

MINUTES
AUSTRALIAN ACCOUNTING STANDARDS BOARD

Minutes of the sixty-first meeting of the Australian Accounting Standards Board (AASB) held at the Trade and Sussex Rooms, Radisson Hotel and Suites, 72 Liverpool Street, Sydney, New South Wales, from 10:00 a.m. until 5:45 p.m. Tuesday, 25 October 2005 and from 8:30 a.m. until 4:30 p.m. Wednesday 26 October. All agenda items except agenda items 1, 2, 3 and 18 were discussed in public.

ATTENDANCE

Members present	David Boymal (Chairman) Glenn Appleyard Garth Campbell-Cowan Bryce Denison Brett Kaufmann Ken Leo Steve McClintock Frank Palmer Des Pearson Kris Peach Joanna Perry (except from 2:00 p.m. – 3:00 p.m. Day 1) Bruce Porter
Apologies	Alice Williams Joanna Perry (2:00 p.m. – 3:00 p.m. Day 1) Warren McGregor – IASB Liaison Member Wayne Cameron – IPSASB Member
In attendance	Asia/Pacific Standard Setters: Mr Muhammad Jusup Wibisana, Indonesia Mr Taiji Ishii, Japan Mr Koji Ishihara, Japan Dr. Lee, Hyoik, Korea Dr. Yoon, Soon-suk, Korea Dr Nordin Mohd Zain, Malaysia Mr Carlos R Alindada, Philippines Mr Derek How, Singapore Mr Pok Man Kam, Hong Kong Mr Xi Wu, China Ms Hongxia Li, China Mr Suphamit Techamontrikul, Thailand
Staff present	Dean Ardern (in part) Clark Anstis (in part) Glenn Brady (in part) Geoff Harris Robert Keys (in part) Serene Seah (in part) Angus Thomson Anne Vuong (in part)

APOLOGIES, AGENDA, MINUTES AND MATTERS ARISING FROM MINUTES

Agenda item 1

The Board confirmed the minutes of the sixtieth meeting held on 7-8 September 2005.

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.

CHAIRMAN'S REPORT

Agenda item 2

The Board had before it:

- (a) a letter from Hon. Chris Pearce MP, Parliamentary Secretary to Treasurer dated 29 September 2005 to David Boymal, Chairman, AASB re new general policy relating to Government Property Ownership and reply dated 10 October 2005 (Agenda paper 1.3);
- (b) a letter from Charles Macek, FRC Chairman dated 5 October 2005 to David Boymal, Chairman, AASB re International Financial Reporting Standards Implementation (Agenda paper 1.4);
- (c) a letter from Mr Ken Moore, Acting Chief Finance Officer, Department of Defence and Dr Ian Williams, Chief Finance Office, Defence Materiel Organisation dated 4 October 2005 to David Boymal, Chairman, AASB re transition to AEIFRS based reporting (Agenda paper 1.5); and
- (d) a letter from David Tweedie, Chairman, IASB to David Boymal, Chairman, AASB dated 11 October 2005 re: Proposed amendments to IAS 37 and IAS 19 (Agenda paper 1.6).

The Chairman informed members:

- (a) about the recent meeting of world standard-setters with the IASB. Members were advised that:
 - (i) world standard-setters did not support relaxation of measurement and recognition requirements in IFRSs for small and medium-size entities; and
 - (ii) the draft Memorandum of Understanding between the IASB and national standard setters will be developed as a Statement of Best Practice and that the proposed data base of issues referred to in the draft MOU will not proceed;
- (b) about the recent meeting of former liaison standard setters. Members were advised that:
 - (i) other standard setters with the capacity to participate will in the future be able to attend;
 - (ii) there was little support among former liaison standard setters for the Australian approach to interpretations and dealings with the IFRIC and noted that the process of putting issue proposals to the IFRIC is changing and a more formal process is now in place;
 - (iii) an issue relating to the application of the "power to control" in IAS 27 *Consolidated and Separate Financial Statements* in that the major accounting firms are of the view

that consolidation is not required where an entity holds, for example, a 49% interest in an entity and the remaining holdings are widely held. The view of former liaison standard setters was that under IAS 27 consolidation should take place in these circumstances. The Chairman informed members that this latter view was confirmed by the IASB at its meeting in October 2005;

