



Subject: Minutes of the 143rd meeting of the AASB
Venue: Ken Spencer Room, AASB offices
Level 7, 600 Bourke St, Melbourne
Time(s): Wednesday 11 February 2015 from 9.15 a.m. to 5.15 p.m.

All agenda items were discussed in public.

Attendance

Members	Kris Peach (Chair) Mike Blake Peter Carlson Anna Crawford Kimberley Crook Regina Fikkers Peter Gibson Andrew Keernan Steve Mitsas Carmen Ridley Taryn Rulton Marc Smit Ann Tarca Megan Wilson
Observer	John O'Grady
In Attendance:	
Staff	Glenn Brady (in part) Mitchell Bryce (in part) Nikole Gyles David Ji (in part) Evelyn Ling (in part) Lisa Panetta Jim Paul (in part) Joanna Spencer (in part)

Agenda and Declaration of Interests

Declarations of Interest

Agenda Item 1(a)

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. In regard to agenda item 8 addressing accounting for residual value of recyclable assets, Mike Blake advised that he has been involved in this topic and has released a report on infrastructure financial accounting in Local Government.

Chair's Report

Board Member Changes

The Chair welcomed three new Board members who commenced on the Board on 1 January 2015: Mr. Mike Blake, Mr. Andrew Kearnan and Ms. Megan Wilson.

AASB Strategy Session

The Chair noted that the Board will be conducting a strategy session to establish the strategic plan of the AASB. The AASB Strategic Plan sets out the 5 year strategic plan of the AASB. This will be conducted as a closed session.

Office of Best Practice Regulation

The Chair provided an update on efforts to streamline the Revenue Impact Statement (RIS) and business cost calculation exercise.

International Meetings

The Chair noted the upcoming International Meetings that she will be attending in March 2015: International Financial Accounting Standard-Setters (23 – 24 March) and Accounting Standards Advisory Forum (26 – 27 March). In addition, the Chair noted that Joanna Spencer will be attending the International Public Sector Accounting Standard Board meeting on 10 – 13 March.

New Zealand

The NZASB Chair, Kimberley Crook, reported on key developments in New Zealand.

Other

The Chair also noted staff movements:

- (a) Christina Ng and Sue Lightfoot finishing up with the AASB in December and January;
- (b) Daen Soukseun joined the AASB on 19 January 2015 as a Project Manager;
- (c) Sean Hanley will be finishing his secondment on 13 February; and
- (d) Mitchell Bryce will begin a two month secondment in Korea on 19 February

Apologies, Minutes and Approvals Out of Session

Agenda Item 2

Apologies

No apologies were noted for the meeting.

Minutes

The Board approved the minutes of the one hundred and forty-second meeting held on 17-18 December 2014.

Approvals Out of Session

The Board had before it a memorandum from Lisa Panetta dated 2 December 2014 re Voting Summary [Board only] (agenda paper 2.2).

The Board noted that the following pronouncements had been approved in-session:

- (a) AASB 9 *Financial Instruments*;
- (b) AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)*; and
- (c) AASB 2014-8 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) – Application of AASB 9 (December 2009) and AASB 9 (December 2010)*.

In addition, the Board noted that the following pronouncements had been approved out-of-session:

- (a) AASB 15 *Revenue from Contracts with Customers*;
- (b) AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15*;
- (c) AASB 2014-6 *Amendments to Australian Accounting Standards – Agriculture: Bearer Plants*;
- (d) AASB 2014-9 *Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements*;
- (e) AASB 2014-10 *Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*; and
- (f) AASB 2015-1 *Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle*.

Furthermore, Exposure Draft ED 258 *Disclosure Initiative (Proposed Amendments to AASB 107)* was issued under the Board's policy of delegated authority for the Chair to issue the IASB Exposure Draft ED/2014/6 *Disclosure Initiative Proposed amendments to IAS 7* where there is no significant additional Australian material. Comments on the proposals in Exposure Draft ED 258 are due by 20 March 2015 to the AASB and by 17 April to the IASB.

