



Issue: Number 148
Date: 9 December 2011
Subject: AASB Meeting 121, 7-8 December 2011

1. Overview

At this meeting the Board discussed in detail key issues relating to:

- (a) Control in the NFP Public and Private Sector (see section 2); and
- (b) Accounting for the Proposed Minerals Resource Rent Tax (see section 3).

The Board also:

- (a) continued to monitor and form views on IASB projects/consultation documents: Consolidation – Investment Entities; Revenue from Contracts with Customers; Leases; Financial Instruments; Government Loans and IASB Agenda Consultation (see sections 4 – 9);
- (b) received a progress report on of its domestic project – Differential Reporting Research (see section 11); and
- (c) received reports relating to a range of other topics and organisations – IFRS Interpretations Committee; IPSASB Consultation on Reporting Service Performance Information; Extractive Industries Transparency Initiative; UK Financial Reporting Council – Public Consultation on its future role; and AOSSG (see sections 10, 12 – 15).

A list of recently approved documents is provided in section 17, and documents open for comment are listed in section 18.

2. Control in the NFP Public and Private Sector project

The Board commenced a paragraph-by-paragraph review of AASB 10 *Consolidated Financial Statements* and considered key issues relevant to amending that Standard to address NFP sector specific issues.

The Board tentatively decided that the principles in AASB 10 can be applied in a not-for-profit (NFP) context, albeit using professional judgement, but that certain aspects of those principles would warrant NFP-specific implementation guidance. Accordingly, among other things, the Board decided that:

- (a) because many of the terms used in AASB 10 are for-profit oriented, the body of the Standard should include some explanations of how those terms would be applied in a NFP context; and

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- (b) implementation guidance outside the body of the Standard could include clarification of, from a NFP perspective:
- (i) the application of the elements of control including: power, returns and variable returns;
 - (ii) regulatory power and its relationship to protective rights compared with participatory rights;
 - (ii) the principles relating to delegated power (including the notion of agent/principal), particularly in a public sector context; and
 - (iv) the principles relating to whether parts of entities ('silos') should be consolidated, particularly in relation to trust fund structures in the NFP sector.

In making these decisions, the Board acknowledged there are some associated fundamental issues beyond the scope of AASB 10. They include issues particularly relevant in the public sector context relating to the nature of government departments as reporting entities and the role disaggregated information in whole of government financial reports might play in providing relevant information to users. The Board noted that it intends addressing these issues – but observed that they do not need to be addressed prior to clarifying the application of the notion of control in AASB 10 for NFP entities.

The Board plans to consider a first draft of an Exposure Draft reflecting the above decisions, together with some worked examples, at its February 2012 meeting.

3. Proposed Minerals Resource Rent Tax

The Board considered a staff analysis of potential accounting issues relating to the proposed Minerals Resource Rent Tax (MRRT) and extended Petroleum Resource Rent Tax (PRRT). The Board also considered a number of letters received from constituents and feedback from targeted outreach performed by staff. The Board was of the view that:

- (a) the proposed MRRT would be an income tax within the scope of AASB 112 *Income Taxes*, either directly, or by analogy to AASB Interpretation 1003 *Petroleum Resource Rent Tax*. Accordingly, the Board decided to issue a Proposed Agenda Decision conveying its view that existing guidance in Australian Accounting Standards and Interpretations is sufficient to address the issue and it does not expect that significantly divergent interpretations should arise in practice;
- (b) it would not be appropriate to apply the initial recognition exemption in AASB 112 to the introduction of the proposed MRRT and extended PRRT, on the basis that the assets to which the proposed MRRT and extended PRRT would apply are already recognised;
- (c) in relation to accounting for the 'starting base market value uplift' that would be available under the proposed MRRT and extended PRRT, the application of AASB 112 would require an entity to reflect an increase in the deductions available (resulting in future tax payments being smaller than if no

