ IAS 24 *Related Party Disclosures*; considering separately:
  - (i) key management personnel (KMP) disclosure issues, discussing remuneration-type issues separately from non-remuneration (e.g. conflict of interest) type issues. This will include a consideration of whether Ministers of the Crown are KMP; and
  - (ii) other related party disclosure issues (including consideration of issues arising from common control relationships);

- (c) decided that, in progressing the project, KMP disclosures should be the priority at this stage because it provides the greatest opportunity for making improvements to requirements applicable to not-for-profit public sector entities. In relation to remuneration-type issues, the Board decided that regard should be had to its decisions reflected in AASB 2008-4 *Amendments to Australian Accounting Standards Key Management Personnel Disclosures by Disclosing Entities* [AASB 124]; and
- (d) noted that 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.

## Business Combinations in NFPs

Agenda item 5

The Board decided:

- (a) That compared with acquirer/acquiree terminology, the terminology of transferor/transferee used in AAS 27 *Financial Reporting by Local Governments*, is more understandable in a local government context. Accordingly, the transferor/transferee terminology should be maintained as it is representative of the different requirements for restructures of local governments compared with other business combinations;
- (b) to replace the term 'operating statement' used in AAS 27 requirements with 'statement of comprehensive income', consistent with the financial statement terminology used in revised AASB 3 *Business Combinations* (March 2008, as amended);
- (c) to locate Aus paragraphs in respect of the requirements for restructures of local government at the end of revised AASB 3;
- (d) to amend paragraph Aus1.3 of AASB 3 (March 2008, as amended) so that all entities (including not-for-profit) entities, can early-adopt revised AASB 3;
- (e) to make an explicit statement that the disclosure requirements of revised AASB 3 (March 2008, as amended) do not apply to restructures of local governments;
- (f) to require the transferee to disclose the gain or loss on a restructure;
- (g) that the Basis for Conclusions should explain the Board's decision in respect of applying the requirements of revised AASB 3 (March 2008, as amended) to business combinations among other not-for-profit entities, as well as restructures of local governments; and
- (h) as there has been sufficient consultation on the Board's approach to accounting for business combinations among not-for-profit entities further exposure is not necessary.

The Board also considered the changes made by the New Zealand FRSB to NZ IFRS 3 *Business Combinations* in the context of business combinations among not-for-profit entities, including the definitions of 'public benefit entities', 'business' and 'equity interests'. In making its decision, the Board considered the work undertaken on Invitation to Comment ITC 14 *Not-for-Profit Entity Definition and Guidance*, which sought input on using the definition and guidance from NZ IAS 1 *Presentation of Financial Statements* in Australia. In light of the Board's decision to suspend further work on ITC 14 until the development of guidelines that can be used for modifying IFRSs for application by not-for-profit entities, the Board decided not to replicate the New Zealand changes in AASB 3 (March 2008, as amended) in respect of not-for-profit entities.

The Board also decided to amend the draft Standard by:

- (a) deleting the second paragraph of the Preface;

- (b) restructuring the order of the items presented under the Main Requirements section and giving the title 'Business combinations among not-for-profit entities' to the first item;
- (c) using the terminology 'business combinations' instead of 'combinations' throughout the standard, where appropriate; and
- (d) amending the wording of paragraph Aus63.9 as follows:
- (e) Local Governments are not required to apply paragraphs 59 to 63 and the related Appendix B Application Guidance paragraphs of this Standard when disclosing information about restructures of local governments.

The Board made AASB 2008-11 *Amendments to Australian Accounting Standards – Business Combinations Among Not-for-Profit Entities* [AASB 3] to apply 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.

Action:

Staff  
Acting Chairman

## IPSASB Report

Agenda item 6

The Board received an informal 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 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.

## Income from Non-Exchange Transactions

Agenda item 7

The Board had before it:

- (a) a memorandum from Clark Anstis dated 5 November 2008 (agenda paper 7.1);
- (b) an extract from the draft minutes of the NZ Financial Reporting Standards Board meeting of 8 October 2008 (agenda paper 7.2); and
- (c) a draft Exposure Draft based on IPSAS 23, showing both NZ and Australian potential amendments (agenda paper 7.3).

The Board considered the views of the NZ FRSB members, as indicated in the draft minutes of their October meeting, as they discussed the draft Exposure Draft based on IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, since those views had not been incorporated into the draft Exposure Draft.

The Board made the following decisions on the issues raised in the staff memorandum:

- (a) Issue 1 – the ED should be presented in consecutively-numbered paragraphs as an Australian/NZ ED, rather than presenting Australian-specific paragraphs as Aus paragraphs amongst IPSAS 23 paragraphs. A table of concordance should be added to allow comparison with IPSAS 23;
- (b) Issue 2(a) – the general terminology of the ED should reflect the broader scope of the ED in contrast to IPSAS 23: the ED would address not-for-profit entities in the public sector or the private sector, whereas IPSAS 23 is a Standard explicitly for public sector entities. Therefore, some of the terminology in the document should be generalised, and private sector examples included;

