



Minutes

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| Subject: | Minutes of the 102 nd meeting of the AASB, held jointly with NZ FRSB |
| Venue: | ICAA Offices Level 3, 600 Bourke St, Melbourne |
| Time(s): | Wednesday 28 October 2009 from 8.30 a.m. to 5.00 p.m. Thursday 29 October 2009 from 8.15 a.m. to 12.30 p.m. The AASB met separately on Thursday 29 October 2009 from 1.30 p.m. to 3.40 p.m. |

All agenda items were discussed in public.

Attendance

| | AASB | FRSB |
|---------------|---|--|
| Members | Kevin Stevenson (Chairman) Glenn Appleyard Victor Clarke Sue Highland Mark Jenkin Ian McPhee John O'Grady (until 2.30 day two) Frank Palmer Kris Peach (until 3.00 day two) Joanna Perry (except Day 2 from 1.30 to 2.15 p.m. of AASB meeting) Bruce Porter Brett Rix Robert Williams | Joanna Perry (Chairman) Christine Burns Kimberley Crook Denise Hodgkins Angela Ryan Richard Smyth Kevin Stevenson Kate Thomson Steve Todd Norman Wong |
| Apologies | | David Foster |
| Staff | Clark Anstis (in part) Dean Arden (in part) Natalie Batsakis (in part) Maybelle Chia (in part) Ahmad Hamidi (in part) Robert Keys Jessica Lion (in part) Christina Ng (in part) Chris Pang (in part) Jim Paul (in part) Siva Sivanantham (in part) Joanna Spencer Angus Thomson Raymond Yu (in part) | Sarah Bate (in part) Clive Brodie (in part) Patricia McBride Chris Neame (in part) Joanne Scott (in part) Vanessa Sealy-Fisher |
| In Attendance | Peter Batten (until 2.30 day two) Ken Warren (Joint meeting only) Mike Hathorn (Joint meeting only) Andreas Bergmann (Joint meeting only) | |

Welcome

Agenda Item 1

Kevin Stevenson, AASB Chairman welcomed the FRSB members and staff.

Single Economic Market

Agenda Item 2

The Board had before it:

- (a) a memorandum from Angus Thomson & Patricia McBride dated 13 October 2009 (Agenda paper 2.1); and
- (b) a Media Release dated 20 August 2009 – Joint Statement by Prime Ministers Rudd and Key: August report on trans-Tasman cooperation, including the Joint Statement of Intent (Agenda paper 2.2).

The Boards noted;

- (a) the thrust of the relevant Outcome Proposals is convergence of financial reporting in Australia and New Zealand;
- (b) the further processes to finalise the Outcomes will probably involve those connected with the Trans-Tasman Accounting and Auditing Standards Advisory Group (TTAASAG);
- (c) the focus of convergence needs to be for all tiers of reporting, and concerns were expressed about the recent and impending release of different proposals in each jurisdiction with respect to reporting frameworks;
- (d) convergence in relation to financial reporting is generally more advanced than for other related aspects of the convergence between the two jurisdictions; and
- (e) there is a need to alert and liaise with all the relevant parties about their roles in achieving convergence, and that the TTAASAG is a useful vehicle for this.

The Boards decided that:

- (a) they should take a leadership role on the convergence of financial reporting in Australia and New Zealand; and
- (b) consideration be given to aligning exposure drafts issued by the Boards, including that questions in exposure drafts be worded in terms of the impact in both jurisdictions.

Action:

Staff
Chairman

Australia – New Zealand Convergence

Agenda Item 3

The Board had before it:

- (a) a memorandum from Angus Thomson, Maybelle Chia, Patricia McBride & Chris Neame dated 14 October 2009 (Agenda paper 3.1);
- (b) an analysis of IFRSs adopted in Australia & New Zealand [Not-For-Profit Entities & Public Benefit Entities] (Agenda paper 3.2);

- (c) an analysis of IFRSs adopted in Australia & New Zealand [All Entities or Only For-Profit Entities] (Agenda paper 3.3);
- (d) a summary table for modifications from IFRSs [Not-For-Profit Entities & Public Benefit Entities] (Agenda paper 3.4); and
- (e) a summary table for modifications from IFRSs [All Entities or Only For-Profit Entities] (Agenda paper 3.5).

