



**Issue:** Number 137  
**Date:** 2 August 2010  
**Subject:** AASB Meeting 110 (including meeting held jointly with NZ FRSB), 29-30 July 2010

The AASB's July 2010 meeting was conducted over two days. The first day of the July meeting was conducted jointly with the FRSB via video conference.

## **Joint Meeting with New Zealand Financial Reporting Standards Board**

### **Financial Instruments**

The Boards received an update on the progress of the IASB's financial instruments projects, dealing with hedge accounting, asset and liability offsetting, derecognition and financial instruments with characteristics of equity.

In addition, the Boards noted some aspects of the IASB staff analysis of comment letters on Exposure Drafts ED/2009/12 *Financial Instruments: Amortised Cost and Impairment* and ED/2010/4 *Fair Value Option for Financial Liabilities*, and the comment letters received from Australian constituents.

The Boards also noted that the IASB's Replacement of IAS 39 project that comprises classification and measurement (phase 1), impairment (phase 2), hedge accounting (phase 3), and asset and liability offsetting, is planned for completion by June 2011.

### **Revenue from Contracts with Customers**

The Boards received an education session on the IASB's Exposure Draft ED/2010/6 *Revenue from Contracts with Customers*. The Boards raised questions about the conceptual underpinning in the ED, consistency between the ED's proposed principles and some of the application guidance, the volume of mandatory guidance for a principles-based ED, consistency with certain other Standards and the degree of complexity that the ED might introduce. The Boards also expressed concern that the ED would add to the number of measurement bases for similar liabilities dealt with under different Standards. The Boards are also concerned that, despite the Boards' submissions on the earlier Discussion Paper, the ED still seems to base revenue recognition on the physical transfer of goods or services to customers rather than on the transfer of rights and obligations.

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Each Board will consider the content of their submissions to the IASB at their next meetings.

## Income from Non-exchange Transactions

The Boards received a progress report about work on their joint project on income from non-exchange transactions. In March 2010, the Boards commenced their review of the submissions on AASB ED 180/FRSB ED 118 *Income from Non-exchange Transactions (Taxes and Transfers)* and decided to explore an approach to liability recognition in which an enforceable performance obligation is of itself sufficient for a liability to exist.

An issues paper that considers the IASB's emerging thinking on performance obligations in its projects on 'revenue from contracts with customers' and 'conceptual framework' will be provided to a joint Board sub-committee shortly. The Boards expect to consider the paper at their joint meeting in October 2010.

## IPSASB Report

The Boards received an update on the June/July 2010 meeting. The Boards noted the IPSASB's interest in strengthening its governance arrangements and agreed to make submissions on the IFAC Monitoring Group's *Review of the IFAC Reforms – Consultation Paper* (June 2010).

The Boards also noted the priority that the IPSASB is continuing to give to its conceptual framework project, with the IPSASB addressing four phases concurrently – objectives, scope, qualitative characteristics and reporting entity (phase 1); elements and recognition (phase 2); measurement (phase 3); and presentation and disclosure (phase 4). At its meeting, the IPSASB also considered responses to its Consultation Paper *Reporting on the Long-Term Sustainability of Public Finances* and an initial issues paper on service performance reporting.

The IPSASB has established a Standard Setters Advisory Panel for its Conceptual Framework project. Both Kevin Stevenson and Kevin Simpkins (Chair, ASRB, NZ) are members of the panel.

## Planning of future activities

The Boards noted a report on issues of planning significance, identified at the Boards' joint March 2010 meeting, and raised a number of further matters to be addressed when developing their plans. The Boards noted suggestions that greater integration of arrangements at the Board level might be desirable and agreed that a business case should be prepared for consideration by the Boards outlining the benefits, costs and barriers to greater integration.

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## Emerging issues

### *Income Tax*

The Boards noted the decision at the July 2010 IASB meeting to propose inserting an exception into IAS 12 *Income Taxes* regarding the measurement of deferred tax arising on assets that are carried at fair value and the implications for jurisdictions such as New Zealand with no capital gains tax.

### *International Valuation Standards*

The Boards noted the International Valuation Standards Council's Exposure Draft *Proposed New International Valuation Standards*, on which comments are due by 3 September 2010, and that the ED deals with a wide range of valuation issues of significance to financial reporting. The Boards agreed that AASB staff would review the ED and prepare a paper highlighting aspects on which the Boards may wish to comment.

### *Key Management Personnel (KMP)*

The Boards noted the joint letter from the Chairs requesting that the IASB address the issue of whether, in the context of investment entities, KMP as defined in IAS 24 *Related Party Disclosures* can include an entity and not only individuals. The Boards also noted that AASB staff are currently providing further information to IASB staff on the matter.

### *Mineral Resource Rent Tax (MRRT)*

The Boards noted that the AASB may need to consider whether to update its Interpretation 1003 *Australian Petroleum Resource Rent Tax* in light of a possible MRRT in Australia.