- (c) Issue 2(b) – the ED should use the term ‘income’ instead of ‘revenue’. IPSAS 23 uses the term ‘revenue’ without defining it. Based on the description of ‘revenue’ in IPSAS 9 *Revenue from Exchange Transactions*, the scope of IPSAS 23 appears to encompass both revenues and gains. To use terminology consistent with Australian Accounting Standards, the term ‘income’ should be used instead;
- (d) Issue 2(c) – the term ‘service potential’ should not be used in the ED, as it is rarely used in Australian Accounting Standards (including Interpretations) and therefore previously has been considered generally to be a non-essential term;
- (e) Issue 3 – the definitions in IPSAS 23 should be replaced with those from Australian Accounting Standards if they are inconsistent, a definition of ‘not-for-profit entity’ should be added, and the term ‘equity’ should be used instead of ‘net assets’;
- (f) Issue 4 – the option in IPSAS 23 concerning the recognition of services in-kind should be included in the ED, despite the existing requirements in AASB 1004 *Contributions* for the recognition of contributions of services by some public sector entities. However, the Board considered that the disclosure requirements concerning services in paragraph 108 should be strengthened;
- (g) Issue 5 – in respect of ‘advance receipts’, members supported the approach in IPSAS 23 in relation to taxes, but not in relation to transfers. Members did not support the draft additional guidance in the draft ED concerning when a transfer arrangement becomes binding, preferring not to seek to give the term ‘binding’ a technical meaning different from its ordinary meaning of ‘enforceable’. Members 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 were intended, provided that there were no performance obligations that could be satisfied only 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;
- (h) Issue 6 – a small number of editorial corrections should be made to the text of IPSAS 23 for the ED, but that the potential changes to a few references in paragraphs 44-49 to the recognition of revenue from non-exchange transactions to exclude contributions from owners are not required, since paragraph 29 already states that contributions from owners do not give rise to revenue; and
- (i) Issue 7 – as the scope of IPSAS 23 does not cover all of the detailed requirements for various types of contributions that were added to AASB 1004 in December 2007, the Board requested staff to consider further whether those requirements should be included in the ED, proposed to be retained in a different Standard or otherwise dealt with. For example, IPSAS 23 does not cover some of the AASB 1004 requirements, such as distributions to owners, mandatory treatment of certain transactions as contributions by owners, and compliance disclosures.

The Board further discussed the advance receipts of transfers issues and noted that it is unclear from IPSAS 23 how specific the conditions of a transfer need to be in order to delay the recognition of income until the conditions are met, pointing particularly to examples attached to IPSAS 23 that show revenue recognition when transfers are intended to support an entity’s ‘general activities’. The Board requested staff to further consider multi-year examples, with some members taking the view that governments are liable for transfers only on an annual basis.

In reviewing the draft ED in detail, the Board also raised the following matters:

- (a) the scope of the ED in relation to financial liabilities accounted for under AASB 139 *Financial Instruments: Recognition and Measurement* needs to be considered;
- (b) references to external materials such as the *Framework for the Preparation and Presentation of Financial Statements* and the *Glossary of Defined Terms* should not be included in the ED, as these would be stationary references in a Standard;
- (c) the requirements in paragraph 18 of IPSAS 23 concerning the return of economic benefits to a transferor by deducting the amount to be returned from other assets due to be transferred to the transferee for other purposes does not need to be changed;



- (d) the relationship between the requirements in Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* and the contributions from owners indicators in paragraph 38 of IPSAS 23 should be clarified, and the terms 'controlling entity' and 'controlled entity' in IPSAS 23 should be replaced with 'parent' and 'subsidiary', as used in Australian Accounting Standards, so that new definitions are not required;
- (e) in relation to paragraph 43 of IPSAS 23, AASB 138 *Intangible Assets*, paragraph Aus24.1, also includes the fair value requirement for assets acquired by not-for-profit entities at no cost or for a nominal cost.

The Board requested a revised draft Exposure Draft for their review at the December meeting.

Action: Staff

## Policy Statements

Agenda item 8

The Board had before it:

- (a) a memorandum from Geoff Harris, dated 27 October 2008 (Agenda paper 8.1); and
- (b) a possible outline Policy Document (Agenda paper 8.2)

The Board:

- (a) decided to withdraw:
  - (i) Policy Statement PS 1 *The Development of Statements of Accounting Concepts and Accounting Standards*;
  - (ii) Policy Statement PS 2 *The AASB Consultative Group*;
  - (iii) Policy Statement PS 3 *AASB Project Advisory Panels*; and
  - (iv) Policy Statement PS 4 *International Convergence and Harmonisation Policy*;because they do not reflect appropriately the current arrangements of the Board;
- (b) discussed a possible outline policy document and agreed to develop a single document setting out its key policies and strategies; and
- (c) agreed that the policy document should also address the Board's communication process including communication with stakeholders, its policy on comparability, the process for developing interpretations, the format of standards including the application and Aus paragraphs, the approach to determining operative dates and early adoption of Standards.

Action: Staff

## Interpretations

Agenda Item 9

The Board had before it:

- (a) a memorandum from Joanna Spencer, dated 5 November 2008 (Agenda paper 9.1);
- (b) a paper: Interpretation issues in progress (IFRIC and domestic topics) as at 5 November 2008 (Agenda paper 9.2);
- (c) a memorandum from Joanna Spencer, dated 5 November 2008 (Agenda paper 9.3); and

- (d) draft Proposed Interpretation 10XX *Australian Superannuation Contributions Tax* (Agenda paper 9.4).

