



Minutes

Subject:	Minutes of the 105 th meeting of the AASB, held jointly with the NZ FRSB
Venue:	Day 1 Rimu 2 and 3 Novotel Ellerslie Hotel 72-112 Greenlane Road East, Auckland New Zealand Day 2 President's Room New Zealand Institute of Chartered Accountants Auckland Branch 27-33 Ohinerau Street Remuera, Auckland New Zealand
Time(s):	Wednesday 17 March 2010 from 9.00 a.m. to 4.45 p.m. Thursday 18 March 2010 from 8.30 a.m. to 3.00 p.m. (Closed session) The AASB met separately on Wednesday 17 March 2010 from 4.45 p.m. to 5.30 p.m.

All agenda items were discussed in public except Agenda items 1 and 2

Attendance

	AASB	FRSB
Members	Ian McPhee (Deputy Chairman) Bruce Porter (Deputy Chairman) Glenn Appleyard Victor Clarke Sue Highland John O'Grady Kris Peach (until 1.00 Day 2) Joanna Perry (except Day 1 from 4.45 to 5.30 of AASB meeting) Brett Rix Robert Williams	Joanna Perry (Chairman) Denise Hodgkins (Deputy Chairman) Christine Burns Kimberly Crook Dave Foster (from 10.40 Day 1) Karl Hickey (until 12 noon Day 2) Brent Manning Angela Ryan Kate Thomson (until 12 noon Day 2) Steve Todd
Apologies	Kevin Stevenson (Chairman) Mark Jenkin Frank Palmer	Norman Wong
In Attendance	Bryan Howieson (Consultant) (Day 2) Ken Warren (IPSASB Liaison Member – NZ) Michele Embling (ASRB member) (Day 2)	
Staff	Clark Anstis Ahmad Hamidi Robert Keys Latif Oylan Jim Paul Joanna Spencer Angus Thomson	Sarah Bate (until 12 noon Day 2) Clive Brodie Cameron Hall Patricia McBride Chris Neame Vanessa Sealy-Fisher
Apologies		Bruce Bennett Joanne Scott

Apologies, Agenda, Minutes, Matters Arising from Minutes and Declaration of Interests

Agenda Item A1

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.

Those members who are in public practice declared an interest in Agenda Item B5 Convergence of For-profit Tier 1 Financial Reporting Requirements in New Zealand and Australia, particularly in respect of the audit fee disclosure requirements.

Chairman's Report

Agenda Items A1.2 and A1.3

The NZ Chair provided both Boards with an overview of the OECD and the Conceptual Framework subcommittee meeting of the IPSASB which she attended together with Kevin Stevenson and Clark Anstis. It was noted that the OECD meeting provided a useful forum for updating the relevant government representatives on progress towards improved public sector reporting, particularly the trend towards accrual accounting. Ms Perry noted that New Zealand representative (Ken Warren) and the Australian representative (Tim Youngberry) to the IPSASB both presented at the OECD meeting on recent developments in accounting and budgeting in their respective jurisdictions.

Joint Work Programme

Agenda Item B1

The Boards had before them a memorandum from Patricia McBride and Robert Keys (dated 3 March 2010) outlining a proposed approach to the two Boards working jointly, at least for the short-term in light of the current restructuring of standard-setting taking place in New Zealand.

The Boards expressed the following views:

- (a) the current joint projects should continue to be progressed (through joint staff project teams, and joint subcommittees where appropriate – although see item (g) below) and ideas should be shared (between both staffs and the Boards) on other projects of common interest;
- (b) despite the uncertainties about the future standard setting arrangements in New Zealand, the Boards should continue to aim to improve their approach to working together. This is because the issues relating to trans-Tasman relationships are likely to exist irrespective of the institutional arrangements, and the new arrangements might benefit from the lessons learned from the existing Boards working together. Accordingly, the joint subcommittee (established at the joint AASB/FRSB meeting in October 2009 to develop draft proposals for the joint working of the Boards) should proceed to at least initially consider the extent to which issues can be addressed by the existing Boards or deferred pending the establishment of the new New Zealand Board;
- (c) although an objective of joint working arrangements should be to more efficiently undertake the work of the Boards, the ultimate objective should be improved quality of outcomes, which the Boards accepted could potentially create a greater workload for the Boards and staff;
- (d) consideration should be given to streamlining the process for issuing Exposure Drafts based on IASB Exposure Drafts;

- (e) the Boards' positive views regarding, and the progress being made towards, trans-Tasman convergence should be communicated to TTAASSAG because full convergence is unlikely to be able to be achievable by the Boards alone;
- (f) future joint technical agenda items should clearly indicate whether their objective is education or as input to technical decisions. The Boards noted that the objective of an agenda item would have an impact on the level of detail that needs to be provided in the agenda papers; and
- (g) the effectiveness of using joint subcommittees on projects should be assessed as more experience is gained. The assessment should have regard to the extent to which the Boards feel the need to re-debate issues debated by subcommittees as well as the impact on the workload of Board members and staff of the sub-committee meetings additional to the Board meetings.

