



Subject: Minutes of the 118th meeting of the AASB
Venue: Ken Spencer Room, AASB offices
Level 7, 600 Bourke St, Melbourne
Time(s): Wednesday 13 July 2011 from 12.30 p.m. to 4.55 p.m.
Thursday 14 July 2011 from 8.30 a.m. to 3.06 p.m.

All agenda items except items 1, 11 and 21 were discussed in public.

Attendance

Members	Kevin Stevenson (Chairman) Ian McPhee (Deputy Chair) Kris Peach (Deputy Chair) Glenn Appleyard Victor Clarke Michele Embling Sue Highland Jayne Godfrey (day 1) John O'Grady (day 2) Brett Rix Roger Sexton Robert Williams
Apologies	Anna Crawford Jayne Godfrey (day 2) Mark Jenkin John O'Grady (day 1)
FRC	Lynn Wood (Chair, Financial Reporting Council) (Day 2) Michael Lim (Secretary, Financial Reporting Council) (Day 2)
In Attendance: Staff	Clark Anstis (in part) Peter Batten Nikole Gyles (in part) Ahmad Hamidi Ravari (in part) Kala Kandiah (in part) Robert Keys Christina Ng (in part) (by teleconference) Shu In Oei (in part) Lisa Panetta (in part) Jim Paul (in part) Ting Lin (in part) Angus Thomson Raymond Yu (in part)



Agenda 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. No such declarations were made in this meeting.

Board meeting dates for 2012

The Board had before it *AASB 2012 Board Meeting Dates – Seven meetings and contingency* (agenda paper 1.1)

The Board approved the dates proposed for 2012.

Apologies, Minutes and Matters Arising from Minutes

Agenda Item 2

Apologies

Apologies were noted for: Anna Crawford (both days), Jayne Godfrey (day 2), Mark Jenkin (both days) and John O'Grady (day 1).

Minutes

The Board approved the minutes of the one hundred and seventeenth meeting held on 8-9 June 2011.

Chairman's Report

Board Membership

The Chairman welcomed Michele Embling to her first meeting. Ms Embling is the Chair of the newly established New Zealand Accounting Standards Board and a member of the New Zealand External Reporting Board (XRB).

Mark Jenkin has resigned from the Board with effect from 31 July 2011, due to a change in his role within the Australian Public Service. The Board acknowledged his valuable contributions during his time as a Board member.

The Board also expressed its congratulations to Roger Sexton on his being awarded a Member of the Order of Australia (AM) and acknowledged the outstanding contribution of Warren McGregor (a recently retired IASB member and AASB Observer) for his services to accounting standard setting.



Public Sector and NFP Private Sector Symposiums

The Chair reminded members that the AASB will hold two symposiums, in Melbourne on Monday 15 August and in Sydney on Friday 19 August 2011, to which all members are invited. More information is available on the AASB website.

Asian-Oceanian Standard-Setters Group (AOSSG)

The AOSSG will hold its Annual Meeting in Melbourne on 23-24 November 2011, at which time Australia will take over the Chairmanship. The public can register to attend at <http://www.aossg.org/meetings-and-events>.

Approvals out of session

The Board had before it a Voting Summary (agenda paper 2.2, tabled).

The Board noted that since last advised as at 25 May 2011, the Board has approved the following Standards and Exposure Drafts:

- (a) AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* – effective for periods commencing on or after 1 July 2013 (approved 7 July 2011);
- (b) ED 212 *Not-for-Profit Entities within the General Government Sector* – for comment by 31 October 2011 (approved 27 June 2011);
- (c) ED 213 *Improvements to IFRSs* – for comment by 6 September 2011 (approved 4 July 2011); and
- (d) Tier 2 Supplement to ED 201 *Insurance Contracts* - for comment by 30 September 2011 (approved 4 July 2011).

The Board requested that future voting summaries be revised to record the reasons why any members do not vote.

Action:

Staff

Other Business

Agenda Item 3

The Board had before it:

- (a) Letter from AASB Chairman to IASB Chairman dated 15 June 2011 re: Recent discussions on Hedge Accounting (agenda paper 3.1);
- (b) Letter from AASB Chairman to IFRS Interpretations Committee Chairman dated 15 June 2011 re: Revised Draft Interpretation of IFRIC Interpretation DI/2010/1 *Stripping Costs in the Production Stage of a Surface Mine* (agenda paper 3.2);
- (c) Letter from IFRS Director of Technical Activities to AASB Chairman dated 7 June 2011 re: IAS 41 *Agriculture* (agenda paper 3.3);



