



Subject: Minutes of the 112th meeting of the AASB, held jointly with the NZ FRSB

Venue: Ken Spencer Room, AASB offices
Level 7, 600 Bourke St, Melbourne

Time(s): Wednesday 27 October 2010 from 9.00 a.m. to 6:15 p.m. (Joint meeting with NZ FRSB from 9:30 a.m. to 3:15 p.m.)
Thursday 28 October 2010 from 8.30 a.m. to 3.30 p.m. (Joint meeting with NZ FRSB from 9:00 a.m. to 2:50 p.m.)

All agenda items except items 2, 11 and A1 were discussed in public.

Attendance

Members	AASB	FRSB (via video conference)
	Kevin Stevenson (Chairman) Glenn Appleyard Victor Clarke Sue Highland Mark Jenkin Ian McPhee John O'Grady Frank Palmer Kris Peach Joanna Perry (via video conference) Bruce Porter (absent from 11am-12pm on Day 2) Brett Rix Robert Williams	Joanna Perry (Chairman) Denise Hodgkins (Deputy Chairman) Kimberly Crook Dave Foster Karl Hickey Brent Manning (Day 2 only) Angela Ryan Kate Thomson Steve Todd
Apologies		Norman Wong
In Attendance		
Staff	Clark Anstis (in part) Dean Arden (in part) Maybelle Chia (in part) Mischa Ginns Robert Keys Jessica Lion (in part) Christina Ng (in part) Emma O'Brien (in part) Latif Oylan (in part) Jim Paul (in part) Angus Thomson	Sarah Bate (in part) Clive Brodie (in part) Cameron Hall (in part) Patricia McBride Chris Neame (in part) Joanne Scott (in part) Vanessa Sealy-Fisher
Other	Bryan Howieson (Associate Professor, The University of Adelaide) (Agenda item B12 only)	Andreas Bergmann (IPSASB Chairman) (departed 1:30 pm on Day 2) Ken Warren (IPSASB Liaison member)

AASB Only Meeting

Apologies, Agenda, Minutes, Matters Arising from Minutes, 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.

Minutes

The Board approved the minutes of the one hundred and the eleventh meeting held on 1-2 September 2010.

Agenda Item 2

Chairman's Report

The AASB Chairman gave a brief update on recent developments on the institutional arrangements for standard-setting in New Zealand.

Revenue from Contracts with Customers

Agenda item 3

The Board had before it:

- (a) a memorandum from Jessica Lion dated 13 October 2010 (Agenda paper 3.1);
- (b) the draft AASB submission to the IASB on ED/2010/6 *Revenue from Contracts with Customers* (Agenda paper 3.2); and
- (c) submissions received by the AASB in response to AASB ED 198 *Revenue from Contracts with Customers* (Agenda paper 3.3).

The Board considered the draft AASB submission to the IASB on ED/2010/6. The Board decided that:

- (a) its submission to the IASB should express general support in concepts behind the proposed revenue recognition model, but, given the weight of individual concerns, not support the way in which those concepts have been articulated in the ED;
- (b) the covering letter should also express concern that the drafting of the IASB's proposals is obscure and may result in different interpretations of the proposed IFRS;
- (c) with regard to Question 11 in the ED (which asks about the proposed required disclosures in respect of remaining performance obligations for contracts with an original duration expected to exceed one year), it would ask the IASB to identify the objective of this disclosure and provide clearer guidance as to the boundaries of this proposed requirement. If the disclosure were confined to the recognised portion of such obligations, the Board would support it; and

- (d) its response to Question 18 in the ED (which asks whether any of the proposals should be different for non-public entities) should include some of the not-for-profit issues identified by the HoTARAC submission to the AASB (Submission No. 5).

The AASB submission will be finalised and approved by the Chairman.

Action:	AASB Staff
	AASB Chairman

GAAP/GFS Harmonisation for Not-for-Profit Entities within the GGS

Agenda Item 4

The Board had before it:

- (a) a memorandum from Robert Keys and Emma O'Brien dated 13 October 2010 (Agenda paper 4.1);
- (b) an issues paper: Giving effect to the GFS distinction between transactions and other economic flows in a GAAP reporting entity context (Agenda paper 4.2);
- (c) an issues paper: Note disclosure of GAAP/GFS harmonised information about controlled and administered items (Agenda paper 4.3);
- (d) an issues paper: Facilitating orderly adoption of future amendments to the ABS GFS Manual (Agenda paper 4.4);
- (e) a memorandum from Robert Keys dated 18 October 2010 (Agenda paper 4.5); and
- (f) a letter from the Deputy Australian Statistician to the AASB Chairman dated 15 October 2010 (Agenda paper 4.6).

The Board noted that these agenda papers address issues arising from directions given by the Board at its July 2010 meeting for developing a further Exposure Draft (ED), following its review of comments on the proposals in ED 174 *Amendments to Australian Accounting Standards to facilitate GAAP/GFS Harmonisation for Entities within the GGS [AASBs 101, 107 and 1052]*.

In relation to Agenda paper 4.2, the Board agreed to give effect to the substance of the GFS distinction between transactions and other economic flows in a GAAP reporting entity context by proposing to retain the GFS definitions of 'institutional unit' and 'transactions' unamended, and explicitly deeming all entities within the GGS to be institutional units for the purpose of the ED (described as Approach D in the agenda paper). Board members noted that no adverse implications from such an approach have been identified and that it is an effective way to achieve the substance of the GFS distinction.

In relation to Agenda paper 4.3, the Board confirmed its previous decision to propose a requirement to disclose information about controlled and administered items presented using GAAP/GFS harmonised classification principles. Furthermore, consistent with (a) treating an entity within the GGS as an entity rather than an arm of government and (b) acknowledging the difference in nature between controlled and administered items, the Board decided the note should neither make nor disclose eliminations of intra-

government transactions and should not add together controlled and administered items (described as Approach B2 in the agenda paper).

In relation to Agenda papers 4.4-4.6 the Board decided to propose:

- (a) that the ABS GFS Manual should be defined along the lines of “The Australian Bureau of Statistics (ABS) publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods* and associated updates, and guidance notes issued by the ABS, and published on the ABS website”, as this definition would clarify the status of material associated with the ABS’s GFS concepts, sources and methods publication; and
- (b) to facilitate the orderly adoption of future ABS GFS Manual amendments for the purposes of GAAP/GFS harmonised financial reporting by specifying that references to the ABS GFS Manual in Accounting Standards are to the Manual that was effective as at the beginning of the previous annual reporting period or later (consistent with Approach C in agenda paper 4.4). As a consequence, the Board also decided to propose to require disclosures that inform users about the version of the ABS GFS Manual adopted and about any GFS amendments made in a later version. Furthermore, the Board decided that no relief should be provided from any ABS GFS Manual requirements relating to retrospective application of amendments – noting that to do otherwise would go beyond the Board’s role in developing GAAP/GFS harmonisation requirements, particularly because it would create the potential for there to be a permanent difference between the amounts presented as GFS in the financial statements and GFS amounts published by the ABS.

The Board noted that its decisions in relation to the definition of the ABS GFS Manual and the adoption of future amendments to that Manual will also be reflected in the ED being developed as part of the post-implementation review of AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (see Agenda Item 7 of this meeting).