## **Topics dealt with by the AASB in its separate meeting**

### **Superannuation plans and approved deposit funds**

The Board continued its redeliberations on ED 179 *Superannuation Plans and Approved Deposit Funds*. The Board tentatively decided that, under a replacement Standard for AAS 25 *Financial Reporting by Superannuation Plans*:

- (a) obligations arising from insurance arrangements provided to members of a plan or approved deposit fund (ADF) should be recognised (and derecognised) in accordance with the approach under AASB 119 *Employee Benefits* for defined benefit obligations;
- (b) a plan with obligations for defined benefit members' accrued benefits should not be required to present the insurance and retirement components of such obligations separately;
- (c) assets arising from the insurance arrangements that a plan or ADF provides to its members should be recognised and measured in accordance with the relevant requirements in AASB 1038 *Life Insurance Contracts*;

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- (d) a plan or ADF should disclose, when appropriate, information that:
  - (i) identifies and explains the amounts in the entity's financial statements arising from the insurance arrangements it provides to its members, including the key actuarial assumptions used to measure obligations arising from such arrangements and any uncertainties surrounding the assumptions; and
  - (ii) enables users of its financial statements to evaluate the nature and extent of risks arising from the insurance arrangements it provides to its members;
- (e) a plan should provide, when appropriate, liquidity risk disclosures in relation to obligations for defined contribution and defined benefit members' benefits in accordance with the relevant principles and requirements in *AASB 7 Financial Instruments: Disclosures*;
- (f) a plan with defined benefit members should provide qualitative disclosures in respect of the non-performance risk and/or economic dependency risk in relation to the dependence on future employer contributions, consistent with the types of information disclosed in accordance with the qualitative disclosure requirements in *AASB 7*; and
- (g) a plan or ADF should provide liquidity risk disclosures in respect of material non-financial items consistent with the types of information required under *AASB 7*.

The Board will continue its redeliberations at its September 2010 meeting.

## **GAAP/GFS harmonisation – post-implementation review of AASB 1049**

The Board considered a list of implementation issues relating to *AASB 1049 Whole of Government and General Government Sector Financial Reporting* (October 2007). The issues were identified through various means, including staff discussions with personnel from each jurisdiction's department of treasury/finance and audit office.

The Board noted that the post-implementation review work to date has not identified any major flaws in the Standard. However, some areas for potential improvement, including clarifying some of the requirements, have been identified. The Board decided those potential improvements should be included in an Exposure Draft and issued for public comment. The more significant proposals to be included in the ED include amending *AASB 1049* to:

- (a) require GGS and whole of government financial reports to be prepared, referenced to each other and made available at the same time; and
- (b) ensure the orderly adoption of any future amendments to the ABS GFS Manual is facilitated.

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Subject to other priorities, the Board decided that the aim should be to issue any amendments to AASB 1049 before the end of 2010.

## **GAAP/GFS harmonisation for not-for-profit entities within the GGS**

The Board clarified a number of aspects of its April 2010 tentative decisions relating to proposals to be incorporated into an Exposure Draft, including those relating to:

- (a) the recognition and measurement proposals. The Board decided that the GAAP/GFS harmonisation principle of 'GAAP recognition and measurement options should be limited to those that align with GFS' should be included in the ED and accompanied by a more extensive list of specific examples than that provided in AASB 1049. The Board decided that it is not its role to provide an exhaustive list of the limitations on GAAP options that would arise from applying this principle. However, the Board noted its approach would reduce the need for preparers to refer to the ABS GFS Manual;
- (b) the presentation and classification proposals, particularly concerning disclosure of the GFS distinction between 'transactions' and 'other economic flows'. The Board noted that GFS definitions of those terms are not necessarily appropriate at the level of a not-for-profit entity within the GGS, given the nature of many reporting entities at that level compared with the GFS notion of 'institutional units' (which is included in the GFS definition of 'transactions'). The Board directed staff to consider alternative ways of giving effect to the substance of the GFS distinction between transactions and other economic flows in a GAAP reporting entity context, for consideration by the Board at a future meeting;
- (c) the proposed note disclosure of GAAP/GFS harmonisation information about controlled and administered items. In particular, the Board considered two alternative approaches for presenting the GAAP/GFS harmonisation note:
  - (i) Approach (A), which discloses controlled and administered items and combines them after making and disclosing eliminations of intra-government transactions; and
  - (ii) Approach (B), which discloses controlled and administered items and combines them without making or disclosing eliminations of intra-government transactions;

The Board directed staff to develop additional alternative formats for consideration and comparison with Approaches (A) and (B) at a future meeting. The alternatives will include a format that does not add controlled and administered items and a format that makes but does not disclose eliminations of intra-government transactions. Each alternative (including Approaches (A) and (B)) will include a staff assessment of whether it would satisfy requirements for the format of the primary financial statements. Furthermore, a rationale will be articulated, and the implications for the requirements of AASB 1050 *Administered Items* assessed, for each alternative; and

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- (d) the budgetary reporting proposals. The Board decided that, rather than propose requirements based on those in AASB 1049, the ED should propose requiring not-for-profit entities within the GGS to provide a comparison of the original budget (where presented to parliament) with either the primary financial statements or the information about controlled items that would be included in the note that is subject of item (c) above, depending on which comparison would be most useful for users. Explanations of major variances should also be required to be disclosed.

