



Subject: Amended Minutes of the 128th meeting of the AASB
Venue: Ken Spencer Room, AASB offices
Level 7, 600 Bourke St, Melbourne
Time(s): Wednesday 12 December 2012 from 9.00 a.m. to 5.15 p.m.
Thursday 13 December 2012 from 9.15 a.m. to 12.30 p.m.

All agenda items except items 1 and 6 were discussed in public.

Attendance

Members	Kevin Stevenson (Chairman) Ian McPhee (Deputy Chair) Kris Peach (Deputy Chair)(Day 1) Victor Clarke Anna Crawford Sue Highland John O'Grady Liane Papaelias (by phone) Carmen Ridley Brett Rix Roger Sexton
Apologies	Jayne Godfrey Michelle Embling Robert Williams
In Attendance: Staff	Clark Anstis (in part) Natalie Batsakis (in part) Nikole Gyles (in part) Ahmad Hamidi Ravari (in part) Robert Keys Sue Lightfoot (in part) Masha Marchev (in part) Christina Ng (in part) Shu In Oei (in part) Jim Paul (in part) Julie Smith Daisy Yang (in part)
Observer	Patricia McBride



Agenda, Declaration of Interests and Chairman's Report

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. No declarations were made.

Chairman's Report

Asian-Oceanian Standard-Setters Group (AOSSG)

The Chairman noted that:

- (a) he, Kris Peach, the Director of Research and an AASB Project Manager attended the fourth annual meeting of AOSSG held in Kathmandu, Nepal on 28-29 November. AASB staff presented updates on the financial instruments project;
- (b) AOSSG proposals on the Accounting Standards Advisory Forum were consistent with those of the AASB (see comments in relation to Agenda Item 8); and
- (c) He had attended the opening of the IASB regional office in Tokyo on 15 November 2012.

Financial Reporting Council (FRC)

The Chairman noted the FRC met on 5 December 2012. He noted the Public Sector Taskforce of the FRC will consider an AASB report on GAAP/GFS harmonisation prior to the report being considered by the FRC.

Involvement with Other Bodies

The Chairman noted that the Trans-Tasman Accounting and Auditing Standards Advisory Group (TTAASAG) had met on 11 December 2012. Its discussion included the imminent release of Australian Bills on the payment of dividends, and executive remuneration.

The Chairman noted that AASB staff:

- (a) attended a meeting hosted by the Australian Bureau of Statistics on its review of the ABS Government Finance Statistics Manual; and
- (b) hosted a delegation from Kenya to discuss the AASB experience with standard setting.

Other

The Chairman also noted:

- (a) Professor Kerry Chalmers (Monash University) has been appointed to the IASB's Consultative Group on the Methodology for Fieldwork and Effects Analysis;
- (b) IASB member Steve Cooper will be visiting the AASB on 7 March 2013 and that AASB members and staff are invited to attend a meeting with Steve on that day; and



- (c) staff presentations and recent and forthcoming staff movements and achievements. In particular, he farewelled two Project Managers Natalie Batsakis and Shu In Oei who have resigned from the AASB, and Graduate Intern Masha Marchev who has completed her internship.

Apologies, Minutes and Approvals Out of Session

Agenda Item 2

Apologies

Apologies were noted for both days of the meeting for Jayne Godfrey, Robert Williams and Michelle Embling. Kris Peach was an apology for the second day of the meeting.

Minutes

The Board approved the minutes of the one hundred and twenty-seventh meeting held on 31 October-1 November 2012. There were no matters arising not otherwise addressed in the agenda.

Approvals Out of Session

The following two consultation documents had been issued under the Board's delegated authority for the Chairman to issue IASB consultation documents where there is no significant additional Australian material.

- ED 229 *Annual Improvements to IFRSs 2011-2013 Cycle*, which incorporates IASB ED/2012/2. Comments to the AASB are requested by 4 February 2013 and to the IASB by 18 February 2013.
- ED 228 *Equity Method: Share of Other Net Asset Changes*, which incorporates IASB ED/2012/3. Comments to the AASB are requested by 8 February 2013 and to the IASB by 22 March 2013.

There were no other approvals out of session.