The Board discussed draft Proposed Interpretation 10XX *Australian Superannuation Contributions Tax* and

- (a) requested that the title be altered to reflect that the proposed interpretation will only apply to employers with defined benefit plans;
- (b) requested that the interpretation clarify that the tax being referred to is treated as part of the income tax of the superannuation plan and that 'superannuation contributions tax' is a convenient term used by the industry and not an official term;
- (c) confirmed its view that an employer sponsor of a defined benefit plan should include taxes on future contributions in the cash flows that are used to determine the present value of a defined benefit obligation when measuring the defined benefit liability/asset as required by paragraph 54 of AASB 119 *Employee Benefits*;
- (d) discussed whether the treatment for a defined benefit asset should be different depending on whether the employer sponsor intends to use the surplus as a 'contributions holiday' or as a refund. The Board noted that taking the intent into consideration may be inconsistent with AASB Interpretation 14 *AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, and tentatively agreed that the treatment should not depend on the employer sponsor's intent and should instead assume the outcome that would give rise to the maximum economic benefit that is available from refunds, reductions in future contributions or a combination of both; and
- (e) agreed that the treatment of taxes on future contributions should be factored into the cash flows of the defined benefit obligation when there is either a defined benefit liability or a defined benefit asset and asked staff to provide examples illustrating the impact of the tax on the defined benefit obligation.

The Board will consider the illustrative examples and a further draft Proposed Interpretation at the December 2008 meeting.

Action:

Staff

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

Agenda item 10

The Board had before it:

- (a) a memorandum from Angus Thomson, dated 5 November 2008 (Agenda paper 10.1); and
- (b) an Appendix 'Modifying IFRSs for PBEs' prepared for the FRSB [Confidential] (Agenda paper 10.2).

Ms Perry informed the Board about recent deliberations of the FRSB and the ASRB about the guidelines on modifying IFRSs for public benefit entities in New Zealand.

The Board noted that it plans to have the most recent draft of the guidance for consideration at its December meeting and agreed that:

- (a) before making the guidelines publicly available, the Boards should apply them to at least one 'test case'; and
- (b) the guidance should not be the subject of formal consultation, but the Board noted that by placing the guidelines on the AASB website they would probably evolve as feedback is received from constituents and the Boards gain more experience with the operation of the guidelines.

Action:

Staff

## IPSASB Conceptual Framework

### Agenda Item 11

The Board had before it:

- (a) a memorandum from Jim Paul, dated 28 October 2008 (Agenda paper 11.1);
- (b) the IPSASB Consultation Paper *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: The Objectives of Financial Reporting, The Scope of Financial Reporting, The Qualitative Characteristics of Information Included in General Purpose Financial Reports, and The Reporting Entity* (Agenda paper 11.2);
- (c) a copy of the staff memorandum from Annette Davis and Jim Paul, dated 21 July 2008, comparing developments in the IPSASB and IASB-FASB Conceptual Framework projects (Agenda paper 11.3); and
- (d) a staff note setting out the staff's views on the Preliminary Views in the IPSASB Consultation Paper (Agenda paper 11.4).

The Board decided not to issue a Preface to the IPSASB Consultation Paper and not to hold Roundtables about that Paper. The Board decided that the *Action Alert* should note that:

- (a) it 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. It currently adopts the existing IASB *Framework* without amendment in respect of for-profit entities, and has limited modifications in respect of not-for-profit entities;
- (b) the IASB is developing a Conceptual Framework with the FASB, which will result in a revised IASB *Framework*. The IASB intends to revise its *Framework* in stages as those stages of the Conceptual Framework project are completed. As the IASB *Framework* is amended in stages, the Board will adopt the amended text of the IASB *Framework* for for-profit entities. 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, those amendments might apply only to Australian for-profit entities, with the existing AASB *Framework* text retained for not-for-profit entities as an interim measure;
- (c) it has encouraged the IASB and IPSASB to work together on not-for-profit entity issues so that their Frameworks are consistent. 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; and
- (d) the Board will continue to monitor, and contribute to, the development of the revised IASB *Framework* and the IPSASB *Framework*.

The Board discussed a staff note on the Preliminary Views in the IPSASB Consultation Paper, and provided directions for preparing an initial draft submission on that Paper. Details of those directions are set out in Attachment B to these Minutes. The Board directed the staff to provide the initial draft submission to the Board advisers on the Conceptual Framework project for comment in the first instance (in December 2008).

Action:

Staff

## Borrowing Costs

### Agenda Item 12

The Board had before it:

- (a) a memorandum from Latif Oylan dated 28 October 2008 (Agenda Item 12.1);
- (b) an information paper (Agenda Item 12.2); and

- (c) IPSASB ED 35 IPSAS 5 *Borrowing Costs* (Agenda Item 12.3).