The Boards considered the analyses of IFRSs adopted in Australian and New Zealand and decided that:

- (a) as a priority, there should be a joint exposure draft that includes proposals about each relevant modification from IFRSs that affects for-profit entities seeking, in the first instance, to eliminate differences from the foundation IFRSs – or that any supplements to IFRSs should be the same in both jurisdictions;
- (b) consideration will be given to aligning the differential reporting (tier 2) requirement in both jurisdictions while noting that this is dependent on legislative changes;
- (c) it may be useful to have a means such as a separate standard (with identical content in each jurisdiction) that clearly shows any disclosure requirements applying to for-profit entities that are in addition to the disclosures required in IFRSs; and
- (d) in due course, they would consider developing a joint exposure draft relating to convergence of modifications to IFRSs in respect of not-for-profit/public benefit entities containing proposals based on application of the Boards' Process for Modifying IFRSs for PBE/NFP subject to current work being undertaken on the reporting framework in each jurisdiction.

The Boards noted that the above decisions are consistent with the Outcome Proposals in respect of the Single Economic Market Initiative.

In terms of particular modifications from IFRSs, the Boards agreed to propose:

- (a) deleting the disclosures about valuers in NZ IAS 16 *Property, Plant and Equipment* and NZ IAS 40 *Investment Property*;
- (b) deleting the additional disclosure requirements for particular line items in NZ IAS 34 *Interim Financial Reporting*;
- (c) deleting the AASB guidance from Interpretation 13 *Jointly Controlled Entities – Non-Monetary Contributions by Ventures*;
- (d) adding the cost measurement option to NZ IAS 40 *Investment Property*, with the exposure draft acknowledging the argument that the cost model has been included in IAS 40 to cater for jurisdictions without developed markets for investment property;
- (e) adding the indirect presentation method to NZ IAS 7 *Cash Flow Statements*;
- (f) that the explanatory material in AASB 101 *Presentation of Financial Statements* and NZ IAS 1 *Presentation of Financial Statements* about the nature of the 'true and fair' disclosure approach under New Zealand and Australian law should be abbreviated and included in footnotes as references to the relevant legislation;
- (g) that the disclosure requirements relating to the respective dividend imputation taxation regimes in AASB 101 and NZ IAS 12 *Income Taxes* be made the same to the extent feasible and included in a disclosure standard in each jurisdiction; and

- (h) considering the continued relevance of Australian domestic interpretations applying to for-profit entities.

The Boards also agreed:

- (a) to consult with the relevant regulators in each jurisdiction, and in the first instance with the TTAASAG, about government policy on:
 - (i) requiring consolidated financial statements of domestic groups, since under IAS 27 *Consolidated and Separate Financial Statements* consolidated financial statements are not required of domestic groups if there are offshore group financial statements that comply with IFRSs, and assuming the requirements are retained, whether they might be amended to refer to requiring consolidated financial statements across Australia/New Zealand;
 - (ii) requiring disclosures about auditor remuneration (presently included in AASB 101 and NZ IAS 1); and
- (b) to propose that the individual key management personnel disclosure requirements in AASB 124 *Related Party Disclosures* be discussed at the next TASSAG meeting with a view to having them treated as governance disclosures to be included in the Australian Corporations law, if they are considered appropriate to retain.

The Boards agreed that the papers presented for the meeting and the draft minutes of the Boards' decisions be sent to the TTAASAG as background to TTAASAG discussion on trans-Tasman convergence.

The Boards noted that it would be unlikely that convergence could be achieved in the short or medium term in respect of AASB 1049 *Whole of General Government Sector Financial Statements*.

Action: Staff

Differential Reporting

Agenda Item 4

The Boards had before them:

- (a) a memorandum from Ahmad Hamidi and Vanessa Sealy-Fisher dated 14 October 2009 (Agenda paper 4.1);
- (b) staff paper: Similarities and Differences between the Proposed Differential Reporting Frameworks in Australia and New Zealand (Agenda paper 4.2);
- (c) staff paper: The Australian Revised Differential Reporting Framework: AASB Decisions to Date (Agenda paper 4.3); and
- (d) staff paper: (NZ) Summary of the Proposals Regarding Financial Reporting by the Ministry of Economic Development in its Discussion Document *The Statutory Framework for Financial Reporting* and the Accounting Standards Review Board in its Discussion Document *Proposed Application of Accounting and Assurance Standards under the Proposed New Statutory Framework for Financial Reporting* (Agenda paper 4.4).

The Boards considered similarities and differences between the proposals for revised differential frameworks in the two countries. The Boards discussed:

- (a) the suitability of the IFRS for SMEs as a second tier set of reporting requirements in the two jurisdictions;
- (b) whether the proposed Australian reduced-disclosure regime would be an option for New Zealand; and

- (c) whether the approach to differential reporting for not-for-profit entities in the private and public sectors should differ from the approach in the for-profit private sector.