The Board decided to create a subcommittee (consisting of Kevin Stevenson, Mark Jenkin, John O’Grady and Ian McPhee) to assist staff in finalising the ED’s proposals relating to Tier 1 requirements. In the process of developing the ED, consideration will also be given to whether, and if so what, disclosure relief should be proposed for Tier 2 requirements. Proposed Tier 2 disclosure requirements will be considered by the RDR subcommittee. Subject to substantive issues being identified by the subcommittees, the Board decided that the ED should be finalised and circulated to all Board members as a pre-ballot draft and, depending on issues raised, subsequently as a ballot draft for out-of-session voting.

Action:	AASB Staff
	Subcommittee
	RDR Subcommittee

Stripping Costs in the Production Phase of a Surface Mine

Agenda Item 5

The Board had before it:

- (a) a memorandum from Mischa Ginns and Emma O'Brien dated 13 October 2010 (Agenda paper 5.1);
- (b) an issues paper on Draft IFRIC Interpretation DI/2010/1 *Stripping Costs in the Production Phase of a Surface Mine* (Agenda paper 5.2); and
- (c) DI/2010/1 *Stripping Costs in the Production Phase of a Surface Mine* (Agenda paper 5.3).

The Board received a presentation by AASB member, Brett Rix, on surface mining illustrating the complexities facing many mining operations and noted the dissimilarity with the basic illustrative example included in DI/2010/1.

The Board decided its submission should:

- (a) disagree with the proposed unit of account on the basis that the attribution of stripping costs to a separately identifiable section of ore is not a relevant or reliable depiction of how most mines operate;
- (b) recommend a more principle-based interpretation of the requirements in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* if the Committee proceeds with an Interpretation; and
- (c) if the Committee proceeds with an Interpretation, note that the definition of a 'stripping campaign' is not clear and may result in diverse application.

The Board agreed to finalise the submission out of session through the Chairman and a Subcommittee comprising Mr. Clarke, Mr. Porter and Mr. Rix.

Action:	AASB Staff
	Chairman
	Subcommittee

Emerging issues

Agenda Item 6

Approval of AASB 7 Amendments

The Board had before it:

- (a) a memorandum from Christina Ng regarding amendments to AASB 7 dated 13 October 2010 (Agenda paper 6.1);
- (b) staff analysis of Tier 2 disclosures on Amendments to Australian Accounting (Agenda paper 6.2);
- (c) draft Amending Standard AASB 2010-X *Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets* (Agenda paper 6.3); and
- (d) IASB Amendments to IFRS 7 *Disclosures – Transfers of Financial Assets* and FAQs (Agenda paper 6.4).

The Board noted the IASB's Amendments to IFRS 7 *Financial Instruments: Disclosures* in respect of transfers of financial assets (issued in October 2010) and the staff analysis on Tier 2 disclosures. A draft Amending Standard, which corresponds to the IASB's Amendments to IFRS 7, will be circulated for the Board's approval out of session, before determining the Tier 2 disclosures. The Board will consider the staff analysis on Tier 2 disclosures at its next meeting on 8-9 December 2010.

Action: AASB Staff

Proposed Amendments to AASB 1/IFRS 1

The Board had before it:

- (a) a memorandum from Maybelle Chia and Clark Anstis dated 13 October 2010 (Agenda paper 6.5);
- (b) AASB ED 203 *Removal of Fixed Dates for First-time Adopters (proposed amendments to AASB 1)* (Agenda paper 6.6);
- (c) a comment letter from Grant Thornton received on AASB ED 203 (Agenda paper 6.7); and
- (d) AASB ED 206 *Severe Hyperinflation (proposed amendment to AASB 1)* (Agenda paper 6.8).

The Board considered the issues identified by staff for inclusion in possible AASB submissions in relation to IASB ED/2010/10 *Removal of Fixed Dates for First-time Adopters (proposed amendments to IFRS 1)* and IASB ED/2010/12 *Severe Hyperinflation (proposed amendment to IFRS 1)*. The Board decided to make a submission to the IASB on each of the exposure drafts.

Removal of Fixed Dates

The Board expressed overall support for the IASB's proposals in ED/2010/10 and agreed to address the following matters in the submission:

- (a) the amendments provide relief from burdensome retrospectivity; and
- (b) the loss of comparability between first-time adopters and entities already applying IFRSs is acceptable.

Severe Hyperinflation

The Board had some reservations about the IASB's proposals in ED/2010/12 and agreed to address the following matters in the submission:

- (a) consideration should be given to amending IAS 29 *Financial Reporting in Hyperinflationary Economies* instead of IFRS 1 *First-time Adoption of International Financial Reporting Standards* to accommodate the financial reporting by an entity subject to severe hyperinflation; and
- (b) the implications for parent entities, venturers and investors should be addressed, particularly where there was no loss of control, joint control or significant influence in relation to the entity that suffered severe hyperinflation, since their compliance with IFRSs might be questioned.

The Board noted the comment period for AASB ED 206 had not yet concluded and that submissions may yet be received from constituents. Members agreed that the Board's submission will give consideration to any comment letters received.

The Board decided that the submissions to the IASB will be finalised out of session by the Chairman.

Action:	AASB Staff
	AASB Chairman

Corrections to standards

The Board had before it:

- (a) a memorandum from Siva Sivanantham and Clark Anstis dated 19 October 2010 (Agenda paper 6.9);
- (b) a draft amending Standard AASB 2010-X *Amendments to Australian Accounting Standards* (Agenda paper 6.10); and
- (c) a list of IASB correction lists (Agenda paper 6.11).

Members noted that the draft amending Standard covered IASB correction lists issued between July 2009 and August 2010, changes made directly by the IASB in the IFRS Bound Volume 2010 and also some Australian-specific changes. Staff advised an additional change to be included in paragraph 63 of the draft Standard.

The Board made Accounting Standard AASB 2010-5 *Amendments to Australian Accounting Standards* on the basis of the draft Standard as amended, for application to annual reporting periods beginning on or after 1 January 2011, with early adoption permitted as specified in the Standard.

Action:	AASB Staff
	AASB Chairman

Post-implementation review of AASB 1049

Agenda Item 7

The Board had before it:

- (a) a memorandum from Latif Oylan dated 1 November 2010 (Agenda paper 7.1); and
- (b) an issues paper discussing the exemption for whole of governments and GGSs from disclosing the information required by paragraphs 134-136 of AASB 101 (Agenda paper 7.2).

Consistent with its decisions made in relation to Agenda Item 4, the Board decided the Exposure Draft arising from the post-implementation review of AASB 1049 should propose amendments to AASB 1049 that:

- (a) amend the definition of the ABS GFS Manual; and
- (b) facilitate the orderly adoption of future ABS GFS Manual amendments for the purposes of GAAP/GFS harmonised financial reporting.

Further details of these decisions are noted under Agenda Item 4 'GAAP/GFS Harmonisation for Not-for-Profit Entities within the GGS' above.

