



Subject: Minutes of the 103rd meeting of the AASB

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

Time(s): Wednesday 9 December 2009 from 9.00 a.m. to 5.15 p.m.
Thursday 10 December 2009 from 8.45 a.m. to 3.30 p.m.

All agenda items except item 19 were discussed in public.

Attendance

Members	Kevin Stevenson (Chairman) Glenn Appleyard Sue Highland Mark Jenkin Ian McPhee John O'Grady Frank Palmer Kris Peach Joanna Perry Bruce Porter Brett Rix (Day 2) Robert Williams
Apologies	Brett Rix (Day 1) Victor Clark
Staff	Dean Arden (in part) Natalie Batsakis (in part) Maybelle Chia (in part) Daping Gao (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
In Attendance	Bryan Howieson – Consultant (in part, Item 13) Jeffrey Lucy – FRC Chairman (in part, Item 20)

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 second meeting held on 28-29 October 2009.

Chairman's Report

Agenda Item 2

The Chairman:

- (a) tabled, for member's information, a communications report outlining the liaison between staff and external parties, AASB media coverage and AASB website activity;
- (b) informed the Board of a meeting between himself, Bruce Porter and EU Commissioner, Charlie McCreevy; and
- (c) gave an overview of the work undertaken over the past six months which revealed that approximately 30% of resources were spent on public sector specific issues, 60-65% of resources dealt with issues common to both the public and private sectors and the remaining 5-10% of resources were allocated to private sector specific issues.

AOSSG Update

Agenda Item 3

The Board received an update on the first Asian-Oceanian Standard Setters Group (AOSSG) meeting which took place in Kuala Lumpur, Malaysia in November 2009. The purpose of the AOSSG is to strengthen relationships between standard setters in the region and to share views on developments in IASB projects. The Board was informed that Australia and New Zealand are likely to participate in all the active projects and is taking the lead on Financial Instruments and De-recognition.

Differential Reporting

Agenda Item 4

The Board had before it:

- (a) a memorandum from Ahmad Hamidi and Angus Thomson dated 29 November 2009 (Agenda paper 4.1); and
- (b) examples of components of a pending Exposure Draft (Agenda paper 4.2).

The AASB noted that the AASB Consultation Paper Differential Financial Reporting – Reducing Disclosure Requirements issued on 4 December 2009 notes that:

“In releasing this Consultation Paper, the AASB is taking the approach of exposing a proposed reduced disclosure regime for comment and, as soon as possible afterwards, a forthcoming Exposure Draft showing how the regime is intended to apply. If the proposed regime is

adopted, the AASB would hope to be able to issue a final pronouncement before the end of June 2010 and to allow early adoption. It is the prospect of early application that is driving this consultation approach. However, it must be stressed that the AASB is open to alternative views. If the consultation process leads to an alternative approach, it may be that more due process will be needed and a different time scale adopted.”

At this meeting, the Board considered a time-line for issuing the ED by February 2010. The Board decided that draft components of the ED — which includes proposed reduced disclosures — should be posted progressively on the AASB website during December 2009 and January 2010 to provide constituents with details of the proposed reduced disclosure regime when commenting on the Consultation Paper.

The Board decided that the closing date for comments on the Consultation Paper should be announced once the Board is comfortable with all the components of the ED posted on the AASB website. A minimum two-month comment period is envisaged from that date.

The Board agreed that all members would review the draft ED, including the proposed reduced disclosures, out of session.

A sub-committee was formed to coordinate harmonisation of the second Tier requirements for for-profit private sector entities between Australia and NZ. The members for Australia are Ms Highland, Ms Peach and Mr Porter. The NZ Chair undertook to organise the NZ members of the sub-committee.

Action: Staff
Members

Management Commentary

Agenda Item 5

The Board had before it:

- (a) a memorandum from Siva Sivanantham dated 20 November 2009 (Agenda paper 5.1);
- (b) Presentation Slides: Management Commentary (Agenda paper 5.2); and
- (c) AASB ED 183 *Management Commentary* (Agenda paper 5.3).

The Board received an education session on the IASB Exposure Draft ED 2009/6 *Management Commentary*, noting that the ED proposes a non-binding framework for the preparation and presentation of management commentary. The proposed guidance would not result in an IFRS, and therefore an entity would not have to comply with the guidance in order to be able assert compliance with IFRSs.