The Boards agreed in principle that, subject to legislative change in both countries, the differential reporting regime for for-profit private sector entities should be identical in both countries and a reporting regime for second tier for-profit private sector entities should involve reduced disclosures, but should not involve amendments to full IFRS recognition and measurement requirements.

The Boards discussed the potential for having the same differential reporting regime available for not-for-profit entities in the private and public sectors in the two countries based on:

- (a) a policy of transaction neutrality;
- (b) full recognition and measurement requirements; and
- (c) reduced disclosures.

The Boards noted that, in principle, the same differential regime should be available in both countries for not-for-profit entities, subject to forthcoming deliberations in each jurisdiction.

Conceptual Framework – Measurement

Agenda Item 5

The Boards had before them:

- (a) a memorandum from Jim Paul and Clive Brodie dated 15 October 2009 (Agenda paper 5.1);
- (b) a staff paper on measurement developments in the IASB-FASB Conceptual Framework project and in standards-level projects of the IASB (Agenda paper 5.2);
- (c) a copy of the IASB-FASB Sample Measurement Chapter for a Conceptual Framework, considered at the IASB meeting in June 2009 (Agenda paper 5.3);
- (d) AASB staff comments on the Sample Measurement Chapter (Agenda paper 5.4);
- (e) an extract from an article by David Solomons, *The FASB's Conceptual Framework: An Evaluation* [Journal of Accountancy, June 1986] (Agenda paper 5.5); and
- (f) a tabled PowerPoint presentation.

The Boards held an education session on the subject matter of Agenda Paper 5.2, and decided that:

- (a) staff should prepare a constructive joint letter to the IASB that:
 - (i) expresses concern that the Sample Measurement Chapter:
 - (A) assumes a mixed measurement model should continue;
 - (B) does not evaluate the extent to which candidate measurement attributes for assets and liabilities would be likely to satisfy the qualitative characteristics of useful financial information;
 - (C) proposes inappropriate factors for guiding the selection of measurement attributes, particularly the 'value realisation method' for the asset or liability being measured; and

- (D) does not evaluate various concepts of capital and capital maintenance or acknowledge the importance of such concepts for determining which measurement attributes to apply;
 - (ii) says that, regardless of the extent to which the abovementioned concerns are overcome, it is essential that the Measurement Chapter:
 - (A) explains the various measurement attributes for assets and liabilities; and
 - (B) provides guidance that will assist the IASB in selecting measurement attributes in standards-level projects and the IASB's constituents in commenting on measurement proposals in those projects;
 - (iii) explains that meeting the goal in paragraph (a)(ii)(B) above would facilitate narrowing the range of measurement attributes and methods in IFRSs and proposed IFRSs (that range is illustrated in the table on pages 9 – 11 of Agenda Paper 5.2); and
 - (iv) expresses a view that the Measurement Chapter should not be restricted to principles that underlie existing requirements or requirements that would be developed in the foreseeable future;
- (b) a subcommittee of the Boards should review and approve the draft letter. The subcommittee is comprised of both Chairs, Mr Rix, Ms Hodgkins, Ms Crook and Ms Peach; and
 - (c) the letter should be sent to the IASB in the near future, in order to be timely.

Action:

Staff
Ms Crook (FRSB)
Ms Hodgkins (FRSB)
Ms Peach (AASB)
Mr Rix (AASB)
Chairman (AASB)
Chairman (FRSB)

Liabilities/Provisions

Agenda Item 6

The Boards had before them:

- (a) a memorandum from Clive Brodie dated 14 October 2009 (Agenda paper 6.1);
- (b) a summary of main changes to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as proposed in the IASB's 2005 Exposure Draft, current requirements of IAS 37 and IASB tentative decisions to date in its redeliberations of the Exposure Draft (Agenda paper 6.2); and
- (c) a PowerPoint presentation: IASB Liabilities Projects – Liabilities Measurement (Agenda paper 6.3).

The Boards received an education session on recent developments in the IASB's project on Liabilities, which is expected to result in substantive changes to IAS 37. Under the IASB's tentative amended IAS 37 approach, liabilities would be measured using expected future cash outflows on the basis of the amount the entity would rationally pay to be relieved of its present obligation and this amount would include a risk margin. The expected future cash outflows, including the risk margin, would be remeasured at each reporting date. It is anticipated that the IASB will re-expose selected measurement issues.