Other Business

Agenda Item 3

The Board noted:

- (a) a memorandum from Julie Smith and Robert Keys dated 30 November 2012 re: AASB Work Program (agenda paper 3.1);
- (b) summary of AASB Work Program (November 2012) (agenda paper 3.1.1);
- (c) detailed AASB Work Program (November 2012) (agenda paper 3.1.2);
- (d) Submissions Pipeline Report (28 November 2012) [Board only] (agenda paper 3.1.3);
- (e) AASB Sub-committee membership listing as at 28 November 2012 [Board only] (agenda paper 3.2);
- (f) letter from the AASB Chairman to Stephenie Fox, IPSASB Technical Director dated 30 October 2012 re IPSASB Consultation Paper *Consultation on IPSASB Work Program 2013-2014* (agenda paper 3.3);



- (g) letter from the AASB Chairman to Stephenie Fox, IPSASB Technical Director dated 30 October 2012 re IPSASB Consultation Paper *Public Sector Combinations* (agenda paper 3.4);
- (h) letter from the AASB Chairman to Crystal Kwan, Executive Assistant, Financial Reporting & Audit, Australian Securities and Investments Commission dated 7 November 2012 re ASIC Consultation Paper 187 *Effective disclosures in an operating and financial review* (agenda paper 3.5);
- (i) letter from AASB Chairman and CEO to Hans Hoogervorst, IASB Chairman dated 14 November 2012 re: Recent discussions on the Revenue Recognition project (agenda paper 3.6);
- (j) Submission from AASB to ASIC: Consultative Paper 187: *Effective disclosure in an operating and financial review* dated 7 November 2012 (agenda paper 3.7);
- (k) NZ External Reporting Board Communique 2012/2 – 23 November 2012 (agenda paper 3.8);
- (l) letter from AASB Chairman to IASB Chairman re IASB Request for Information: *Post-Implementation Review IFRS 8 Operating Segments* dated 30 November 2012 (Tabled paper 3.9);
- (m) letter from AASB Chairman to IASB Vice-Chairman re Comprehensive Review of IFRS for SMEs dated 30 November 2012 (Tabled paper 3.10);
- (n) letter from AASB Chairman to IASB Chairman re Request for Information: *Comprehensive Review of IFRS for SMEs* dated 30 November 2012 (Tabled paper 3.11);
- (o) Memorandum from Julie Smith dated 10 December 2012 re upcoming Consultation Papers (Tabled paper 3.12);
- (p) Communication Report 1 November – 12 December 2012 [Board Only] (Tabled paper 3.13); and
- (q) IFRS Alert – Forthcoming publications Alert – December 2012 (Tabled paper 3.14).

The Board also noted that the IASB had recently issued ED 2012/5 *Clarification of Acceptable Methods of Depreciation and Amortisation*. Board members were asked to advise staff out of session whether they anticipated the proposals being significant in an Australian context, for example in relation to service concession arrangements.

Action: Board Members

IFRS Interpretations Committee

Agenda Item 4

The Board had before it:

- (a) a memorandum from Nikole Gyles, Masha Marchev and Julie Smith dated 27 November 2012 re IFRS Interpretations Committee update (agenda paper 4.1);
- (b) an AASB Staff Summary of IFRS Interpretations Committee Decisions – November 2012 (agenda paper 4.2); and
- (c) *IFRIC Update* November 2012 (agenda paper 4.3).



The Board received an update on the decisions (both tentative and final) made by the IFRS Interpretations Committee at its November 2012 meeting, and discussions held by the Committee at that meeting.

The Board decided to write to the Committee regarding the Committee's tentative agenda decision in respect of accounting for reverse acquisitions of an entity that does not constitute a business (see item B1 in agenda paper 4.2). The Board noted that significant diversity exists in practice in accounting for such transactions. The Board also noted that this issue is similar to the issue of the interrelationship of IFRS 3 *Business Combinations* and IAS 40 *Investment Property* when classifying property as investment property or owner-occupied property, which is proposed to be addressed as part of IASB Exposure Draft ED/2012/2 Annual Improvements to IFRSs 2011–2013 Cycle (see agenda item 15, Annual Improvements). Both issues appear to arise out of uncertainty about the definition of a 'business' in IFRS 3. In light of this, the Board formed the view that the issue would not be adequately dealt with through a rejection notice (for example, due to transition issues) and would more appropriately be dealt with as an Annual Improvement.

In respect of the Committee's discussion of accounting for mandatory purchase of non-controlling interests in business combinations (see item C5 in agenda paper 4.2), the Board raised concerns about the Committee's comments that no liability needed to be recognised for a mandatory tender offer (MTO), given that IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* excludes executory contracts from its scope. The Board noted that the issue of whether a liability would need to be recognised for a MTO would depend on the facts and circumstances of each case. The Board asked staff to contact Committee staff to alert them to possible implications in an Australian legal context of the Committee's discussion in respect of this issue.