In addition, the Board considered whether the exemption provided by paragraph Aus1.7 of AASB 101 *Presentation of Financial Statements* for whole of governments and GGSs from presenting certain capital management disclosures required by paragraphs 134-136 of AASB 101 should be retained or removed. The Board noted that many constituents consulted by staff strongly support retaining the exemption but neither New Zealand Standards or International Public Sector Accounting Standards provide such an exemption. The Board decided to consider the exemption as part of the second phase of the Trans-Tasman Convergence project, rather than as part of the post-implementation review of AASB 1049 on the basis that the issue should be considered in the context of a broader range of not-for-profit entities than whole of governments and GGSs. At that time, consideration should be given to the kind of disclosures being made in New Zealand.

Action: AASB Staff

Employee benefits - Differential reporting

Agenda Item 8

The Board had before it:

- (a) a memorandum from Dean Ardern dated 24 September 2010 (Agenda paper 8.1); and
- (b) an issues paper discussing the proposals in ED/2010/3 *Defined Benefit Plans – Proposed amendments to IAS 19* that staff consider should not apply to a Tier 2 entity under Reduced Disclosure Regime (Agenda paper 8.2).

The Board considered Agenda paper 8.2 and decided that the following proposals in ED/2010/3 should not apply to a Tier 2 entity:

- (a) for an entity that participates in a defined benefit multi-employer plan, the total number of, and the entity's proportion of, the number of active members, retired members, and former members entitled to benefits, if that information is available [paragraph 33A(c)];
- (b) expected contributions for the next five reporting periods to multi-employer defined benefit plans the entity accounts for as defined contribution plans [paragraph 33A(f)(iii)];
- (c) the basis used by an entity to determine any deficit or surplus in a multi-employer defined benefit plan that the entity accounts for as a defined contribution plan, and the implications, if any, for the entity [second part of paragraph 33A(f)(iv)];
- (d) how an entity's defined benefit plans may affect the amount, timing and uncertainty of its future cash flows [paragraphs 125A(c) and 125I-125K];
- (e) some of the specific disclosures that would explain the characteristics of an entity's defined benefit plans (paragraph 125C);
- (f) a description of the relationship between an entity's reimbursement right in relation to its defined benefit liability (asset) and the liability (asset) [second sentence of paragraph 125D(b)];

- (g) all of the specific reconciliation disclosure proposals in paragraph 125E except for contributions to the plan [the first part of paragraph 125E(f)] and payments from the plan [the first part of paragraph 125E(g)];
- (h) the proposal for an entity to specifically disaggregate the fair value of plan assets into classes that distinguish the risk and liquidity characteristics of the assets (paragraph 125F). Accordingly, a Tier 2 entity would only disaggregate the fair value of plan assets into, at a minimum and when appropriate, property, government debt instruments, other debt instruments, the entity's own equity instruments, and other equity instruments;
- (i) a brief description of the process used to determine demographic actuarial assumptions to supplement the disclosures provided under paragraph 125G(a) [paragraph 125G(b)];
- (j) the present value of a defined benefit obligation, adjusted to exclude the effect of projected growth in salaries [paragraph 125H]; and
- (k) the third sentence in paragraph 23 and paragraphs 34B, 47 and 143, consistent with the current requirements under the Reduced Disclosure Regime.

A Tier 2 supplement to ED 195 Defined Benefit Plans will be prepared and issued for comment in due course.

Action:

Staff

Conceptual Framework – Objective and Qualitative Characteristics

Agenda item 9

The Board had before it:

- (a) a memorandum from Jim Paul dated 14 October 2010 (Agenda Paper 9.1);
- (b) an extract from the minutes of the AASB meeting on 9 – 10 June 2010 (Agenda Paper 9.2);
- (c) new chapters of the revised IASB Conceptual Framework on The Objective of General Purpose Financial Reporting and Qualitative Characteristics of Useful Financial Information (Agenda Paper 9.3);
- (d) a paper entitled 'Sweep Issues Session: issues raised before session' (Agenda Paper 9.4 [tableted]); and
- (e) a pre-ballot draft of a revised AASB Conceptual Framework incorporating the abovementioned new IASB chapters and covering memorandum from Jim Paul dated 20 October 2010 (these are not Board meeting papers because the Board meeting agenda item was a sweep issues session dealing only with substantive issues).

The Board discussed substantive issues regarding the draft revised AASB Conceptual Framework, including those identified in Agenda Paper 9.4. The Board confirmed that, as an interim step, the extent of additional guidance (Aus paragraphs) for application of the new chapters by not-for-profit entities should be similar to the limited not-for-profit entity guidance in its existing *Framework*. The Board observed that the IASB and FASB will consider not-for-profit entity issues in a later phase of their joint Conceptual Framework project,

and that it will subsequently revise its Conceptual Framework in response to the revisions to the IASB Conceptual Framework resulting from that project phase, having regard to developments in the IPSASB Conceptual Framework project.

The Board decided:

- (a) to retain reference to Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* in the body of its revised Conceptual Framework;
- (b) the Foreword to its revised Conceptual Framework should:
 - (i) include comments to position this version of the Framework with the superseded and following versions, including how not-for-profit entity issues are being addressed; and
 - (ii) explain the status of Statements of Accounting Concepts SAC 1 *Definition of the Reporting Entity* and SAC 2 *Objective of General Purpose Financial Reporting* under the revised Conceptual Framework;
- (c) to confirm the staff's proposal to omit the section of the Introduction to the IASB's Conceptual Framework that precedes the 'Purpose and status' section;
- (d) to correct the references to the concepts in the Conceptual Framework having non-mandatory status. Consequently, proposed paragraph Aus1.1 should be omitted and the second sentence of paragraph 2 should be replaced with a description of the role of the Conceptual Framework under AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*;
- (e) in the 'Objective' chapter, paragraph AusOB3.1 should be worded along the following lines: "In respect of not-for-profit entities, existing and potential owners and other resource providers are generally not concerned with obtaining a financial return on an investment in the entity, but are usually more interested in the ability of the entity to achieve its non-financial objectives, which in turn may depend upon the entity's financial position and financial performance. These or other primary users of general purpose financial reports of not-for-profit entities (see paragraph AusOB5.1) will, for example, be interested in the capability of the entity's resources to provide goods and services in the future.";
- (f) in the 'Objective' chapter, paragraph AusOB5.1 should be worded along the following lines: "The primary users of general purpose financial reports of not-for-profit entities are existing and potential resource providers (including investors, lenders and other creditors, donors and taxpayers), recipients of goods and services (including beneficiaries, such as members of the community) and parties performing a review or oversight function on behalf of other primary users (including advisers and, in respect of public sector not-for-profit entities, members of parliament).";
- (g) in the 'Objective' chapter, paragraph AusOB5.2 should be worded along the following lines: "The AASB does not see a need to identify primary users of general purpose financial reports of not-for-profit entities because its focus is on the common information needs of the range of users of those reports." Consideration should be given to making related not-for-profit entity modification(s) to emphasise the limited context of subsequent references to 'primary users';
- (h) in the 'Objective' chapter, paragraph AusOB16.1 should be worded along the following lines: "In respect of not-for-profit entities, an indication of how well management has discharged its responsibilities to make efficient and effective use of the reporting entity's resources would also, for

example, be provided by information about the quality, cost and effectiveness of goods and services provided in the past.”; and

- (i) its revised Conceptual Framework should be applicable for periods beginning on or after 1 July 2011, with early application permitted.