The Board acknowledged that, in the Australian context, there are existing requirements of the *Corporations Act 2001* and the Australian Stock Exchange (ASX) Listing Rules in relation to management commentary. In addition, the Group of 100 (G100) has published best practice guidance entitled *Guide to Review of Operations and Financial Condition* that has been reproduced in ASX Guidance Note 10. The Board also noted that the principles being developed by the IASB might be useful in a public sector context and form a basis for improving management commentary type practices in the public sector.

It was generally agreed that the Board should continue to be involved with this project and comment on the IASB ED. The Board noted that it will consider at its February 2010 meeting:

- (a) a comparison of the principles in the G100 guidance with the ED proposals to help the Board assess whether the proposals have the potential to improve current practice;
- (b) constituent comments on AASB ED 183 *Management Commentary* (which incorporates IASB ED 2009/6). In that regard, the Board directed staff to explicitly bring the ED to the attention of constituents who are likely to be most interested in the topic, such as the Institute of Public Administration, HoTARAC, ASX and G100; and

- (c) a draft submission to the IASB.

Action:

Staff

Superannuation

Agenda Item 6

The Board had before it:

- (a) a memorandum from Dean Ardern dated 20 November 2009 (Agenda paper 6.1);
- (b) an issues paper that discussed staffs' analysis and proposals in relation to the written comments received on ED 179 *Superannuation Plans and Approved Deposit Funds* (Agenda paper 6.2);
- (c) a collation of respondents' written comments on ED 179 *Superannuation Plans and Approved Deposit Funds* (Agenda paper 6.3);
- (d) a proposed timetable for completion of a draft replacement Standard for AAS 25 *Financial Reporting by Superannuation Plans* (Agenda paper 6.4); and
- (e) copies of respondents' written submission on ED 179 *Superannuation Plans and Approved Deposit Funds* (Agenda paper 6.5).

The Board considered Agenda Paper 6.2 and tentatively decided that the replacement Standard for AAS 25 should:

- (a) in contrast to the proposal in ED 179, require the carrying amounts of assets and liabilities measured at fair value to be unadjusted for transaction (anticipated selling) costs. The Board also tentatively decided that:
 - (i) consistent with ED 179, a superannuation plan or approved deposit fund should account for costs attributable to the acquisition or issue of an asset or liability in accordance with the relevant Australian Accounting Standard;
 - (ii) consistent with ED 179, a plan or fund should determine the fair value of an asset or liability in accordance with the forthcoming Fair Value Measurement Standard;
 - (iii) the Basis for Conclusions to the replacement Standard should reflect the developments in the fair value measurement literature since the publication of ED 179; and
 - (iv) the replacement Standard should clarify that a plan or fund that applies the Standard is not permitted to apply AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*;
- (b) consistent with the proposals in ED 179, recognise obligations for defined contribution members' vested benefits and defined benefit members' accrued benefits as liabilities;
- (c) in contrast to the proposal in ED 179, identify the overriding measurement objective for defined benefit obligations as fair value, noting it is likely to be a level 3 measurement whereby obligations for defined benefit members' accrued benefits would be measured in accordance with the (unmodified) approach under AASB 119 *Employee Benefits* for defined benefit obligations;
- (d) consistent with the proposal in ED 179, require a superannuation plan or approved deposit fund that reinsures some or all of the insurance arrangements that it provides to its members with an external insurer to account for such arrangements in accordance with the principles and requirements applicable to life insurance contracts under AASB 1038 *Life Insurance Contracts*;
- (e) consistent with the proposal in ED 179, require a plan or fund to present any difference between its total assets and its total liabilities (including defined contribution member's vested benefits, defined

benefit members' accrued benefits and any obligations to employer sponsors) as equity in accordance with applicable Australian Accounting Standards;

- (f) consistent with the proposal in ED 179, not provide additional guidance in respect of applying the concept of control in a superannuation context. Accordingly, the Board affirmed that the replacement Standard should require a parent superannuation plan or parent approved deposit fund to apply the concept of control as defined in Australian Accounting Standards to identify its subsidiaries; and
- (g) consistent with the proposal in ED 179, require a parent superannuation plan or parent approved deposit fund to prepare and present consolidated financial statements. However, in contrast to the proposal in ED 179, the consolidated financial statements should be prepared in accordance with AASB 3 *Business Combinations* and AASB 127 *Consolidated and Separate Financial Statements*, although the Board affirmed that all recognised assets and liabilities except for:
 - (i) tax assets and tax liabilities;
 - (ii) obligations for defined contribution members' benefits;
 - (iii) assets and liabilities arising from insurance contracts issued by a plan or fund; and
 - (iv) goodwill,

should be measured at their fair values at the end of each reporting period. Accordingly, in preparing a set of consolidated financial statements under the replacement Standard, a parent plan or parent fund would, for instance:

- (v) recognise all of the identifiable but not recognised assets and liabilities of a subsidiary at the subsidiary's acquisition date;
- (vi) recognise all of the assets and liabilities recognised by the subsidiary at the end of the reporting period in accordance with Australian Accounting Standards;
- (vii) measure non-controlling interests in accordance with paragraph 19 of AASB 3 at the subsidiary's acquisition date and in accordance with paragraph 18 of AASB 127 at the end of each subsequent reporting period;
- (viii) measure goodwill in accordance with paragraph 32 of AASB 3;
- (ix) not recognise any internally generated intangible assets, internally generated goodwill, contingent assets or contingent liabilities that are attributable to a subsidiary and have arisen subsequent to the subsidiary's acquisition by the parent; and
- (x) measure all assets and liabilities except for those described in (i) – (iv) above at their fair values at the end of each reporting period.

In addition, the Board decided to give further consideration to a number of matters, including:

- (a) the implications of measuring any obligations to defined benefit members arising from insurance arrangements under the approach in AASB 119 for measuring defined benefit obligations;
- (b) how any difference between the fair value of a subsidiary and the carrying amount of the net assets of the subsidiary that would be recognised by the parent plan or fund in the consolidated financial statements might be disclosed by the parent, whether or not there is a non-controlling interest in the subsidiary; and
- (c) the outcomes from the Australian Prudential Regulation Authority's (APRA) enhanced superannuation statistics collections proposals in respect of sub-fund information, and whether the

principles and guidance in respect of segregated financial disclosures should be aligned with the anticipated prudential reporting requirements in respect of sub-fund information.

The Board also decided that:

- (a) financial reporting by superannuation entities should be a topic of discussion with the FRSB in the context of convergence between Australian and New Zealand Accounting Standards;
- (b) staff should consult further with constituents to determine the nature and likely magnitude of the costs a plan or fund might incur in applying the principles and requirements applicable to life insurance contracts under AASB 1038; and
- (c) staff should consider whether paragraph BC41 in the Basis for Conclusions to ED 179 might be expressed more clearly.

The Board noted the respondents' comments regarding the proposal in the IASB's Discussion Paper *Preliminary Views on Amendments to IAS 19* that a 'higher of' benefit option be accounted for separately from the 'host' defined benefit promise and measured at its fair value assuming the terms of the benefit promise will not change. The Board agreed that this input from constituents should be used in responding to any future IASB proposals in relation to 'higher of' benefits.

The Board will continue its deliberations on ED 179 at its February 2010 meeting, including the disclosure principles that should be prescribed, example financial statements and other issues raised by respondents.

Action:

Staff

IAS 24 Related Party Disclosures

Agenda Item 7

The Board had before it:

- (a) a memorandum from Raymond Yu dated 25 November 2009 (Agenda paper 7.1);
- (b) draft revised AASB 124 *Related Party Disclosures* (Agenda paper 7.2);
- (c) draft amending standard AASB 2009-X *Amendments to Australian Accounting Standards* [AASB 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023, & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (Agenda paper 7.3);
- (d) IAS 24 *Related Party Disclosures* (issued November 2009) (Agenda paper 7.4); and
- (e) a paper entitled 'DRAFT Revised AASB 124 *Related Party Disclosures* – Consequential amendments to Aus paragraphs' (Agenda paper 7.5).

The Board reviewed the agenda papers and decided to:

- (a) make revised AASB 124, with clarification of the reference to related parties of a key management person in paragraphs Aus29.7.3 to Aus 29.8, Aus29.9 and Aus29.9.3 by replacing the phrase "including their related parties" with a phrase that refers directly to a close member of the family of a key management person, or an entity over which either of these persons has, directly or indirectly, control, joint control or significant influence. This clarification is needed as a consequence of the changes to the definition of 'related party'. The Board decided that it is not necessary to explicitly refer to paragraph 18 in paragraph 28 (which addresses early application) of revised AASB 124 given that the reference to paragraphs 25 – 27 in paragraph 28 implicitly includes a reference to paragraph 18 and the Board's policy of adopting IFRSs verbatim unless it is obvious that a change should be made; and

- (b) make AASB 2009-12 *Amendments to Australian Accounting Standards* [AASB 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023, & 1031 and Interpretations 2, 4, 16, 1039 & 1052].