The Board:

- (a) received a briefing on the background to, and some of the technical and policy issues associated with, the IPSASB's ED 35 IPSAS 5 *Borrowing Costs*. Ms Perry informed the Board that the FRSB has agreed that the revised IAS 23 *Borrowing Costs* only be mandatory in respect of for-profit entities in New Zealand and with the effect that public benefit entities will retain the choice to either expense or capitalise borrowing costs relating to qualifying assets pending the resolution of issues connected with determining depreciated replacement cost;
- (b) agreed that the public sector reasons identified by the IPSASB do not justify the proposed divergence from IAS 23 and, in particular, creating a new notion of 'specifically incurred' and providing entities with the choice of expensing or capitalising 'specifically incurred' borrowing costs in relation to qualifying assets; and
- (c) 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 agreed to review a draft submission at its December meeting.

Action:

Staff

## Differential Reporting /SMEs

Agenda item 13

The Board had before it:

- (a) a memorandum from Ahmad Hamidi and Raymond Yu, dated 31 October 2008 (Agenda paper 13.1); and
- (b) a staff paper *The Nature of the Financial Statements of Grandfathered Proprietary Companies* (Agenda paper 13.2).

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.", and tentatively agreed that:

- (a) while Accounting Standards apply to general purpose financial reports (GPFRs), not all financial reports prepared in accordance with Accounting Standards under *Corporations Act 2001*, other legislation, or otherwise are GPFRs. The existence of dependent users is the key to the general purpose nature of financial reports and not the mere preparation in accordance with Accounting Standards;
- (b) preparation in accordance with Accounting Standards' means the application of all Accounting Standards and not a subset of them; and
- (c) the phrase 'Accounting Standards' is taken to be a reference to full IFRSs as adopted in Australia, a future IFRS for Private Entities as adopted in Australia and any other reporting requirements that are devised by the AASB for the preparation of GPFRs.

The Board directed staff to:

- (a) seek legal advice as to the meaning of 'Accounting Standards' (including 'Australian Accounting Standards' and similar references to Accounting Standards) in federal and state legislation, in particular, whether they might be interpreted to be references to all Accounting Standards, or a reference to a subset of them; and

- (b) prepare a paper for consideration at a future Board meeting with a view to informing constituents about the implications of a revised differential reporting regime and enabling them to adjust in a timely manner to the possible impacts of the requirements under a future revised differential reporting regime.

Action:

Staff

## Improvements to Accounting Standards

### Agenda Item 14

The Board had before it:

- (a) a memorandum from Geoff Harris, dated 28 October 2008 (Agenda paper 14.1);
- (b) a draft AASB submission to IASB (Agenda paper 14.2);
- (c) comment letters on ED 165 *Improvements to Australian Accounting Standards* (Agenda paper 14.3); and
- (d) ED 165 *Improvements to Australian Accounting Standards* (Agenda paper 14.4).

The Board discussed submissions on ED 165 and agreed that its submission to the IASB should highlight concerns about:

- (a) the proposal to amend IAS 7 *Statement of Cash Flows* so that expenditures, such as exploration expenditures, that do not result in the recognition of an asset are classified as an operating cash flow and not as an investing cash flow as occurs at present. The Board considers that mandating a treatment has the potential to reduce the transparency of the financial statements, comparability between entities adopting different methods of accounting for such outlays and is inconsistent with presenting information from the perspective of management; and
- (b) the proposals to include guidance in IAS 18 *Revenue* relating to distinguishing whether an entity is acting as a principal or as an agent and that further criteria/factors to be considered when making a judgment should be included. The Board also considers that the guidance should emphasise that the criteria/factors need to be viewed in the light of the facts and circumstances of each case.

The Board agreed to finalise the submission out of session.

Action:

Staff  
Acting Chairman

## Presentation of Financial Statements

### Agenda Item 15

The Board had before it:

- (a) a memorandum from Latif Oylan, dated 27 October 2008 (Agenda paper 15.1); and
- (b) IASB/FASB Discussion Paper *Preliminary Views on Presentation of Financial Statements* (Agenda paper 15.2).

The Board received a briefing on the IASB/FASB's Discussion Paper *Preliminary Views on Presentation of Financial Statements*. The Board noted that the IASB is requesting comments by 14 April 2009. The Board agreed that the process for dealing with the DP should include the following:

- (a) publish the Discussion Paper on the website;
- (b) outline the actions the Board proposes to take in dealing with the document, including holding roundtables in Melbourne, Sydney and Canberra; and

- (c) request Australian constituents to provide comments to the AASB on the Discussion Paper by Friday 24 March 2009.

Action:

Staff

## Other Business and Correspondence

Agenda item 16

The Board had before it:

- (a) the AASB submission on IPSASB Discussion Paper *Accounting and Financial Reporting for Service Concession Arrangements*, dated 14 October 2008 (Agenda paper 16.1);
- (b) a letter from Paul Rogan, CFO, Challenger, to David Boymal, Chairman, AASB, dated 20 October 2008 re reclassification of financial assets (Agenda paper 16.2);
- (c) *FRSB Alert (18/10/08)* (Agenda paper 16.13);
- (d) the AASB submission on IASB Exposure Draft *Objective of Financial Reporting*, dated 20 October 2008 (Agenda paper 16.4);
- (e) the AASB submission on IASB Discussion Paper *The Reporting Entity*, dated 15 October 2008 (Agenda paper 16.5);
- (f) the AASB submission on IASB Discussion Paper *Financial Instruments with Characteristics of Equity*, dated 25 September 2008 (Agenda paper 16.6);
- (g) staff comments on the Tax Law Exposure Draft re *Taxation of Financial Arrangements Bill 2008*, dated 22 October 2008 (Agenda paper 16.7); and
- (h) staff comments on FRED 42 *Heritage Assets*, dated 8 October 2008 (Agenda paper 16.8).

