



Issue: Number 131
Date: 5 February 2010
Subject: AASB Meeting 104, 3-4 February 2010

Differential reporting

The Board considered and decided how it would deal with issues arising from members' comments on the working drafts of an Exposure Draft ED 1XX *Revised Differential Reporting Framework* and related proposed disclosures under a Reduced Disclosure Regime (RDR). These issues include the nature of transitional arrangements for entities adopting the RDR, reduced disclosures relating to Interpretations, and categories of entities typically considered to be publicly accountable in the Australian context. The working drafts were posted on the AASB website on 23 December 2009. It is expected that the Exposure Draft (including proposed disclosures under an RDR) will be issued for comment this month, along with Consultation Paper *Differential Financial Reporting – Reducing Disclosure Requirements* issued in draft form in December 2009. The Board agreed to propose an application date of periods beginning on or after 1 July 2012, with the objective of having the RDR available for early adoption for 30 June 2010 year ends.

National Cooperatives Law Submission

The Board noted proposals of NSW Fair Trading on behalf of Australian governments for a revised financial reporting regime benchmarked to the requirements of the *Corporations Act 2001* for adoption as national cooperatives law. The proposals include identifying large cooperatives that would apply accounting standards and small cooperatives that would be exempt from financial reporting.

The Board agreed to make a brief submission on the proposals with a view to subsequently meeting with the relevant regulators to discuss the use of the reporting entity concept, the potential role of a RDR, and identifying those cooperatives that might be given as examples of publicly accountable entities.

Superannuation

The Board continued its redeliberations on ED 179 *Superannuation Plans and Approved Deposit Funds*. The Board considered the balance of constituents' comments on ED 179 and made a number of decisions, including that the replacement Standard for AAS 25 *Financial Reporting by Superannuation Plans* should:

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- (a) where necessary and applicable, refer to the disclosure principles and requirements in other relevant Australian Accounting Standards rather than replicate or paraphrase those disclosure principles and requirements;
- (b) consistent with the proposals in ED 179, the Standard should require a parent plan that prepares separate financial statements to present its separate and consolidated financial statements together; and
- (c) consistent with the approach proposed in ED 179, not require a plan or ADF to disclose its management expense ratio, but require disclosure of information relevant to calculating such a ratio.

In addition, the Board reconsidered the basis for measurement of defined benefit members' accrued benefits and decided that the replacement Standard for AAS 25 should:

- (a) require defined benefit members' accrued benefits to be measured in accordance with the approach under AASB 119 *Employee Benefits* for defined benefit obligations, consistent with the proposal in ED 179;
- (b) note in the Basis for Conclusions that it would be more consistent for defined benefit members' accrued benefits to be measured at fair value. Although the approach under AASB 119 for measuring defined benefit obligations is not fair value, the Board noted that, in due course, the IASB's proposed fundamental review of post-employment benefit accounting might result in fair value measurement for defined benefit obligations; and
- (c) require the separate disclosure of the components of remeasurement changes in defined benefit members' accrued benefits, including benefit cost, interest cost and actuarial gains and losses, consistent with the proposals in ED 179.

Furthermore, the Board decided that, despite APRA's decision to defer the update of its superannuation statistical collections and publications pending the outcome of the Cooper Review, the Board should commence redeliberations at a future meeting on the disclosure proposals in ED 179 in relation to the arrangement and management of assets ('segregated financial disclosures').

The Board will continue its deliberations on ED 179 at its April 2010 meeting.

GAAP/GFS harmonisation for entities within the GGS

The Board considered alternative approaches that might overcome its reservations about issuing a Standard based on the proposals in ED 174 *Amendments to Australian Accounting Standards to facilitate GAAP/GFS Harmonisation for Entities within the GGS [AASBs 101, 107 and 1052]*. The Board did not favour a Standard that would specify the financial reporting if a jurisdiction or entity opted for GFS-harmonisation financial reporting at the level of an entity within the GGS. The alternative approach, recommended by staff, was aimed at substantively improving the financial reporting of, and comparability between, entities within the GGS. The Board acknowledged that such a Standard might be justified if its aims can be met. The Board

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directed staff to further develop its recommendations for the content of a Standard focusing explicitly on improving the usefulness of general purpose financial statements of entities within the GGS, having regard to cost/benefit considerations and the Board's other projects. Matters to be considered include:

- (a) recognition and measurement (staff were asked to confirm the current requirements of the Commonwealth, States and Territories in relation to revaluations at the level of entities within the GGS);
- (b) disclosure (or presentation) of information relating to the classification of line items (e.g. transactions and other economic flows);
- (c) disclosure of budgetary information;
- (d) disclosure of disaggregated information;
- (e) disclosure of administered items; and
- (f) transitional requirements.