The standards are to be cleared through the Chairman before being posted on the AASB website.

Action: Staff
Chairman

IPSASB – Long-term Sustainability of Public Finance

Agenda Item 8

The Board had before it:

- (a) a memorandum from Jim Paul dated 26 November 2009 (Agenda Paper 8.1);
- (b) a staff note on IPSASB Consultation Paper *Reporting on the Long-Term Fiscal Sustainability of Public Finances* (Agenda Paper 8.2); and
- (c) a copy of the IPSASB Consultation Paper (Agenda Paper 8.3).

The Board discussed the nature of the due process it should undertake in response to the IPSASB Consultation Paper, which was issued by the IPSASB on 24 November 2009 for comment by 30 April 2010.

The IPSASB's preliminary view is that it should develop guidance on recommended practice for reporting by governments on the long-term fiscal sustainability of public finances in general purpose financial reports, either in additional statements to their financial statements or in narrative reporting. The IPSASB does not propose developing a Standard on this topic.

The Board decided:

- (a) to make a submission on the IPSASB Consultation Paper;
- (b) to issue an Invitation to Comment (ITC) on the IPSASB Consultation Paper, jointly with the New Zealand FRSB;
- (c) to indicate in the ITC that:
- (i) its purpose is to elicit comments that will assist the Board in participating in the international debate and developing its thinking on this topic; and
 - (ii) issuing an ITC does not signify that the Board will necessarily develop recommendations or requirements on this topic;
- (d) that, in relation to (c), the Preface to the ITC should also say:
- (i) the Board considers this is a potentially significant topic for governments and various other public sector reporting entities (although not necessarily only for public sector entities);
 - (ii) the Board has not yet deliberated the issues discussed in the Paper and does not know what future due process steps will be taken by the IPSASB;
 - (iii) the Board is not yet in a position to indicate whether the IPSASB's proposals would fall within the scope of GPFs;
 - (iv) the IASB has issued Exposure Draft ED/2009/6 *Management Commentary*, which is open for comment until 1 March 2010 and contains proposals that might be considered broadly consistent with reporting information about long-term fiscal sustainability within management commentary (which the IASB regards as a form of general purpose financial report);

- (a) Approach 1: Fair value measurement of financial liabilities with separate presentation in other comprehensive income of fair value changes arising from changes in own credit risk where the entity holds the financial liability and its business objective is to pay contractual cash flows (that is, the financial liability meets paragraph 4.2(a) of IFRS 9 *Financial Instruments* but not paragraph 4.3(b) of IFRS 9);
- (b) Approach 2: An adjusted fair value measurement method (or 'frozen credit spread' measurement method) – that is, incorporate own credit risk only on initial measurement and subsequently measure particular financial liabilities at an adjusted fair value that excludes changes in own credit risk;
- (c) Approach 3: Bifurcation in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* or assess a hybrid contract with a financial liability host in accordance with the criteria in IFRS 9. For those hybrids that do not meet the criteria for amortised cost, determine whether any component of the hybrid contract is eligible for amortised cost; and
- (d) Approach 4: Presentation of fair value information on the face of the balance sheet in addition to the amortised cost of some liabilities.

These approaches will also be considered by the IASB at its December 2009 meeting, along with proposals to amend the hedging requirements. The Board noted that the financial instruments project is still expected to be completed by the end of 2010.

Action: Staff

Interpretations

Agenda Item 11

The Board had before it:

- (a) a memorandum from Joanna Spencer dated 20 November 2009 (Agenda paper 11.1);
- (b) a paper: Interpretation issues in progress (IFRIC and domestic topics as at 20 November 2009) (Agenda paper 11.2);
- (c) a memorandum from Joanna Spencer dated 20 November 2009 (Agenda paper 11.3); and
- (d) *IFRIC Update* November 2009 (Agenda paper 11.3.1).

The Board noted the international and domestic interpretation issues in progress as well as the IFRIC's tentative and final agenda decisions that arose out of the November 2009 IFRIC meeting. The Board was also informed the IASB had issued Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments and Prepayments of a Minimum Funding Requirement* – Amendments to IFRIC 14 and that AASB staff are aiming to have these approved for use by December 2009 year end.