Insurance Contracts

Agenda Item 6

The Boards had before them:

- (a) a memorandum from Dean Ardern dated 14 October 2009 (Agenda paper 6.4); and
- (b) a staff paper comparing the candidate liability measurement approaches identified by the IASB in its Insurance Contracts project and the current liability measurement approaches under Australian and New Zealand Accounting Standards (Agenda paper 6.5).

The Boards considered Agenda Paper 6.5 and noted that the IASB has tentatively decided that its forthcoming ED on insurance contracts should:

- (a) propose that an unearned premium approach be required to be used for pre-claims liabilities of short-duration insurance contracts;
- (b) propose that an approach based on the amended IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, modified to exclude 'day-one' gains, be used for claims liabilities and pre-claims liabilities of insurance contracts that are not short-duration in nature; and
- (c) explain and seek comment on a current fulfilment value approach that includes a 'composite margin' in the measurement of an insurance liability.

The Boards also noted that, if adopted, the IASB's decisions to date in respect of insurance contracts would have a number of implications for the measurement of insurance liabilities under Australian and New Zealand Accounting Standards. Attachment A outlines those implications.

The staff will continue to closely monitor IASB developments.

Action:

Staff

IPSASB Report

Agenda Item 7

The Boards had before them a tabled presentation from Mike Hathorn, IPSASB Chairman.

The Boards received a presentation from Mr Mike Hathorn and Prof Andreas Bergmann, Chairman and Chairman-designate respectively of the IPSASB, on the IPSASB's work program and current activities. They noted the expected conclusion of IPSASB's most recent IFRS convergence efforts by the end of the year and its development of a public sector conceptual framework. The discussion also addressed acceptance of IPSASB Standards for application by governments.

Rate-regulated Activities

Agenda Item 8

The Boards had before them:

- (a) a memorandum from Jessica Lion, Clive Brodie and Siva Sivanantham dated 14 October 2009 (Agenda paper 8.1);
- (b) a draft AASB submission to the IASB on ED/2009/8 *Rate-regulated Activities* (Agenda paper 8.2);
- (c) a draft FRSB submission to the IASB on ED/2009/8 *Rate-regulated Activities* (Agenda paper 8.3);
- (d) the submissions received by the AASB on ED 185 *Rate-regulated Activities* (Agenda paper 8.4 – submissions 1-3, and tabled submissions 4-5); and

- (e) a memorandum from Jessica Lion, Clive Brodie and Siva Sivanantham dated 22 October 2009 (Agenda paper 8.5) – tabled.

The Boards considered the agenda papers and decided that:

- (a) each Board will make a separate submission to the IASB on ED/2009/8 *Rate-regulated Activities*;
- (b) in relation to the AASB draft submission:
 - (i) the cover letter should be strengthened to state the AASB disagrees with the ED as it believe there are no conceptually sound principles underpinning the proposals;
 - (ii) the submission should express support for the dissenting views in the ED; and
 - (iii) a subcommittee was formed (comprising AASB Chairman, Mr Appleyard, Mr O'Grady, Ms Peach and Ms Perry) to finalise the submission out of session; and
- (c) the FRSB submission will be finalised at its November 2009 Board meeting.

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| Action: | Staff Chairman Mr Appleyard Mr O'Grady Ms Peach Ms Perry |
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Not-for-profit Disclosures – Service Performance Reporting

Agenda Item 9

The Boards had before them a memorandum from Robert Keys and Joanne Scott dated 14 October 2009 (agenda paper 9.1).

The Boards noted their respective project work on Service Performance Reporting and the range of entities that would be potentially affected.

The AASB's project 'Disclosures by Private Sector Not-for-Profit Entities' focuses on private sector not-for-profit (NFP) entities. Phase 1 of the AASB project includes consideration of service performance reporting.

The FRSB's project encompasses the review of existing requirements and guidance within NZ GAAP relating to service performance reporting. Although the current requirements and guidance in NZ GAAP apply to any entity preparing a statement of service performance, legislative requirements mean that it is predominantly public sector entities that prepare such statements.

The Boards discussed the potential benefits and challenges of working jointly, particularly in light of the different scopes. Consideration was given to whether the scope of the AASB project should be broadened to encompass public sector NFP entities. The AASB decided that this would not be appropriate for a number of reasons including:

- (a) the AASB's commitment to specifically consider the needs of users of general purpose financial statements prepared by private sector NFP entities;
- (b) the impact of a broader scope on the duration of the project, and the AASB's desire to undertake the service performance reporting part of its project within a 12-month timeframe;
- (c) there would need to be clarification about the role the Board might play relative to the range of organisations with a mandate to establish service performance reporting requirements for public sector NFP entities in Australia; and

- (d) the differing performance models used in the state jurisdictions.