The Board noted that such a Standard would go significantly beyond the proposals of ED 174 and would most likely require further due process through an Exposure Draft if it were to proceed.

Related party disclosures for not-for-profit public sector entities

The Board considered a draft project plan on related party disclosures for not-for-profit (NFP) public sector entities. The Board called for a paper to be prepared that considers whether AASB 124 *Related Party Disclosures*, including its requirements on remuneration of key management personnel, should be applied to such entities. In addition, further research should be undertaken to ascertain the nature of related party disclosures currently being made by NFP public sector entities.

Work program – public sector issues

The Board considered correspondence from the Australasian Council of Auditors-General (ACAG) and the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) relating to possible public sector agenda items. It also noted the topics being considered by the IPSASB for its future agenda. The Board noted the correlation between the various proposals most highly ranked by ACAG and HoTARAC and their relationship to the Board's active work program.

The Board will further consider possible public sector issues for its work program at its March meeting, in conjunction with discussion of the Board's planning for its technical activities.

IPSASB

The Board received an update on the December 2009 meeting of the IPSASB, at which the IPSASB approved five accounting standards for issue (covering financial instruments, intangible assets and improvements to IPSASs) and continued to develop its public sector conceptual framework. The IPSASB

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also discussed potential changes to its governance arrangements as well as its strategy and project priorities for the triennium 2010-2012. Those discussions will continue at the IPSASB's next meeting in April.

Australian/NZ convergence

The Board considered a draft joint AASB/NZ FRSB project plan on converging/removing the Boards' modifications to IFRSs, and agreed that the project should be progressed in three phases – for-profit entities; PBE/NFP entities; and differential reporting. In relation to the first phase, a draft document dealing with the majority of the issues pertinent to for-profit entities should be developed for consideration at the March 2010 joint meeting, with the intention that it forms the basis of the proposed Exposure Draft.

Financial instruments

The Board received an update on the IASB's financial instruments project (Replacement of IAS 39), dealing with the classification and measurement of financial liabilities, hedge accounting and derecognition.

The Board also noted the recently issued IPSASB financial instruments standards:

- IPSAS 28 *Financial Instruments: Presentation*;
- IPSAS 29 *Financial Instruments: Recognition and Measurement*, and
- IPSAS 30 *Financial Instruments: Disclosures*.

The Board considered high-level differences between those IPSASs and corresponding IASB standards – mainly accounting for financial guarantee contracts as financial instruments, as well as additional guidance and additional disclosure requirements on concessionary loans. The Board decided to discuss the differences and potential amendments to existing Australian Accounting Standards in more detail, in the context of the *Process for Modifying IFRSs for PBE/NFP*, with the NZ FRSB in March 2010.

Management commentary

The Board identified the main points to be included in its submission on the IASB Exposure Draft ED 2009/6 *Management Commentary* after considering constituents' comments on AASB ED 183 *Management Commentary* (which incorporated the IASB ED) and a comparison of the principles in ED 183 with the G100 publication *Guide to Review of Operations and Financial Condition*.

The Board agreed its submission should:

- (a) acknowledge that users need information contained in management commentary to help them understand financial statements, and suggest that the role of accounting standard setters on this issue should be resolved as part of IASB's Conceptual Framework project;
- (b) comment that, until the boundary of financial reporting issues are resolved, the AASB can accept the IASB proceeding with the management commentary project with a relatively low priority and issuing the final document in guidance form only; and

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- (c) comment that, if management commentary is part of financial reporting, it could have significant implications for many jurisdictions, for example, in relation to safe harbour provisions for forward-looking information and audit requirements.

The Board's submission will be available on the AASB website once it has been finalised.

IASB update and emerging issues

Measurement of liabilities in AASB 137

The Board received an update on Exposure Draft ED 191 *Measurement of Liabilities in AASB 137*, and expressed the following preliminary views on the IASB's proposals contained in that ED:

- (a) the IASB should be reluctant to fundamentally change requirements for the measurement of provisions until it develops consistent measurement principles for all liabilities through its Conceptual Framework project; and
- (b) if the IASB proceeds with the ED, the Board does not support adding a profit margin and a risk premium to an entity's expected cost of settlement when measuring all provisions. Instead, provisions should be measured at the present value of the expected cost of meeting the obligation involved.

At its next meeting, the Board will consider further the issues to address in its submission to the IASB.