## AASB 127 Relief

The Board decided to propose extending the situations in which 'relief' from preparing consolidated financial statements is provided to intermediate parent entities under paragraph 10 of AASB 127 *Consolidated and Separate Financial Statements*, based on the principle that the ultimate parent prepares consolidated financial statements incorporating information that would have been presented in the intermediate consolidated financial statements. This will address issues concerning ultimate parents that comply with the Reduced Disclosure Requirements and/or 'Aus' paragraphs applicable to not-for-profit entities. The Board expects to issue an Exposure Draft later this year.

## Presentation of Financial Statements

The Board received an update on the IASB's and FASB's joint project plan on the Presentation of Financial Statements and the IASB's Exposure Draft *Presentation of Items of Other Comprehensive Income*. The Board will consider the content of its submission to the IASB at its September 2010 meeting.

## Extractive Activities

The Board discussed the IASB's Discussion Paper DP/2010/1 *Extractive Activities* and identified issues to be included in an AASB submission. The Board indicated its support for the project being included on the IASB's work program and highlighted that a number of issues dealt with in the DP, such as risks and uncertainty, were not exclusive to the minerals and oil and gas industries. Comments to specific questions will be formulated that will take into consideration constituents' views.

The Board agreed that the AASB's submission should be finalised through the AASB Chairman.

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## Interpretations

The Board received an update on the July 2010 IFRS Interpretations Committee meeting and noted the following:

- (a) the work on production stripping and that a draft interpretation is to be presented to the IASB for approval for distribution;
- (b) the issue of repeat application of IFRS 1 *First-time Adoption of International Financial Reporting Standards* and the tentative decision not to add the topic to the Committee's agenda, but to clarify, as part of *Annual Improvements*, that in some circumstances an entity must apply IFRS 1 again; and
- (c) an issue on IAS 21 *The Effects of Changes in Foreign Exchange Rates – Repayments of investments* and the tentative decision not to add to the topic to the Committee's agenda.

## Public Sector Liaison

The Board decided that its work program, and its public sector projects in particular, should be discussed in meetings with small groups of public sector constituents, such as HoTARAC, ACAG, and others. The intention is to share views on priorities and the Board's public sector work.

## AASB Work Program

The Board agreed it was timely to update its Work Program in light of the recent updating of the IASB Work Plan. The revised AASB Work Program will be posted on the AASB website shortly.

## IFRS Advisory Council

The Board received an update from Judith Downes, a member of the IFRS Advisory Council, on recent developments.

## Minutes

The Board approved the minutes of Meetings 108 and 109, held on 9-10 June 2010 and 25 June 2010 respectively. These are now available on the website.

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## 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	Extractive Activities	ITC 23	Closed	30 Jul 2010
IASB	Defined Benefit Plans	ED 195	9 Aug 2010	6 Sep 2010
IASB	Presentation of Items of Other Comprehensive Income (proposed amendments to IAS 1)	ED 197	2 Aug 2010	30 Sep 2010
IASB	Revenue from Contracts with Customers	ED 198	24 Sep 2010	22 Oct 2010
IASB	Measurement Uncertainty Analysis Disclosure for Fair Value Measurements (Limited re-exposure of proposed disclosure)	ED 199	16 Aug 2010	7 Sep 2010
IASB	Insurance Contracts	-	-	30 Nov 2010
AASB/FRSB	Proposals to Harmonise Australian and New Zealand Standards in Relation to Entities Applying IFRSs as Adopted in Australia and New Zealand	ED 200A	8 Oct 2010*	N/A
AASB/FRSB	Proposed Separate Disclosure Standards	ED 200B	8 Oct 2010*	N/A

\* The comment letter due date applies to both the AASB and FRSB.

## Next Meeting on 1-2 September 2010

It is anticipated that the Board will deal with the following items:

- Superannuation
- Defined Benefit Plans
- Financial Instruments
- Presentation of Financial Statements
- Fair Value Measurements
- Related Party Disclosures in the Public Sector
- Revenue from Contracts with Customers

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## 2010 Meeting Dates

Remaining 2010 meeting dates are:

- September 1-2
- October 27-28 (Joint meeting with FRSB via video conference)
- December 8-9

Unless indicated otherwise, meetings are held in Melbourne.

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