



Issue: Number 153
Date: 7 September 2012
Subject: AASB Meeting 126, 5-6 September 2012

1. Overview

At this meeting the Board discussed key issues relating to:

- (a) financial reporting by superannuation entities (see section 2);
- (b) service concession arrangements – grantors (see section 3);
- (c) extending the transitional period for fair value measurement of defence weapons platforms (see section 4);
- (d) deferral of AASB 10 *Consolidated Financial Statements*, and related Standards, for NFPs (see section 5); and
- (e) investment entities (see section 6).

The Board also:

- (a) discussed IFRS developments with the IASB Vice-Chairman (see section 7);
- (b) continued to monitor IASB projects addressing financial instruments (see section 8);
- (c) considered its approach to the post-implementation review of IFRS 8 *Operating Segments* (see section 9);
- (d) considered comments to make in a submission on the IASB's Request for Information *Comprehensive Review of the IFRS for SMEs* (see section 10);
- (e) considered an update on IFRS Interpretations Committee activities (see section 11);
- (f) considered comments to make in a submission on the IPSASB Consultation Paper (CP) *Public Sector Combinations* (see section 12);
- (g) considered comments to make in a submission on the IPSASB CP *Consultation on IPSASB Work Program 2013-2014* (see section 13); and
- (h) considered some emerging issues (see section 14).

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A summary of the AASB's Strategic Plan has been made available (see section 15), recently approved documents are listed in section 16, and documents open for comment are listed in section 17.

2. Superannuation Entities

The Board considered staff papers on issues relating to public sector defined benefit superannuation arrangements and on measuring accrued defined benefits that might affect the replacement standard for AAS 25 *Financial Reporting by Superannuation Plans*.

The Board decided:

- (a) more discussion should be included in the replacement standard about the Board's deliberations on the circumstances in which an asset might be recognised in relation to a right of a superannuation entity to receive resources (for example, from an employer); and
- (b) accrued defined benefits should be determined independently of existing plan assets and funding arrangements. Where relevant risks are reflected in projected cash flows, the discount rate should exclude those risks.

The Board noted that staff will endeavour to complete consultation with those interested in superannuation entities in the public sector and that it will receive further papers on rights to receive resources and on measuring defined benefit liabilities for consideration at its next meeting.

3. Service Concession Arrangements – Grantors

Consistent with its earlier decision to develop an ED based on IPSAS 32 *Service Concession Arrangements: Grantor*, the Board continued its consideration of how IPSAS 32 should be modified to suit the Australian environment. In particular, the Board considered the need for additional guidance on whether a grantor controls a service concession asset in circumstances in which a third-party regulator is involved. The Board noted that, depending on the terms of an arrangement, there could be different levels of regulation. Therefore, it decided to include guidance in the ED emphasising that the fundamental principle is 'control', and that regulation of a service concession asset is only one of the factors to consider in determining whether the grantor controls the asset.

The Board plans to consider, at its next meeting, a further issues paper on whether the granting of a right to an operator to charge users of a service concession asset gives rise to the initial recognition of a liability (as required by IPSAS 32) or revenue (as proposed in IASB ED/2011/6 *Revenue from Contracts with Customers*) of the grantor, having regard to the IASB's redeliberations on the proposals in IASB ED/2011/6. The paper will also address measurement issues.

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4. Extending the Transitional Period for Fair Value Measurement of Defence Weapons Platforms

The Board considered a request from the Commonwealth Department of Finance and Deregulation for deferral of the requirement to measure defence weapons platforms (DWPs) at fair value under AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. That requirement was brought about by the interrelationship between AASB 1049 and Chapter 2 of the ABS's *Amendments to Australian System of Government Finance Statistics* (issued 5 April 2011).

The Board noted the substantial practical issues relating to the reliable measurement of DWPs at fair value and consequently decided to propose a further 2-year transitional relief for assets within the scope of Chapter 2 of the ABS amendments – that is, deferral of the effective date from annual reporting periods beginning on or after 1 July 2012 to annual reporting periods beginning on or after 1 July 2014.

Given the narrow nature of the issue, the Board decided to issue an ED shortly with a 45-day comment period.

5. Deferral of AASB 10 for the Not-for-Profit Public and Private Sectors (NFPs)

The Board decided to defer the mandatory application date of AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, AASB 127 *Separate Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* for NFP entities from 1 January 2013 to 1 January 2014. This decision acknowledges that the Board's ED to propose Australian NFP entity implementation guidance for inclusion in AASB 10 has not yet been issued for comment, so there might be insufficient time for the Board to consider submissions on the ED in time for incorporating any relevant implementation guidance prior to 1 January 2013. The deferral will be included in an amending Standard that will also address the IASB's recent amendments to the transition requirements in those Standards.

The Board also decided that the existing prohibition on early application of the Standards by NFP entities will not be extended beyond the present limit of annual reporting periods beginning before 1 January 2013.

Therefore, NFP entities will be able to apply the Standards early to annual reporting periods beginning on or after 1 January 2013 but before 1 January 2014 (such as the 2013/14 financial year). The Board noted NFP entities may wish to do this in order to maintain IFRS compliance, even before the amendments expected to arise from the Board's ED proposing NFP entity implementation guidance have been finalised.