Furthermore, the Board considered the Committee's discussion of the meaning of "elsewhere in the interim financial report" in paragraph 16A of IAS 34 *Interim Financial Reporting* (see item C6 in agenda paper 4.2), and the proposed requirement to include a cross-reference from the interim financial statements to the required disclosures. The Board noted that a similar requirement in respect of information presented outside the financial report is contained in paragraph B6 of IFRS 7 *Financial Instruments: Disclosures*, which was deleted from AASB 7 of the same name in 2005. The Board asked staff to investigate further, through liaison with ASIC staff, the implications in the Australian legal context of incorporating information presented elsewhere in the financial report via cross-reference.

Action: Staff

Application of AASB 10 to Unit Linked Funds in the Insurance Industry (AASB 1038)

Agenda Item 5

The Board had before it a memorandum from Sue Lightfoot dated 27 November 2012 re: Implications of AASB 10 *Consolidated Financial Statements* for the insurance industry (agenda paper 5.1).

The Board considered whether AASB 1038 *Life Insurance Contracts* might need to be amended for the revised consolidation requirements in AASB 10 (ie. the revised definition of control, and, for example, the guidance on silos). Some Board members considered that removing the requirements on consolidation from



AASB 1038 would be consistent with its policy of not issuing Interpretations of IFRS (without first following the Interpretations Protocols). Other Board members did not support removing the consolidation requirements from AASB 1038 as they considered that this could lead to diversity in practice and provide opportunities for structuring. On balance, the Board decided to proceed to issue an ED that proposes removing the explicit requirement in that standard for a life insurer to consolidate policyholders' interests, and thereby leave AASB 10 as the sole source for consolidation requirements. The ED will ask whether constituents would expect such an amendment to result in a change from current practice and, if so, why.

Action: Staff
Chairman

Review

Agenda Item 6

The Board had before it agenda paper 6.1 AASB Strategic Plan 2012 to 2016 – Cumulative Progress Report, as at November 2012. The Board noted the format of the report and the intention that it be presented on a cumulative basis at future Board meetings.

Investment Entities

Agenda Item 7

The Board had before it:

- (a) a memorandum from Natalie Batsakis and Angus Thomson dated 26 November 2012 (Agenda Paper 7.1); and
- (b) a working draft Exposure Draft: *Australian Additional Disclosures – Investment Entities* (Agenda Paper 7.2)

The Board considered a working draft of an ED entitled *Australian Additional Disclosures: Investment Entities (Amendments to AASB 12)*. It decided that the proposed additional disclosures, designed to compensate for the loss of information that would arise from adopting the IASB's amendments to IFRS 10 *Consolidated Financial Statements* relating to investment entities:

- (a) should only apply in respect of controlled investees of an investment entity, and therefore should not apply in respect of associates or joint ventures;
- (b) should be located in AASB 1054 *Australian Additional Disclosures*;
- (c) should include a statement of changes in equity; and
- (d) should apply to both Tier 1 and Tier 2 entities.

In addition, the Board decided not to propose a prescribed format for the presentation of the disclosures.

The ED will be accompanied by two Alternative Views:



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- (a) Alternative View 1, supported by four Board members who do not support non-consolidation by investment entities and do not see the proposed disclosures as a remedy; and
 - (b) Alternative View 2, supported by three Board members who, although preferring to issue the IASB's investment entity requirements in Australia unamended, can accept that proposing the additional disclosures in the ED is an appropriate compromise to maintain IFRS compliance.

The aim is to issue the ED before the end of the year through an out-of-session ballot.

Action: Staff members

Accounting Standards Advisory Forum (ASAF)

Agenda Item 8

The Board had before it:

- (a) a memorandum from Julie Smith dated 27 November 2012 re the IFRS Foundation proposals for an Accounting Standards Advisory Forum (agenda paper 8.1); and
- (b) a Draft Submission from the AASB to IFRS Foundation Trustees, dated 28 November 2012 re Invitation to Comment: *Proposal to Establish an Accounting Standards Advisory Forum*.