- (d) Letter from AASB Chairman to Mr Paul Pacter, Member of the IASB and Chairman of SME Implementation Group, IASB dated 16 June 2011 re: The possible impact of SMEIG guidance on full IFRS adopters (agenda paper 3.4);
- (e) Letter from AASB Chairman to the Chair of the Water Accounting Standards Board dated 30 June 2011 re: Exposure Draft of Australian Water Accounting Standard: *Preparation and Presentation of General Purpose Water Accounting Reports* (agenda paper 3.5, tabled);
- (f) Confidential notes re: IFRS Advisory Council Meeting 20-21 June 2011 (confidential agenda paper 3.6, tabled);
- (g) Letter from AASB Chairman to IASB Chairman dated 5 July 2011 re: Insurance Contracts (agenda paper 3.7, tabled);
- (h) Letter from AASB Chairman to IPSASB Technical Director dated 27 June 2011 re: IPSASB Exposure Draft 45 *Improvements to IPSASs 2011* (agenda paper 3.8, tabled);
- (i) Letter from AASB Chairman to IPSASB Technical Director dated 1 July 2011 re: IPSASB Conceptual Framework ED 1 Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: *Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity* (agenda paper 3.9, tabled);
- (j) Letter from AASB Chairman to IPSASB Technical Director dated 1 July 2011 re: IPSASB Consultation Paper Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: *Elements and Recognition in Financial Statements* (agenda paper 3.10, tabled);
- (k) Letter from AASB Chairman to IPSASB Technical Director dated 1 July 2011 re: IPSASB Consultation Paper Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: *Measurement of Assets and Liabilities in Financial Statements* (agenda paper 3.11, tabled);
- (l) Memorandum from Peter Batten and Robert Keys to Board dated 12 July 2011 re: AASB Work Program and Submissions Pipeline Report (agenda paper 3.12, tabled);
- (m) Summary of AASB Work Program prepared July 2011 (agenda paper 3.12.1, tabled);
- (n) Submissions Pipeline Report as at 7 July 2011 (agenda paper 3.12.3, tabled);
- (o) Letter from AASB Chairman to Australian Government Treasury dated 8 July 2011 re: Removal of Individual KMP disclosure requirements from Standards (agenda paper 3.13, tabled); and
- (p) AASB Media and Communications Report 9 June – 13 July 2011 [Board Only] (agenda paper 3.14, tabled).

The Board noted the agenda papers. Agenda paper 3.12.2 was not used on this occasion.

In regard to the Board work program (agenda paper 3.12.1), the Board considered the Disaggregated Disclosures project, and in the context of other priorities currently on the active agenda and the limited staff resources, decided to change the status of the Disaggregated Disclosure project from 'active' to 'subject to resources'.



AASB Business Plan

Agenda Item 4

The Board had before it:

- (a) a memorandum from Angus Thomson dated 28 June 2011 (agenda paper 4.1);
- (b) outline of ideas from March 2010 AASB strategy discussion (agenda paper 4.2); and
- (c) draft AASB Business Plan Outcomes – 2011-2012 (agenda paper 4.3).

The Board discussed the draft AASB Business Plan Outcomes – 2011-2012 document in the context of its strategy discussions in March 2010 and recent developments in domestic, IASB and IPSASB projects and the further recent strengthening of the Board's relationships with other national standard setters in the region.

The Board decided to re-label the document as relating to outcomes and future directions rather than using the words 'business plan'. The Board also decided:

- (a) the quoted portfolio outcome needs to be put in context;
- (b) to re-organise the content to minimise the co-mingling of technical and operational matters, and information relating to the past and the future;
- (c) to generally change the 'passive' language to more direct and 'active' language;
- (d) to refer to the need to address the manner in which the AASB might adjust its own due process in light of developments in the IASB due process, perhaps by seeking better access by the AASB and its constituents to the IASB's outreach activities;
- (e) to make it clear that the two symposiums mentioned relate to both public sector and private sector not-for-profit entities;
- (f) to mention in section 4 headed *Addressing private sector not-for-profit entity issues* the need to coordinate with the recently established Australian Charities and Not-for Profit Commission; and
- (g) to mention the potential long-term implications of integrated reporting for financial reporting.

The Board also agreed it should schedule to have discussions in 2012 that would lead to the development of a business plan.

The Board noted that the document relating to outcomes and future directions would be finalised out-of-session through the Chairman in the coming weeks and made available on the website.

Action:	Staff
	Chairman

Differential reporting

Agenda Item 5

The Board had before it:



- (a) a memorandum from Ahmad Hamidi dated 28 June 2011 (agenda paper 5.1); and
- (b) Issues Paper: Clarification of Tier 2 Disclosure Principles (agenda paper 5.2).