The Board agreed to vote out of session on a ballot draft of its revised Conceptual Framework that incorporates the amendments decided at this Board meeting.

Action:	AASB Staff
	Board Members

The annual improvement process: Proposals to amend the IASB Due Process Handbook

Agenda Item 10

The Board had before it:

- (a) a memorandum from Mischa Ginns and Maybelle Chia dated 13 October 2010 (Agenda Paper 10.1);
- (b) an issues paper discussing the proposals in the IFRS Foundation Consultation Document *The annual improvements process: Proposals to amend the Due Process Handbook for the IASB* (Agenda Paper 10.2);
- (c) IFRS Foundation Consultation Document *The annual improvements process: Proposals to amend the Due Process Handbook for the IASB* (Agenda Paper 10.3);
- (d) Due Process Handbook for the IASB (Approved by the Trustees October 2008) (Agenda Paper 10.4)

The Board considered key comments to be included in its submission to the IFRS Foundation in response to its Consultation Document *The annual improvements process: Proposals to amend the Due Process Handbook for the IASB*.

The Board decided its submission to the IFRS Foundation should:

- (a) express general support for the proposals; and
- (b) recommend that:
 - (i) ‘non-urgent but necessary’ be explicitly stated in the criteria in the Consultation Document;
 - (ii) some of the terminology used be clarified to help ensure the criteria are clear and consistently applied; and
 - (iii) the Due process Handbook for the IASB describe how the annual improvements process impacts stages other than the planning stage of the standard-setting process.
- (c) note, in an appendix, editorial matters identified in the Consultation Document and the Due Process Handbook for the IASB.

The Board decided that its submission to the IASB will be finalised out of session by the Chairman.

Action:	AASB Staff
	AASB Chairman

Other Business

Agenda item 12

The Board had before it:

- (a) AASB submission on IVSC Exposure Draft *Proposed New International Valuation Standards* (Agenda paper 12.1);
- (b) AASB submission to IASB on ED/2101/7 *Measurement Uncertainty Analysis Disclosure for Fair Value Measurements* (Agenda paper 12.2);
- (c) a letter from Kevin Stevenson, AASB Chairman, to Hans Hoogervorst, Chairman of The Monitoring Group, dated 8 September 2010 regarding the Review of the IFAC Reforms – Consultation Paper (Agenda paper 12.3);
- (c) AASB submission to IASB on ED 2010/3 *Defined Benefit Plans – Proposed amendments to IAS 19* (Agenda paper 12.4); and
- (d) submission on ED 195 from Australia Post dated 9 September 2010 (Agenda paper 12.5);
- (e) additional submissions on ED 197 *Presentation of Items of Other Comprehensive Income* (submissions 7-8) (Agenda paper 12.6);
- (f) a letter from Kevin Stevenson, AASB Chairman, to Russell Golden, Technical Director of the FASB, dated 16 September 2010 regarding Proposed Accounting Standards Update on the Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities (Agenda paper 12.7);
- (g) a letter from Kevin Stevenson, Leader of the AOSSG Financial Instruments Working Group, & Mohammad Faiz Azmi, Chairman of the AOSSG, to Russell Golden, Technical Director of the FASB, dated 28 September 2010 regarding Proposed Accounting Standards Update on the Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities (Agenda paper 12.8);
- (h) a letter from Kevin Stevenson, AASB Chairman, to David Coogan, PricewaterhouseCoopers Assurance Partner, dated 23 September 2010 regarding an Update on Industry Feedback on ED 179 *Superannuation Plans and Approved Deposit Funds* (Agenda paper 12.9);
- (i) memorandum from Mischa Ginns dated 13 October 2010 regarding an Interpretations Update (Agenda paper 12.10);
- (j) Interpretation issues in progress dated 13 October 2010 (Agenda paper 12.10.1);
- (k) September 2010 *IFRIC Update* (Agenda paper 12.10.2);
- (l) Pipeline Document on IASB/IPSASB/NSS/IFRSF Documents Open-for-Comment – Current and Expected – as at 13 October 2010 (Agenda paper 12.11); and
- (m) AASB submission to IASB on Exposure Draft ED/2010/5 *Presentation of Items of Other Comprehensive Income (proposed amendments to IAS 1)*.

The Board noted the agenda papers.

Income Tax

Agenda Item B5

The Board had before it:

- (a) a memorandum from Clive Brodie: Comments on IASB Exposure Draft ED/2010/11 *Deferred Tax: Recovery of Underlying Assets* dated 27 October 2010 (Agenda paper B5.1);
- (b) draft FRSB comment letter on IASB Exposure Draft ED/2010/11 dated 9 November 2010 (Agenda paper B5.2);
- (c) FRSB memorandum to IASB staff: Request for comment on pre-ballot draft to amend IAS 12 dated 16 August 2010 (Agenda paper B5.3);
- (d) AASB memorandum to IASB staff regarding pre-ballot draft to amend IAS 12 (Agenda paper B5.4);
- (e) Fletcher Building's comment letter to the IASB dated 6 September 2010 (Agenda paper B5.5);
- (f) New Zealand Request for Comment on Exposure Draft ED/2010/11 (Agenda paper B5.6); and
- (g) IASB Exposure Draft ED/2010/11 *Deferred Tax Liabilities: Recovery of Underlying Assets* (proposed amendments to IAS 12) (Agenda paper B5.7).

The AASB discussed its response to the IASB's Exposure Draft ED/2010/11 and decided that the AASB submission should:

- (a) note that the Board understands the IASB's concerns with some of the difficulties in applying the principles in the basic model in IAS 12 *Income Taxes*. In particular, the Board acknowledges the difficulties in determining the manner of recovery of investment property measured at fair value. However, the AASB submission should not support the proposals, on the basis that the existing principles in IAS 12 can be applied to achieve relevant outcomes and therefore the IASB could more usefully provide guidance on the application of the principles rather than an exception to the principles;
- (b) recommend that if the IASB decides to proceed with the proposals that they be limited to when an entity applies the fair value model in IAS 40 *Investment Property* and when the principles in IAS 12 cannot be operationalised through the business model of the entity.

A sub-committee of Mr O'Grady, Mr Rix and Mr Stevenson was formed to finalise and approve the AASB's submission to the IASB.

Action:	AASB Staff Subcommittee
---------	----------------------------

AASB FRSB Joint Meeting

Welcome and Apologies

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 Boards.

New Zealand developments

The Boards received a verbal update from the FRSB Chairman on the recent developments on the institutional arrangements for standard-setting in New Zealand.

Standard-Setters Meetings

Agenda item A2

The FRSB Chairman provided the Boards with an update on the:

- (a) National standard-setters meeting in Rome on 18-19 September 2010;
- (b) World standard-setters meeting in London on 24-25 September 2010; and
- (c) second meeting of the Asian-Oceanian Standard Setters Group (AOSSG) in Tokyo on 29-30 September 2010.