Action:

<u>AASB</u>
Staff
Chairman
Mr Appleyard
Mr Palmer
Mr Porter
<u>FRSB</u>
Staff
Chairman
Ms Crook
Ms Hodgkins
Mr Todd

NZ Action Point

Patricia McBride and Robert Keys to identify issues for consideration by the joint work program sub-committee of the Boards.

Reporting on the Long-term Fiscal Sustainability of Public Finances

Agenda Item B2

The Boards had before them:

- (a) a memorandum from Joanne Scott and Jim Paul dated 8 March 2010 (Agenda paper B2);
- (b) an Issues Paper *Proposal to Comment on the IPSASB's Consultation Paper* (Agenda paper B2.1);
- (c) Draft Comments on the IPSASB's Preliminary Views (Agenda paper B2.2); and
- (d) AASB ITC 22 *Request for Comment on IPSASB Consultation Paper 'Reporting on the Long-Term Sustainability of Public Finances'* (Agenda paper B2.3).

The Boards considered an analysis of IPSASB Consultation Paper *Reporting on the Long-Term Sustainability of Public Finances*. They decided to indicate in their submissions that they consider the IPSASB should give a high priority to its project on this topic and agree with the IPSASB's preliminary views that:

- (a) the presentation of information on the long-term sustainability of public finances ('long-term fiscal sustainability') is necessary to meet the objective(s) of financial reporting by national governments and some other governments;
- (b) such information should be presented in general purpose financial reports, either in additional statements to financial statements or in narrative reporting; and

- (c) IPSASB guidance on reporting on long-term fiscal sustainability in general purpose financial reports should recommend disclosure of:
- (i) key assumptions underpinning the long-term fiscal sustainability projections; and
 - (ii) results of key sensitivity analyses.

In regard to the IPSASB's preliminary view that IPSASB guidance should be based on the concept of the reporting entity and should provide recommended practice for consolidated financial reports presented by all levels of government, the Boards decided to comment that reporting information on long-term fiscal sustainability in whole-of-government general purpose financial reports is a good starting point, but the IPSASB should keep a flexible outlook on which public sector entities should report this information in their general purpose financial reports. For example, the IPSASB should not preclude reporting of such information in respect of particular segments or components of governments. The Boards agreed that reporting of such information by local governments may be appropriate, but decided not to comment specifically on that issue.

The Boards agreed to recommend that, in reporting information on long-term fiscal sustainability, entities should present a balanced objectively-determined range of indicators, focusing on key assumptions and scenarios, to avoid such reports becoming political or management tools.

The Boards agreed to propose to the IPSASB that, in addition to recommending disclosure of key assumptions underpinning long-term fiscal sustainability projections, it should recommend disclosure of the reasons for selecting these assumptions.

The Boards decided that, due to their limited knowledge of the issues regarding information on long-term fiscal sustainability, they would not comment on all aspects of the IPSASB Consultation Paper. They agreed to provide information to the IPSASB on current practice within their respective jurisdictions. For example, information would be provided on New Zealand FRS 42 Prospective Financial Statements.

The Boards decided to make separate submissions to the IPSASB, while noting that they would work together in developing their respective submissions. They will consider comments received from constituents on the IPSASB Paper after their joint meeting before finalising their submissions. They directed the staffs of both Boards to jointly prepare draft submissions for consideration at the next FRSB teleconference and for consideration by AASB members out of session.

Action:

Staff

Financial Instruments

Agenda Item B3

The Boards had before them:

- (a) a memorandum from Sarah Bate dated 5 March 2010 (Agenda paper B3A.1);
- (b) IASB Staff paper September 2009 *Classification Approach* (Agenda paper B3A.2);
- (c) IASB Staff paper January 2010 *Approach 4.2—Classification of instruments an entity will settle by issuing its own shares* (Agenda paper B3A.3);
- (d) a memorandum from Christina Ng and Sarah Bate dated 2 March 2010 (Agenda paper B3B.1);
- (e) IASB/FASB Staff paper February 2010 *Classification and Measurement* (Agenda paper B3B.2);
- (f) IASB/FASB Staff paper February 2010 *The Fair Value Option* (Agenda paper B3B.3);
- (g) a memorandum from Sarah Bate dated 5 March 2010 (Agenda paper B3C.1);

- (h) IASB/FASB Staff paper February 2010 *Hedged items: Approach for determining what risk components are eligible for designation* (Agenda paper B3C.2);
- (i) IASB/FASB Staff paper February 2010 *Bifurcation-by-risk approaches* (Agenda paper B3C.3);
- (j) IASB Staff paper March 2010 *Eligible hedged items: derivatives as hedged items* (Agenda paper B3C.4);
- (k) IASB Staff paper March 2010 *Eligible hedged items – components of nominal amounts* (Agenda paper B3C.5); and
- (l) IASB Staff paper March 2010 *Eligible hedged items – one-sided risk components* (Agenda paper B3C.6).

The FRSB and AASB received updates regarding the progress of both the IASB and FASB on the following projects:

- Financial Instruments with the Characteristics of Equity
- Financial Instruments: Classification and Measurement – Financial Liabilities
- Financial Instruments: Hedging

The Boards elected not to send comments to the IASB Staff at present. However, the Boards noted their concerns regarding both the due process requirements of the IASB being fully met during the course of the projects, and structure of the projects.