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uplift were to occur) as a deductible temporary difference giving rise to a deferred tax asset to the extent it meets the recognition criteria in AASB 112. Accordingly, the Board decided to issue a Proposed Agenda Decision conveying its view that existing guidance in Australian Accounting Standards and Interpretations is sufficient to address the issue and it does not expect that significantly divergent interpretations should arise in practice;

- (d) in relation to accounting for payments to State Governments for royalties that can be credited against MRRT/PRRT payable, there were two ways in which AASB 112 might be applied. Some might interpret them as being production costs and that the MRRT/PRRT payable should be recognised on the incremental amount to be paid. Others might interpret the royalties as being prepaid MRRT/PRRT under existing Australian Accounting Standards. The Board did not see any difficulty with the first view under AASB 112, and, whilst not disagreeing with the alternative view, decided, in relation to it, to initiate its Interpretations Protocols, including raising the issue with the IFRS Interpretations Committee. The Board noted that both approaches could lead to the same net income, but would differ as to the classifications of expenses;
- (e) in relation to the question of substantive enactment of the enabling legislation for MRRT and extended PRRT, the principles in AASB Interpretation 1039 *Substantive Enactment of Major Tax Bills in Australia* are relevant. Accordingly, the Board decided to issue a Proposed Agenda Decision that conveys this view, noting that the application of the principles in AASB Interpretation 1039 requires judgement; and
- (f) it would not be necessary to undertake further research into potential improvements that could be made to AASB 112 to address the potential practical issues of applying AASB 112 to the proposed MRRT and extended PRRT. However, consideration should be given to reviewing AASB Interpretation 1039.

4. Consolidation – Investment Entities

The Board considered the comments received through submissions and staff liaison with constituents on AASB ED 220 *Investment Entities*, which incorporates the IASB's ED/2011/4 *Investment Entities*.

The Board agreed to include in its submission to the IASB its strong concerns about the proposals, on the basis that they are:

- (a) a rule-based departure from the principle that entities consolidate the items that they control, which underpins financial reporting;
- (b) the exception from consolidation is likely to lead to inconsistent reporting by entities with effectively the same circumstances; and

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- (c) the proposed changes to the scope exception for equity accounting would be a backward step because, in many circumstances, entities would be prevented from applying fair value measurement to investees that are not controlled.

Board members were divided, in terms of the main reasons for their concerns, between those with fundamental concerns with making an exception and those who were concerned about how to delineate investment entities and apply the exception.

5. Revenue from Contracts with Customers

The Board received a further education session on the recently released IASB ED/2011/6 *Revenue from Contracts with Customers*. No decisions were made.

6. Leases

The Board received an update on the tentative decisions made by the IASB and the FASB in their October 2011 and November 2011 meetings on the Leases project. The Board decided that, whilst it had some concerns about some aspects of the recent decision, none of those decisions gave it cause to write to the IASB at this stage, given the IASB's decision to re-expose the Leases proposals in the first half of 2012.

7. Financial Instruments

IFRS 9

The Board received an update on the decisions made by the IASB in its November 2011 meetings on financial instruments. In particular, the Board noted the IASB's decision to amend IFRS 9 *Financial Instruments* to defer its mandatory effective date to annual periods beginning on or after 1 January 2015 (rather than 1 January 2013) and the IASB's decision to make limited improvements to IFRS 9. No decisions were made.

Macro hedge accounting

The Board received an education session on macro hedge accounting. No decisions were made.

8. Accounting for Government Loans by First-time Adopters

The Board discussed the proposed amendments, arising from AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*, contained in AASB ED 221 *Government Loans (proposed amendments to AASB 1)*, which incorporates the IASB's ED/2011/5 *Government Loans*. After considering the submission received, the Board decided to express support to the IASB for the proposals.

The Board also considered whether AASB 1004 *Contributions* should give rise to a similar kind of amendment to AASB 1 for NFP first-time adopters of Australian Accounting Standards – to provide relief from retrospective application of the fair value requirements in AASB 1004. The Board decided to consider

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this issue in the context of the Board's active project on Income of NFP Entities, which includes a review of AASB 1004. The Board will also consider the merits of making an amendment for current AASB 1004 in the short term.