- (c) about arrangements for the naming the Boardroom in memory of Ken Spencer and that Sir David Tweedie will officiate at a function on 22 November 2005;
- (d) of the appointment of Judith Downes, Chief Operating Officer, International Banking, ANZ Banking Group as a member of the IASB's Standards Advisory Committee (SAC). The Chairman advised members that he has invited Ms Downes to attend Board meetings from time to time. Members also acknowledged the contributions of Peter Day, Chief Financial Officer, Amcor Limited on his retirement as a member of the SAC;
- (e) of his meeting with Charles Macek, FRC Chairman, to discuss the FRC's review of the IFRS implementation process and the frequency of communications between the AASB and the IASB; and
- (f) of his intention to write to the Parliamentary Secretary to the Treasurer regarding a review of the Corporations Law requirement relating to the payment of dividends. Members were informed that a review is highly desirable because the adoption of IFRSs has accentuated the difficulties associated with linking dividends to profit. Members agreed that a review is appropriate and that if a solvency basis were adopted as occurs in New Zealand specific solvency protections would be warranted.

Action:

Chairman

MEETING WITH ASIA/PACIFIC NATIONAL STANDARD-SETTERS

Agenda item 3

The Board had before it a draft agenda of items for discussion (Agenda paper 3.1).

The Chairman welcomed the regional national standard-setters to the meeting and explained that the purpose of the meeting is to share experiences in converging with and implementing IFRSs and to discuss means of enhancing co-operation between the participants, in particular, in respect of involvement in IASB activities.

Participants had a broad ranging discussion of issues relating to educating constituents on the requirements of IFRSs, difficulties relating to the frequency of changes to the IFRSs and the timing of implementation, the process and status of interpretations and regional co-operation on involvement in IASB activities. The national standard setters agreed:

- (a) to circulate a listing of key regional contacts to facilitate communication;
- (b) to exchange submissions to the IASB as a means of keeping participants aware of the views of the respective national standard-setters;
- (c) to write to the IASB pointing out concerns about the timing of the implementation of IFRSs and amendments to IFRSs. Participants explained the severe difficulties experience in preparing and maintaining up-to-date translations of IFRSs in their respective jurisdictions;
- (d) to develop a listing of Australian texts and guidance relating to IFRS for distribution to regional standard-setters;

- (e) to share information on the application of IAS 41 *Agriculture* to develop a list of issues arising on the application of IFRSs of common interest eg leases. Ms Perry informed participants that considerable work has been done in New Zealand and undertook to send it to the national standard-setters with a view to co-operating on the identification of the major issues;
- (f) to develop a list of issues of common interest, for example, leases; and
- (g) on the desirability of holding similar meetings more frequently than annually.

Action:

Members
Chairman

INCOME TAX

Agenda item 4

The Board had before it:

- (a) a memorandum from Glenn Brady dated 10 October 2005 (Agenda paper 4.1); and
- (b) an information paper titled “Update on IASB short-term convergence project on Income Taxes” (Agenda paper 4.2).

The Board received an update on the short-term convergence project and was informed that:

- (a) the IASB and the FASB are nearing completion of their review of the possible areas for achieving convergence between IAS 12 *Income Taxes* and FAS 109 *Accounting for Income Taxes*;
- (b) the IASB has decided that, as part of the Exposure Draft of the proposed amendments to IAS 12, it will restructure IAS 12 with a view to making it easier to understand. The restructuring will involve rewriting IAS 12 to highlight the principles and extract the examples and reasoning that would, in an IFRS, form part of the implementation guidance and basis for conclusions. The rewrite does not extend to changing the requirements of IAS 12, other than for the changes agreed as part of the short-term convergence project; and
- (c) the IASB and the FASB intend to release the Exposure Drafts of amendments to IAS 12 and FAS 109 in the first quarter of 2006.

The Board agreed that Ms Peach and Mr Porter would assist staff in providing comments to IASB staff on any substantive issues that may emerge in the drafting of the proposed amendments to, and in the rewrite of, IAS 12.