The Board considered the draft response to the IFRS Foundation's Invitation to Comment Proposal to Establish an Accounting Standards Forum, which is open for comment until 17 December 2012. The Board strongly supports the proposals for the formation of the ASAF and the proposed membership structure. Subject to the wording, it also supports the proposed commitments that members of the ASAF would be asked to sign up to. The Board's decided to proceed with the draft letter with some amendments, for example focussing it more on a view that a regional basis of representation should be the underlying principle for the Forum. The letter will be finalised through a sub-committee comprising the Chairman, Ian McPhee and Kris Peach.

Action: Staff

Chairman, Ian McPhee, Kris Peach

The Conceptual Framework as a basis for a Disclosure Framework

Agenda Item 9

The Board considered a presentation from the Chairman on a Disclosure Framework.

The Board noted that various organisations have been undertaking research into matters relating to note disclosures, including the European Financial Reporting Advisory Group (EFRAG) and the US Financial Accounting Standards Board (FASB). The Board also noted that, as part of its Conceptual Framework project, the IASB is scheduled to host a Discussion Forum on Disclosures in Financial Reporting on 28 January 2013.



The Board noted that based on preliminary research undertaken by the Chairman, there could be merit in assessing the adequacy of the Conceptual Framework and considering whether there is a level within that Framework (between the objectives of financial reporting on the one hand and qualitative characteristics and the elements on the other) that should articulate the broad types of information that financial statements should convey, whether through notes or other means.

The Board decided to continue to monitor developments in this area and will give further consideration to the adequacy of the Conceptual Framework and how it might be developed to facilitate consideration of presentation and disclosure issues in an holistic and conceptual way.

Action: Chairman
Staff

Substantive Enactment

Agenda Item 10

The Board had before it:

- (a) a memorandum dated 27 November 2012 from Nikole Gyles re Substantive Enactment (agenda paper 10.1);
- (b) comment letter analysis and issues paper – ED 226 *Withdrawal of Australian Interpretation 1039 Substantive Enactment of Major Tax Bills in Australia* (agenda paper 10.2);
- (c) collation of submissions received on ED 226 (agenda paper 10.3);
- (d) pre-ballot draft of Amending Standard 2012–[xx] *Amendments to Australian Accounting Standards arising from the withdrawal of Australian Interpretation 1039* (agenda paper 10.4); and
- (e) revised Basis for Conclusions to Amending Standard 2012–[xx] *Amendments to Australian Accounting Standards arising from the withdrawal of Australian Interpretation 1039 and draft Agenda Decision Substantive Enactment of Major Tax Bills in Australia* (tabled agenda paper 10.5).

The Board considered issues raised in the submissions on ED 226 and decided to:

- (a) withdraw Australian Interpretation 1039, effective from 1 January 2013, through an amendment to AASB 1048 *Interpretation of Standards*; and
- (b) issue a rejection statement (in the form of a Board Agenda Decision) on the issue of when it would be appropriate to conclude that substantive enactment of major tax Bills has occurred in Australia. The Agenda Decision will note that, in Australia, it would be rare that significant uncertainty about the passage of a major tax Bill through both Houses of Parliament would be removed before it has actually passed through both Houses. The Board decided that it is not necessary to issue a Proposed Agenda Decision on the basis that the relevant issues had already been exposed for comment in the Basis for Conclusions to ED 226.



The Board also noted that withdrawing Australian Interpretation 1039 would help avoid any perception of inconsistency with New Zealand accounting standards.

The Board will vote on an amending Standard out of session before the end of 2012.

Action: Staff
Board members

Financial Instruments

Agenda Item 11

The Board had before it:

- (a) a memorandum from Christina Ng and Sue Lightfoot dated 27 November 2012 re: financial instruments project update (agenda paper 11.1);
- (b) a letter from ANZ to IASB dated 21 November 2012 re: IFRS 9 Chapter 6 Hedge Accounting (Review Draft) (agenda paper 11.2); and
- (c) IASB Exposure Draft ED/2012/4 *Classification and Measurement: Limited Amendments to IFRS 9* (agenda paper 11.3, tabled).

Staff provided the Board with an update on the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* with IFRS 9 *Financial Instruments* relating to classification and measurement, impairment and general hedge accounting.

In particular, the Board noted the following matters.