The Boards observed that if the focus of the work were on developing general principles, the different scopes should not be an impediment to a joint project. The Boards noted that such an approach would not preclude the AASB from addressing issues which do not fall within the scope of the FRSB project. Those issues might include distinguishing between financial and non-financial information and identifying a constraining principle for the information included in service performance reports.

The Boards agreed that staff should prepare a joint project plan, including a time line, for consideration by the Boards. The plan will consider ways to ensure the project is progressed efficiently and in a timely manner, and will include consideration of how the Boards can work together, including how a joint sub-committee might be utilised. In the meantime, work will continue to proceed through the Boards' project staff liaising closely.

The Chairman of the IPSASB commented that the work of the AASB and FRSB on service performance reporting could help inform the IPSASB's project on Reporting of Service Performance Information.

The AASB noted the high level of interest expressed by constituents in participating in its Project Advisory Panel and intends to consult with the Panel extensively as work progresses.

Action: Staff

Financial Instruments

Agenda Item 10

The Boards had before them:

- (a) a memorandum from Natalie Batsakis and Sarah Bate dated 14 October 2009 (Agenda Paper 10.1);
- (b) AASB submission to IASB on Exposure Draft ED/2009/7 *Financial Instruments: Classification and Measurement* (Agenda Paper 10.1.1);
- (c) FRSB submission to IASB on Exposure Draft ED/2009/7 *Financial Instruments: Classification and Measurement* (Agenda Paper 10.1.2);
- (d) a memorandum from Christina Ng and Sarah Bate dated 14 October 2009 (Agenda Paper 10.2);
- (e) a memorandum from Natalie Batsakis and Sarah Bate dated 14 October 2009 (Agenda Paper 10.3);
- (f) an IASB staff paper from its 6 October 2009 meeting (agenda reference 11) – Applying cash flow hedge accounting mechanics to a fair value hedge (Agenda Paper 10.3.1); and
- (g) a memorandum from Natalie Batsakis dated 29 October 2009 (Tabled Agenda Paper 10.4).

The Boards were provided with an update on the three phases of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*.

The Boards noted that:

- (a) financial liabilities will be excluded from the scope of the classification and measurement requirements in the short-term. The decision to exclude financial liabilities from the scope is a result of the IASB's desire to further research the implications of the proposed classification and measurement requirements on financial liability measurement. In addition, the IASB noted that a number of constituents that commented on the discussion paper on Credit Risk in Liability Measurement commented on the inappropriateness of measuring liabilities at fair value and including own credit risk in such a measure. The IASB plans to address the appropriate accounting for

financial liabilities as soon as the Standard that replaces the classification and measurement requirements for financial assets is issued. The consequences of this decision will be that entities that early adopt will be required to apply the existing requirements of IAS 39 for financial liabilities in the short-term – allowing the use of the three fair value options available in IAS 39 for financial liabilities and the bifurcation of embedded derivatives with financial liability hosts;

- (b) a Standard for phase I of the project is expected to be issued in November 2009 that can be early adopted for periods ending on or after 31 December 2009 and a mandatory application date of 1 January 2013;
- (c) the Exposure Draft on phase II of the IASB's project to replace IAS 39 – Impairment of financial assets using an expected loss model – is expected to be issued in November 2009, with an eight-month comment period;
- (d) the proposed mandatory application date for all three phases of the project to replace IAS 39 is expected to be approximately 3 years after the Standard is finalised to allow constituents to become familiar with the new requirements and to allow for any system changes that may be required; and
- (e) the Financial Instruments Project Advisory Panel (formed by the AASB) will be utilised in considering the proposals in the Exposure Drafts on Impairment (phase II) and Hedging (phase III) of the project to replace IAS 39.

Staff will closely monitor the IASB meetings and decisions made and continue to provide feedback to the Boards on the progress of the phases of the IASB's project.

Action: Staff

Work Program

Agenda Item 11

The Boards had before them:

- (a) a memorandum from Robert Keys and Patricia McBride dated 14 October 2009 (Agenda paper 11.1);
- (b) a working draft outline of a possible AASB/FRSB joint work plan (Agenda paper 11.2);
- (c) AASB Work Program prepared August 2009 (Agenda paper 11.3); and
- (d) FRSB Work Plan for the FRSB meeting on 15 October 2009 (Agenda paper 11.4).