Action:

Staff
Ms Peach
Mr Porter

EXTRACTIVE INDUSTRIES

Agenda item 5

The Board had before it a memorandum from Glenn Brady dated 24 August 2005 (Agenda paper 5.1).

The Board received an update on the progress of the extractive activities research project and was informed that:

- (a) the research project team (which includes AASB staff) held its second education session with the IASB in July 2005 meeting. The purpose of this education session and the earlier session that was held in April 2005 was to generate a greater understanding of how minerals and oil & gas reserves and resources differ (i.e. the differing characteristics of reserves and resources, the key uncertainties with the estimation of reserves and resources, and the use of different classifications and different sets of definitions in the reporting of reserve and resource volumes). Industry representatives from the (Australasian) Joint Ore Reserves Committee and the Combined Reserves International Reporting Standards Committee (from the minerals industry) and the Society of Petroleum Engineers Oil & Gas Reserves Committee (from the oil & gas industry) assisted the research project team with both education sessions;
- (b) the education session also included a discussion on some of the possible approaches for defining reserves and resources in a manner that would be suitable for financial reporting purposes; that is, when specifying the recognition, measurement and disclosure requirements for reserves and resources. The Board noted that the IASB indicated tentative support for the research project team to explore the use of a generic definition of 'resources' for recognition purposes (which may be on either a historical cost or a current value basis) that encompasses minerals and oil & gas reserves and resources. Under this approach, disclosures supporting the recognition and measurement of 'resources' (as generically defined) would be based on or be similar to existing definitions of reserves and resources definitions used in the industries; and
- (c) the current focus of the research project team and its international advisory panel is to:
 - (i) undertake further work into identifying how reserves and resources should be defined for financial reporting purposes; and
 - (ii) consider what attributes reserves and resources must possess to be consistent with the IASB *Framework's* definition and recognition criteria for an asset (this research is relevant regardless of whether an historical cost or current value measurement model is applied to the asset).

The Board agreed that key papers produced by the research project team throughout the project should also be circulated to the Chairman, Mr Appleyard and Mr Campbell-Cowan for their input where possible. Copies of those papers will also be provided to Ms Peach and Mr Porter.

Action:

Staff

JOINT VENTURES

Agenda item 6

The Board had before it a memorandum from Ahmad Hamidi dated 31 August 2005 (Agenda paper 6.1).

The Board deferred consideration of this item until its November meeting.

URGENT ISSUES GROUP

Agenda item 7

The Board had before it:

- (a) a memorandum from Clark Anstis dated 12 October 2005 (Agenda Paper 7.1);
- (b) UIG Membership and Attendance Report (September 2005) (Agenda paper 7.2);

- (c) Proposed UIG Interpretation 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic* (15/9/05) (Agenda paper 7.3);
- (d) Proposed UIG Interpretation 6 (marked-up from IFRIC Interpretation 6) (Agenda paper 7.4);
- (e) Guidance on selected issues – website text (Agenda paper 7.5);
- (f) “Inventory Rebates and Settlement Discounts” (9/05) (Agenda paper 7.6);
- (g) “Direct Costs Affecting a Financial Instrument’s Effective Interest Rate” (9/05) (Agenda paper 7.7);
- (h) a memorandum from Clark Anstis dated 19 October 2005 (Agenda paper 7.8);
- (i) Issue Proposal (IFRIC) “Revenue Recognition after the Transfer of Real Estate Title” (10/05) (Agenda paper 7.9)
- (j) Issue Proposal (IFRIC) “Split Investments in Associates in Consolidated Financial Statements” (10/05) (Agenda paper 7.10);
- (k) Issue Proposal (IFRIC) “Subscriber Acquisition Costs” (10/05) (Agenda paper 7.11);
- (l) Issue Proposal (IFRIC) “Lease Payments under Operating Leases” (10/05) (Agenda paper 7.12); and
- (m) UIG Issue Summary 05/12 “Post-Date-of-Transition Stapling Arrangements” (Initial,13/10/05) (Agenda paper 7.13).

Interpretation 6

The Board discussed the Proposed Interpretation and approved the issue of UIG Interpretation 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*, for application to annual reporting periods beginning on or after 1 December 2005, with early application permitted. The Interpretation corresponds to Interpretation 6 issued by the International Financial Reporting Interpretations Committee (IFRIC).