- (a) The IASB published Exposure Draft ED/2012/4 on 28 November 2012. The key proposals in the ED are as follows:
 - (i) introduction of a fair value through other comprehensive income (OCI) measurement category for debt instruments that are held within a business model in which the assets are managed both in order to collect contractual cash flows and for sale and that contain contractual cash flows that are solely payments of principal and interest. Under existing IFRS 9 requirements debt assets are measured at either fair value through profit or loss or amortised cost.
 - (ii) modification of the contractual cash flows test in IFRS 9;
 - (iii) to permit early application of requirements for the presentation in OCI of gains and losses attributable to changes in a liability's credit risk for financial liabilities designated under the fair value option ('own credit risk' requirements) without also applying the requirements of IFRS 9 relating to financial assets; and
 - (iv) that earlier versions of IFRS 9 should be withdrawn six months after the publication of the final version of IFRS 9.

The IASB has requested comments on ED/2012/4 by 28 March 2013. The AASB will issue an Exposure Draft incorporating the IASB's proposals prior to the end of 2012.



- (b) In its November meeting the IASB completed its deliberations relating to impairment of financial assets. In that meeting the IASB tentatively decided that, in its three-bucket impairment model, lifetime expected losses should be recognised if there has been a significant deterioration in credit quality since initial recognition, taking into account the asset's term and the original credit quality. The IASB expects to issue a revised exposure draft on impairment in Q1 2013.
- (c) The Board noted that some constituents from Australia and overseas had written to the IASB concerning the IASB's review draft on General Hedge Accounting which it posted on its website on 7 September 2012 for information purposes. The IASB had expected to issue the general hedge accounting requirements prior to the end of 2012; however, the target date has been deferred to Q1 2013. Comments on the review draft are expected to be discussed at the IASB's January 2013 meeting.

The Board decided to write, through the Chairman, to the IASB to highlight the significance to Australian constituents of the requirements proposed in the IASB review draft standard on general hedge accounting. In particular, the Board will focus on the proposed requirements in paragraph B6.5.5 that would require foreign currency basis risk to be excluded from the measurement of the hedged item for the purpose of measuring hedge effectiveness of a hedging relationship that includes a cross-currency interest rate swap.

The Board decided there were no other issues that ought to be raised with the IASB at this stage.

Action: Staff
Chairman

Transitional Relief for Defence Weapons Platforms

Agenda Item 12

The Board had before it:

- (a) a memorandum from Shu In Oei dated 27 November 2012 (agenda paper 12.1);
- (b) Pre-Ballot Draft AASB 2012-XX Amendments to AASB 1049 *Extension of Transitional Relief for the Adoption of Amendments to the ABS GFS Manual relating to Defence Weapons Platforms* (agenda paper 12.2);
- (c) submissions on ED 227 Proposed Amendments to AASB 1049 *Extension of Transitional Relief for the Adoption of Amendments to the ABS GFS Manual relating to Defence Weapons Platforms* (agenda paper 12.3); and
- (d) extract of AASB minutes 5-6 September 2012 (agenda paper 12.4).

The Board considered the five submissions received on ED 227, noting that four out of the five submissions explicitly support the proposal to extend the transitional relief, with one submission not expressing an explicit view.

The Board considered the Pre-Ballot Draft of AASB 2012-XX (agenda paper 12.2), which reflects comments from some constituents. The amendments clarify that when an entity applies the extended transitional relief,



it is not regarded as having applied the latest version of the ABS GFS Manual and therefore paragraphs 39(a)(ii) and 39A of AASB 1049, which address disclosures, apply.

The Board agreed with that clarification. However, the Board decided to remove paragraph 39B that staff had suggested be added to AASB 1049 in the Pre-Ballot Draft, as the Board considered it to be redundant in light of the former clarification.

In addition, the Board noted some Board Members' comments, provided to staff out-of-session prior to the Board Meeting, relating to potentially removing the early application clause in the Pre-Ballot Draft. The Board agreed to remove the early application clause as there is no potential for the amendments to be applied by the entities (i.e. the whole of government and GGS of the Australian Government) that would be affected by the Amending Standard when it is issued.

The Board decided to vote on a ballot draft, reflecting the above decisions and the outcome of staff quality control checks, out-of-session with a view to it being finalised and issued by the latest 21 December 2012, to be applicable for annual reporting periods beginning on or after 1 July 2012.

Action: Staff
Board members

Revenue from Contracts with Customers

Agenda Item 13

The Board had before it a memorandum from Nikole Gyles dated 27 November 2012 re Revenue from Contracts with Customers – project update (agenda paper 13.1).

The Board received an update on the tentative decisions made by the IASB and the FASB in their November 2012 meeting on the Revenue from Contracts with Customers project. The Board expressed concern in relation to some of the IASB/FASB's tentative decisions, in particular the impact of the proposed model for accounting for licenses and consistency with the leasing project.