The Board decided, in the light of its experience in determining RDR disclosures, to improve the clarity of its working guidelines when assessing and documenting individual disclosures under RDR. The guidelines are to draw out the roles of benchmarking against the *IFRS for SMEs* and of analogies when certain types of disclosures are being considered. The Board confirmed that, when new or revised IASB standards introduce requirements not addressed at the time the *IFRS for SMEs* was issued, the relevant benchmark is a notionally updated version of the *IFRS for SMEs*. The objective is to have RDR disclosures that are, as far as is practicable, likely to be consistent with the *IFRS for SMEs* when the latter is updated by the IASB. Ideally, Tier 2 should not require any adjustments when the *IFRS for SMEs* is updated.

The Board acknowledged that judgements are most difficult when a new IFRS moves beyond updating or revising an existing Standard and covers a completely new area (eg disclosures relating to involvements with structured entities). However, the AASB still expects the guidelines on benchmarking and use of analogies will be effective in those circumstances, meaning that they do not necessarily lead to significant additional disclosures.

Kris Peach asked that the minutes record her preference for benchmarking to an *IFRS for SMEs* that is not notionally updated for new or revised IFRS disclosure requirements.

The Board decided that the draft clarifications in agenda paper 5.2 should be amended so as to:

- (a) improve the clarity of operational guidelines when assessing and documenting individual disclosures under RDR by:
 - (i) making an earlier reference to specific information needs of users of financial statements of Tier 2 entities;
 - (ii) further drawing out the roles of benchmarking against the *IFRS for SMEs* and of analogies when certain types of disclosures are being considered; and
 - (iii) further clarifying the relationship between Tier 2 Disclosure Principles and principles used by the IASB in determining disclosures under the *IFRS for SMEs* and the manner in which those principles affect the determination of information needs of users of Tier 2 entities; and
- (b) acknowledge that 'benchmarking' to the *IFRS for SMEs* when the accounting policy options under RDR and the *IFRS for SMEs* are the same is also applicable to cases where the accounting policy options under RDR and the *IFRS for SMEs* are 'substantively' the same.

A clean copy of Appendix 1 to agenda paper 5.2, marked up for amendments noted above, should be prepared for further Board consideration.

Action:

Staff



Leases

Agenda Item 6

The Board had before it:

- (a) a memorandum on leases project update from Nikole Gyles and Kala Kandiah dated 28 June 2011 (agenda paper 6.1); and
- (b) a memorandum on below-market lease arrangements for not-for-profit entities from Nikole Gyles and Kala Kandiah dated 28 June 2011 (agenda paper 6.2).

The Board received an update on the tentative decisions made by the IASB and the FASB in their June 2011 meeting on the Leases project. The Board decided that none of those decisions give it cause to write to the IASB expressing concerns.

The Board also discussed the results of a staff preliminary analysis of issues relating to the accounting for below-market lease arrangements in the not-for-profit sector. The Board decided to not make any amendments to the existing requirements of AASB 117 *Leases* or AASB 1004 *Contributions* in relation to the issues, in light of the current projects reviewing both of those Standards. The Board will consider in due course whether the issues need to be addressed explicitly in the expected Australian Accounting Standard incorporating the IFRS on *Leases* and/or the forthcoming ED on Income of Not-for-Profit Entities.

Action:	Board
	Staff

International Public Sector Accounting Standards Board (IPSASB) Report

Agenda Item 7

The Board had before it:

- (a) a memorandum from Clark Anstis dated 29 June 2011 (agenda paper 7.1);
- (b) a report on the June 2011 IPSASB meeting (agenda paper 7.2); and
- (c) IPSASB agenda schedule 2011-2013 (agenda paper 7.3).

The Board received an update on the June 2011 meeting of the IPSASB, and discussed a range of issues. No decisions were called for.

The Board noted the IPSASB is planning projects to update its financial instruments and consolidations/joint arrangements Standards for recent IASB Standards, but is not addressing other IFRS convergence matters at this stage.

The Board also noted the IPSASB is considering new projects to be added to its work program later this year and in 2012.

In particular, the IPSASB is anticipating commencing projects addressing the first-time adoption of IPSASs and government finance statistics (GFS) later this year. The GFS project is expected to develop a broad description of relationships between IPSASs and statistical reporting requirements for inclusion in the



forthcoming update of the international Government Finance Statistics Manual. The project plan also includes medium-term objectives of updating the comparison of IPSAS and statistical requirements, potential amendment of IPSAS 22 *Disclosure of Financial Information about the General Government Sector*, and the development of an illustrative chart of accounts to facilitate both IPSAS and GFS data.