Emissions trading

The Board received an update on the progress of the IASB's Emissions Trading Scheme project following the IASB/FASB joint meeting in December 2009. The IASB and FASB discussed the concept of whether, in the context of a voluntary scheme, the right to receive future allowances would create an asset. No decisions were made at that meeting.

ASIC Consultation Paper – Facilitating debt raising

The Board agreed that staff should discuss the proposals in ASIC's Consultation Paper 126 *Facilitating debt raising* directly with the ASIC staff to determine the extent to which the paper is intended to address matters pertinent to general purpose financial statements. This is to occur prior to deciding whether to make an AASB submission.

Treasury – corporate reporting reform proposals

The Board considered the Corporations Amendment (Corporate Reporting Reform) Bill 2010 and decided that an AASB submission should be made, focusing on financial reporting matters and particularly commenting that:

- (a) the Board supports the proposal to remove the need for parent entities to prepare and lodge parent financial statements when consolidated financial statements are provided. However, the Board does

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not support a requirement for summary parent information to be disclosed in either annual or interim financial reports;

- (b) although the Board agrees with the removal of the 'profit test' for dividends and replacing it with a 'solvency test', the Board thinks the 'solvency test' (which should focus on future cash flows) should be based in principle and not be tied to the balance sheet through a 'net assets test'. It also questioned whether the proposals were intended to be based on the actual balance sheet or on the values of net assets;
- (c) the Board agrees that, where relevant, directors should be required to express an opinion in the directors' declaration in relation to the compliance of financial statements and notes with IFRSs. However, the Board noted that many entities are not required to comply with IFRSs (for example, not-for-profit entities) and therefore thinks that the directors' declaration should, consistent with the requirements of the Australian Accounting Standards, include a directors' opinion about compliance with IFRSs only where (rather than whether) the financial statements and notes are prepared in accordance with IFRSs;
- (d) in relation to the proposals for a simplified directors' report for certain companies limited by guarantee, particularly the proposal for the directors' report to disclose service-performance-type information, the Board's project on service performance reporting by private sector not-for-profit entities will also address such matters; and
- (e) as part of the reform, consideration should be given to amending the law to facilitate the Board removing the current requirements in AASB 124 *Related Party Disclosures* relating to individual key management personnel.

Amendment to AASB 1 *First-time Adoption of Australian Accounting Standards*

The Board agreed to issue AASB 2010-1 *Amendments to Australian Accounting Standards – Limited Exemption from Comparative AASB 7 Disclosures for First-time Adopters*, which extends the transition provisions of AASB 2009-2 *Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments* to first-time adopters of Australian Accounting Standards. AASB 2010-1 is applicable to annual reporting periods beginning on or after 1 July 2010. Early adoption is permitted.

Interpretations

The Board noted the international and domestic Interpretation issues in progress as well as the IFRIC's tentative and final agenda decisions that arose out of the January 2010 IFRIC meeting. The Board also noted the IFRIC's tentative and final agenda decisions and decided that it is not necessary to comment on those IFRIC decisions.

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Issues arising from FRC directions

The Board discussed a staff information paper that documented Board and member responsibilities in the context of processing broad strategic directions. The Board noted the paper will be useful in the context of any future consideration of standard-setting arrangements. No decisions were made.

Documents Open for Comment

The following documents are open for comment. AASB submissions to the IASB, IFRIC or IPSASB are published on the AASB website.				
Originating Organisation	Topic	AASB No	AASB Due Date	IASB/IFRIC/IPSASB Due Date
IASB	Management Commentary	ED 183	closed	1 Mar 2010
IASB	Measurement of Liabilities in IAS 37	ED 191	15 Mar 2010	12 Apr 2010
IPSASB	Reporting on the Long-Term Sustainability of Public Finances	N/A	TBA	30 Apr 2010
IASB	Financial Instruments: Amortised Cost and Impairment	ED 189	17 May 2010	30 Jun 2010
AASB	Consultation Paper: Differential Financial Reporting	N/A	TBA	N/A

Next Meeting on 17 March 2010 (Auckland)

It is anticipated that the Board will address the following items:

- Income from non-exchange transactions
- Financial instruments
- Differential reporting
- Australian/New Zealand convergence
- Liability measurement
- Control in the public sector
- The Boards will also hold an in-house workshop on 18 March to consider the planning of technical activities.

2010 Meeting Dates

Remaining 2010 meeting dates are:

- 28-29 April
- 9-10 June
- 28-29 July
- 1-2 September
- 27-28 October (Auckland)
- 8-9 December
- Unless indicated otherwise, meetings are held in Melbourne.

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