The Boards requested Staff to consider the most efficient way to respond to the expected Exposure Draft regarding Financial Instruments with the characteristics of equity.

Staff were also request to research the classification of issued currency as equity.

Action:	Staff Chairs
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Income from Non-exchange Transactions

Agenda Item B4

The Boards had before them:

- (a) a memorandum from Jim Paul and Joanne Scott dated 10 March 2010 (Agenda paper B4);
- (b) a copy of submissions on Exposure Draft AASB ED 180/FRSB ED 118 Income from Non-exchange Transactions (Taxes and Transfers) (Agenda paper B4.1);
- (c) a collation of the submissions received on AASB ED 180/FRSB ED 118 (Agenda paper B4.2);
- (d) a strategy paper Options for Moving Forward (Agenda paper B4.3);
- (e) extracts from minutes of previous meetings of the AASB and FRSB (Agenda paper B4.4); and
- (f) a copy of AASB ED 180/FRSB ED 118 (Agenda paper B4.5).

The Boards commenced their review of the submissions on AASB ED 180/FRSB ED 118, focusing particularly on comments received on the timing of income recognition by recipients. The Boards tentatively decided to explore departing from the ED's proposal that a liability (other than an advance receipt) arises from a non-exchange transaction when and only when the transfer gives rise to both a performance

obligation and a return obligation (a 'condition on transferred assets'). The Boards decide to explore an approach in which:

- (a) an enforceable performance obligation is of itself sufficient for a liability to exist, and any related return obligation should be treated as an indicator of the enforceability of the performance obligation;
- (b) the principles for identifying an enforceable performance obligation are based on those being developed by the IASB and FASB in their joint project on Revenue Recognition;
- (c) guidance in IPSAS 23 that is consistent with the principles mentioned in (b) is also used;
- (d) when a transferor in a non-exchange transaction imposes an enforceable performance obligation on the transferee, the transferor is regarded as the 'customer'. Staff should explore how the principles referred to in (b) might be applied when, arguably, more than one 'customer' exists (e.g., as may occur in the university sector in Australia); and
- (e) unless a performance obligation exists in relation to transferred assets, the designation of a transfer as relating to a particular time period does not give rise to a present obligation.

The Boards agreed to consider an outline of their plan for exploring an approach in which an enforceable performance obligation is of itself sufficient for a liability to exist before detailed work is undertaken. Once the Boards have considered the implications of this approach (including case study examples of the working draft revised definition of a liability arising from non-exchange transactions), and agree on the direction to be followed, they will activate a joint subcommittee to provide direction to, and feedback on, the staff's work on this new approach. At that time, the Boards will also consider a draft timetable for completing the development of a joint Standard.

At future meetings, the Boards will continue considering the submissions received on their ED, based on a staff analysis of the issues. Once the Boards have completed their redeliberations of the proposals in AASB ED 180/FRSB ED 118 and made further progress on exploring the new approach, the Boards will decide whether re-exposure of their decisions is warranted.

Action:

Staff

Convergence of For-profit Tier 1 Financial Reporting Requirements in New Zealand and Australia

Agenda Item B5

The Boards had before them:

- (a) a memorandum from Patricia McBride, Chris Neame, Cameron Hall, Angus Thomson and Latif Oylan dated 8 March 2010 (Agenda paper B5);
- (b) working draft of ED XX *Proposed Amendments to Align AASBs and NZ IFRSs with IFRSs* (Agenda paper B5.1);
- (c) a memorandum from Latif Oylan and Angus Thomson dated 8 March 2010 (Agenda paper B5.2); and
- (d) a memorandum from Angus Thomson and Chris Neame dated 8 March 2010 (Agenda paper B5.3).

The Boards considered the papers supporting agenda item B5 and conducted a page by page review of the working draft Exposure Draft (ED).

The Boards provided the staff with the following general requests in respect of the ED (Agenda item B5.1):

- to develop an overall Basis for Conclusions that outlines the rationale for why the Boards are undertaking the project and the linkage to the Prime Ministerial Statement of Intent regarding the Single Economic Market Outcomes (August 2009);
- to consider, for each proposal in the ED, if a separate Basis for Conclusions or explanation is required. The Boards noted that matters such as audit disclosures and dividend imputation disclosures may require a specific Basis for Conclusions or explanation;
- to add the following questions to the ED:
 - *Do you agree with the concept of converging the reporting requirements in Australia and New Zealand for Tier 1 for-profit entities?*
 - *Should the retained disclosures be contained in a separate disclosures standard or contained within each standard relevant to the topic of the disclosures (which is the current practice)?*
- to revise the application date to periods beginning on or after 1 July 2011 with early adoption permitted;
- to amend the left hand column of the table of '*Standards not addressed by this Exposure Draft*' to clarify whether the whole standard is being considered or only a specific component within the standard; and
- to include the tick/cross information in the table of '*AASBs and NZ IFRSs addressed*' in the final version of the ED because this information may be useful to constituents.