Related Party Disclosures

Agenda Item 3

The Board had before it:

- (a) a memorandum from Evelyn Ling re Extending Related Party Disclosures to Not-for-Profit Public Sector Entities – Sweep Issues (agenda paper 3.1);
- (b) Draft AASB 2015-X *Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities* (agenda paper 3.2);
- (c) Minutes and Other Background Information (agenda paper 3.3);
- (d) Staff Issues Paper: Sweep Issues Identified by AASB staff (agenda paper 3.4); and

- (e) Staff Issues Paper: Sweep Issues Raised by Board members (tabled) (agenda paper 3.4.1).

The Board finalised proposals to require not-for-profit public sector entities to provide related party disclosures for annual reporting periods beginning on or after 1 July 2016. The Board tentatively decided that comparative information would not be required in the first year of application. An amending Standard removing the exemption from AASB 124 *Related Party Disclosures* is expected to be issued by the end of March 2015.

In reviewing the draft Implementation Guidance, the Board decided that additional guidance should be included to reinforce the view that, for non-KMP related party transactions, only those transactions that are significant to the reporting entity are required to be disclosed. The Board noted it is expected that individually significant transactions will be a small subset, by number, of total related party transactions. In relation to the Implementation Guidance, the Board decided to:

- (a) include some introductory context;
- (b) develop a further example to illustrate the identification of key management personnel by a statutory authority;
- (c) include some guidance about the application of paragraph 17A to not-for-profit public sector entities;
- (d) include limited further guidance about the types of transactions that should be disclosed, having regard to paragraph BC45 in IAS 24 *Related Party Disclosures*.

The Board also decided that the Implementation Guidance should form an integral part of AASB 124, and that its application should not be limited to not-for-profit public sector entities.

The Board also noted the need for the AASB to hold education sessions, in recognition of the significance of the amendments to not-for-profit public sector entities and having regard to the proposed application date.

The Board directed staff to circulate another draft of the Amending Standard for comment by Mike Blake, Peter Carlson, Peter Gibson, Steve Mitsas, Taryn Rulton and Ann Tarca before a ballot draft is prepared for Board voting out-of-session.

Action:

Staff

Board members

Service Concession Arrangements

Agenda Item 5

The Board had before it:

- (a) a memorandum from Sean Hanley and Daen Soukseun dated 27 January 2015 re: Service Concession Arrangements: Grantor's Perspective (agenda paper 5.1);
- (b) AASB Staff Issues Paper: Service Concession Arrangements (Grantor) Project – Potential Issues for Consideration (agenda paper 5.2);

- (c) AASB Staff Issues Paper: Service Concession Arrangements – Additional Issues for Consideration (agenda paper 5.2.1); and
- (d) ED – *Service Concession Arrangements: Grantor* (agenda paper 5.3).

Key tentative Board decisions included:

- (a) the Board tentatively reaffirmed its earlier decision to apply the control or regulation approach, rather than a control only approach. The control or regulation approach mirrors AASB Interpretation 12 *Service Concession Arrangements*. In making this decision the Board noted that the proposals in the ED will reinforce the move from recognising assets based on a risk and rewards approach to a control based approach. Accordingly, infrastructure assets subject to public/private arrangements not captured under the proposals (i.e. no price regulation) may still need to be recognised under other Standards addressing control of assets. The Board also noted that AASB 10 *Consolidated Financial Statements* applies to any special purpose vehicles that hold service concession assets;
- (b) if a service concession arrangement involves a right to charge users, the grantor should account for its promise (explicit or implicit) to undertake activities in relation to the service concession asset that will benefit the operator as a contract liability, similarly to a right of access licence under AASB 15 *Revenue from Contracts with Customers*;
- (c) to define ‘public service’, noting that this may mean that the proposals in the ED have a wider scope than AASB Interpretation 12;
- (d) that any difference between the fair value of the asset and the financial liability on transition is to be included in opening equity, noting that this amount cannot be used to offset any future impairment losses; and
- (e) the ED applies to all grantors (including public sector for-profit entities), but requested staff to undertake further analysis on the scope prior to the issuance of the ED.