The IASB/FASB's proposed model for accounting for licenses distinguishes license arrangements between those that represent the promise to transfer a right, and those that represent a promise to provide access to the entity's intellectual property. In determining the nature of the promise in a license, the IASB and FASB tentatively decided that an entity should consider the characteristics of the license. The nature of the promise would affect whether the license results in a performance obligation satisfied at a point in time (transfer of a right) or a performance obligation satisfied over time (a promise to provide access to the entity's intellectual property).

The Board requested that staff conduct targeted outreach to determine Australian constituents' views on the IASB/FASB tentative decisions in relation to licenses and, in particular, to consider how the tentative model would apply in the context of service concession arrangements from a grantor's perspective.

Action: Staff

Income from Transactions of Not-for-Profit Entities



Agenda Item 14

The Board had before it a memorandum from Jim Paul dated 27 November 2012 (agenda paper 14.1).

The Board considered a status report on progress with drafting an ED on Income from Transactions of Not-for-Profit Entities. The draft ED is based on IASB ED/2011/6 *Revenue from Contracts with Customers*, and includes draft 'Aus' paragraphs to address issues specifically affecting not-for-profit (NFP) entities.

The Board noted that the IFRS on Revenue from Contracts with Customers is targeted for issue by the IASB during the first half of 2013. The Board decided that, in view of the changes to IASB ED/2011/6 decided by the IASB in its redeliberations of that ED's proposals and the expected imminent issue of the IFRS, it would base the AASB ED on the text of the issued IFRS (modifying it for NFP entity specific issues), and would issue its ED seeking comments on those modifications as soon as the IFRS is issued. The timing of issue of the ED would therefore depend on when the IFRS is issued.

The Board directed staff to distribute draft Tier 2 disclosure requirements for the AASB ED to the Board's Differential Reporting Subcommittee simultaneously with distributing a pre-ballot draft of the AASB ED.

Action: Staff

Annual Improvements

Agenda Item 15

The Board had before it a memorandum dated 27 November 2012 from Nikole Gyles re Annual Improvements to IFRSs 2011-2013 Cycle (agenda paper 15.1).

The Board formed preliminary views on the proposals in IASB ED/2012/2 *Annual Improvements to IFRSs 2011-2013 Cycle* (AASB ED 229). The Board expressed general agreement with the IASB's proposals, with the exception of the proposed amendment to IAS 40 *Investment Property* to clarify the interrelationship with IFRS 3 *Business Combinations*. The Board was of the view that an amendment to IAS 40 would not adequately address the more fundamental need to improve the definition of a business in IFRS 3 – which could be addressed as part of the post-implementation review of IFRS 3. Some Board members also queried the proposal that the amendment to IAS 40 is to be applied prospectively. The Board also noted that the issue is related to the IFRS Interpretations Committee's tentative agenda decision in relation to the issue of accounting for reverse acquisitions of an entity that does not constitute a business (see Agenda Item 4) and questioned why different approaches were being taken to both issues by the IFRS IC.

The Board decided to finalise the submission to the IASB out of session, after Board members have considered any comments received on ED 229.

Action: Staff

Board members



IPSASB Report

Agenda Item 16

The Board received a verbal report on the December 2012 meeting of the IPSASB, particularly noting the following:

- (a) the IPSASB approved for issue Phase 1 of its Conceptual Framework, comprising four chapters addressing the role and authority of the Framework, the objectives and users of general purpose financial reporting, qualitative characteristics and reporting entity – the chapters are planned to be issued in January 2013;
- (b) progress on various IPSASB projects – presentation in general purpose financial reports (Phase 4 of the conceptual framework project), long-term sustainability of an entity's finances, service performance reporting, financial statement discussion and analysis, first-time adoption of IPSASs, and an update of its IPSASs on consolidation and joint arrangements; and
- (c) the IPSASB decided to consider draft criteria for determining whether a pronouncement should be an authoritative standard or non-authoritative guidance.

The IPSASB next meets in March 2013.

Differential Reporting

Agenda Item 17

The Board had before it:

- (a) a memorandum from Ahmad Hamidi dated 27 November 2012 (agenda paper 17.1);
- (b) draft research report Financial Reporting Practices of For-Profit Companies and Not-For-Profit Entities in Australia (Board only agenda paper 17.2); and
- (c) researchers' presentation slides (agenda paper 17.3 tabled).