Action: Staff

Service Performance Reporting by Private Sector Not-for-profit Entities

Agenda Item 12

The Board had before it:

- (a) a memorandum from Robert Keys, Joanne Scott, Jessica Lion, Daping Gao and Maybelle Chia dated 25 November 2009 (Agenda paper 12.1);
- (b) Paper 4: A constraining principle for service performance reporting (Agenda paper 12.2);
- (c) Paper 5: Applying the AASB/FRSB *Process for Modifying IFRSs for PBE/NFP to Service Performance Reporting by Private Sector Not-for-profit Entities* (Agenda paper 12.3);

- (d) Draft AASB/FRSB joint project plan: service performance reporting (Agenda paper 12.4); and
- (e) A list of Project Advisory Panel members (Agenda paper 12.5).

The Board considered Agenda paper 12.2 together with comments made by the Project Advisory Panel members on an earlier draft of that paper. For the purpose of progressing the project, the Board decided to:

- (a) continue its work on service performance reporting even though the Conceptual Framework project has not yet addressed the broader questions of the scope of general purpose financial statements and financial reporting. However, this project will monitor developments in the Conceptual Framework project; and
- (b) adopt a principle for constraining the type of information that the Board would consider requiring in service performance reports as: 'service performance information that relates to an entity's principal objectives'. The Board decided:
 - (i) that it will not prescribe whether the information to be disclosed is to be constrained based on being financial or non-financial, but the information could be constrained by the non-financial principal objectives and their financial implications; and
 - (ii) at a future meeting, it will consider the implications of that principle for matters such as the measurability and auditability of information that might be included in service performance reports, and the suitability of alternative approaches (including through-the-eyes-of-management; whatever is externally reported ex ante; or information based on an entity's constituting documents) to identify such information.

The Board noted that the effectiveness of it adopting such a constraining principle compared with other possible constraining principles will become apparent as work proceeds and examples of SPR under such principles are considered. The Board also noted that the overall objective of SPR might impact on the effectiveness of the constraining principle. For example, if the objective is for better practice, a wider constraining principle might be warranted compared with an objective of including SPR information in financial statements.

The Board also considered Agenda paper 12.3 on whether the scope of the project should be broadened to include for-profit entities, in light of its *Process for Modifying IFRSs for PBE/NFP*. The Board observed that the principal objectives of not-for-profit entities and the needs of users in relation to those objectives are potentially different from the principal objectives of for-profit entities and their related users' needs. Accordingly, the Board decided that the current project should not include for-profit entities within its scope. Consistent with the *Process*, in developing any requirements, regard will be had to the Conceptual Framework, other national standard setters' work and Australian/New Zealand practice. The Board noted its October 2009 decision to, at this stage, focus on private sector not-for-profit entities, with a view to developing principles that can be considered in due course for the not-for-profit public sector.

The Board then proceeded to consider a draft FRSB/AASB joint project plan in Agenda paper 12.4 and agreed that work should be undertaken jointly. The Board:

- (a) noted that the implications of its Differential Reporting project would need to be considered for service performance reports;
- (b) decided to consider issues relating to Key Performance Indicators, budgets and future oriented information, explanations of variances, volunteer services and costs, activity based costing and sensitivity analysis under section 7.7 'Principles of service performance reporting' in addition to the principles listed;
- (c) decided that consideration should be given to the extent to which measurement issues need to be addressed as part of this project; and

- (d) decided to form a joint subcommittee that will undertake a substantial amount of the review function and preliminary decision making, with the Boards being kept informed of progress throughout. The joint subcommittee will comprise three members from each Board. The AASB members are Mr Stevenson, Mr Appleyard and Mr McPhee and, at this stage, Ms Perry for the FRSB.

The project plan amended for the above decisions, should be treated as a working document, to be amended, if necessary, as the project progresses.

Action:	Staff
	Mr Appleyard
	Mr McPhee
	Ms Perry
	Chairman

Control in the Public Sector

Agenda Item 13

The Board had before it:

- (a) a memorandum from Bryan Howieson and Robert Keys dated 26 November 2009 (Agenda paper13.1); and
- (b) a draft project proposal: Defining the Reporting Entity in the Not-for-Profit Public Sector (Agenda paper 13.2).