Trans-Tasman Convergence

Agenda Item B1

The Boards had before them:

- (a) a memorandum from Chris Neame, Maybelle Chia and Cameron Hall dated 18 October 2010 (Agenda paper B1.1);
- (b) a project summary to date (Agenda paper B1.2);
- (c) an issues paper *Consideration of Key Comments from Submissions* (Agenda paper B1.3);
- (d) a joint collation on the specific proposals (Agenda paper B1.4);
- (e) a list of Australian submissions (Agenda paper B1.5);
- (f) a list of New Zealand submissions (Agenda paper B1.6); and
- (g) a joint collation on the overall AASB/FRSB questions (Agenda paper B1.7).

The Boards considered Agenda paper B1.3 in respect of the joint convergence proposals and the removal of Australian-specific and New-Zealand-specific differences from IFRSs and differences between Australia and New Zealand that are the subject of AASB ED 200A/FRSB ED 121 *Proposals to Harmonise Australian and*

New Zealand Standards in Relation to Entities Applying IFRSs as Adopted in Australia and New Zealand and AASB ED 200B/FRSB ED 122 Proposed Separate Disclosure Standards.

The Boards noted broad support among respondents for the convergence process. The Boards expressed a preference for locating the additional disclosures to those in the IFRSs (Section 1 of Agenda paper B1.3) in a separate disclosure standard.

In relation to the specific joint disclosure proposals (Section 2 of Agenda paper B1.3):

- (a) given the views expressed by some constituents about disclosing audit fees relating to subsidiaries in the context of consolidated financial statements, the Boards asked staff to consider clarifying the wording to better convey that the disclosures are meant to capture fees paid to each auditor of any entity in the group, including for:
 - (i) the audit of the parent entity;
 - (ii) the audit of subsidiaries;
 - (iii) all other services to the parent entity; and
 - (iv) all other services to subsidiaries;
- (b) the Boards asked staff to consider incorporating a notion of 'related practice' in the disclosures by drawing on the relevant Professional and Ethical Standards in Australia and New Zealand and the *Australian Corporations Act 2001*;
- (c) the Boards decided to proceed with the imputation credit disclosure requirements as proposed; and
- (d) given the objections from constituents to the proposed deletion of the requirement to disclose a reconciliation of operating cash flows to profit and loss and the likelihood of the IASB introducing a reconciliation disclosure in its Financial Statement Presentation project, the Boards decided to retain this requirement and explain their reasoning in the Basis for Conclusions.

In relation to the Australian-specific issues (Section 3 of Agenda paper B1.3):

- (a) the AASB noted the concerns expressed by some constituents about introducing the true and fair override from IAS 1 *Presentation of Financial Statements*, which would become available to Australian entities other than those reporting under the Australian Corporations Act. The Boards noted that the relevant New Zealand legislation that prevents entities from using the override is the Financial Reporting Act 1993, which has much wider application than the Australian Corporations Act. Accordingly, the AASB decided to include the true and fair override from IAS 1 for the sake of IFRS compliance only, in respect of for-profit entities and insert an Aus paragraph to prohibit the override being used by not-for-profit entities;
- (b) the AASB noted the usefulness of the 'entity' definition but also expressed concerns that its retention could result in a conflict with the forthcoming joint arrangements standard. Given that the definition remains in SAC 1 *Definition of the Reporting Entity*, the AASB decided to proceed with deleting the 'entity' definition from AASB 101 for conformity of drafting with IFRSs but without any intention to change requirements;
- (c) the AASB noted that removing paragraph Aus7.1 of Interpretation 113 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers* may widen the range of accounting policy options

- available and decided to provide a reference to AASB 108 in relation to voluntary changes of accounting policy and to explain the implications in the Basis for Conclusions; and
- (d) the AASB reaffirmed its desire to delete the individual key management personnel disclosures from AASB 124 *Related Party Disclosures* and directed staff to liaise with the Corporations and Markets Advisory Committee in relation to its review of executive remuneration with an emphasis on having any relevant disclosure requirements included in the law.

Due to time constraints, the Boards did not consider the New Zealand-specific issues (Section 4 of Agenda paper B1.3) and the FRSB decided to discuss these issues at its November 2010 meeting.

The Boards decided to bring the proposed timeline forward and that draft Amending Standards and any related issues paper on remaining issues be considered at the December 2010 AASB and FRSB separate meetings, with a view to approving the final amending standards at the January 2011 FRSB meeting and February 2011 AASB meeting.

Action:

Staff

IPSASB Update

Agenda Item B2

The Boards had before them a presentation handout from Andreas Bergmann, IPSASB Chairman, dated 27 October 2010 (tabled Agenda paper).

The Boards received an update on the activities of the International Public Sector Accounting Standards Board from the IPSASB Chairman, Andreas Bergmann, including the work on its Conceptual Framework project and its relationship with the IASB.

IPSASs 28-30 – Financial Instruments

Agenda Item B3

The Boards had before them:

- (a) a memorandum from Joanne Scott and Christina Ng regarding IPSASB public sector modifications to the financial instruments standards (Agenda paper B3.1);
- (b) proposed staff amendments to AASB 139/ NZ IAS 39, AASB 9/ NZ IFRS 9 and AASB 7/ NZ IFRS 7 (Agenda paper B3.2);
- (c) the Australian Government Guidance on concessional loans granted (Agenda paper B3.3);
- (d) public sector modifications in IPSAS 28 *Financial Instruments: Presentation* (Agenda paper B3.4);
- (e) public sector modifications in IPSAS 29 *Financial Instruments: Recognition and Measurement* (Agenda paper B3.5); and
- (f) public sector modifications in IPSAS 30 *Financial Instruments: Disclosures* (Agenda paper B3.6).

The Boards considered the memo from Joanne Scott and Christina Ng regarding possible modifications to Australian and New Zealand equivalents of IAS 32, IAS 39, IFRS 9 and IFRS 7 as a result of the IPSASB public sector modifications in IPSASs 28, 29 and 30. The Boards noted that the FRSB had previously considered the public sector modifications made by the IPSASB. The FRSB had previously expressed support for two modifications relating to concessionary loans in the form of additional application guidance on recognition and measurement and additional disclosures. The Boards noted that AASB staff recommended these matters be considered in the context of the project on income from non-exchange transactions.

The AASB noted that it had previously dealt with the issue of public policy loans in the context of transitional issues raised by public sector constituents in the 2007 period. Consistent with its previous decisions, the AASB decided there is no public-sector-specific reason to modify AASB 139, and any additional guidance on concessionary loans and related disclosures should be dealt with in the project on income from non-exchange transactions. The AASB expressed a preference for using other methods such as educational material to provide additional guidance on recognition and measurement of concessionary loans.

The FRSB decided to consider separately whether it wishes to (i) proceed with the proposed modifications immediately (ii) proceed with the proposed modifications at a future date; or (iii) make no modifications. The FRSB also noted that if it decides to proceed with the modifications there may be a need to consider the interaction of IFRS 9 and IAS 39 in relation to the recognition and measurement of financial assets and liabilities arising from concessionary loans.

The Boards noted the remaining staff recommendations and supporting rationale about not including other additional material from the IPSASs and expressed support for those staff recommendations.