In respect of proposed changes to AASB standards the Boards decided to:

- note that the proposal to remove paragraph Aus15.4 of AASB 101 depends on whether the *Reduced Disclosure Regime* is introduced in Australia;
- propose including the true and fair override paragraphs from IAS 1 in AASB 101 and adding a footnote to AASB 101 stating that Corporations Act entities must apply the applicable accounting standards and the true and fair override is not available to them. AASB staff undertook to discuss the proposals with Attorney-General's Department staff, given the inconsistency between the Corporations Act requirements and the proposed additional text on the true and fair view;
- propose that paragraph Aus16.1 of AASB 101 be removed rather than relocated;
- reconsider the proposed change to paragraph 17 of AASB 101 and determine if it should also refer to the *Reduced Disclosure Regime*, subject to that Regime being introduced in Australia;
- propose that paragraph Aus 20.1 of AASB 107 be removed rather than relocated;
- propose aligning the text in AASB 119 to the source IFRS as opposed to proposing to harmonise the requirements in New Zealand to those in AASB 119;
- propose the removal of the definition of 'entity', rather than relocating it to the proposed separate disclosures standard' subject to it not being needed to support the reporting entity concept in SAC 1 *Definition of the Reporting Entity*; and
- reconsider proposing the removal of the individual key management personnel disclosures in AASB 124 and to remove the reference to AASB 124 from the table of standards not being considered, subject to the outcome of AASB staff discussions with the Australian Treasury.

In respect of NZ IFRS items proposed in the ED the Boards decided to:

- retain the proposal to remove NZ IAS 1 paragraphs NZ 19.1 and NZ 19.2 but to propose that a summary of these paragraphs be included as a footnote within the body of NZ IAS 1;

- propose that NZ IAS 1 paragraphs NZ 46.1 and NZ 46.2 are relocated to the separate disclosures standard;
- propose that NZ IAS 7 paragraphs NZ 20.1 and NZ 20.2 are removed rather than relocated;
- the NZ IAS 19 text should remain realigned to source IFRS as opposed to the proposal to harmonise the requirements between Australia and New Zealand;
- propose that NZ IFRS 7 Appendix E be retained while discussions as to its future (either amendments or removal) be conducted with the New Zealand Reserve Bank; and
- add commentary to the proposals regarding NZ IAS 40 to alert readers to the fact that they must apply NZ IAS 8 if they wish to change from using the fair value model to using the cost model.

In respect of AASB items proposed in the Australian separate disclosures standard the Boards decided to:

- revise the wording of paragraph 2, by aligning it more closely with paragraph 16 of IAS 1 and to continue propose harmonising the requirements;
- consider if paragraph 3 should refer to the *Reduced Disclosure Regime*, subject to its introduction in Australia and consider if it should refer to GPFs and SPFs;
- propose that paragraph 4 is removed rather than having the additional requirement;
- revise the proposed wording and disclosure requirements for audit fee disclosures and dividend imputation disclosures with a view to identifying ways of simplifying the requirements and to continue to propose converged Australian and New Zealand requirements; and
- propose that paragraph 8 is removed rather than being harmonised.

In respect of the NZ IFRS items proposed in the New Zealand separate disclosures standard the Boards decided to:

- reconsider paragraph 2, paragraph 3 and paragraph 8 and to continue to harmonise the requirements;
- revise the proposed wording and disclosure requirements for audit fee disclosures (paragraph 4) and dividend imputation disclosures (paragraph 7) with a view to identifying ways to simplifying the disclosures and to continue to harmonise the requirements; and
- propose that paragraph 6 is removed rather than being harmonised.

The Boards agreed that the joint subcommittee should progress the ED and that a near final draft be provided to the Boards for a fatal flaw review only, with a view to releasing the ED in May 2010.

Action:	<u>AASB</u> Staff Chairman Ms Peach Mr Rix <u>FRSB</u> Staff Chairman Ms Crook Ms Hodgkins
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Control in the Public Sector

Agenda Item B6

The Boards had before them:

- (a) a memorandum from Bryan Howieson (consultant) dated 2 March 2010 (Agenda paper B6.1); and
- (b) a draft AASB/FRSB joint project outline and plan – Defining the Reporting Entity in the Public Sector (including consideration of the concept of control) (Agenda paper B6.2).

The Boards considered the draft AASB/FRSB joint project outline and plan – Defining the Reporting Entity in the Public Sector (including consideration of the concept of control) (Agenda paper B6.2) and agreed that the plan should be amended to contemplate:

- (a) given the relationship of the project to the conceptual framework, the project being progressed with significant direct involvement/debate of the Boards, supplemented by a joint subcommittee (comprising FRSB members Joanna Perry, Dave Foster and Karl Hickey; and AASB members Kevin Stevenson, Ian McPhee, Robert Williams and John O'Grady) assisting staff;
- (b) in relation to Phase 1 of the project, a first draft of a Discussion Paper (on current issues arising from the application of the definition of control, and the extent of those issues, in practice) being available in April 2010. The planned timing of later Phases should be revised accordingly; and
- (c) the possibility of Phase 3+ of the project considering issues, where relevant, from a private sector not-for-profit perspective.

The Boards noted that the outcome of the project is likely to provide useful input for the IPSASB.