The Board considered the draft project proposal and decided that work should proceed along the following lines:

- (a) Phase 1: determine the extent of the issues and current practice
- (i) Part 1: identify the current issues arising from the application of control in the public sector. The issues should include the relationship of regulation to control; the relationship of state governments to local governments; administered items; the recognition of elements; the relationship of governments to universities; and special purpose entities in the public sector; and
- (ii) Part 2: identify approaches currently adopted for dealing with control in the public sector in jurisdictions with conceptual frameworks similar to that in Australia. This should include a description of how the IPSASB deals with the concept of control in IPSAS 6 *Consolidated and Separate Financial Statements*; and
- (b) Phase 2: the definition of control
- (i) Part 1: assess the existing definition of control in AASB 127 *Consolidated and Separate Financial Statements* against the issues identified in Part 1 of Phase 1 and, having regard to the approaches identified in Part 2 of Phase 1, consider whether there is a need to amend the definition of control and/or supplement the definition with additional guidance in a public sector context; and
- (ii) Part 2: assess the definition of control being developed by the IASB from its ED 10 *Consolidated Financial Statements* against the issues identified in the same way as noted in Part 1 of Phase 2.

The Board noted that further phases of the project would be considered after outcomes of Phases 1 and 2 are known. A later phase might include, for example, consideration of whether control is an appropriate basis for identifying the boundaries of a reporting entity within a whole of government entity. This could be undertaken in the context of the disaggregation of a whole of government reporting entity, and might have implications for the current treatment of common control.

Action:

Staff
Consultant (Bryan Howieson)

Financial Instruments - Amortised Cost and Impairment

Agenda Item 14

The Board had before it:

- (a) a memorandum from Christina Ng, Sarah Bate and Daping Gao dated 25 November 2009 (Agenda paper 14.1);
- (b) IASB Exposure Draft ED/2009/12 *Amortised Cost and Impairment* (Agenda paper 14.2); and
- (c) a proposed project timeline (Agenda paper 14.3).

The Board considered high-level principles underlying the IASB ED *Financial Instruments: Amortised Cost and Impairment* (ED) and the proposed project timeline.

The Board expressed concern about the conceptual basis for the proposed measurement model for financial instruments measured at amortised cost, i.e. an expected cash flow approach that incorporates the assessment of expected credit losses, and the practical difficulties that may be encountered in its application. In particular, the Board considered:

- (a) whether the proposed measurement model approximates the way financial institutions and non-financial institutions might currently provide for bad debts;
- (b) methods of adaptation to the proposed measurement model and other measurement approaches that could be recommended to the IASB; and
- (c) the accounting treatment of subsequent gains to profit or loss when favourable changes to future cash flows are expected, even if no impairment loss was previously recognised.

The Board also discussed the appropriateness of some of the disclosures proposed in the ED for non-financial institutions and tentatively decided not to permit any differential reporting.

In addition, the Board noted that the IASB has formed an Expert Advisory Panel to advise it on how operational challenges from the proposed measurement model might be resolved and to assist in field testing of the model. Staff will continue to research the IASB's proposals, update the Board on related developments, and meet with constituents that may be impacted by the ED via meetings and roundtables in Melbourne and Sydney in March 2010.

Action:

Staff

Currency (notes and coins) on issue

Agenda Item 15

The Board had before it:

- (a) a memorandum from Maybelle Chia dated 25 November 2009 (Agenda paper 15.1); and
- (b) an issues paper: Currency (notes and coins) on issue (Agenda paper 15.2).

The Board had a preliminary discussion of some of the issues in Agenda paper 15.2 but did not express a view on the issues. The Board noted that the purpose of the discussion is to decide whether to undertake further work on the topic and the key issues to be resolved. During the discussion, the Board members made the following comments:

- (a) the issuance of currency is an obligation of the Australian Government to provide a service to the economy;
- (b) there is a need to determine the extent of the obligation that exists for the redemption of currency on issue. If there is an obligation for redemption under any circumstances, that could indicate the existence of a financial liability;
- (c) the obligation possibly only exists for notes that are not fit for circulation (not in good condition), rather than for all notes in circulation;
- (d) consideration should be given to the unearned income approach and the put option approach:
 - (i) a put option might originate from the guarantee of the condition of the note, whereby the holder of the note is able to redeem the note when the note condition falls below that required to be fit for circulation; whereas
 - (ii) unearned income might arise when notes first go into circulation but are expected to eventually fall below the accepted condition. Judgement would be required to determine when it would be appropriate to recognise income;
- (e) currency on issue could be regarded as analogous to a demand deposit, given that the Australian Government might be called upon to exchange currency in the form of notes and coins for currency in electronic form; and
- (f) there could be two ways to view money: inventory (no liability or income recognised) or investment.