In considering the extent to which the Boards could, and would wish to, work as a single Board and develop closer working arrangements between the respective staff, the Boards considered a range of issues, including:

- (a) the appropriateness of having the same individuals as members of both the AASB and FRSB;
- (b) the previous experience of Australia having separate Boards for private sector entities and public sector entities;
- (c) the extent to which working through sub-committees comprising members from both Boards might enhance joint working;
- (d) whether it would be appropriate for the Boards to set strategy in respect of a project and then rely on the staff and a sub-committee to undertake the detailed work;
- (e) whether all projects should be conducted jointly, and/or whether the nature of the working arrangements should be on a case-by-case basis;

- (f) the extent to which one Board could rely on work undertaken by the other Board (or a sub-committee) and still fulfil its statutory responsibilities;
- (g) whether more joint meetings (whether face-to-face or by electronic means) would assist in improving the joint working arrangements;
- (h) whether the limited amount of time available from Board members could be better utilised by, for example, changing the way projects derived from the IASB are handled, to free up time for domestic projects but still allowing Board members to consider any submissions from constituents;
- (i) the reaction from constituents in Australia and New Zealand if they felt that they had a diminished relationship with their domestic Board; and
- (j) the possibility of joint projects resulting in common outputs, such as common Exposure Drafts and Standards.

The Boards decided to:

- (a) raise the issue of common membership of the two Boards at the next meeting of TTAASAG;
- (b) establish a joint subcommittee with four AASB members (Chairman, Mr Appleyard, Mr Palmer, and Mr Porter) and four FRSB members (Chairman, Ms Crook, Ms Hodgkins, and Mr Todd) to develop draft proposals for the Boards to consider at a future meeting. The issues would include, but not be limited to, how the Boards might develop joint strategies, Board membership and operating protocols, including consideration of how joint sub-committees established on a project-by-project basis might assist the Boards in progressing a joint agenda;
- (c) seek the views of members of the IASB as to the relative impact a joint comment letter from the Boards might have compared with separate comment letters from each Board; and
- (d) move to three joint meetings in 2010, with a minimum of one face-to-face meeting and others possibly by videoconference.

Action:

AASB

Staff

Chairman

Mr Appleyard

Mr Palmer

Mr Porter

FRSB

Staff

Chairman

Ms Crook

Ms Hodgkins

Mr Todd

Other Business

AOSSG MEMORANDUM OF UNDERSTANDING

The Boards had before them:

- (a) a memorandum from Angus Thomson dated 22 October 2009 (with no agenda paper number);
- (b) draft Memorandum of Understanding on Asian Oceanian Standards Setters Group (AOSSG) (with no agenda paper number); and

- (c) a press release from the Malaysian Accounting Standards Board, hosts of the first AOSSG meeting (with no agenda paper number).

The Boards noted that the first meeting of the Asian Oceanian Standards Setters Group will be held next week and the draft AOSSG MoU is being considered. The Boards discussed the risks and benefits associated with the Board Chairs signing the MoU.

The Boards agreed that, if an opportunity arose, staff should caution the organisers of the meeting (the Malaysian Accounting Standards Board) about any implications that might be drawn from the Chairs signing on behalf of their Boards.

Action:

Staff

Close of Meeting

The Chairs closed the meeting at 12.30 p.m. on Thursday 29 October 2009.

AASB only meeting

Improvements to IFRS

Agenda Item 1

The Board had before it:

- (a) a memorandum from Raymond Yu dated 14 October 2009 (Agenda paper 1.1);
- (b) AASB draft submission for Exposure Draft ED/2009/11 Improvements to IFRSs (Agenda paper 1.2); and
- (c) AASB ED 188 Improvements to IFRSs (Agenda paper 1.3).

The AASB agreed with the draft submission subject to the following comments:

- (a) in relation to the general comments in the covering letter, insert a comment to illustrate issues that the AASB considers should be addressed in future improvements;
- (b) in relation to question 1:
 - (i) delete the comments on proposed amendments to paragraph 19 of IFRS 3 *Business Combinations*; and
 - (ii) amend the comment on proposed amendments to paragraph 38 of IAS 27 *Consolidated and Separate Financial Statements*, to highlight that the proposed amendment to paragraph 38 of IAS 27 needs to be clarified to ensure that it does not restrict the use of cost for investments in subsidiaries in separate financial statements to the circumstances outlined in IAS 39 – that is, only when they do not have a quoted market price and whose fair value cannot be reliably measured; and
- (c) in relation to question 3, regarding proposed changes to IAS 34, strengthen the last paragraph to note that the IASB should adhere to the existing disclosure principle (that is, that significant changes from the previous annual financial statements should be shown) instead of mandating disclosures.