The Board agreed to the issue of an Exposure Draft (ED) by the end of March 2015, with a 120-day comment period. Given the importance of this issue to the public sector the Board will be conducting a number of outreach activities.

Action:

Staff

Board Advisors (Peter Carlson, Regina Fikkers, Steve Mitsas and Marc Smit)
Board Members

Income from Transactions of Not-for-Profit Entities

Agenda Item 6

The Board had before it:

- (a) a memorandum from Jim Paul and Glenn Brady dated 3 February 2015 re: Income from Transactions of Not-for-Profit Entities (agenda paper 6.1);

- (b) AASB Staff Issues Paper: Draft ED on Income from Transactions of Not-for-Profit Entities – issues for consideration in approving the ED (agenda paper 6.2); and
- (c) Draft ED XX *Income from Transactions of Not-for-Profit Entities* (agenda paper 6.3).

The Board considered the draft ED on Income from Transactions of Not-for-Profit Entities and the staff issues paper. The Board tentatively decided that:

- (a) the ED should be structured to indicate that separate Standards would be issued in relation to:
 - (i) implementation guidance for not-for-profit entities on contracts with customers (which would be set out as an amendment to AASB 15); and
 - (ii) requirements and implementation guidance for income from taxable events and transactions that are not contracts with customers;
- (b) where there is a donation element, this should be accounted for prior to the application of any other relevant Standards. Accordingly:
 - (i) the ED should propose that whenever the cash consideration paid or payable by a not-for-profit entity for a non-financial asset differs from fair value, the asset's 'cost' should be measured at fair value. This would remove the condition in each of AASB 102 *Inventories*, AASB 116 *Property, Plant and Equipment*, AASB 138 *Intangible Assets* and AASB 140 *Investment Property* that the 'cost' of an asset of a not-for-profit entity would only be measured at a different amount than the cash consideration paid or payable if that consideration is nil or nominal in amount; and
 - (ii) below-market leases should initially be accounted for at fair value.

The Board will consider appropriate transitional provisions related to the changes in (i) and (ii), as part of its broader consideration of transitional provisions for this ED;

- (c) regarding (b) above, the consideration paid or payable for a non-financial asset or lease would be presumed to represent fair value unless facts and circumstances indicated otherwise. Consequently, a not-for-profit entity would be required to estimate the fair value of a non-financial asset or lease only when there are indications that the cash consideration paid or payable is materially different from fair value;
- (d) it reaffirms its earlier tentative decision that a time-based condition relating to a transfer of an asset to a not-for-profit entity does not, of itself, meet the 'sufficiently specific' criterion for identifying a performance obligation. For example, a receipt of funds by a not-for-profit entity on 30 June 2015 would be recognised as income at 30 June 2015 if the *only* condition attached to those funds is that they are to be spent during the period 1 July 2015 to 30 June 2016. However:
 - (i) a performance obligation may arise when such a condition is accompanied by other conditions (such as a condition that particular goods or services are to be provided to the customer);



- (ii) a time-based condition may, depending on the facts and circumstances, prevent an entity from obtaining control of granted assets until the start of the time period in which the assets may be used (if control of the funds is not obtained until such a later date, the physical receipt of those funds is not the event giving rise to a transfer of an asset to the not-for-profit entity); and
 - (iii) a transfer of assets to a not-for-profit entity may, depending on the facts and circumstances, give rise to liabilities other than performance obligations (e.g. a refund liability);
- (e) the draft ED should indicate it is likely that the taxable event giving rise to the recognition of tax income by the taxing entity is the end of the taxation period in which taxable income is generated by the taxpayer; and
- (f) the draft ED appears not to give rise to any significant GAAP/GFS harmonisation differences from the draft revised International Monetary Fund (IMF) GFS Manual, on which the Australian Bureau of Statistics (ABS) intends to base the income recognition requirements in its forthcoming revision of its GFS Manual. The ABS GFS Manual is expected to be revised with effect from an earlier date than the proposed effective date of the proposals in the draft ED (annual reporting periods beginning on or after 1 January 2017). However, the Board noted that:
- (i) the final revised IMF GFS Manual and, potentially, the revised ABS GFS Manual, could differ from the draft revised IMF GFS Manual on which the staff's assessment of possible GAAP/GFS harmonisation differences is based; and
 - (ii) if the proposed Standard were early adopted before the planned changes to the ABS GFS Manual, the ED's proposed treatment of 'payable tax credits' would be likely to cause a GAAP/GFS harmonisation difference.