Action:	<u>AASB</u> Staff Chairman Mr McPhee Mr Williams Mr O'Grady
	<u>FRSB</u> Staff Chairman Mr Foster Mr Hickey

Liabilities

Agenda Item B7

The Boards had before them:

- (a) a memorandum from Clive Brodie, Mischa Ginns and Jim Paul on Liabilities: Commenting on IASB Exposure Draft and consideration of PBE/NFP amendments to IFRS to replace IAS 37, dated 17 March 2010 (Agenda paper B7);
- (b) a draft FRSB comment letter on IASB Exposure Draft Measurement of Liabilities in IAS 37 (Agenda paper B7.1);
- (c) AASB Issues Paper: AASB's Specific Comments on IASB Exposure Draft ED/2010/1 Measurement of Liabilities in IAS 37 (Agenda paper B7.2);
- (d) a memorandum from Clive Brodie, Mischa Ginns and Jim Paul PBE/NFP-specific modification to IFRS to replace IAS 37 (Agenda paper B7.3);

- (e) IASB Exposure Draft Measurement of Liabilities in IAS 37 (Agenda paper B7.4);
- (f) IASB's Working Draft of IFRS to replace IAS 37 Liabilities (Agenda paper B7.5);
- (g) FRSB/AASB Process for Modifying IFRSs for PBE/NFP (Agenda paper B7.6); and
- (h) submission from the Heads of Treasuries Accounting and Reporting Advisory Committee on AASB ED 191 Measurement of Liabilities in IAS 37 (Agenda paper B7.7).

The Boards considered the draft comments on IASB ED/2010/1 Measurement of Liabilities in IAS 37 in Agenda papers B7.1 and B7.2 and decided to include the following views in their submissions to the IASB:

- (a) implementing the ED's proposals would result in a significant change in practice for many entities when measuring provisions, and therefore go beyond the ED's stated objective of clarifying the measurement requirements in IAS 37;
- (b) ideally, one measurement principle should be established for all classes of liabilities (such as provisions and liabilities in contracts with customers) through the IASB's Conceptual Framework project, and the requirements for the measurement of provisions under IFRSs should not be amended before that is achieved;
- (c) however, if the IASB proceeds with amending the measurement requirements presently in IAS 37, each Board supports measuring liabilities presently within the scope of IAS 37 at the amount proposed in paragraph 36B of the IASB ED, namely, at the lowest of:
 - (i) the present value of the resources required to fulfil the obligation;
 - (ii) the amount that the entity would have to pay to cancel the obligation; and
 - (iii) the amount that the entity would have to pay to transfer the obligation to a third party;
- (d) the present value of the resources required to fulfil the obligation (see (c)(i) above) should be an entity-specific measure. Therefore, the Boards disagree with the proposed guidance that:
 - (i) the estimates of resources required to fulfil an obligation shall be consistent with observable market prices, if such prices are available (paragraph B5(b) of the ED); and
 - (ii) the relevant outflows for obligations fulfilled by undertaking a service are the amounts that an entity would rationally pay a contractor at the future date to undertake the service on its behalf (paragraph B8(a) of the ED);
- (e) the Boards disagree with the proposed guidance in paragraph B8(b) of the ED that, if there is not a market for a service the entity is obligated to provide, the entity estimates the amount it would charge another party at the future date to undertake the service. They noted that:
 - (i) depending on whether the other party referred to in paragraph B8(b) of the ED is another business or a customer, the nature of the amount the entity estimates that it would charge another party at the future date to undertake the service (under paragraph B8(b)) may be inconsistent with the amount that an entity would rationally pay a contractor at the future date to undertake the service on its behalf (under paragraph B8(a)); and
 - (ii) when an entity does not charge other parties separately to undertake the service it is obligated to provide, there may not be reliable or verifiable information about the margin it would require (and obtain) on its own cost to undertake the service;
- (f) the Boards agree that the present value of the resources required to fulfil an obligation should take into account the risk that the actual outflows of resources might ultimately differ from those expected (as proposed in paragraphs B1(b) and B15 – B16 of the ED). However, the objective of the risk

adjustment should not be to convert the 'value in use' measure of the present value of the resources required to fulfil an obligation into a fair value (transfer price) measurement;

- (g) if one measurement principle were established for all classes of liabilities (see (b) above), it would be unnecessary to provide the proposed limited exception for onerous contracts arising from transactions within the scope of IAS 18 Revenue or IFRS 4 Insurance Contracts. However, until such consistency of measurement principles is achieved, the Boards would support the proposed limited exception;
- (h) the Boards support the proposed requirement that the estimated present value of resources required to fulfil an obligation shall be an expected present value, which is the probability-weighted average of the present values of the outflows for the possible outcomes (paragraph B3 of the ED); and
- (i) in relation to determining the expected present value of resources required to fulfil an obligation, the Boards support the proposed guidance in paragraph B4 of the ED that a limited number of discrete outcomes and probabilities can often provide a reasonable estimate of the distribution of possible outcomes.