The IPSASB will consider further whether to commence projects dealing with the definition of government business enterprises (GBEs) and the accounting for social benefits. At the next meeting, IPSASB members will review the IPSASB's previous work on social benefits and consider how the project might be advanced in relation to the present Conceptual Framework project.

The IPSASB also discussed its governance and oversight arrangements (an IFAC consultation paper is in preparation), presentation and disclosure (phase 4 of the Conceptual Framework project), a final Standard on accounting for service concession arrangements by grantors, an exposure draft on reporting on the long-term sustainability of a public sector entity's finances, service performance reporting, entity combinations, and financial statement discussion and analysis.

Action: Staff

Integrated Reporting

Agenda Item 8

The Board had before it a memorandum on Integrated Reporting from Kevin Stevenson dated 27 June 2011 (agenda paper 8.1).

The Board discussed the broad content of its response to a request for information from the Chairman of the FRC's Task Force on Integrated Reporting, particularly in relation to the Board's positions of principle. The Board decided its response should include a comment on the need for an agreed definition of 'integrated reporting', and for consideration of the relationship between integrated reporting and financial reporting. The Board noted this would reduce any confusion about the role of financial reporting. The Board also decided to continue to monitor developments in relation to integrated reporting and provide input as appropriate.

Action: Staff
Chairman

IFRS Foundation Trustees Strategy for its Second Decade

Agenda Item 9

The Board had before it:

- (a) a memorandum from Angus Thomson dated 23 June 2011 (agenda paper 9.1);
- (b) draft AASB comments to the IFRS Foundation on *Report of the Trustees' Strategy Review – IFRSs as the Global Standard: Setting a Strategy for the Foundation's Second Decade* (agenda paper 9.2); and
- (c) *Report of the Trustees' Strategy Review* (agenda paper 9.3).



The Board discussed the formulation of its submission to the IFRS Foundation *Report*, which is due for comment by 25 July 2011.

The Board decided to comment on:

- (a) maintaining the IFRS brand, including noting that both directors and auditors must make statements with regard to IFRS compliance in Australia and that this is the outcome the Trustees should be aiming for globally (rather than focusing on the audit opinion);
- (b) strategies for encouraging the adoption of IFRSs in more jurisdictions, including citing examples of situations in which the required application of IFRS 1 *First-time Adoption of International Financial Reporting Standards* should be re-considered to help ensure it is not a barrier to adoption;
- (c) the need to have a long-term strategy for one set of standards for all entities from all sectors, and to emphasise that the distinction between private sector capital markets and public sector capital markets is not a useful basis for developing accounting standards;
- (d) the use of networks of national standard setters in furthering the IFRS Foundation's aims;
- (e) the need for sound governance and due process at all levels of the institutional framework for international standard setting;
- (f) the need to consider better integrating the process for developing requirements for SMEs with the initial development and revision of IFRSs; and
- (g) funding of international standard setting, and making a more general point about 'capacity to pay'.

The Board agreed that the submission should be finalised out-of-session through the Chairman.

Action:	Staff
	Chairman

Discussion with the Chair of the Financial Reporting Council (FRC)

Agenda Item 10

The Board had before it a copy of the FRC Strategic Plan 2011-14 (agenda paper 13.1, tabled).

The FRC Chair, Lynn Wood, was accompanied by the FRC Secretary, Michael Lim. Given her recent appointment as FRC Chair, Ms Wood expressed an interest in gaining a better understanding of the Board's operations. She gave an overview of the FRC Strategic Plan to enhance the Board's understanding of the FRC, its objectives and the planned work of its task forces. There was also a discussion of the FRC's resources and relationships, including developing international relationships.

Consolidation – Investment Entities

Agenda Item 11

The Board had before it:

- (a) a memorandum from Lisa Panetta and Angus Thomson dated 28 June 2011 (agenda paper 11.1); and



(b) IASB pre-ballot Exposure Draft *Investment Entities* [confidential] (agenda paper 11.2).

The Board considered the pre-ballot draft of an IASB Exposure Draft, which is expected to propose that 'investment entities' present investments in subsidiaries at fair value through profit or loss rather than consolidating them, with a view to determining the contextual material it might include in the AASB's Preface to that forthcoming ED when it is issued by the AASB for public comment in Australia.

The Board discussed the types of entities that may be impacted if the proposals were to proceed.

The Board agreed to identify in the Preface broadly what the contentious issues might be, including the rules-based nature of the draft proposals. The Board also decided that the Chairman should raise questions about the ED proposals in an accompanying release, a draft of which would be circulated among members for comment before being finalised.

The Board noted the nature of the proposed disclosures in the pre-ballot draft and observed, in the context of the overall project, that it would not be appropriate to reduce those disclosures in respect of general purpose financial statements of Tier 2 entities.