The Board noted the correspondence.

## AASB 139 Reclassification Amendments and Assets Backing Insurance Liabilities

Agenda item 17

The Board had before it:

- (a) a memorandum from Christina Habal, dated 6 November 2008 (Agenda paper 17.1);
- (b) an issues paper *Impact of AASB 2008-10 on assets backing insurance liabilities* (Agenda paper 17.2);
- (c) a letter from David Boymal, Chairman, AASB, to David Tweedie, Chairman, IASB, dated 30 October 2008 (Agenda paper 17.3);
- (d) *AASB 2008-10 Amendments to Australian Accounting Standards – Reclassification of Financial Assets* [AASB 7 & AASB 139] (Agenda paper 17.4);
- (e) extracts from AASB 1023 *General Insurance Contracts* and AASB 1038 (Agenda paper 17.5);
- (f) correspondence, including a letter from Paul Rogan, Challenger CFO, dated 20 October 2008 (Agenda paper 16.2), a letter from Michael Venter, Deputy CFO, Commonwealth Bank of Australia, dated 7 November 2008 [Confidential] (Agenda paper 17.6 – Tabled) and a letter from Kerrie Kelly, CEO, Insurance Council of Australia, dated 3 November 2008 (Agenda paper 17.7 – Tabled).

The Board:

- (a) discussed a range of interpretations about how the amendments in AASB 2008-10 might impact on the accounting choices available to entities applying AASB 1023 and AASB 1038 in respect of assets

backing insurance liabilities and life investment contract liabilities. The Board considered that, notwithstanding the spirit of the requirements in AASB 1023 and AASB 1038 in requiring such assets to be measured at fair through profit or loss where this treatment is available under IFRSs, there is the potential for insurers to reclassify those assets that are held for trading using the amendments;

- (b) decided to develop an Exposure Draft proposing to amend Australian-specific application paragraphs of AASB 139 *Financial Instruments: Recognition and Measurement* to not permit the amendments relating to reclassification of financial assets in AASB 2008-10 to be used by entities applying AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts* in respect of assets backing insurance liabilities and life investment contract liabilities; and
- (c) noted that it would need to re-visit the requirements to fair value assets backing insurance liabilities and life investment contract liabilities in the context of Phase 2 of the insurance project, but that now is not the time for such a review. The Board considered that it is appropriate to maintain the principle of fair valuing assets backing insurance liabilities and life investment contract liabilities at this stage.

The Board agreed it should consider a draft Exposure Draft at its next meeting.

Action: Staff

## Close of Meeting

The Chairman closed the meeting at 3:50 p.m. on Thursday 13 November 2008.

## Approval

Signed by the Acting Chairman as a correct record  
this seventeenth day of December 2008.

## ATTACHMENT A

### Superannuation Plans and Approved Deposit Funds

Agenda item 3

The Board considered draft ED 16X *Superannuation Plans and Approved Deposit Funds* (Agenda Paper 3.5) and decided to:

- (a) amend the document to ensure that transaction costs are referred to consistently throughout the ED;
- (b) consistent with minute item 3, fourth (a), replace paragraph 7 with a 'grey letter' paragraph that outlines the principles that a superannuation plan or approved deposit fund would apply in determining whether the disclosure principles and requirements in other Australian Accounting Standards would apply in addition to those identified in the draft ED;
- (c) include in the Basis for Conclusions an explanation of why paragraph 8 of the ED proposes defined contribution and defined benefit members' accrued benefits always be recognised as liabilities;
- (d) delete any unnecessary cross-references in the ED to other paragraphs in the ED;
- (e) consistent with minute item 3 fourth (a), amend paragraph 12 to require a superannuation plan or approved deposit fund to recognise defined contribution members' vested benefits as liabilities. In addition, include a question in the draft ED asking constituents whether the Standard should require a superannuation plan or approved deposit fund to recognise the unvested amount of defined contribution members' benefits as a liability;
- (f) combine paragraphs 13 and 14 to form one 'black letter' paragraph;
- (g) amend the second sentence of paragraph 15 to ensure that it is a complete sentence;
- (h) amend paragraphs 18, AG19, AG21 and AG28 – AG29 and their associated headings to clarify that the discount rate is an actuarial assumption;
- (i) amend paragraph 26 by inserting the words 'recognised and' prior to the word 'presented' each time it appears in the paragraph. In addition, paragraph 26 should be moved to a more appropriate location closer to paragraphs 9 and 10;
- (j) amend paragraph 26(b) to clarify that current and deferred tax items relating to items recognised and presented in the profit or loss of a superannuation plan or approved deposit fund should not be presented in the statement of members' accrued benefits;
- (k) combine paragraphs 28 and 29 into one 'black letter' paragraph and clarify that:
  - (i) the items used to calculate goodwill or discount of subsidiaries are measured as at each reporting date; and
  - (ii) a parent superannuation plan or parent approved deposit fund recognises all of the assets and liabilities of a subsidiary at acquisition date in a manner consistent with the recognition requirements in AASB 3 *Business Combinations* and measures the subsidiaries' assets and liabilities (except for tax balances) at fair value adjusted for transaction costs;
- (l) include a question in the ED asking constituents whether the Standard should require a parent superannuation plan or parent approved deposit fund to:
  - (i) treat goodwill and discount of subsidiaries in a symmetrical manner, whereby goodwill of subsidiaries is presented as an asset and discount of subsidiaries is presented as a liability in the consolidated statement of financial position; or