Following the discussion, the Board decided that the project should proceed as a low priority and, in the first instance, staff should discuss the issues with the Reserve Bank of Australia. Mr McPhee offered to facilitate the discussion between AASB staff and the Reserve Bank of Australia.

It was noted that this issue could be related to other recognition and measurement issues that may well become more pressing.

Action:

Staff
Mr McPhee

IASB Update/Emerging Issues

Agenda item 16

The Board had before it:

- (a) IASB *Update* November 2009 (agenda paper 16.1);
- (b) a memorandum from Clive Brodie (FRSB) re leases dated 17 December 2009 (Agenda paper 16.2);
- (c) FRSB comment letter on IASB Discussion Paper *Leases: Preliminary Views* (Agenda paper 16.2.1);
- (d) a memorandum from Clive Brodie re Revenue Recognition dated 17 December 2009 (Agenda paper 16.3);
- (e) a memorandum from Joanna Spencer dated 25 November 2009 (Agenda paper 16.4); and
- (f) IASB staff paper 3A November 2009 *Accounting for the items in a voluntary scheme* (Agenda paper 16.4.1).

Leases

The Board received an update on current developments in the IASB project on leases. The Board decided to write to the IASB to express concern about some of its recent tentative decisions, including the following:

- (a) that any revaluations of 'right-of-use' assets should be accounted for under IAS 38 *Intangible Assets*, since IAS 38 has more restrictive criteria for the evidence of fair value necessary to support a revaluation than is contained in other IFRSs and in its ED *Fair Value Measurement*;
- (b) that the IASB has still not fully addressed the nature of the 'right-of-use' asset;
- (c) that the IASB has decided to allow revaluation of the 'right-of-use' asset in some situations but has decided to disallow the lease liability being held at fair value; and
- (d) that one of the main issues that the IASB needs to address is the basis for determining whether there has been a sale of the asset versus a lease.

Revenue Recognition

The Board discussed the tentative decisions of the IASB and FASB, and received an oral report on a recent meeting between staff members of the AASB and IASB on this project. The Board decided to continue to monitor project developments, in particular:

- (a) whether the IASB and FASB reaffirm their tentative decision that, in a contract with a customer, the transaction price should be allocated to segments of the contract rather than to individual performance obligations; and
- (b) if so, how contract segments are defined.

Emission Trading Schemes

The Board received an update on the tentative decisions made by the IASB and FASB at their November 2009 joint meeting in relation to Emissions Trading Schemes, in particular when a liability might be recognised under a voluntary scheme. The Board expressed concern with the IASB and FASB tentative decision that an entity should recognise a liability before the entity had made any emissions. The Board asked staff to convey the AASB's concerns to the IASB project staff and to continue to monitor the IASB's discussions on this project.

Action:

Staff

Issues in Practice/Work Program

Agenda Item 17

The Board had before it:

- (a) a memorandum from Angus Thomson and Robert Keys dated 25 November 2009 (Agenda paper 17.1);
- (b) AASB work program (November 2009) (Agenda paper 17.2);
- (c) AASB Approach to Public Sector Issues (November 2009) (Agenda paper 17.3);
- (d) 'Pipeline' document showing current and expected shortly IASB/IPSASB/NSS/IASCF documents open for comment, as at 25 November 2009 (Agenda paper 17.4);
- (e) letter from the Chairman of the Australasian Council of Auditors-General Financial Reporting and Auditing Committee to the AASB Chairman, dated 19 October 2009 (Agenda paper 17.5);

- (f) further letter from ACAG Committee, dated 18 November 2009, and reply from AASB Chairman dated 23 November 2009 (Agenda paper 17.6) and
- (g) letter from Secretary, Tasmanian Department of Treasury and Finance, to the AASB Chairman, dated 27 November 2009 (Tabled Agenda paper 17.7).

The Board considered the agenda papers and decided that:

- (a) it should consider its approach to public sector issues at its February 2010 meeting having regard to agenda papers 17.5 to 17.7;
- (b) the work program in agenda paper 17.2 should be amended to reflect the Board's decisions at this meeting and posted on the website as soon as possible after the meeting. The references to the AASB Approach to Public Sector Issues should remain in the work program, but should be accompanied by a note that indicates the Board is in the process of reviewing its approach; and
- (c) a letter should be sent to the IASB suggesting that, in relation to discounting (including discounting of employee benefits), consideration should be given to making current IFRS requirements consistent through an omnibus standard.