The Board noted that it expects to conduct at least one roundtable during the ED's comment period.

Action:	Staff
	Chairman

Agenda Item 12 was not used at this meeting

Revenue from Contracts with Customers

Agenda Item 13

The Board had before it a memorandum from Nikole Gyles and Kala Kandiah dated 28 June 2011 (agenda paper 13.1).

The Board received an update on the tentative decisions made by the IASB and the FASB in the June 2011 meeting on the Revenue Recognition project and decided not to raise any issues with the IASB.

The Board also reversed its June 2011 decision to write to the IASB about the apparent inconsistency between the IASB's tentative decision that an entity recognises an asset for incremental costs expected to be recovered and not in the scope of another Standard, and the IASB's tentative decisions on similar matters in other projects. This is in light of subsequent IASB decisions in its Insurance Contracts project and its decision to re-expose the draft IFRS on Revenue from Contracts with Customers.

Income of NFP Entities

Agenda Item 14

The Board had before it:

- (a) a memorandum from Jim Paul dated 29 June 2011 (Agenda Paper 14.1); and
- (b) Staff Issues Paper: *Recognising Liabilities for Onerous Contracts* (Agenda Paper 14.2).



The Board considered the issues paper, which discussed whether its future Exposure Draft on Income of Not-For-Profit Entities (NFPs) should propose that NFPs should apply an ‘onerous contract’ test consistent with that set out in the draft IFRS *Revenue from Contracts with Customers*, which the IASB plans to re-expose shortly. In addition, the issues paper discussed whether the expected text of the ‘onerous contract’ test in the forthcoming IASB ED would warrant any modification to deal with NFP-specific issues. The session was educational and the Board made no decisions.

The Board noted that the scope of this topic relating to onerous contracts is confined to long-term arrangements giving rise to unconditional enforceable obligations to provide goods or services, where the performance obligations are not capped by the amount of consideration received by the entity and the entity cannot cancel the arrangement and return the consideration.

The Board discussed how to apply the ‘onerous contract’ test when a grantor subsidises the cost of a service that is partly paid for by service recipients – for example, where a public rail authority is subsidised to provide rail services in sales to commuters for a price less than the cost of the service. Comments by Board members on such arrangements included that:

- (a) the arrangement with the grantor should be accounted for separately from each arrangement with a service recipient. Even if the subsidy is paid in advance, economically it is the same as a reimbursement. AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* requires reimbursements to be recognised as a separate asset (that is, accounted for separately from obligations to other parties). This supports the above-mentioned treatment;
- (b) until service recipients enter a binding arrangement with the reporting entity, the reporting entity does not have an obligation to provide the service to them, notwithstanding having received a subsidy;
- (c) therefore, the amount of the grant should be recognised as a performance obligation to be extinguished by the provision of services in subsequent arrangements, at which time an equivalent amount of revenue would be recognised;
- (d) the treatment in (c), which does not identify the grant as giving rise to an ‘onerous’ obligation, is supported by the fact that, if the subsequent arrangements were not entered into, the entity would be obliged to return no more than the amount of the grant—it would not be obliged to render services to the grantor at a potentially higher cost; and
- (e) each arrangement with a service recipient would be loss-making (onerous), but each such loss would be accompanied by a ‘gain’ (revenue) from derecognising the related grant obligation (consistent with the grant compensating the entity for entering onerous arrangements with service recipients).

The Board discussed whether there are NFP-specific reasons for NFPs not to apply the ‘onerous contract’ test. Board members:

- (a) noted that the key challenge with NFPs applying the ‘onerous contract’ test is using different measurement approaches to measuring onerous contract liabilities and related impairments of assets. Specifically, they noted that onerous contract liabilities would mainly reflect net cash outflows in respect of incurring and settling performance obligations, whilst NFPs would often recognise any impairments of assets on the basis of depreciated replacement cost. Board members disagreed with



the assertion in Example 2, Variation B (beneath paragraph 32) of Agenda Paper 14.2 that a liability for an onerous contract (if recognised) would be measured separately from any impairment loss on related assets. Those Board members noted that:

- (i) the same cash flows affect whether assets dedicated to a contract are impaired and whether a liability for an onerous contract exists; and
 - (ii) impairment losses recognised on inventories and depreciable assets dedicated to a contract reduce the estimated amount of cost of goods sold/consumed and of depreciation that would be taken into account in determining whether a contract is onerous;
- (b) requested staff to prepare a paper exploring:
- (i) how the relationship between impairments and liabilities for onerous contracts would be accounted for if net cash outflows do not necessarily give rise to an impairment loss for NFPs (due to the way value in use is defined for NFPs in paragraph Aus6.1 of AASB 136 *Impairment of Assets*); and
 - (ii) how a NFP would apply the 'onerous contract' test on a contract-by-contract basis when assets on which impairments are recognised service more than one contract, given that paragraph 69 of AASB 137 says "Before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets dedicated to that contract (see AASB 136).";
- (c) noted that a reason not to exclude NFPs entirely from an 'onerous contract' test is that some contracts or other arrangements entered into by NFPs give rise to an unconditional obligation to supply goods or services at a loss;
- (d) noted also that excluding contracts or other arrangements for a 'social benefit or charitable purpose' from the scope of the 'onerous contract' test, as the FASB has tentatively decided to do, would potentially scope out a very broad range of contracts, including some mentioned in (c) immediately above; and
- (e) noted as well that it would be inappropriate to devise an 'onerous contract' test for NFPs that results in recognition of 'liabilities' to construct or improve an entity's own asset.

The Board additionally noted that AASB staff are communicating with IASB staff regarding this topic. The Board will consider further issues papers after the IASB's proposals regarding the 'onerous contract' test become clearer and after further communication between AASB staff and IASB staff.

Action: Staff

GAAP/GFS Harmonisation – Post-implementation Review of AASB 1049

Agenda Item 15

The Board had before it:

- (a) a memorandum from Shu In Oei dated 28 June 2011 (agenda paper 15.1);
- (b) issues raised by respondents on remaining proposals in ED 211 *Proposed Amendments to AASB 1049* (agenda paper 15.2);



- (c) submissions on remaining proposals in ED 211 (agenda paper 15.3);
- (d) an extract from ED 211 and accompanying Basis for Conclusions (agenda paper 15.4);
- (e) issue raised by the Joint Accounting Bodies on ED 211 (agenda paper 15.5 , tabled); and
- (f) submission from Joint Accounting Bodies on remaining proposals in ED 211 (agenda paper 15.6, tabled).

The Board considered each of the issues raised by respondents in relation to the remaining proposals in ED 211 (noted in agenda papers 15.2 and 15.5) together with the staff views and decided:

- (a) in relation to agenda paper 15.2 Issue 1 *further guidance on classification between transactions and other economic flows*: the classification principles expressed in AASB 1049 should be further clarified to help facilitate greater consistency in their application by jurisdictions. In particular, the guidance should address classification in circumstances where items arise under both GAAP and GFS and where items arise under GAAP but not under GFS. In the former, classification under GAAP should be the same as the GFS classification. In the latter, classification under GAAP should be based on the underlying event by analogy to GFS classifications. The Board also decided that consideration should be given to providing additional examples of how the clarified principles would apply in particular circumstances. In addition, the Board considered whether these different types of classifications should be required to be grouped together and presented separately in the statement of comprehensive income. However, the Board decided against imposing such a requirement, on the basis it was not identified as an issue in the post-implementation review;
- (b) in relation to agenda paper 15.2 Issue 2 *disclosure of key fiscal aggregates relative to other information*: the proposed requirements in ED 211 for the presentation of key fiscal aggregates and other fiscal aggregates (in relation to AASB 1049 paragraph 18) should be further clarified to facilitate easier understanding and to reflect the Board's revised objective to allow other measures of key fiscal aggregates to be presented as fiscal aggregates (but not as key fiscal aggregates). This is on the basis that preparers should not be prevented from disclosing information they believe is useful to users as long as it does not detract from the information required by the Standard. The clarification should also make clear that financial aggregates that are not key fiscal aggregates should not be presented as key fiscal aggregates, to avoid potential confusion for users;
- (c) in relation to agenda paper 15.2 Issue 3 *disclosure of carrying amount of assets attributable to functions*: to reconfirm its view that the disclosure would assist users in identifying resources committed to particular functions relative to the costs of service delivery that are reliably attributable to those functions, which facilitates comparisons between jurisdictions. Therefore, the requirement of paragraph 48(b) of AASB 1049 should be retained unamended, particularly in light of the Disaggregated Disclosures project. The Board noted that retaining the requirement would avoid the risk of otherwise removing the requirement and then potentially reinstating it as a result of the Disaggregated Disclosures project. The Board also addressed the view expressed by respondents to ED 211 that the requirement is not consistent with GFS and therefore should be removed, by noting



The Board had before it:

- (a) a memorandum from Christina Ng dated 24 June 2011 (agenda item 16.1);
- (b) presentation slides relating to the IASB's tentative decisions on the revised impairment model (agenda paper 16.2, tabled); and
- (c) a memorandum from Natalie Batsakis dated 28 June 2011, which is an updated compilation of issues on hedge accounting discussed at previous AASB meetings (agenda paper 16.3).