The Board received a comprehensive draft report on the Differential Reporting Research Project from external researchers. The research project was initiated with a view to addressing: (a) whether the population of entities treated as non-reporting entities has consistent characteristics; and (b) the nature of the accounting policies adopted by those entities.

The draft report focuses on the financial statement reporting practices of entities that lodged financial statements with the Australian Securities and Investments Commission under the *Corporations Act 2001*. It also considers the financial statement reporting practices of various entities that lodged with Consumer Affairs Victoria.

The draft report, amongst other things, includes the researchers' findings about:

- (a) the consistency in the population of entities currently being treated as non-reporting entities based on the criteria in the Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity*;
- (b) the application of accounting standards, in particular their recognition and measurement requirements, by lodging entities; and
- (c) the quality of financial statements of those entities based on the nature of accounting policies adopted and other factors.

The Board asked the researchers to finalise the draft report by including:

- (a) an analysis of the financial statements reporting practices of entities lodging with state registries of Cooperatives and Associations in NSW and Queensland (in addition to Victoria) for which data is available;
- (b) a summary and a synthesis of the State-based disclosure regulation in a Table (as an appendix to the report) to assist in understanding the various State-based financial reporting requirements. In addition, as a quick reference, the table should provide a comparison of the legislation by State;
- (c) provide a percentile (decile) distribution of entities producing special purpose financial statements (SPFSs) categorised by trading revenue, total assets, total liabilities and other relevant indicators of size;
- (d) provide a percentile (decile) distribution of entities lodging general purpose financial statements (GPFs) or SPFSs by total revenue and/or total assets and by type of entity; and
- (e) document further information about financial reporting disclosure in regard to efforts to standardise financial reporting by cooperatives nationally.

Board members with other specific comments on the draft report were asked to provide them to the researchers out-of-session for consideration in finalising the report.

The Board also noted that the FRC had established a new task force on the Financial Reporting Regime in Australia, and noted that the research results might be useful input to the work of that task force.

The Board will begin discussing the public policy implications of the research findings at the February 2013 meeting. It is intended that the Board's preliminary views on those policy implications be published



concurrent with the publication of the researchers' final report. The final report and related policy implications would be discussed with relevant regulators (including ASIC and Treasury) prior to their publication.

Action: Staff
Contractors
Board members

Budgetary Reporting

Agenda Item 18

The Board had before it:

- (a) a memorandum from Shu In Oei dated 26 November 2012 (agenda paper 18.1);
- (b) Pre-Ballot Draft AASB 105X *Budgetary Reporting* (agenda paper 18.2);
- (c) Pre-Ballot Draft AASB 2012-XX *Amendments to Australian Accounting Standard – Relocation of Budgetary Reporting Requirements* [AASB 1049] (agenda paper 18.3);
- (d) Extract of AASB Minutes 25-26 July 2012 (agenda paper 18.4); and
- (e) Marked-up Revised Pre-Ballot Draft AASB 105X reflecting amendments arising from Board Members' comments on agenda paper 18.2 provided to staff out-of-session prior to the Board Meeting – tabled (agenda paper 18.5)

As part of its consideration of the issues addressed in the memorandum (agenda paper 18.1) and the Pre-Ballot Draft Standards (agenda papers 18.3 and 18.5), the Board decided:

- (a) in relation to transitional requirements for:
 - (i) tabled Pre-Ballot Draft AASB 105X – specific transitional relief is not necessary given that comparative budgetary information is not required to be disclosed; and
 - (ii) Pre-Ballot Draft AASB 2012-XX – transitional arrangements are not necessary given that the requirements relating to budgetary reporting in AASB 1049 *Whole of Government and General Government Sector Financial Reporting* would simply be relocated to AASB 105X and would continue to apply without substantive amendments;
- (b) in relation to reduced disclosure requirements for Tier 2 entities, which are only relevant to tabled Pre-Ballot Draft AASB 105X, having regard to user needs and cost/benefit considerations, Tier 2 entities should be required to apply the same requirements as Tier 1 entities in relation to budgetary reporting. This is mainly because the budgetary disclosures would provide relevant information on an entity's planning and costing, facilitate a budget to actual comparison for accountability purposes, and would not cause unreasonable burden to the Tier 2 Entities; and
- (c) in relation to operative dates for the tabled Pre-Ballot Draft AASB 105X and Pre-Ballot Draft AASB 2012-XX – given that the requirements would only affect entities that present their budgets to parliament and disclosures in the financial statements (not recognition and measurement), the Board



decided that an implementation period of about 2 years is sufficient and therefore the final Standards would be mandatory from 1 July 2014, with early adoption allowed. The Board also noted that paragraph BC30 of the tabled Pre-Ballot Draft AASB 105X would need to be consistently worded to reflect this implementation period of about 2 years;