Action:

Staff

Other Business

Agenda Item 18

The Board had before it:

- (a) a letter from Rob Elliott, General Manager Policy, Australian Institute of Company Directors to Sir David Tweedie, IASB Chairman dated 6 October 2009 re Dividends from Investments in Equity Instruments (Agenda paper 18.1);
- (b) a letter from Kevin Stevenson, AASB Chairman to Ms Janet Lever, Director, Portfolio Coordination Unit Department of Finance and Deregulation dated 30 October 2009 re Key Management Personnel Disclosures (Agenda paper 18.2);
- (c) a letter from Kevin Stevenson, AASB Chairman to Sir David Tweedie, IASB Chairman dated 19 November 2009 re IASB ED 209/8 *Rate Regulated Activities* (Agenda paper 18.3);
- (d) a letter from PricewaterhouseCoopers to Sir David Tweedie, IASB Chairman dated 19 November 2009 re IASB ED 209-8 *Rate Regulated Activities* (Agenda paper 18.3.1);
- (e) a letter from Kevin Stevenson, AASB Chairman to Tamara Oyre, IASB, dated 20 November 2009 re AASB comment on the IASC Foundation Discussion Document *Part 2 of the Constitution Review – Proposals for Enhanced Public Accountability* (Agenda paper 18.4);
- (f) a letter from CPA Australia, ICAA and NIA to Tamara Oyre, IASB dated 30 November 2009 re IASCF Foundation Discussion Document *Part 2 of the Constitution Review – Proposals for Enhanced Public Accountability* (Agenda paper 18.4.1);
- (g) FRSB Alert by Vanessa Sealy-Fisher, Senior Project Manager – Accounting Standards (*Summary as at 11 & 18 November 2009*) (Agenda paper 18.5);
- (h) a letter from Kevin Stevenson, AASB Chairman to Mohammad Faiz Azmi, AOSSG Chairman dated 24 November 2009 (Agenda paper 18.6);
- (i) a letter from Jeffrey Lucy, FRC Chairman to The Hon Lindsay Tanner MP, Minister for Finance and Deregulation re GAAP/GFS Harmonisation for Entities within the GGS (Agenda paper 18.7);

- (d) the concern that, if a Standard were to be issued, it might come to be seen as a product of the Board, even if the accompanying Basis for Conclusions were to be written in a way that made it clear that the AASB was directed to issue the Standard by the FRC;
- (e) that the enhanced comparability that is argued to be a benefit of adopting ED 174, through the use of standard formats per se, is debatable given the different ways in which governments structure their administrative arrangements;
- (f) even if ED 174 (amended to reflect the tentative decisions of the Board made after reviewing the comments on ED 174) were adopted, it might be of limited use to users because of (e) above, and because it would not provide budgetary information; and
- (g) the lack of clarity about the scope of what constitutes broad strategic directions and concerns about the different due processes between the FRC and AASB (private vs public). In this context, the Board noted the difference between the standard setting regime in Australia and other jurisdictions where governance and standard setting roles have been clearly delineated.

The Board decided to consider the next step at its February 2010 meeting. To help facilitate discussions at that meeting, and to help bring the project to a conclusion, the Board directed staff to prepare:

- (a) a draft Standard that is based on ED 174, amended to reflect the tentative decisions the Board made after reviewing comments on ED 174 and the subsequent staff work on an illustrative example. At this stage, the Board has not concluded on the publication of that Standard;
- (b) a paper on the alternative approaches that could be employed in issuing a Standard;
- (c) a paper on the individual responsibilities of Board members in assessing the merits of a draft Standard that is developed in response to a strategic direction; and
- (d) any additional material that has become available since the Board discussed the matter at its October 2009 meeting that would be useful input to the Board making a decision on the next step.

In acknowledging the importance of the issues that have been highlighted by this particular project, the Board also directed staff to draft a paper for consideration at a future meeting on how governance and operational relationships might be improved from the perspective of the AASB's role.

Action:

Staff

Close of Meeting

The Chairman closed the meeting at 3.30 p.m. on Thursday 10 December 2009.

Approval

Signed by the Chairman as a correct record
this 3rd February 2010