Action: FRSB staff

Income from Non-Exchange Transactions

Agenda item B4

The Boards had before them:

- (a) a memorandum from Jim Paul and Joanne Scott dated 14 October 2010 (Agenda Paper B4.1);
- (b) an extract from minutes of the AASB/FRSB meeting on 17 – 18 March 2010 (Agenda Paper B4.2);
- (c) a staff strategy paper *Income from Non-Exchange Transactions: Scope of the Standard, and Adopting a Performance Obligations Approach to Identifying Liabilities* (Agenda Paper B4.3);
- (d) a staff analysis *Income from Non-exchange Transactions: Adopting a Performance Obligations Approach to Identifying Liabilities* (Agenda Paper B4.4); and
- (e) a copy of PowerPoint slides on the other agenda papers (tabled paper).

The Boards considered aspects and implications of applying the IASB's proposed guidance on 'performance obligations' to the identification of liabilities arising from the receipt, by public benefit entities (PBEs)/not-for-

profit entities (NFPs), of assets in non-exchange transactions. Proposed IASB guidance on the meaning of a 'performance obligation' (an obligation to provide goods or services) is included in IASB ED/2010/6 *Revenue from Contracts with Customers*.

The Boards considered three possible approaches:

- (a) applying the IASB-FASB guidance on performance obligations to non-exchange transactions of PBEs/NFPs, but modifying that guidance to the extent necessary to address specific PBE/NFP issues;
- (b) accounting for any obligation arising from a non-exchange transaction under the Standard on Revenue from Contracts with Customers, without any PBE/NFP modifications; and
- (c) reverting to the approach in AASB ED 180/FRSB ED 118 *Income from Non-exchange Transactions (Taxes and Transfers)*.

The Boards supported option (a), that is, to continue working on a model for identifying such liabilities of PBEs/NFPs based on the IASB's guidance on performance obligations, while modifying that IASB guidance to express the IASB's proposed principles in a sector-neutral manner that therefore can be applied by PBEs/NFPs (see modifications further below).

The Boards agreed that work on developing guidance on performance obligations should be based on the tentative principle that a promise to provide goods or services is a performance obligation if it has the following features, which are inter-dependent:

- (a) it involves a sufficiently specific stipulation regarding the entity's promised performance (this enables reasonably objective identification of when a performance obligation has been satisfied); and
- (b) it is enforceable.

In relation to the characteristics of a sufficiently specific stipulation, the Boards expressed support for 'View 1' in the agenda papers under which a promise to provide goods or services must be specified as to:

- (a) the nature or type of goods or services; and
- (b) one or more of:
 - (i) the cost or value of the goods or services;
 - (ii) the volume of the goods or services; and
 - (iii) the period over which the goods or services must be provided. A stipulation that a transfer of assets to a PBE/NFP in a non-exchange transaction relates to a particular time period is, of itself, insufficient to meet this criterion.

Whilst they expressed a preference for 'View 1', the Boards noted a number of issues would arise in applying that view, and will monitor this issue as work on developing a 'performance obligations approach' proceeds. For example, the Boards observed that transferor stipulations regarding the nature or type of goods or services to be provided can vary in detail. Mitigating this, they observed that, for a stipulation to be

enforceable (see below), it would need to be reasonably specific regarding the nature or type of goods or services to be provided.

The Boards agreed that, for a promise to provide goods or services to be regarded as 'enforceable', the transferor must be capable of enforcing that promise by legal or equivalent means. In this regard, the Boards tentatively agreed that:

- (a) a right to enforce specific performance would ensure that the promise is enforceable;
- (b) neither a return obligation nor a capacity to impose a severe penalty for non-performance would of itself be sufficient for a performance obligation to exist. However, if either of them accompanies a promise to provide goods or services, it indicates the performance obligation is enforceable. In some environments, where rights of specific performance are unavailable or unnecessary, a return obligation or a capacity to impose a severe penalty may be the key indicator of the enforceability of a promise to provide goods or services;
- (c) a transferor's capacity or threat to withhold future funding from a transferee if stipulated goods or services are not provided would not of itself give rise to enforceability of the promise to provide those goods or services, unless that future funding is a contractual promise (in which case, withholding the funding constitutes the cancellation of a receivable, and thus is indistinct from the return of a transferred asset covered by (b) immediately above);
- (d) a directive given by a Minister or government department to a public sector entity to provide specified goods or services gives rise to a promise that is enforceable by legal or equivalent means;
- (e) it would be inappropriate to identify a control relationship between the transferor and transferee as a mechanism for ensuring that a promise to provide goods or services is enforceable by legal or equivalent means; and
- (f) a PBE's/NFP's statement of intent to spend money or consume resources in particular ways may be the subject of budget-to-actual reporting to discharge accountability for the raising and expenditure or consumption of resources. However, that statement of intent and related accountability mechanisms do not of themselves make a promise to provide goods or services enforceable by legal or equivalent means. Enforceability of a promise requires the existence of other parties with the power to enforce the promise by legal or equivalent means.

The Boards agreed that work on developing a 'performance obligations approach' should proceed on the basis that, if the IASB issues guidance on performance obligations consistent with that in its ED on Revenue from Contracts with Customers, the following modifications to that guidance would be appropriate:

- (a) the basis for identifying separate performance obligations (the 'unit of account') should be modified. In this regard, the Boards directed staff to compare identifying the unit of account for PBEs/NFPs as each promise to provide goods or services (each separate 'contract element') with the IASB's proposed unit of account; and
- (b) clarification should be included, in a PBE/NFP context, of:
 - (i) the meaning of 'customer' and the relevance of the notion of 'customer' in the IFRS on Revenue from Contracts with Customers. The Boards agreed it is unnecessary to specify which entity

- should be regarded as the 'customer', because the focus should be on the nature and extent of the PBE's/NFP's performance obligations;
- (ii) how specific another party's enforceable right to receive goods or services must be in order to qualify as a performance obligation of the reporting entity; and
 - (iii) the meaning of 'enforceability' in relation to an enforceable promise to provide goods or services to other parties.

The Boards agreed to use the text of the forthcoming IFRS on Revenue from Contracts with Customers (which the IASB expects to issue in the second quarter of 2011) as the base for modified guidance for PBEs/NFPs. They agreed to review that decision after draft guidance is developed.

The Boards also agreed to continue the development of PBE/NFP guidance on income from non-exchange transactions by monitoring the IASB's deliberations on its Revenue project and by completing their redeliberation of other issues in AASB ED 180/FRSB ED 118 *Income from Non-exchange Transactions (Taxes and Transfers)* having regard to the submissions received on that ED. They agreed to liaise with the IPSASB in relation to any consideration it gives to the implications for IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* of the IFRS on Revenue from Contracts with Customers.

The Boards agreed to consider the extent of additional guidance needed for PBEs/NFPs in forthcoming domestic Standards that incorporate the IFRS on Revenue from Contracts with Customers, in respect of exchange transactions entered by PBEs/NFPs. For example, they noted that the need for PBE/NFP guidance on the meaning of 'customer' applies to exchange transactions as well as non-exchange transactions. The Boards also noted that the scope of the IFRS on Revenue from Contracts with Customers may encompass some transactions currently regarded as non-exchange transactions.