In relation to the possible PBE/NFP-specific modifications to the IFRS to replace IAS 37, based on the Working Draft IFRS Liabilities, the Boards:

- (a) agreed tentatively that a PBE/NFP modification would be necessary; and
- (b) directed the staffs to:
 - (i) rework Agenda paper B7.3 to clarify its objectives and include a joint recommendation;
 - (ii) include a thorough analysis of PBE/NFP issues;
 - (iii) include an analysis of how the IPSASB modified IAS 37 in developing IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets, updated for the wording differences between IAS 37 and the Working Draft IFRS Liabilities; and
 - (iv) exclude from the recommended PBE/NFP-specific modification in relation to obligations expressed in legislation or arising from public policies or equivalent:
 - (A) the guidance presently in paragraphs Aus26.1 and Aus26.2 of AASB 137 on when present obligations do, and do not, arise (because such guidance is incompatible with a scope exclusion); and
 - (B) the references to obligations with characteristics similar to executory contracts presently made in paragraphs NZ 1.1 and NZ 3.1 – NZ 3.3 of NZ IAS 37. Instead, the modification should be described as excluding items for which the treatment is presently unresolved (both internationally and domestically).

In relation to the Working Draft IFRS Liabilities placed on the IASB web site on 19 February 2010, the AASB decided to include the following comments in its submission on the current IASB ED:

- (a) it is concerned that the potential scope of stand-ready obligations (as described in paragraph 19 of the Working Draft IFRS) is unclear and may be interpreted too broadly; and
- (b) it is concerned that the Working Draft IFRS does not clarify sufficiently the significance of the distinction between conditional and unconditional obligations for the identification and measurement of liabilities.

The AASB decided that it supports the proposed guidance on the recognition of liabilities for restructuring costs set out in paragraphs C3 – C5 of Appendix C of the Working Draft IFRS. In relation to this issue, both

Boards decided to monitor the corresponding proposed amendments to IAS 19 Employee Benefits when they are published by the IASB.

The AASB directed its staff to circulate to both Boards comment letters received on AASB ED 191 after the Boards' meeting, and to identify any unexpected issues arising from those comment letters. If unexpected issues arise, the AASB's Liabilities Subcommittee (Messrs Jenkin, O'Grady and Rix) will consider the issues and develop a proposed response to them. If major unexpected issues arise, an AASB Board teleconference may be necessary.

The AASB also directed its staff to prepare a draft comment letter on the IASB ED (taking into account any AASB Liabilities Subcommittee recommendations) for approval by the AASB Chairman.

The FRSB directed its staff to update the FRSB's draft comment letter on the IASB ED and, subject to final approval by the FRSB, submit the comment letter to the IASB.

The Boards directed AASB and FRSB staff to draft PBE/NFP modifications for inclusion in the IASB's Standard to replace IAS 37 (with supporting issues paper) to be considered at future Board meetings for approval for exposure.

Action:	<u>AASB</u> Staff Chairman Mr Jenkin Mr O'Grady Mr Rix
	<u>FRSB</u> Staff Chairman FRSB Board members

IPSASB ED Service Concession Arrangements

Agenda Item B8

The Boards had before them:

- (a) a memorandum from Clark Anstis and Joanne Scott dated 4 March 2010 (Agenda paper B8);
- (b) a staff note on IPSASB ED 43 *Service Concession Arrangements: Grantor* (Agenda paper B8.1);
and
- (c) IPSASB ED 43 (Agenda paper B8.2).

The Boards noted that the IPSASB had recently issued Exposure Draft ED 43 *Service Concession Arrangements: Grantor*, with submissions due to the IPSASB by 30 June 2010. The Boards discussed their due processes in relation to IPSASB proposal documents.

Some AASB members suggested that the AASB should issue the ED in Australia for comment to the AASB if the AASB was going to consider the ultimate IPSASB document for issue as a Standard in Australia. AASB members noted that the AASB had previously linked its work on service concessions (grantors) to the IPSASB project in issuing the preceding IPSASB Consultation Paper in Australia for comment. Issuing the IPSASB ED now would be consistent with that approach.

FRSB members noted that their usual due process for IPSASB proposal documents included placing the document on the NZICA website for comment.

The Boards agreed that the ED should be issued in Australia and in New Zealand. The AASB decided to issue a formal Exposure Draft containing ED 43 as soon as possible and to request comments from

constituents for consideration prior to finalising its submission to the IPSASB. FRSB members agreed that the NZ covering document should also note the issuance of the Australian ED.

Action:

Staff

Day 2 Notes on Joint Strategy Discussion

Agenda Items B9-B15

The Boards had before them:

- (a) a memorandum from Angus Thomson & Patricia McBride dated 3 March 2010 (Agenda paper B9.1);
- (b) Setting the Agenda – Public Sector and NFP/PBE Private Sector – Discussion Questions (Agenda paper 10.1);
- (c) Setting the Agenda – Public Sector and NFP/PBE Private Sector – Comparisons of Project Priority (Agenda paper 10.2);
- (d) Approach to Public Sector Issues (December 2009 — draft only (Agenda paper 10.3);
- (e) Differential Reporting proposals in Australia and New Zealand (Agenda paper 10.4);
- (f) a memorandum from Ahmad Hamidi & Vanessa Sealy-Fisher dated 3 March 2010 (Agenda paper B11.1);
- (g) a memorandum from Jim Paul dated 15 March 2010 (Agenda paper B12);
- (h) Conceptual Framework – Issues and Brief Background (Agenda paper B12.1);
- (i) a memorandum from Joanne Scott & Clark Anstis dated 4 March 2010 (Agenda paper B13);
- (j) staff note on Relationship with IPSASB and IPSASs (Agenda paper B13.1);
- (k) Process for Modifying IFRSs for PBE/NFP (Agenda paper B13.2); and
- (l) a memorandum from Angus Thomson & Patricia McBride dated 22 February 2010 (Agenda paper B14.1).