The Board agreed that the submission to the IASB should be amended for the above comments and finalised with the review of the Chairman.

Action:

Staff
Chairman

Other Business

Agenda Item 2

The Board had before it:

- (a) FRSB *Alert* – Summary as at 20 September 2009 (Agenda paper 2.1);
- (b) a letter from Don Challen, HoTARAC dated 25 September 2009 to Kevin Stevenson, AASB Chairman re Process for Trans-Tasman Co-operation and response from Kevin Stevenson dated 7 October 2009 (Agenda paper 2.2);
- (c) IASB Post-employment Benefits Project *Feedback on information about the Accumulated Benefit Obligation* (Agenda paper 2.3);
- (d) IASB *Updates* dated 29 September 2009 and 6 October 2009 (Agenda paper 2.4);
- (e) a letter from Kevin Stevenson, AASB Chairman to David Tweedie, IASB Chairman dated 2 October 2009 re AASB comments on IASB ED/2009/5 *Fair Value Measurement* (Agenda paper 2.5);
- (f) a letter from Kevin Stevenson, AASB Chairman to David Tweedie, IASB Chairman dated 30 September 2009 re AASB comments on IASB ED/2009/10 *Discount Rate for Employee Benefits* (Agenda paper 2.6);
- (g) a letter from Kevin Stevenson, AASB Chairman to David Tweedie, IASB Chairman dated 2 October 2009 re IFRIC Draft Interpretation D25 *Extinguishing Financial Liabilities with Equity Instruments* (Agenda paper 2.7); and
- (h) IPSASB Report, September 2009 (Agenda paper 2.8).

The Board noted the correspondence.

Differential Reporting

The Board had before it a memorandum from Ahmad Hamidi dated 21 October 2009 (Agenda paper 2.9 - tabled)

The Board discussed alternative timelines for the completion of the reduced disclosure regime and decided that:

- (a) the Consultative Paper on the reduced disclosure regime should be published in November 2009; and
- (b) staff should prepare an exposure draft of the reduced disclosure regime during the Consultative Paper's exposure period and consider posting the components of the exposure draft on the AASB website as each component is completed.

The Board noted that:

- (a) the objective is to have constituents' views on the exposure draft shortly after the deadline for comment on the Consultative Paper expires provided the Board decides to go ahead with the establishment of a reduced disclosure regime based on responses received; and
- (b) the progressive posting of components of the exposure draft on the AASB website would provide constituents with the required time to comment and would enable the staff and the Board to move to the next stage of finalising and approving a pronouncement for possible publication by mid-2010.

The Board also discussed and clarified some issues arising out of final Board review comments, including comments relating to the types of entities in the not-for-profit private and public sectors that should be required to report at tier one level and asked staff to amend the draft Consultative Paper accordingly.

Action: Staff

IASCF Constitution Review

Agenda Item 3

The Board had before it:

- (a) a memorandum from Joanna Spencer and Chris Pang dated 9 October 2009 (Agenda paper 3.1);
- (b) Draft AASB submission on IASC Foundation discussion document *Part 2 of the Constitution Review – Proposals for Enhanced Public Accountability* (Agenda paper 3.2)
- (c) IASC Foundation discussion document *Part 2 of the Constitution Review – Proposals for Enhanced Public Accountability* (Agenda paper 3.3); and
- (d) AASB submission on IASC Foundation consultation document *Review of the Constitution – Identifying Issues for Part 2 of the Review* (Agenda paper 3.4).

The Board considered Agenda paper 3.2 and decided to amend:

- (a) the second last paragraph of the covering letter to:
 - (i) express in a more concise way the view relating to the desire to have the IASB to address not-for-profit and public sector issues as a longer term aspiration and co-operate with the IPSASB;
 - (ii) suggest that the Constitution be amended to clarify the meaning of 'capital markets';
- (b) the response to question 5 on recognising the participation of Trustees from Africa and South America to suggest that the Constitution be amended to clarify how the proposal could be operationalised; and
- (d) the response to question 8 on the IASB's liaison with other organisations to suggest that, at a minimum, section 28 of the Constitution should make reference to the IPSASB in the context of Question 3.

After the draft submission is amended to reflect the above decisions, it should be finalised with the review of the Chairman.