9. IASB Agenda Consultation

The Board noted the comments received on AASB Invitation to Comment 25, which incorporates the IASB Request for Views *Agenda Consultation 2011*.

The AASB confirmed that its submission should:

- (a) support one set of global standards for all types of reporting entities;
- (b) urge the IASB to focus on global IFRS adoption, rather than convergence with US GAAP;
- (c) support continued work on the Conceptual Framework;
- (d) emphasise the need to deal with projects at a broad level to help avoid inconsistent outcomes for similar items and as a way of making the body of IFRSs more cohesive and less complex;
- (e) advocate that the IASB considers existing IFRSs with a view to identifying those that are not needed; and
- (f) highlight the need for some resources to be devoted to researching strategic issues.

10. IFRS Interpretations Committee

The Board noted the progress the IFRS Interpretations Committee is making on various projects.

11. Differential Reporting Research Project

The Board received its third update on the progress of the Differential Reporting research project from external consultants. The research project was initiated to address the following issues:

- (a) whether the population of non-reporting entities has consistent characteristics; and
- (b) the nature of the accounting policies adopted by non-reporting entities.

The consultants supplemented their previously reported preliminary findings with further results obtained in extending their tests to the whole sample of large proprietary companies under consideration. Preliminary results were also reported in relation to other categories of companies being examined. The consultants expect to draw together their findings, for the current stage of the research into corporates, in a February 2012 report.

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The research is continuing, and will include extending statistical tests to the full samples of all categories of lodging entities. Consideration of factors affecting the choice between general purpose and special purpose financial statements, where such a choice is available, will also be part of the future analyses.

12. IPSASB Consultation Paper *Reporting Service Performance Information*

The Board decided to make a submission to the IPSASB on its Consultation Paper (CP) *Reporting Service Performance Information*.

Given the AASB's Service Performance Reporting project is proceeding under the working assumption that a principles-based Standard on the topic might be developed, the Board decided its submission should reflect that approach, whilst acknowledging that the IPSASB might have a less ambitious objective. On that basis, the Board decided its submission should recommend the IPSASB considers:

- (a) establishing principles that should be applied in determining what service performance information should be reported in general purpose financial reports to meet the needs of users, instead of providing a list of service performance information that could be reported;
- (b) explicitly defining service performance reporting and the scope of service performance information that belongs in general purpose financial reporting;
- (c) broadening the focus of reporting service performance information to include information about the capacity to provide goods and services and the change in that capacity during the reporting period; and
- (d) clarifying the ambiguity in some of the working definitions and examples in the CP.

The Board's submission will be finalised out of session, unless in the interim the Board is made aware of additional concerns about the CP not addressed during the meeting.

13. Extractive Industries Transparency Initiative

The Board received a briefing on the Extractive Industries Transparency Initiative (EITI) and the Australian EITI pilot scheme that is to commence on 1 July 2012, and decided to continue to monitor developments regarding any implications they might have for general purpose financial reporting.

14. UK Financial Reporting Council (FRC) – Reform Proposals

The Board considered reform proposals in relation to the UK FRC. Some of those proposals would, if implemented, significantly affect the UK Accounting Standards Board. The Board also had before it a draft personal submission prepared by the AASB Chairman. The Board concluded that the submission most appropriately should be made personally by the Chairman.

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15. Asian-Oceanian Standard-Setters Group (AOSSG)

The AASB hosted the third annual Asian-Oceanian Standard-Setters Group (AOSSG) meeting on 23-24 November 2011. The meeting, which focused on current developments in International Financial Reporting Standards (IFRSs), was also attended by 8 members and staff of the International Accounting Standards Board. Lynn Wood, Chair of the Australian Financial Reporting Council, gave the opening address. Two IASB Trustees and a Deputy Chair of the IASB Advisory Council also attended the conference.