The Boards initially formed four groups and each group was asked to discuss strategy issues with a view to identifying:

- (a) any concerns/opportunities regarding the challenges facing standard setting, and ranking them with a view to highlighting the three main concerns/opportunities;
- (b) the reasons why each of those matters are a concern or opportunity; and
- (c) what might be done about addressing each concern or opportunity.

The Boards noted that the focus is on the challenges facing standard setting, not necessarily the Boards themselves.

In discussing the outcomes of the group deliberations the Boards identified the following range of matters that are the most important challenges facing standard setting, and are grouped below under four headings.

1. Needs of users of public and private sector public benefit entities (PBEs)/not-for-profit entities (NFPs) financial statements

The Boards agreed that they need to focus on addressing the needs of users of public and private sector PBEs/NFPs financial statements, which include:

- (a) assessing the extent to which these can and/or should be met through the use of the work of the IPSASB;
- (b) the 'conditions' the Boards should place on their aspiration to adopt IPSASs; and
- (c) the extent to which 'transaction neutrality' is sustainable.

In relation to (a), the Boards in general emphasised the primacy of user needs and potential improvements in financial reporting as the basis for making the decision as to whether or not to adopt IPSASs rather than to continue to modify IFRSs for PBEs/NFPs.

Further, the Boards noted the staff proposal that modifications to IFRSs by the IPSASB should be considered on a case-by-case basis for incorporation into New Zealand and Australian standards. During the discussion, the Boards noted:

- (a) the proposal could result in duplication of work as these issues will need to be reconsidered when the IPSASB reviews their standards in light of revisions being issued by the IASB;
- (b) the need to consider costs and benefits – for example, on purely public sector issues, governments may already be looking to IPSASs for guidance and therefore the provisions in an IPSAS need not be incorporated into Australian and New Zealand standards; and
- (c) the need to determine an approach to modifications based on the Boards' long-term plans in respect of standards issued by the IPSASB.

The Boards agreed to address the incorporation of modifications to IFRSs made by the IPSASB jointly and on a case-by-case basis.

In relation to (b), the Boards noted that those conditions might include:

- (a) an improved structure or improved governance arrangements for the IPSASB, including a robust oversight and funding model;
- (b) support from the New Zealand government and the Australian governments; and
- (c) improved quality of IPSASs.

In relation to (c), the Boards noted their preference for high quality international standards relevant to all sectors, but acknowledged that this was unlikely in the foreseeable future.

The Boards noted that they could focus on assisting the IPSASB in making progress towards meeting these conditions – perhaps by undertaking more research work on behalf of the IPSASB. They also noted that a more effective contribution could potentially be made by contributing staff to work on location with IPSASB staff.

The Boards concluded that, in the long term, they would be 'takers' of internationally developed standards, and thus their primary role would be to influence the development of those international standards. They agreed that they are unlikely to be able to significantly influence the development of IFRSs, and that it would be more fruitful to give greater emphasis to influencing the development of IPSASs. Some members commented that it is important not to overlook the needs of private sector PBEs/NFPs, particularly if the Boards adopt IFRSs for for-profit entities and IPSASs for public sector PBEs/NFPs.

2. IFRSs might not continue to meet the needs of the Boards

The Boards agreed that there is a risk that IFRSs might not continue to meet their needs as foundation standards, including the risks that:

- (a) the quality of IFRSs declines or does not improve sufficiently to address financial reporting needs;
- (b) the IASB's due processes are inadequate and/or ineffective;
- (c) the IFRS brand is 'devalued' to the point that the IASB lacks credibility; and
- (d) other jurisdictions cease to adopt IFRSs and they no longer represent a viable basis for global standards.

The Boards noted that, although their 'influence' with the IASB and the parties whose actions affect the IASB is limited, they should continue to assist the IASB to avoid the risks noted above. The means by which that assistance is provided could be through continued participation in the National Standard Setters Group and the Asian-Oceanian Standard Setters Group (AOSSG), and continuing to provide constructive comment on IASB proposals. The Boards considered that AOSSG and building a regional base for working with the IASB should be the primary focus and should be supported while it develops as an organisation.

In particular, the Boards considered that the IASB should take a more considered approach to the revision of its Conceptual Framework either by sidelining some of its other projects now, or ceasing to work on the Conceptual Framework until such time as sufficient resources (both at the staff and Board levels) become available to undertake that more considered approach. There was a general view among the Boards' members that the IASB is currently responding to issues in an ad hoc manner without reference to the steadying influence that comes from basing decisions on a Framework. The Boards agreed they should encourage the NSSs to recommend the conceptual framework project as a high priority.

The Boards' views regarding how they should contribute to, and respond to, the development of IASB/FASB and IPSASB Conceptual Frameworks are set out in the Appendix to these minutes.

3. The role of general purpose financial statements and their continued relevance

The Boards agreed that there is a view that general purpose financial statements are not relevant to user needs and are too complicated. They noted that alternative forms of financial information are often presented for public consumption and these may be regarded by users of financial information as more helpful and credible than the general purpose financial statements.