The ED proposing Australian NFP entity implementation guidance for inclusion in AASB 10 is expected to be issued before the end of this year.

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6. Investment Entities

The Board discussed the key outcomes of the IASB's redeliberations of its Investment Entities project and the types of Australian entities that might be impacted by the project.

In relation to the expected IASB definition of 'investment entity', the Board expressed concern that the IASB's forthcoming amendments to exempt investment entities from consolidation and equity accounting might give rise to inconsistent reporting outcomes.

Board members expressed a desire to better understand what disclosures might be required by the IASB if de-consolidation/non-consolidation is required.

The Board directed staff to identify and analyse options available to the AASB in respect of dealing with the amendments in Australia.

7. IFRS Developments

Ian Mackintosh, IASB Vice-Chairman, attended day one of the meeting and gave an update on IFRS developments. His update included an outline of progress on the IASB/FASB 'convergence' projects (leases, revenue, insurance and financial instruments), which have been targeted for completion by June 2013 with operative dates of 1 January 2015. He also discussed the IASB's strategy, including work on current projects, post implementation reviews, an increased focus on research and priority for concepts and a disclosure framework. In addition, he discussed relationships with national standard setters, regional groups, IPSASB and others.

8. Financial Instruments

Financial Instruments Update

The Board noted that the IASB staff draft standard on general hedge accounting is now expected to be made available on the IASB website on Friday, 7 September 2012, London time. It is expected to be available for comment for 90 days.

The Board received an update on the FASB's progress on its alternative impairment model for financial assets measured at amortised cost and at fair value through other comprehensive income. The IASB is expected to discuss that model at its September 2012 meeting. The FASB's model would involve recognising a lifetime loss allowance based on expected losses on initial recognition, which may result in recognition of more losses on 'day one' than the 'three-bucket' impairment model being progressed by the IASB. Unlike the IASB's model, the FASB's model would not require financial assets to be categorised into three 'buckets'.

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Deferral of the Mandatory Effective Date of AASB 9

The Board received a report on the drafting of the Australian amending Standard that will defer the mandatory application date of AASB 9 *Financial Instruments* and its consequential amendments to other Standards from 1 January 2013 to 1 January 2015, in line with the deferral of IFRS 9 by the IASB. The Standard will also add transition disclosures to AASB 7 *Financial Instruments: Disclosures*. The Board anticipates making the Standard shortly.

RDR Amendments

The Board will vote shortly on an amending Standard that will update the reduced disclosure requirements for new and revised disclosures arising from AASB 7, AASB 12 *Disclosure of Interests in Other Entities*, AASB 101 *Presentation of Financial Statements* and AASB 127 *Separate Financial Statements*. These RDR amendments will reflect the changes to the disclosure requirements in AASB 7 resulting from the deferral of AASB 9 to 2015. The Standard will apply to annual reporting periods beginning on or after 1 July 2013, with early application permitted.

9. IFRS 8 Operating Segments – Post-implementation Review

The Board received an update on the IASB's post-implementation review of IFRS 8 *Operating Segments*. The Board was advised that staff will be hosting an IASB Discussion Forum on the post-implementation review on 3 October 2012.

The Board decided the AASB's response to the IASB's Request for Information *Post-implementation Review: IFRS 8 Operating Segments* would include an analysis of comments received from Australian constituents and, if appropriate, suggestions for improvements to IFRS 8.

10. Comprehensive Review of the IFRS for SMEs

The Board considered a staff paper on the IASB's Request for Information *Comprehensive Review of the IFRS for SMEs*, setting out possible Australian-specific issues relevant to the review. The Board noted that, having created and maintained the reduced disclosure requirements (RDR) regime on the basis of disclosure principles underlying the *IFRS for SMEs*, Australia is in a unique position to contribute to the review of the standard. The Board decided that the AASB submission should separately highlight a number of key issues relevant to the review, including:

- (a) differences between the recognition/measurement requirements of the *IFRS for SMEs* and full IFRSs, which is the area of most concern; in particular, the absence of the revaluation accounting policy option from the *IFRS for SMEs*;
- (b) the benefits of having an option to use either a RDR approach or the *IFRS for SMEs*;
- (c) the benefits of maintaining the *IFRS for SMEs* contemporaneously with full IFRSs; and

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- (d) the need to clarify and expand on the term 'public accountability'.

The Board also decided to offer its experience in determining disclosure requirements under the RDR, including providing access to the latest compilations of the RDR versions of standards, with a view to contributing to the IASB's comprehensive review process.

The Board will consider other issues pertinent to the review of the *IFRS for SMEs* at its next meeting.

11. IFRS Interpretations Committee

The Board received an update on recent IFRS Interpretations Committee staff outreach requests responded to by AASB staff since the July 2012 AASB meeting. No decisions were made.