In light of the considerations noted in (f), the Board tentatively decided there are not likely to be GAAP/GFS harmonisation differences that warrant reconsidering the Board's tentative decisions on this project.

The Board directed staff to:

- (a) undertake further research and analysis into:
 - (i) refund liabilities;
 - (ii) whether the definition of 'contributions by owners' in the draft ED should be omitted or amended, and whether AASB Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* should be withdrawn. The Board noted that the scope of AASB Interpretation 1038 includes for-profit entities in the public sector, and this has potential implications for the ability of affected entities to make an unreserved statement of compliance with IFRSs;
 - (iii) whether, in light of the Board's tentative decisions, there remains a reason to retain parts of AASB 1004 in the long term; and

- (iv) whether any departures from usual transitional provisions are warranted in light of the specific proposals in the ED;
- (b) prepare and distribute to Board members a revised project plan as soon as possible following the Board meeting; and
- (c) prepare a prototype draft ED reflecting the Board's intention to issue separate Standards covering the scope of this project and the other tentative decisions noted above, and distribute the draft out of session to Board advisors (Kimberley Crook, Peter Gibson, Steve Mitsas, John O'Grady, Kris Peach, Carmen Ridley and Taryn Rulton) for this project (with a copy for information to other Board members). The Board will consider further drafts of the ED out of session over the coming weeks. The ED is targeted for issue in March 2015.

The Board deferred making a decision on whether to include the text of AASB 15 in the ED, until a complete revised draft ED (incorporating the above-mentioned decisions and a draft Basis for Conclusions) is prepared and distributed to Board members.

Action: Staff
Board Advisors

Removal of Cross-References from Financial Statements to Other Documents

Agenda Item 7

The Board had before it:

- (a) a memorandum from Evelyn Ling re Removal of Cross-References in Financial Statements to Other Documents (agenda paper 7.1);
- (b) Staff Issues Paper: Feedback received on ED 256 Removal of Cross-References in Financial Statements to Other Documents (agenda paper 7.2);
- (c) comment letters on ED 256 Removal of Cross-References in Financial Statements to Other Documents [subs 1-9] (agenda paper 7.3);
- (d) ED 256 *Removal of Cross-References in Financial Statements to Other Documents* (agenda paper 7.4); and
- (e) a copy of Agenda Paper 5.1 from AASB Meeting 23-24 October 2013 [for information only] (agenda paper 7.5) (Board only).

Based on the feedback from comment letters received on ED 256 *Removal of Cross-References from Financial Statements to Other Documents*, the Board decided that the cross-referencing permitted by the IASB should also be permitted in Australia in the absence of any legislative impediment. The Board noted its intention to contribute to the IASB's Disclosure Initiative – Principles of Disclosure Project in this regard, including encouraging the IASB to consider other implications of providing information by cross-reference from the financial statements. The Board also noted that the ability for entities to provide specified information by cross-reference from the financial statements does not change existing requirements for management and auditors to

ensure that the financial statements are presented fairly and that the cross-referenced material is capable of being audited where necessary.

The Board also decided to reinstate the ability to provide specified information by cross-reference in paragraphs 21B, 35C and B6 of IFRS 7 *Financial Instruments: Disclosures* into AASB 7 *Financial Instruments: Disclosures*. The Standard is expected to be issued in Q2 2015.

The Board decided not to incorporate the text of paragraph IG62 of IFRS 4 *Insurance Contracts* into AASB 4 *Insurance Contracts*.