- (ii) present goodwill of subsidiaries as an asset in the consolidated statement of financial position and treat discount of subsidiaries in a manner consistent with the treatment of a 'gain on a bargain purchase' under AASB 3;
- (m) include a question in the draft ED asking constituents whether the terms 'goodwill of subsidiaries' and 'discount of subsidiaries' are appropriate terms to use in the context or whether there are other terms that might more be more appropriate or more clearly convey the nature of the items to users;
- (n) relocate the contents of paragraph 32 to a position closer to the end of the body of the ED;
- (o) amend paragraph 40(b) and the relevant paragraphs in Appendix B to clarify that a superannuation plan or approved deposit fund would be required under the Standard to disclose a measure of the financial performance and financial position of each segregated group of assets in a manner consistent with the approach under AASB 8 *Operating Segments*, rather than detailed information equivalent to that presented on the face of the financial statements;
- (p) amend paragraph 47 to clarify that a superannuation plan or approved deposit fund is required to disclose at each reporting date information about any related party relationship or transaction that it was involved in during the reporting period;
- (q) delete paragraph 48 because it implies that general purpose consolidated financial statements might not meet the information needs common to users who are unable to command the preparation of consolidated reports tailored so as to satisfy, specifically, all of their information needs;
- (r) consistent with (b) above, delete paragraph AG1 of Appendix B and amend paragraph AG1A of Appendix B to provide an explanation of how a superannuation plan or approved deposit fund would meet the disclosure principles identified in paragraph 7 of the ED;
- (s) amend paragraph AG3 of Appendix A by deleting the words 'guidance in' and 'including paragraphs AG69-AG82 of Appendix A to AASB 139';
- (t) amend paragraph AG5 by clarifying that an investment in, for example, a unit trust should be presented as such in the statement of financial position and the description of the unit trust should reflect the nature of the unit trust and/or the nature of the assets underlying the unit trust;
- (u) delete paragraph AG9 because the concept of materiality applies with respect to all items recognised and disclosed in general purpose financial statements and therefore it is unnecessary to specifically discuss the application of the concept in the context of transaction costs;
- (v) amend paragraph AG10 by deleting the last sentence and inserting an example illustrating how a defined benefit obligation of a superannuation plan would develop as members' benefits are attributed to successive reporting periods;
- (w) amend paragraph AG11 by deleting the last sentence;
- (x) amend paragraph AG14 by deleting the words 'and would not necessarily use a straight-line basis as required under AASB 119 for a defined benefit obligation of an employer sponsor';
- (y) include a question in the ED asking constituents whether the Standard should:
  - (i) permit a superannuation plan with defined benefit members who will accrue materially higher levels of benefits as they near retirement age to use a method of its choosing to attribute such members' benefits to reporting periods, provided that the method is appropriate for the plan's circumstances;
  - (ii) require a plan to attribute such members' benefits on a straight-line basis in a manner consistent with the approach required under AASB 119 *Employee Benefits* for defined benefit obligations; or

- (iii) require a plan to attribute such member's benefits to reporting periods on a basis other than a straight-line basis;
- (z) amend paragraph AG15 by deleting the last sentence and inserting an example illustrating how a superannuation plan might measure the benefit cost of a defined benefit obligation for a reporting period;
- (aa) amend paragraph AG16 by deleting the last sentence and inserting an example illustrating how a superannuation plan might measure a defined benefit obligation under different vesting arrangements;
- (ab) amend paragraph AG18 by deleting the last sentence and inserting an example illustrating how a superannuation plan might attribute defined benefits to reporting periods when the benefit is a fixed proportion of members' final salaries;
- (ac) amend paragraph AG29 by clarifying that yields on government bonds may provide a basis for determining the discount rate for a superannuation plan with defined benefit obligations;
- (ad) delete paragraph AG32 because it does not provide any additional guidance to that provided in paragraph 20;
- (ae) delete paragraph AG37 because it does not provide any additional guidance to that provided by the definition of benefit cost in Appendix A;
- (af) amend paragraph AG43 by deleting sub-paragraph (b) and include a question in the draft ED asking constituents whether a superannuation plan or approved deposit fund should be required to separately disclose any contribution surcharge amounts;
- (ag) amend paragraph AG55 by deleting the word 'above';
- (ah) amend paragraph 56 by deleting sub-paragraph (b)(iv) because a superannuation plan or approved deposit fund would be required to disclose information in relation to any major sources of estimation uncertainty that have a significant risk of resulting in material adjustments to assets and liabilities under paragraph 125 of AASB 101 *Presentation of Financial Statements*;
- (ai) amend paragraphs AG57 – AG69 by clarifying that:
  - (i) the financial risks to which a superannuation plan or approved deposit fund is exposed would include liquidity risk, particularly in relation to member benefit payments, and credit risk in relation to some assets; and
  - (ii) consistent with paragraphs AG68 and AG69, a superannuation plan or approved deposit fund would be expected to apply a 'through the eyes of management' approach with respect to risk disclosures rather than limiting its risk disclosures to those that meet the minimum requirements identified in Appendix B;
- (aj) amend paragraph AG59 by deleting the last sentence because, under AASB 7 *Financial Instruments: Disclosures*, the materiality of risk exposures is expected to be assessed at an entity level;
- (ak) delete paragraph AG60 because the remainder of the guidance in paragraphs AG57 – AG69 clearly indicates that a superannuation plan or approved deposit fund is only required to disclose information about the financial risks to which it is exposed;
- (al) consistent with (u) above, amend paragraph AG65(b) by deleting the words 'unless the risk is not material';
- (am) amend paragraph AG67(c) by deleting the words 'in equities' because paragraph B23 of AASB 7 states, in part, that: "currency risk does not arise from financial instruments that are non-monetary items or from financial instruments";