Members agreed that Accounting Standard AASB 1048 *Interpretation and Application of Standards* will be revised in December to incorporate the UIG Interpretations issued in the last quarter of the year, including Interpretation 6.

Guidance on Rejected Issues

The Board discussed the guidance on rejected issues that appears on the website. Members expressed a range of views on whether the guidance should be retained or simplified. The Board concluded that the published information concerning rejected issues should be simplified as far as possible and should be identified on the website as “Items not taken onto the Agenda”, the description used on the IASB website in relation to issues not taken onto the agenda of the IFRIC.

Post-Date-of-Transition Stapling Arrangements

The Board considered a report on the discussion at the UIG’s October meeting regarding the identification of an appropriate accounting treatment for business combinations by contract alone, given the scope exclusion in AASB 3 *Business Combinations*.

Members discussed the UIG's proposal to give further consideration to an approach that requires one of the combining entities to be identified under AASB 3 as the acquirer (resulting in a goodwill figure relating to the other entity under business combination accounting) and that treats the notional combined entity arising from the stapling arrangement as the parent entity under AASB 127 (and thus no minority interest because the stapled entities are wholly owned by this notional entity). The Board noted the concerns raised by several UIG members in relation to AASB 127 *Consolidated and Separate Financial Statements* that minority interests would need to be recognised if stapling arrangements were accounted for by applying the reverse acquisition accounting principles in AASB 3.

While the Board expressed some concerns with the UIG's proposal, in particular the creation of a notional combined entity for the purposes of AASB 127, the Board decided that the UIG should continue its deliberations on the issue. The Board also agreed to discuss the issues further at its next meeting, in particular how various treatments appear to conflict with other Standards, to consider whether it might provide more specific guidance to the UIG for its next meeting.

Action:

Staff

SELF-INSURED WORKERS' COMPENSATION INSURANCE

Agenda item 8

The Board had before it:

- (a) a memorandum from Monique Ledden dated 31 August 2005;
- (b) a letter from Ernst & Young dated 20 June 2005; and
- (c) a series of e-mails between AASB staff and IASB staff.

The Board noted that:

- (a) there are different views on whether a self-insured workers' compensation insurance liability should be treated under AASB 119 *Employee Benefits* or AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*;
- (b) each standard might give rise to a different measurement, for instance, because the discount rates used under each standard are different; and
- (c) there is currently guidance in AASB 137 about liabilities arising from self-insurance, although there is not a specific reference to workers' compensation.

The Board considered that the appropriate standard to use would depend on the circumstances in each case and whether workers' compensation meets the definition of employee benefits and considered that the effect of different measurements is unlikely to be material. Accordingly, the Board agreed not to provide any further guidance on the issue.

INTANGIBLE ASSETS

Agenda item 9

The Board had before it:

- (a) a memorandum from Robert Keys, Dean Ardern, Crystal Zhang and Les Nethercott dated 19 October 2005 (Agenda paper 9.1);

- (b) a paper: *Intangible Assets and Goodwill Research Project Scope and Approach* (marked-up to reflect changes since the June 2005 version, and, in relation to footnote 1, the September 2005 version) (Agenda paper 9.2);
- (c) a paper: *Issues to initiate discussions with constituents* (Agenda paper 9.3); and
- (d) a draft project plan (marked-up to reflect changes since the September 2005 version) (Agenda paper 9.4).

The Board noted:

- (a) the two-phased approach to the project: phase 1 being intangible assets and goodwill acquired other than as part of a business combination; and phase 2 being intangible assets and goodwill acquired as part of a business combination;
- (b) that the draft project plan anticipates the publication of an interim document with tentative views at the end of Phase 1 (December 2007), pending Phase 2;
- (c) that staff has commenced implementing the approach outlined in agenda paper 9.2 by, in the first instance, interviewing constituents with experience in identifying, recognising, measuring and remeasuring internally generated identifiable intangible assets; and
- (d) that preliminary work has commenced on drafting an issues paper on the initial accounting treatment of internally generated intangible assets, for consideration by AASB project liaison members in due course.