12. IPSASB CP – Public Sector Combinations

The Board considered IPSASB CP *Public Sector Combinations* and decided to make a submission. The Board discussed the broad nature of the comments to be made, including:

- (a) expressing disagreement with the IPSASB's apparent intention not to proceed with adapting IFRS 3 *Business Combinations*, where appropriate, for the public sector;
- (b) noting that treating combinations of public sector entities not under common control as acquisitions is likely to address most issues that arise in such circumstances; and
- (c) encouraging the IPSASB to undertake further research into combinations of public sector entities under common control, particularly if the IASB is not expected to address related private sector issues in a timely manner.

13. IPSASB CP – 2013-2014 Work Program

The Board considered IPSASB CP *Consultation on IPSASB Work Program 2013-2014* and decided to make a submission. The Board discussed the broad nature of the comments to be made, including:

- (a) given the size of the IPSASB's task relating to its Conceptual Framework project, the IPSASB would be likely to only have a limited capacity to undertake major new projects during the two year window being considered;
- (b) it is important for the IPSASB to keep up with IFRSs, particularly because many governments undertake both not-for-profit and for-profit activities. To this end, the IPSASB could consider simplifying its processes for reviewing its standards in response to amendments to IFRSs; and
- (c) two particular projects that are in urgent need of attention and for which significant progress could be made during the two year window are revenue recognition and accounting for emission trading schemes.

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14. Emerging Issues

Implications of Changes to Circumstances under which Dividends can be Franked

The Board considered the financial reporting implications of Taxation Ruling TR 2012/5 *Income tax: section 254T of the Corporations Act 2001 and the assessment and franking of dividends paid from 28 June 2010*. The Board noted that the requirements of the Taxation Ruling were not inconsistent with the requirements of Australian Accounting Standards.

Use of Special Purpose Financial Statements for Taxation of Financial Arrangements

The Board considered the implications of the use of Special Purpose Financial Statements (SPFSs) for Taxation of Financial Arrangements (TOFA) purposes. The Board was informed that entities producing SPFSs may not be permitted to apply certain TOFA taxation treatments on the basis that the financial statements are not General Purpose Financial Statements (GPFSSs), even in cases when they conform to all recognition and measurement requirements in Australian Accounting Standards. The Board requested AASB staff to discuss this issue at the next AASB liaison meeting with Treasury and Australian Taxation Office staff.

15. AASB Strategic Plan (2012-2016)

Following completion of the AASB's Strategic Plan, the executive summary has been made available to the public on the website:

[http://www.aasb.gov.au/admin/file/content102/c3/Executive_Summary_of_AASB_Strategic_Plan_\(2012-2016\).pdf](http://www.aasb.gov.au/admin/file/content102/c3/Executive_Summary_of_AASB_Strategic_Plan_(2012-2016).pdf)

16. Recently Approved Documents

Since its previous meeting (25-26 July 2012), the Board approved out of session ED 226 *Withdrawal of Australian Interpretation 1039 Substantive Enactment of Major Tax Bills in Australia*.

17. 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 |
|--------------------------------|--|----------|------------------|-----------------------------|
| IFRS Interpretations Committee | Put Options Written on Non-controlling Interests (Draft Interpretation) | – | 3 September 2012 | 1 October 2012 |
| IFRS Foundation Trustees | Drafting review of the IFRS Foundation Constitution (Consultation Paper) | – | – | 23 October 2012 |

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| Originating Organisation | Document | AASB No. | AASB Due Date | Other Organisation Due Date |
|--------------------------|---|----------|------------------|-----------------------------|
| IPSASB | Public Sector Combinations (Consultation Paper) | – | – | 31 October 2012 |
| IPSASB | Consultation on IPSASB Work Program 2013-2014 (Consultation Paper) | – | – | 31 October 2012 |
| IASB | Post-implementation Review: IFRS 8 <i>Operating Segments</i> (Request for Information) | ITC 27 | 11 October 2012 | 16 November 2012 |
| AASB | Withdrawal of Australian Interpretation 1039 <i>Substantive Enactment of Major Tax Bills in Australia</i> | ED 226 | 19 November 2012 | – |
| IASB | Comprehensive Review of the <i>IFRS for SMEs</i> (Request for Information) | – | – | 30 November 2012 |

18. Board Minutes

The Board approved the minutes of Meeting 125, held on 25-26 July 2012. These are now available on the AASB's website.

19. Next Meeting – 31 October-1 November 2012

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

- Revenue from Contracts with Customers
- IFRS Interpretations Committee
- Superannuation Entities
- Service Concession Arrangements – Grantors
- Financial Instruments
- Investment Entities
- IFRS 8 *Operating Segments* – post-implementation review
- *IFRS for SMEs* – comprehensive review
- IASB Annual Improvements 2011-2013
- IPSASB report

20. Future Meetings

Future meeting dates scheduled for the AASB are:

- 31 October-1 November 2012
- 12-13 December 2012

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- 20-21 February 2013
- 10-11 April 2013
- 29-30 May 2013
- 17-18 July 2013
- 4-5 September 2013
- 23-24 October 2013
- 11-12 December 2013

Unless indicated otherwise, meetings are held in Melbourne.

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