- (an) amend the first sentence of paragraph AG70 by deleting the words 'would normally' and 'in order';
- (ao) amend paragraph AG72 by clarifying that a superannuation plan or approved deposit fund would disclose, as a minimum, the following for each segregated group of assets:
  - (i) a description of the type and nature of the assets;
  - (ii) the fair value less transaction costs of each asset; and
  - (iii) the fair value less transaction costs of the total assets;
- (ap) amend paragraphs AG72 – AG77 by replacing the word 'material' with 'segregated';
- (aq) amend paragraph AG73 by specifically linking the guidance in the paragraph to the disclosure principle in paragraph 40(c) of the Standard;
- (ar) amend paragraph AG74 by:
  - (i) replacing the words 'capital gains and losses' in (c) with the words 'realised and unrealised gains or losses'; and
  - (ii) deleting (e) because tax liabilities and assets are more generally associated with an entity's financial position rather than its financial performance;
- (as) amend paragraph AG79 by relocating sub-paragraphs (a) and (b) to paragraph AG78;
- (at) amend paragraphs BC45 – BC47 to explain the Board's reasons for each of the proposed departures from the measurement requirements in AASB 119 *Employee Benefits* for defined benefit liabilities and assets.

## ATTACHMENT B

### IPSASB Conceptual Framework

Agenda Item 11

The Board decided that its submission on the Consultation Paper should:

- (a) note the experience in Australia of having a Conceptual Framework that is sector-neutral in concept and expression;
- (b) encourage the IPSASB to work with the IASB and FASB in developing concepts for not-for-profit entities; and
- (c) recommend that the IPSASB applies its 'Rules of the Road' to identify when modifications to the IASB-FASB Framework are warranted for public sector reasons.

### IPSASB Preliminary Views

In relation to the Preliminary Views in the IPSASB Consultation Paper, the Board decided that:

- (a) it agrees with the authority of the IPSASB Framework proposed in Preliminary View 1 (see below);

#### Preliminary View 1

The IPSASB Framework will not establish new authoritative requirements for financial reporting by public sector entities that adopt IPSASs, nor will it override the requirements of existing IPSASs.

In selecting accounting policies to deal with circumstances not dealt with in IPSASs or other guidance issued by the IPSASB, public sector entities will refer to, and consider the applicability of, the definitions, recognition criteria, measurement principles, and other concepts identified in the IPSASB Framework.

- (b) it agrees with the description of GPFRs in Preliminary View 2 (see below);

#### Preliminary View 2

GPFRs are financial reports intended to meet the common information needs of a potentially wide range of users who are unable to demand the preparation of financial reports tailored to meet their specific information needs.

- (c) it agrees with the users of financial reports identified in Preliminary View 3 (see below), and with the proposal not to identify a primary user group in respect of General Purpose Financial Reports (GPFRs) of public sector entities;

#### Preliminary View 3

As a mechanism for focusing on their common information needs, the potential users of GPFRs of public sector entities are identified as:

- recipients of services or their representatives;
- providers of resources or their representatives; and
- other parties, including special interest groups and their representatives.

The legislature is a major user of GPFRs. It acts in the interest of members of the community, whether as recipients of services, providers of resources, or citizens with an interest in, or need for, particular services or activities.

- (d) it agrees with identifying the legislature as a major user of GPFs of public sector entities, provided that the legislature is not identified as the primary user of those GPFs;
- (e) its submission on the Consultation Paper should propose acknowledging management as a user of GPFs, in a similar manner to the acknowledgement in Statements of Accounting Concepts SAC 1 *Definition of the Reporting Entity* and SAC 2 *Objective of General Purpose Financial Reporting*;
- (f) it broadly agrees with the objectives of financial reporting proposed in Preliminary View 4 (see below), but it considers that:
- (i) providing information useful for making 'political and social decisions' should be described as an aspect of providing information for accountability purposes, rather than linked with resource allocation decisions;
  - (ii) greater emphasis should be given to providing information useful for assessing the entity's future cash flows, because all entities need cash to achieve their objectives (regardless of whether those objectives are for-profit or not-for-profit); and
  - (iii) it should be stressed that information useful for accountability purposes will largely be the same as information useful for making resource allocation decisions;

Preliminary View 4

The objectives of financial reporting by public sector entities are to provide information about the reporting entity useful to users of GPFs for:

- accountability purposes; and
- making resource allocation, political and social decisions.