Action: Staff
Chairman

GAAP/GFS Harmonisation

Agenda Item 4

The Board had before it:

- (a) a memorandum from Robert Keys, dated 14 October 2009 (Agenda paper 4.1);
- (b) an issues paper: *GAAP/GFS Harmonisation for Entities within the GGS, the Next Step* (Agenda paper 4.2); and

- (c) a letter from the Minister for Finance and Deregulation to the AASB Chairman (received at the AASB offices on 24 September 2009); and a reply from the AASB Chairman dated 28 September 2009 (Agenda paper 4.3).

The Board considered arguments for and against proceeding with GAAP/GFS harmonisation for entities within the GGS based 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]*, and discussed alternative ways to proceed.

The Board decided to proceed with the proposals in ED 174 by developing them into non-mandatory guidance, which will include an illustrative example, that could be used if a jurisdiction/entity elects to present GAAP/GFS harmonised general purpose financial statements. The guidance will be based on the proposals in ED 174, amended to reflect the decisions the Board made in June 2009 after reviewing constituents' comments, and subsequent staff work, and therefore be consistent with existing GAAP (and in particular AASB 101 *Presentation of Financial Statements*).

The Board noted that this approach:

- (a) is consistent with a view that the arguments relating to splitting income and expenses between transactions and other economic flows are not only pertinent in a public sector context;
- (b) could help facilitate comparability within and across jurisdictions, which is one of the desired outcomes of the project, while allowing jurisdictions to make their own cost/benefit assessment having regard to user needs;
- (c) would allow jurisdictions to establish their own policies within the existing Standards, exercising judgement; and
- (d) makes efficient use of the work on the project to-date, whilst avoiding pre-empting work currently underway on the Board's broader project on the presentation of financial statements.

The Board directed staff to develop the guidance out-of-session, using minimal staff resources and without further Board time. The guidance should be consistent with existing GAAP and should not be updated as GAAP or GFS changes.

The Board also decided that a report should be sent to the FRC to inform it of the AASB's progress on the GAAP/GFS Harmonisation project.

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| Action: | Staff Chairman |
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Apologies, Agenda, Minutes, Matters Arising from Minutes and Declaration of Interests

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 confirmed the minutes of the one-hundred and first meeting held on 23-24 September 2009.

Chairman's Report

The Board had before it a memorandum from Kevin Stevenson dated 14 October 2009 (Agenda paper 5.1).

The Board approved the AASB's *Policy on submissions made to the AASB (including formal and confidential submissions)*.

Close of Meeting

The Chairman closed the meeting at 3.40 p.m. on Thursday 29 October 2009.

Approval

Signed by the Chairman as a correct record
this 9th day of December 2009

Attachment A

Insurance Contracts

Following are the implications of the IASB's decisions to date regarding measurement of insurance liabilities under Australian and New Zealand Accounting Standards.

- (a) the same measurement model would apply to all types of insurance contracts, including life and general insurance, direct insurance and reinsurance;
- (b) costs incurred by an insurer in acquiring an insurance contract would be expensed when incurred and the part of the premium that recovers incremental acquisition costs would be recognised as revenue on inception of the contract;
- (c) under an approach based on an amended IAS 37:
 - (i) insurance obligations would include, when applicable, a service margin based on the profit a contractor would require for undertaking the service or, if there is no efficient market for such services, the profit the insurer would itself require to provide such services;
 - (ii) any difference at the inception of an insurance contract between the net premium amount and the building blocks of the outflows composing the insurance obligation ('residual margin') would be:
 - (A) 'locked in' at inception and therefore not adjusted in subsequent reporting periods for changes in inputs for estimates of future cash flows; and
 - (B) released to profit or loss over the period during which the insurer is standing ready to accept valid claims (the coverage period);
- (d) under a current fulfilment value approach that includes a composite margin:
 - (i) a risk margin would not be separately calculated;
 - (ii) the composite margin would be:
 - (A) 'locked in' at inception and therefore not adjusted in subsequent reporting periods for changes in inputs for estimates of future cash flows; and
 - (B) released to profit or loss over a period that includes the claims handling period;
- (e) all remeasurement changes in respect of the expected present value of future cash flows would be recognised in profit or loss in the period in which the changes occur;
- (f) the discount rate for an insurance liability would conceptually adjust estimated future cash flows for the time value of money in a way that captures the characteristics of that liability; and
- (g) pre-claims liabilities that have not been subject to a liability adequacy test would be required (rather than permitted) to be measured in accordance with an unearned premium approach.

The Boards made no decisions in relation to these matters at this meeting, and agreed that they should continue to monitor the IASB's decisions in relation to insurance contracts, actively promote discussion of the forthcoming IASB ED, and make comment thereon.