- (d) to adopt the revisions reflected in the marked-up text of the tabled Pre-Ballot Draft AASB 105X, except for the following:
- (i) to clarify the term 'separately identifiable' used in paragraphs 6, 7 and 13 – the Board decided to replace the term with 'separately identified as relating to the entity';
 - (ii) to clarify the requirements relating to disclosure of explanations of major variances in regard to variances from revised budgets presented to parliament. In particular, the Board considered that the two last sentences of paragraph 14 should be rewritten to better convey the need for an entity to have regard to any revised budgets presented to parliament and include explanations for major numerical differences between any revised budget and actual amounts in its explanations for major variances, particularly in a circumstance where there is no major numerical differences between original and actual amounts and omission of such explanations would result in a misleading analysis of the entity's performance for a period; and
 - (iii) to acknowledge in the Basis for Conclusions that the Standard has not envisaged all circumstances where budgetary reporting might be relevant that may not be captured by the requirements, particularly when certain kinds of administrative restructures might take place during a year, but that the principles in the Draft Standard could be applied in such circumstances.

The Board also considered the next step. The Board noted that some of the Budgetary Reporting Sub-Committee members expressed concern about issuing a Standard at this stage of the process, given that the Standard arises from proposals that were part of the more broadly-scoped proposals in ED 212 *Not-for-Profit Entities within the General Government Sector*. The Board decided to make Review Drafts of AASB 105X and AASB 2012-XX, reflecting its decisions at this meeting, available on the AASB's website for about 45 days, to provide constituents with an opportunity to identify any fatal flaws. Contingent on staff resources, the Board intends to consider any comments received at the February 2013 Meeting, with a view to finalising the Draft Standard then.

Action: Staff

Amendments to Standards

Agenda Item 19

The Board had before it:

- (a) a memorandum from Clark Anstis, Daisy Yang and Masha Marchev dated 27 November 2012 re Amendments to Standards (agenda paper 19.1);



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- (b) Draft Amending Standard AASB 2012-X *Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments* (agenda paper 19.2);
 - (c) List of IASB Correction Lists re AASB 2012-X (agenda paper 19.3);
 - (d) Australian Amendments in AASB 2012-X (agenda paper 19.4);
 - (e) Draft Amending Standard AASB 2012-Y *Amendments to Australian Accounting Standards – Reduced Disclosure Requirements and Other Amendments* (agenda paper 19.5);
 - (f) Amendments in AASB 2012-Y (agenda paper 19.6); and
 - (g) Additional Australian Amendments for AASB 2012-X (tabled agenda paper 19.7).

The Board considered draft versions of two Amending Standards:

- (a) AASB 2012-X *Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments*, which would apply to annual reporting periods beginning on or after 1 January 2013, with early application permitted. The Amending Standard would:
 - (i) revise the transition requirements in AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements* and AASB 12 *Disclosure of Interests in Other Entities*, based on amendments issued by the IASB in June 2012;
 - (ii) defer the mandatory application date of AASB 10, AASB 11, AASB 12, AASB 127 *Separate Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* for not-for-profit entities to annual reporting periods beginning on or after 1 January 2014; and
 - (iii) make editorial corrections to Australian Accounting Standards; and
- (b) AASB 2012-Y *Amendments to Australian Accounting Standards – Reduced Disclosure Requirements and Other Amendments*, which would apply to annual reporting periods beginning on or after 1 July 2013, with early application permitted. The Amending Standard would:
 - (i) amend AASB 10 and AASB 128 to extend the relief from consolidation and the equity method in respect of Tier 2 entities complying with Australian Accounting Standards – Reduced Disclosure Requirements; and
 - (ii) make further editorial corrections to Australian Accounting Standards.

The Board instructed staff to circulate the draft Amending Standards for review by the project managers responsible for the pronouncements that would be amended prior to ballot drafts being sent to Board members for out-of session voting before the end of 2012.

Action: Staff

Board members

Close of Meeting

The Chairman closed the meeting at approximately 12.30 pm. on Thursday 12 December 2012. Approval



Signed by the Chairman as a correct record
this first day of March 2013