- (g) it broadly agrees with the scope of financial reporting proposed in Preliminary View 5 (see below), but considers that:
- (i) the amount of non-financial and prospective information included in the scope of financial reports should be limited to information best communicated in financial reports, given that:
    - non-financial information can also be provided through other means; and
    - financial reports cannot provide all information that is useful for accountability purposes and making resource allocation decisions;
  - (ii) the reference to providing information about compliance should be clarified as relating only to externally-imposed requirements relating to the raising and use of resources from taxpayers and ratepayers (to reflect more clearly the IPSASB's intent); and
  - (iii) compliance reporting should include any information about breaches of externally-imposed requirements that have occurred and are relevant to assessments of the entity's performance, financial position or financing and investing activities;

## Preliminary View 5

The scope of financial reporting encompasses the provision of financial and non-financial information about:

- economic resources of the reporting entity at the reporting date and claims to those resources;
- the effect of transactions, other events, and activities that change the economic resources of the reporting entity and claims to those resources during the reporting period, including cash inflows and outflows and financial performance;
- the reporting entity's compliance with relevant legislation or regulation and legally adopted or approved budgets used to justify the raising of monies from taxpayers and ratepayers;
- the reporting entity's achievement of its service delivery objectives; and
- prospective financial and other information about the reporting entity's future service delivery activities and objectives, and the resources necessary to support those activities.

It also encompasses explanatory material about: (a) the major factors underlying the financial performance of the entity, the achievement of its service delivery and other objectives and the factors which are likely to influence its performance in the future; and (b) the assumptions underlying and major uncertainties affecting the information included in GPFs.

- (h) it agrees with the proposal about the scope of financial reporting in Preliminary View 6 (see below);

## Preliminary View 6

The scope of financial reporting should evolve in response to users' information needs, consistent with the objectives of financial reporting.

- (i) it agrees with the qualitative characteristics of financial information proposed in Preliminary View 7 (see below), and with the IPSASB's proposal not to classify the qualitative characteristics as fundamental or enhancing;

## Preliminary View 7

The qualitative characteristics of information included in GPFs of public sector entities are:

- relevance, which encompasses confirmatory value, predictive value, or both;
- faithful representation, which is attained when depiction of economic or other phenomena is complete, neutral, and free from material error;
- understandability;
- timeliness;
- comparability; and
- verifiability (including supportability).

Constraints on financial reporting are materiality, cost, and achieving an appropriate balance between the qualitative characteristics.

- (j) it considers that, in view of the IPSASB proposing the same qualitative characteristics as those proposed in Chapter 2 of the corresponding IASB-FASB Exposure Draft (May 2008), it should use the same guidance to explain those characteristics;
- (k) it agrees with the characteristics of a reporting entity proposed in Preliminary View 8 (see below);

## Preliminary View 8

The key characteristic of a reporting entity is the existence of users who are dependant on GPFRs of the entity for information for accountability purposes, and for making resource allocation, political, and social decisions.

A public sector reporting entity may be an entity with a separate legal identity or other organisational structure or arrangement.

- (l) an implication of Preliminary View 8 is that the composition of a reporting entity depends entirely on the information needs of users, whether determining the level at which to aggregate different entities or to disaggregate within an entity. Therefore, it considers that the IPSASB should explain why, at a concepts level, it is necessary to define the composition of a group reporting entity;
- (m) it would be desirable to explain that, once having identified the entity in which users have an interest, the boundaries of a reporting entity (whether a group or otherwise) define all of the resources and obligations that should be reported in respect of that entity (a vertical notion). In contrast, the issue of when to horizontally combine entities (such as entities under common control) should result directly from users' needs, without needing to specify at a conceptual level which entities should be included in a horizontal combination;
- (n) the points in (l) and (m) should be form the basis of the Board's main comments on the composition of a group reporting entity proposed in Preliminary View 9 (see below); and
- (o) in respect of Preliminary View 9, it also considers that:
- (i) the IPSASB should explain why being exposed to a financial burden that can arise as a result of the operations or actions of another entity would not be encompassed by benefiting from the activities of that entity;
  - (ii) reputational risk (which has been identified as a factor in service concession arrangements) should be discussed in respect of being exposed to a financial burden arising from another entity;
  - (iii) the IPSASB should signpost that the elements phase of the Conceptual Framework project will need to resolve the issue about whether an entity and its resources are controlled or administered by an entity; and
  - (iv) the IPSASB should discuss in greater detail the issue of 'regulatory control', and test that notion against the acquisitions by government currently occurring in some jurisdictions including the United States of America in response to the 'credit crisis'.

## Preliminary View 9

A group reporting entity will comprise the government (or other public sector entity) and other entities when the government (or other public sector entity):

- has the power to govern the strategic financing and operating policies of the other entities (a "power criterion"); and
- can benefit from the activities of the other entities, or is exposed to a financial burden that can arise as a result of the operations or actions of those entities; and can use its power to increase, maintain, or protect the amount of those benefits, or maintain, reduce, or otherwise influence the financial burden that may arise as a result of the operations or actions of those entities (a "benefit or financial burden/loss" criterion).