At the meeting the IASB Chairman, Hans Hoogervorst, stressed the importance of both domestic standard-setting and regional arrangements. The IASB has acknowledged the importance of the transition to IFRS in this region as being a key plank in the move to global standards. The IASB and the AOSSG renewed their commitment to work closely together.

The conference involved detailed interchanges between each of the AOSSG Working Groups and the IASB attendees.

Australia has taken over as the Chair of the 25-jurisdiction grouping for the next two years, supported by Hong Kong as Vice Chair.

For more information about the AOSSG, please visit <http://www.aossg.org/>

16. Board Membership

The Board farewelled Glenn Appleyard, who is retiring after the maximum three terms of service. The Board thanked Glenn for his valuable contributions over nine years, particularly in relation to the public sector.

17. Recently Approved Documents

Since 25 October 2011, the following Standards or Consultation documents have been issued:

- AASB Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine*, effective from 1 January 2013 with early application permitted;
- AASB 2011-12 *Amendments to Australian Accounting Standards arising from Interpretation 20*, effective from 1 January 2013 with early application permitted;
- ED 222 *Revenue from Contracts with Customers*, which incorporates IASB ED/2011/6, open for comment until 9 February 2012;
- Tier 2 Supplement to ED 222 *Revenue from Contracts with Customers*, also open for comment until 9 February 2012; and
- ED 223 *Superannuation Entities*, open for comment until 30 April 2012.

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18. Documents Open for Comment

The following documents are open for comment. AASB submissions are published on the AASB website.

| Originating Organisation | Document | AASB No. | AASB Due Date | Other Organisation Due Date |
|--------------------------|--|----------|------------------|-----------------------------|
| IIRC | Integrated Reporting (Discussion Paper) | – | – | 14 December 2011 |
| AASB | Users' Views Questionnaire on the Initial Accounting for Intangible Assets Acquired in Business Combinations | – | 15 December 2011 | – |
| IASB | Investment Entities | ED 220 | expired | 5 January 2012 |
| IASB | Government Loans | ED 221 | expired | 5 January 2012 |
| UK FRC | Proposals to Reform the Financial Reporting Council | – | – | 10 January 2012 |
| AASB | Extending Related Party Disclosures to the Not-for-Profit Public Sector | ED 214 | 31 January 2012 | – |
| IASB | Revenue from Contracts with Customers | ED 222 | 9 February 2012 | 13 March 2012 |
| AASB | Tier 2 Supplement to ED 222 <i>Revenue from Contracts with Customers</i> | – | 9 February 2012 | – |
| IPSASB | Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances (Exposure Draft) | – | – | 29 February 2012 |
| IPSASB | Reporting Service Performance Information (Consultation Paper) | – | – | 15 April 2012 |
| AASB | Superannuation Entities | ED 223 | 30 April 2012 | – |

Minutes

The Board approved the minutes of Meeting 120, held on 26 October 2011. These are now available on the AASB's website.

Next Meeting 15-16 February 2012

It is expected the Board will deal with the following items:

- AASB 1049 – specialised military equipment
- Accounting for a Carbon Tax

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- Proposed Minerals Resource Rent Tax and extended Petroleum Resource Rent Tax
- Tier 2 (RDR) – collation of comments on various EDs
- ED 212 *Not-for-Profit Entities within the General Government Sector* – collation of comments
- Service Performance Reporting
- Financial Instruments
- Control in the NFP Public and Private Sector
- Revenue from Contracts with Customers
- Income of NFP Entities
- Leases
- IPSASB ED - Long Term Sustainability of a Public Sector Entity's Finances
- IASB ED Annual Improvements 2011-2012
- IFAC Consultation Paper – Oversight of IPSASB

Future Meeting Dates

The 2012 meeting dates are:

- 15-16 February
- 14-15 March (if required)
- 18-19 April
- 6-7 June
- 25-26 July
- 5-6 September
- 31 October – 1 November (revised dates)
- 12-13 December

Unless indicated otherwise, meetings are held in Melbourne.

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