Action:

Staff

Income Tax

Agenda Item B5

The Boards had before them:

- (a) a memorandum from Clive Brodie: Comments on IASB Exposure Draft ED/2010/11 *Deferred Tax: Recovery of Underlying Assets* dated 27 October 2010 (Agenda paper B5.1);
- (b) draft FRSB comment letter on IASB Exposure Draft ED/2010/11 dated 9 November 2010 (Agenda paper B5.2);
- (c) FRSB memorandum to IASB staff: Request for comment on pre-ballot draft to amend IAS 12 dated 16 August 2010 (Agenda paper B5.3);
- (d) AASB memorandum to IASB staff regarding pre-ballot draft to amend IAS 12 (Agenda paper B5.4);
- (e) Fletcher Building's comment letter to the IASB dated 6 September 2010 (Agenda paper B5.5);
- (f) New Zealand Request for Comment on Exposure Draft ED/2010/11 (Agenda paper B5.6); and

- (g) IASB Exposure Draft ED/2010/11 *Deferred Tax Liabilities: Recovery of Underlying Assets* (proposed amendments to IAS 12) (Agenda paper B5.7).

The FRSB staff provided the Boards with a verbal update on the concerns with ED/2010/11 *Deferred Tax: Recovery of Underlying Assets*, from a New Zealand tax perspective. Because the Boards expressed different views on ED/2010/11, the Boards decided to further discuss this agenda item separately.

Insurance Contracts

Agenda Item B8

The Boards had before them:

- (a) a memorandum from Dean Ardern and Clive Brodie dated 7 October 2010 (Agenda paper B8.1);
- (b) a paper discussing staff analysis and preliminary views on the proposals in the IASB's Exposure Draft ED/2010/8 *Insurance Contracts* (Agenda paper B8.2);
- (c) a paper outlining the main proposals in the IASB's Exposure Draft ED/2010/8 *Insurance Contracts* and comparing these proposals to the corresponding requirements in AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts* (Agenda paper B8.3); and
- (d) copies of a response received by the AASB on ED 201 *Insurance Contracts* (Agenda paper B8.4).

The Boards considered Agenda paper B8.3 and tentatively agreed that their joint submission on ED/2010/8 should:

- (a) express general support for the proposals because they would improve financial reporting by insurers at a global level. The Boards also agreed that their joint submission should note, where appropriate, any inconsistencies between the proposals in ED/2010/8 and the requirements and proposals in other IFRS and IASB EDs that deal with similar items, but recommend the IASB complete its deliberations on ED/2010/8 prior to dealing with any cross-cutting issues in the interests of achieving a new IFRS 4 by June 2011;
- (b) express agreement with the proposals for claims liabilities to be measured on the basis of the expected present value of the fulfilment cash flows (including an explicit risk adjustment) and a residual margin (measured by reference to the initial premium, which eliminates any 'day-one' gain on inception of the contract);
- (c) express agreement with the proposals that the discount rate used by an insurer:
 - (i) for non-participating contracts should reflect the characteristics of the insurance contract liability and not those of the assets backing that liability; and
 - (ii) include, when appropriate, an illiquidity premium;
- (d) express disagreement with the FASB's proposed composite margin approach;
- (e) express agreement with the proposed techniques for estimating risk adjustments, but recommend that an insurer be required to use one of the three identified techniques unless another method provides a more reliable measure of the risk adjustment;

- (f) recommend the IASB give further consideration to its reasons for proposing that an insurer not be permitted to measure the risk adjustment at the entity level on the basis that a lack of 'fungibility' is arguably not a relevant justification, particularly for insurers that do not have statutory funds or can mitigate the effects of having surpluses and deficits across their portfolios through the use of borrowings;
- (g) express disagreement with the proposed method of releasing residual margins, primarily because it is inconsistent with the proposed treatment of such margins at inception and is likely to give rise to anomalous reporting outcomes when onerous contracts are remeasured;
- (h) express agreement with the proposal for interest to be accreted on the residual margin because it is part of the insurance contract liability and other parts of the liability are subject to the accretion of interest;
- (i) recommend the IASB give further consideration to requiring insurance contracts to be measured using 'building blocks' that have been determined at the same level of aggregation. In particular, the implications of defining the contract boundary and the treatment of acquisition costs at the insurance contract level while other recognition and measurement requirements are at the portfolio of contracts level. The Boards noted that, as they are currently framed, the proposals in relation to acquisition costs could lead to different reporting outcomes for ostensibly similar insurance contracts, subject to the manner in which the insurer distributes its contracts (either directly or through a broker);
- (j) express agreement with the proposed modified measurement approach for the pre-claims liabilities of some short-duration insurance contracts, but:
 - (i) recommend that insurers be permitted rather than required to apply the proposed approach; and
 - (ii) disagree with the proposal that interest be accreted on short-duration insurance contracts because it is arguably inconsistent with the view that the approach is a simplified or short-cut method and is unlikely to significantly affect the amounts reported by insurers in respect of such contracts;
- (k) express in principle agreement with the proposed insurance contract boundary proposals, but recommend that the IASB better articulate the impact of contract terms versus the legal environment in a jurisdiction to assist insurers, particularly health insurers, to identify contract boundaries consistently;
- (l) express general agreement with the proposals to require an insurer to unbundle some components of an insurance contract, and with the proposed criteria for unbundling insurance contracts. In addition, the Boards decided to recommend that the IASB clarify the wording used in the unbundling proposals, particularly whether cash flows attributable to unbundled components need to be 'closely related' or 'interdependent';
- (m) express general agreement with the proposed 'summarised margin' presentation approach, but recommend the IASB allow the information to be presented on the face of the financial statements or in the notes particularly in view of issues that would arise for a diversified entity trying to integrate the reported results from its insurance activities with the reported results from its other activities;

- (n) express agreement with the proposal for an expected loss model for reinsurance assets, but express disagreement with insurers being required to recognise a 'negative' residual margin as a gain on inception of the reinsurance contract;
- (o) express general agreement with the IASB's efforts to minimise accounting mismatches with respect to the accounting for unit-linked insurance contracts and the assets underlying such contracts, but express disagreement with the proposals in relation to treasury shares as they are not consistent with the treatment of such items under other IFRS; and
- (p) express agreement with the proposed transition requirements except for the proposal that an insurer eliminate any existing residual margins against opening retained earnings upon transition and recommend that entities be permitted to apply the requirements retrospectively where this is practicable.

The Boards agreed that their joint submission should be finalised out-of-session, and that a subcommittee comprising Mr Clarke, Mr O'Grady, Mr Palmer, Mr Stevenson (AASB members) and Mr Wilkinson (FRSB's Insurance Panel Chairman) should review the draft response prior to its finalisation.

The Boards also discussed its arrangements for liaising with constituents on the proposals in ED/2010/8. The Boards noted that roundtable discussions on the proposals are scheduled for Friday 29 October 2010 with constituents in Sydney, Melbourne and Auckland by way of videoconference.

The Boards also noted that staff of both Boards have been involved in preliminary discussions with representatives of some New Zealand public sector entities and intend to hold discussions on the topic with other New Zealand and Australian not-for-profit and public sector entities in the near future.