The Board received an update on the IASB's tentative decisions relating to classifying loans for the purposes of assessing impairment, that is, the proposed 'three-bucket' expected loss approach, which is being considered in the context of loans managed on an open portfolio basis at this stage. In particular, the Board noted that the tentative 3-bucket impairment model:

- (a) is intended to reflect the general pattern of deterioration of the credit quality of loans. The model is also intended to be responsive to changes in information that has an effect on credit loss expectations; and
- (b) would involve loans being classified into three buckets as follows:
 - (i) Bucket 1 would contain loans for which losses would be recognised when unfavourable events that do not have a direct relationship to future possible defaults have occurred. The loss allowance balance would reflect one year's worth of expected loss based on initial expectations of lifetime loss. The full amount of any changes in lifetime expected losses would be recognised in subsequent periods;
 - (ii) Bucket 2 would contain loans for which losses would be recognised when observable events that indicate a direct relationship to future possible defaults have occurred, but the specific assets in danger of default have not yet been identified. The full expected lifetime losses for assets in bucket 2 would be recognised immediately in the loss allowance balance on a portfolio basis; and
 - (iii) Bucket 3 would contain loans for which losses would be recognised when information is available that specifically identifies that credit losses are expected to, or have, occurred on individual assets. The full expected lifetime losses for assets in bucket 3 would continue to be recognised in the loss allowance balance but on an individual asset basis.

The Board decided none of those decisions gave it cause to write to the IASB expressing concerns. The Board noted the IASB aims to publish a revised ED by the end of Q3 of 2011.

The Board also noted that the IASB is considering amending the (mandatory) effective date of IFRS 9 *Financial Instruments* (including the already issued parts of IFRS 9) from 1 January 2013 to 1 January 2015.

The Board will continue to monitor the work of the IASB on this project.

Action:

Staff



IPSASB Exposure Draft on Key Characteristics of the Public Sector

Agenda Item 17

The Board had before it:

- (a) a memorandum from Jim Paul dated 29 June 2011 (Agenda Paper 17.1);
- (b) a staff issues paper on IPSASB Conceptual Framework Exposure Draft (ED) *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting* (Agenda Paper 17.2); and
- (c) IPSASB ED *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting* (Agenda Paper 17.3).

The Board considered key issues arising from the IPSASB ED, for the purpose of making a submission. Comments on the ED are due by 31 August 2011.

The Board decided to express concern that the ED does not clearly explain the implications of the key characteristics for the IPSASB's draft Conceptual Framework or link those characteristics to proposals in other IPSASB Conceptual Framework consultation documents. Therefore, the ED's purpose is unclear. The Board also decided to note that a number of the key characteristics are not unique to the public sector, and to explain why this is the case.

The Board decided that its submission, reflecting the decisions above, should be reviewed and approved by the Chairman.

Action:	Staff
	Chairman

Service Concession Arrangements - Grantor

Agenda Item 18

The Board had before it:

- (a) a memorandum from Clark Anstis dated 29 June 2011 (agenda paper 18.1);
- (b) a review of relevant IPSASB decisions in June 2011 (agenda paper 18.2); and
- (c) the AASB's submission (July 2010) on IPSASB Exposure Draft ED 43 *Service Concession Arrangements: Grantor* (February 2010) (agenda paper 18.3).

The Board discussed recent decisions of the IPSASB at its June 2011 meeting concerning grantor accounting for service concession arrangements. In particular, the Board discussed, but made no decisions about, the following aspects:

- (a) the scope of regulation that should be considered by a grantor in assessing whether it controls service concession assets;
- (b) the recognition by a grantor of a service concession asset as it is being constructed by the operator when the grantor has little ability to avoid accepting the assets constructed under the specifications of the service concession arrangement;



- (c) the pattern of recognition of revenue by a grantor when it obtains control of service concession assets constructed by the operator and compensates the operator by granting a right to charge third-party users of the assets; and
- (d) retrospective application of an IPSASB Standard by grantors, including those that have not previously recognised service concession assets.

Board members noted that the IPSASB will consider finalising its Standard at its September 2011 meeting. The IPSASB may, however, decide to re-expose the proposed Standard or parts of it. Members agreed that the Board should comment to the IPSASB on the next draft of the proposed Standard when it is available.

The Board also discussed the process that it might follow, once the IPSASB has issued its Standard, to develop an Australian Accounting Standard on grantor accounting for service concession arrangements. For example, an exposure process in Australia might be based on the IPSASB Standard. The proposals might include modified revenue recognition requirements consistent with the outcome of the IASB project on Revenue from Contracts with Customers.