The Boards noted that addressing matters 1 and 2 (above) would help address matter 3.

The Boards also noted that addressing a number of issues around the scope of general purpose financial statements might also help to address matter 3. In particular, some Board members observed that the projects on Management Commentary and Long-term Fiscal Sustainability of Public Finances are testing the boundaries of general purpose financial statements, and a measured approach needs to be taken to ensure the Boards address user needs while not over-stepping their sphere of expertise.

Furthermore, the Boards noted the importance of addressing differential reporting issues to ensure that general purpose financial statements remain relevant for different types of entities and their users.

4. Differential reporting

The Boards considered a proposed joint project plan regarding convergence of differential reporting in Australia and New Zealand.

The Boards were updated on the progress of Phase 1 of the proposed joint project plan regarding the establishment of the Australian Reduced Disclosure Regime as Tier 2 reporting requirements for preparing general purpose financial statements. The Boards noted that Phase 2 of the proposed joint project plan regarding the issuance of a Consultation Paper in New Zealand on reporting by the proposed Tier 2 entities

To allow sufficient time to undertake the review, the Board decided that the aim should be to finalise the review (including the issue of amendments, if any, to AASB 1049) before the end of 2010. The Board also decided that a subcommittee (see below) should be established to consider and review draft papers prepared by staff.

Action:	Staff
	Mr Appleyard
	Mr Porter
	Mr Stevenson
	Mr Williams

Emerging Issues

Agenda Item 4

The Board had before it a memorandum from Jessica Lion dated 24 February 2010 (Agenda paper 4.1).

The Board noted that paragraph 10 of AASB 127 *Consolidated and Separate Financial Statements* provides relief from preparing consolidated financial statements when a parent is itself a subsidiary; its debt or equity instruments are not traded in a public market; it did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with International Financial Reporting Standards (IFRSs).

The Board further noted that, because the last criterion refers only to IFRSs, intermediate not-for-profit parent entities that comply with Australian Accounting Standards but not IFRSs, are unable access the relief. Also, if the proposed Reduced Disclosure Regime proceeds, parent entities that comply with that Regime but not IFRSs, would be unable access the relief. The Board noted that NZ IAS 27 *Consolidated and Separate Financial Statements* extends the relief to qualifying parent entities that apply differential reporting in New Zealand.

The Board decided that further work should be done to ascertain the implications of extending the relief, for example, on the general purpose financial statement of government departments, before agreeing on a proposal for change.

Action:	Staff
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AASB Only Planning

Agenda Item 5

The Board had before it:

- (a) a memorandum from Angus Thomson, Robert Keys and Joanna Spencer dated 5 March 2010 (Agenda paper 5.1); and
- (b) a memorandum from Robert Keys, Angus Thomson and Joanna Spencer dated 15 March 2010 (Agenda paper 5.2).

In light of the next day (18 March 2010), the joint AASB/FRSB planning day, being expected to address a number of topics that would otherwise be nominated as topics for the AASB-only planning session scheduled for the April 2010 AASB meeting, the Board decided to not identify topics for discussion at this time. Instead, staff should construct an agenda out-of-session, having regard to the outcome of the joint planning day.

Action:	Staff
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Other Business

Agenda Item 6

The Board had before it:

- (a) a letter from Kevin Stevenson, AASB Chairman to David Tweedie, IASB Chairman dated 18 February 2010 re IASB ED ED/2009/6 *Management Commentary* (Agenda paper 6.1);
- (b) a letter from Kevin Stevenson, AASB Chairman to Anthony Graham, senior Specialist, Australian Securities and Investments Commission dated 22 February 2010 re ASIC Consultation Paper 126 *Facilitating debt raising* (Agenda paper 6.2);
- (c) a letter from Kevin Stevenson, AASB Chairman to Bede Fraser, Manager, The Treasury dated 8 February 2010 re Corporations Amendment (Corporate Reporting Reform) Bill 2010 (Agenda paper 6.3);
- (d) a submission from the Group of 100 to the AASB on ED 183 *Management Commentary*, accompanied by the G100 publication, *Guide to Review of Operations and Financial Condition* (Agenda paper 6.4);
- (e) a letter from Kevin Stevenson, AASB Chairman, to Cooperatives National Law Review dated 5 February 2010 re Exposure draft of revised Cooperatives Law (Agenda paper 6.5);
- (f) FRSB Alert by Vanessa Sealy-Fisher, Senior Project Manager – Accounting Standards (*Summary as at 12 February 2010*) (Agenda paper 6.6);
- (g) a memorandum from Robert Keys dated 10 March 2010 (Agenda paper 6.7);
- (h) an updated AASB work program (prepared March 2010) (Agenda paper 6.8); and
- (i) a list of current and expected shortly IASB/IPSASB/NSS/IASCF documents open for comment, as at 10 March 2010 (Agenda paper 6.9).

The Board noted the agenda papers and agreed that the work program currently on the AASB website should be updated to reflect the recent changes to the IASB Work Plan for IFRSs and the progress made on other projects.

Action:

Staff

Close of Meeting

The Deputy Chairman closed the meeting at 5.30 p.m. on .

Approval

Signed by the Chairman as a correct record
this twenty-eighth day of April 2010