Action:	Staff
	Board members

Residual Value of Recyclable Assets

Agenda Item 8

The Board had before it:

- (a) a memorandum from Mitchell Bryce dated 27 January 2015 re Residual Value of Recyclable Assets (agenda paper 8.1);
- (b) AASB Staff Issues Paper: Residual Value of Recyclable Assets (agenda paper 8.2);
- (c) submissions from targeted outreach on the Residual Value of Recyclable Assets (agenda paper 8.3);
- (d) additional AASB staff issues paper – Residual Value of Recyclable Assets (tabled) (agenda paper 8.4); and
- (e) additional submissions from targeted outreach on the Residual Value of Recyclable Assets (tabled) (agenda paper 8.5).

The Board considered two views identified as a result of outreach in relation to the definition of residual value and the divergent accounting practices resulting from those views. The Board tentatively decided that the recognition of a residual value in AASB 116 is limited to when an entity expects to receive consideration at the end of the asset's useful life and that recognition of residual value is not appropriate when existing assets are expected to be recycled into a replacement asset. The Board further noted that componentisation and determining the appropriate useful life in accordance with the requirements of AASB 116 would result in a similar outcome to the alternative approach of assuming a residual value. The Board also considered the level of componentisation is not limited to the circumstances when components are physically distinct. The Board was advised that the componentisation approach is being used by local councils in Tasmania and has resulted in improved asset management.

The Board decided to issue a tentative agenda decision noting the Board's reasoning for not taking the issue onto its agenda and agreed that the tentative agenda decision be approved out-of-session by the Board Advisors (Peter Gibson, Regina Fikkers, Kris Peach and Ann Tarca). The Board also directed staff to develop a staff article on the issue.

Action: Staff
Board Advisors

Financial Instruments – Reduced Disclosure Requirements

Agenda Item 9

The Board had before it:

- (a) a memorandum from David Ji dated 27 January 2015 re Reduced Disclosure Requirements for AASB 9 (December 2014) (agenda paper 9.1);
- (b) AASB Staff Analysis: Financial Instruments (December 2014): Amendments to AASB 7 – Classification and Measurement RDR for Tier 2 Entities (agenda paper 9.2);
- (c) AASB Staff Analysis: Financial Instruments (December 2014): Amendments to AASB 7 and AASB 101 – Impairment RDR for Tier 2 Entities (agenda paper 9.3);
- (d) Comment letters received in relation to the Tier 2 Supplement to AASB ED 230 Classification and Measurement: Limited Amendments to AASB 9 and the Tier 2 Supplement to AASB ED 237 Financial Instruments: Expected Credit Losses (agenda paper 9.4);
- (e) Illustrative working draft of AASB 7 incorporating staff recommendations (agenda paper 9.5); and
- (f) Issues raised by Board Members subsequent to Board mail-out (tabled) (agenda paper 9.6)

The Board decided to postpone the consideration of Reduced Disclosure Requirement (RDR) relief for Tier 2 entities in respect of the disclosure requirements in AASB 7 *Financial Instruments: Disclosures* and AASB 101 *Presentation of Financial Statements* that are amended by AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)*, pending a decision to reassess the Tier 2 Disclosure Principles.

Action: Staff

International Projects

Agenda Item 10

The Board received an update on recent international meetings. No decisions were made.

Meeting with IPSASB Chair

Agenda Item 13

Andreas Bergmann (IPSASB Chair) and Paul Sutcliffe (IPSASB Senior Technical Advisor) provided the Board with a report on the IPSASB's work, and attended other Board meeting sessions of particular



relevance to the public sector. They provided an overview of: (a) the IPSASB's Public Sector Conceptual Framework issued in October 2014; and (b) the IPSASB's current and future work program. Current projects include social benefits, public sector combinations, emissions trading schemes and public sector financial instruments. Key future projects the IPSASB has identified include non-exchange expenses, a review of IPSASs on exchange and non-exchange revenues, public sector-specific measurement issues, and heritage and infrastructure assets. Board members discussed various issues of mutual interest with the IPSASB representatives, including the relationship between IPSAS-compliant financial statements and government finance statistics.

Close of Meeting

The Chair closed the meeting at 5.15 p.m. on Wednesday 11 February 2015.

Approval

Signed by the Chair as a correct record
this fifteenth day of April 2015