Action: Staff

IFRS Interpretations update

Agenda Item 19

The Board noted the memorandum from Raymond Yu dated 29 June 2011 (Agenda paper 19.1) and received an update on the following topics discussed at the 7-8 July 2011 IFRS Interpretations Committee meeting:

- (a) stripping costs in the production phase of a surface mine;
- (b) when to recognise a liability (and associated expense) for levies;
- (c) issues pertaining to business combinations; and
- (d) concerns relating to the aggregation of operating segments and the identification of the 'chief operating decision maker' in the context of segment disclosures.

In relation to (a), the Board directed staff to ascertain whether the IFRS Interpretation Committee has adequately addressed the concerns of the Board about the apparent inconsistencies between the revised Draft Interpretation of DI/2010/1 *Stripping Costs in the Production Phase of a Surface Mine* (dated May 2011), and IAS 2 *Inventories* and IAS 16 *Property, Plant and Equipment*, in its final proposed Interpretation. The Chairman should then determine whether it would be appropriate to communicate with the IASB about any outstanding concerns before the IASB decides whether to issue the final proposed Interpretation.

Action: Staff
Chairman



Emerging issues

Agenda Item 20

The Board did not identify any emerging issues other than those noted below.

Presentation of Items of Other Comprehensive Income (amendments to IAS 1)

The Board had before it a confidential agenda paper re: Consequential amendments to domestic standards arising from recent Amendments to IAS 1 (confidential agenda paper 20.1, tabled).

Following its June 2011 discussion of the IASB's pre-ballot draft of *Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)*, the Board considered the implications of the final IASB Standard for 'Aus' paragraphs in Australian Accounting Standards incorporating IFRSs and for other domestic Standards. The Board decided it is not necessary to amend any of the Aus paragraphs in Australian Accounting Standards incorporating IFRSs (including AASB 3 *Business Combinations*) or other domestic Standards for consistency with the amendments to IAS 1, except for making consistent the terminology in paragraphs 18, 19 and 27 of AASB 1039 *Concise Financial Reports* (as reflected in marked-up text in agenda paper 20.1).

The Board noted that its decision not to make amendments to AASB 3 reverses its previous decision at the June 2011 Board meeting to amend AASB 3 Aus63.1 to make it clear that any gain or loss recognised in accordance with that paragraph should be recognised in profit or loss. This June decision was based on the pre-ballot draft of *Presentation of Items of Other Comprehensive Income (amendments to IAS 1)*. In the final Standard issued by the IASB in June 2011 (subsequent to the June 2011 AASB meeting) it was clarified in paragraph BC20B that the only circumstances in which the IASB changed the terminology in an IFRS as a result of the amendments to IAS 1 was when an IFRS made reference to the two-statement option in preparing a statement of comprehensive income. In making its decision the Board noted that there are many instances in IFRSs in which the expression 'statement of comprehensive income' is referred to without specific mention as to where in the statement of comprehensive income an item is recognised. The Board considered it was clear in such an instance that unless the Standard concerned specifically permits recognition of an item in other comprehensive income such items would be recognised in profit or loss. The Board also noted that if it were to amend AASB 3 in line with its June decision, it could lead to an unintended consequence that some might infer that where a Standard does not contain a similar explicit statement that a free choice exists for where an item is to be presented within the statement of comprehensive income.

Action:

Staff

Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation

Agenda Item 20.2

The Board had before it a tabled agenda paper concerning the ballot drafts of two amending Standards for the extension of relief from consolidation, the equity method and proportionate consolidation, which were open for members' vote. The paper addressed the non-availability of relief to a for-profit (Tier 1) parent



entity when the consolidated financial statements available for public use produced by its not-for-profit (Tier 1) ultimate or intermediate parent entity do not comply with IFRSs.

Members confirmed that the relief should not be available in such circumstances and agreed that the Basis for Conclusions, paragraph BC13, should note that the extension of relief in these circumstances would be beyond the scope of the relief available to for-profit entities under IFRSs. The relief is available when the not-for-profit entity can claim compliance with IFRSs.

Staff noted that revised ballot drafts would be provided to Board members shortly after the meeting for their vote no later than 20 July 2011.

Action: Staff

Review

Agenda Item 21

The Board requested more prominent advice in the meeting notice on those occasions when opportunity has been made for Board members to meet with staff outside of the actual meeting time.

The Board expressed support for the improved presentation of tabled papers, but suggested that the covering table be expanded to incorporate a 'for action' vs 'for noting' column.

Action: Staff

Close of Meeting

The Chairman closed the meeting at 3.06 p.m. on Thursday 14 July 2011.

Approval

Signed by the Chairman as a correct record
this seventh day of September 2011