Action:	Staff
	Subcommittee

Service Performance Reporting

Agenda item B10

The Boards had before them:

- (a) a memorandum from Joanne Scott and Jessica Lion dated 11 October 2010 (Agenda paper B10.1); and
- (b) an updated joint project plan (as at 27 September 2010) on Service Performance Reporting (Agenda paper B10.2)

The Boards noted the updated project plan, which outlines the research and steps needed to produce an exposure draft in 2011. The Boards reaffirmed the importance and high priority of this project and requested that the project be accelerated if possible.

Action:	Staff
---------	-------

Leases

Agenda item B11

The Boards had before it:

- (a) a memorandum from Jessica Lion and Clive Brodie dated 11 October 2010 (Agenda paper B11).

The Boards discussed the issues in Agenda paper B11 and decided that their separate submissions should:

- (a) recommend that leases of tangible and intangible assets should be accounted for consistently and both be included in the scope of the proposals;
- (b) express support for the proposed scope exclusion of lessors with leases of investment property carried at fair value under IAS 40 *Investment Property* and the scope inclusion of leases of investment property carried at cost under IAS 40, but ask the IASB to better justify these scope exclusions and inclusions;
- (c) agree that there is no need to retain the cancellable/non-cancellable distinction with regards to the definition of a lease, but that the IASB should justify why this distinction is not needed in the Basis for Conclusions;
- (d) support the proposal to consider purchase options on inception of the lease to determine whether a sale has occurred and that a bargain purchase option is normally an indicator of a sale;
- (e) recommend that more guidance is needed to help entities determine whether the contract is for the supply of services rather than a lease and the AASB and FRSB submissions to the IASB should include constructive suggestions in this regard. There were concerns raised that IFRIC 4 *Determining whether an Arrangement contains a Lease* may not be sufficiently robust to simply copy into the proposals. There were also concerns raised that the ED proposes that non-distinct services must still be split in some cases, as this will be difficult practically;
- (f) express support for the overall principle of the lessee model (that a lease contract gives rise to assets and liabilities) but not all aspects of the approach taken in the ED. Members of the Boards noted that constituents have not expressed support conceptually for some aspects of the lessee model, namely the proposed accounting for contingent rentals and lease term. The Boards also decided that its separate submissions should recommend that the IASB better explain the rationale as to why lease contracts conceptually give rise to assets and liabilities and why they are not executory contracts and highlight constituent concerns about the cost burden of complying with these proposals;
- (g) express concern that the proposed simplified requirements for short-term leases are not helpful and that there should be alternative simplifications including relieving lessees with short-term leases from some of the disclosure requirements. The Boards asked staff to include constructive feedback on the nature of the simplifications that could be made;
- (h) support the proposed approach to classification of the 'right-of-use' asset as property, plant and equipment, with revaluation of the right-of-use asset under the requirements of IAS 38 *Intangible Assets*, with the reference to active market removed. The Boards also agreed to recommend that the IASB make it clear in the proposals that the 'right-of-use' asset is an intangible asset;

- (i) recommend that lessees be allowed to fair value the lease liability as an alternative accounting policy choice;
- (j) recommend that the lessor should use the derecognition method for accounting for leases, including allowing the residual value to be remeasured under IAS 16 *Property, Plant and Equipment*. The Boards noted the IASB has requested those making submissions supporting the derecognition model aid the IASB's debate on this topic by trying to solve issues that this model creates, namely day one gains and how this model would work for short terms lease of a long term asset (e.g. a 3 year lease of a 50 year building). The Boards asked staff to consider these issues and respond to them in the submissions to the IASB;
- (k) recommend that the lease term be based on a probability weighted average approach;
- (l) recommend that lease payments include an estimation of contingent rentals;
- (m) include any issues that may be identified by staff relating to the application of the proposals to leases in foreign currencies and the foreign exchange implications; and
- (n) include any issues that may be identified by staff on how the proposals interact with IFRIC 12.

The AASB agreed to finalise its submission out of session through the Chairman and a sub-committee comprising Mr Clarke, Mr Jenkin, Ms Peach and Mr Rix. The FRSB agreed to form a subcommittee at its teleconference meeting on 15th November to review the FRSB submission out of session.

Action:	Staff
	Subcommittees

Control in the Public Sector

Agenda item B12

The Boards had before them:

- (a) a memorandum from the project team dated 13 October 2010 (Agenda paper B12.1);
- (b) an issues paper regarding the future of the AASB/FRSB project, particularly in light of the IASB's imminent amendment to the definition of control (Agenda paper B12.2);
- (c) working draft of a paper relating to Part 1 of Phase 1 of the Project: Identification of Issues Associated with the Application of Control (Agenda paper B12.3); and
- (d) IASB staff draft IFRS X *Consolidated Financial Statements* (Agenda paper B12.4).

The Boards noted the progress made to date on the project, including the working draft in Agenda Paper B12.3 of a paper identifying issues associated with the application of the current definition of control in the public sector, which was a planned output of Phase 1 of the project and the next steps in the project.

In considering the next steps in the project, the Boards decided that, in light of the imminent release by the IASB of a replacement for IAS 27 *Consolidated and Separate Financial Statements*, including a revised definition of control, the focus of the project should immediately switch, as a high priority, to developing

proposals for public sector and not-for-profit private sector material to be included in the domestic standards that will incorporate the replacement for IAS 27. The Boards noted this would involve further research into not-for-profit private sector issues to supplement the research to date in relation to the public sector. Within the context of the replacement Standard, the additional material should address as many of the issues relating to control of an entity identified in Phase 1 as possible and appropriate. The objective is to develop the additional material in time to enable public sector and not-for-profit private sector entities both to be involved in appropriate due process and to apply the replacement for IAS 27 before its mandatory effective date with a reasonable transition period. This work is broadly consistent with what is described as Phase 2 in the project plan, but with an accelerated timeframe. This Phase should also incorporate what was previously described as Part 2 of Phase 1 (consideration of approaches currently adopted for dealing with control in the public sector in jurisdictions with similar conceptual frameworks), rather than progressing that work as a discrete Part. The Boards noted that, although the mandatory effective date of the replacement for IAS 27 is not yet known, it is expected to be no earlier than 1 July 2012.

The Board noted that the outcome of this work might not adequately address all the issues identified in Phase 1 and therefore, consistent with the original project plan, the scope and approach to Phases 3+, if any, should be considered in due course.

In light of the Boards' decisions, a revised project plan is to be prepared for consideration by each Board at their next meetings. The revised project plan should include a plan for communicating with constituents – particularly to deal with any perceptions that public sector issues are not being given due regard because the scope of the project has been broadened to include the not-for-profit private sector and Phase 2 is limited to adapting the replacement IAS 27 rather than fundamentally reviewing its requirements.

The Boards agreed that the project team should keep IPSASB staff informed of progress being made. In addition, the Boards agreed that a copy of agenda paper B12.3 could be provided to the IPSASB for its information on the understanding that the paper did not necessarily represent the views of the two Boards.

Given the importance of this project, a progress report will be provided to each Board at each meeting as the project progresses. This will provide a mechanism for giving the Boards an early warning of whether there are any substantive issues that Phase 2 will not be able to solve.

Action:

Project team

Close of Meeting

The Chairman closed the meeting at 3.30 p.m. on Thursday 28 October 2010.

Approval

Signed by the Chairman as a correct record
this eighth day of December 2010.