Action:

Staff

WITHDRAWAL OF AAS 27, AAS 29 AND AAS 31

Agenda item 10

The Board had before it:

- (a) a memorandum from Robert Keys and Dean Ardern, dated 19 October 2005 (Agenda paper 10.1);
- (b) Issues Paper: Issues relevant to amending AASB 1004 *Contributions* to address the treatment of restructures of administrative arrangements and draft amendments to reflect the AASB's decisions made at its September 2005 meeting (Agenda paper 10.2);
- (c) Issues paper: Accounting for Restructures of Local Governments from both Transferee and Transferor Perspectives in Light of the AASB's decisions to withdraw AAS 27 (Agenda paper 10.3);
- (d) Issues paper: Liabilities arising from Public Policies of Government (Agenda paper 10.4);
- (e) Issues paper: Local governments, government departments and governments as reporting entities (Agenda paper 10.5);
- (f) Issues paper: Net cost of services format of the income statement (Agenda paper 10.6);
- (g) Issues paper: Withdrawal of AASs 27, 29 & 31: Big bang or staged withdrawal (Agenda paper 10.7);

- (h) Draft AASB strategy paper: Australian Accounting Standards and Public Sector Entities (for background information only) (Agenda paper 10.8); and
- (i) Issues paper: Accounting for Restructures of Administrative Arrangements from both Transferee and Transferor Perspectives in Light of the AASB's Decision to Withdraw AAS 29 (for background information only, having been presented to the September 2005 Board meeting as Agenda Paper 12.4) (Agenda paper 10.9).

The Board considered the technical issues addressed in agenda papers 10.2 to 10.6 and gave directions to staff for drafting proposals in an ED proposing the withdrawal of AASs 27, 29 and 31 and consequential amendments to other Standards, with an application date for years ending on or after 30 June 2007 with early adoption permitted. The Board's detailed decisions relating to agenda papers 10.2 to 10.6 are recorded below. The Board directed staff to prepare a draft ED reflecting the Board's decisions for consideration at the Board's December 2005 meeting.

In relation to agenda paper 10.7, the Board considered the relative merits of a 'big bang' or a staged withdrawal of AASs 27, 29 and 31. The Board decided that a big bang approach would be appropriate, whereby the three Standards will be withdrawn at the same time as a range of other Standards are amended to avoid a vacuum for definition, recognition and measurement issues addressed in AASs 27, 29 and 31 that would otherwise not be adequately addressed in other Standards. The Board noted that until they are addressed as part of the Board's longer term strategy for dealing with public sector issues (see agenda paper 10.8), certain disclosure issues currently addressed in AASs 27, 29 and 31 will no longer be explicitly addressed in Australian Accounting Standards.

It was noted that arrangements have been made for the Board to meet with constituents regarding its overall draft strategy for addressing public sector issues at its November 2005 meeting.

Action:

Staff

Accounting for restructures of administrative arrangements

The Board decided that the ED giving effect to the withdrawal of AASs 27, 29 and 31 and consequential amendments to other Standards should:

- (a) consistent with the AASB's September 2005 decision¹, propose that AASB 1004 *Contributions* be amended to require a transfer arising as a consequence of a 'restructure of administrative arrangements' to be treated as a distribution to owners by the transferor and a contribution by owners by the transferee, along the lines of new draft paragraphs 16 and 17 in section 2.1 of agenda paper 10.2. The Board decided that an additional paragraph should also be included that requires transfers of assets and liabilities to be accounted for on a net basis;
- (b) include a proposed definition of restructure of administrative arrangements as follows: "the reallocation or reorganisation of a *government's* assets, liabilities and activities amongst the reporting entities that the government controls that occurs as a consequence of a

¹ Some Board members questioned whether the draft minutes of the September 2005 meeting accurately reflected the Board's decision on accounting for restructures of administrative arrangements at that meeting. The draft minutes recorded the Board's decision as relating to both transferors and transferees, resulting in symmetrical treatment. Some members expressed the view that the Board's September 2005 decision only addressed a transferee perspective. The AASB approved the minute item unamended, noting that its decisions at the October 2005 (see Item (c) below) meeting limit the extent to which the Board's decisions for restructures of administrative arrangements would be applied by analogy to commonly controlled private sector entities.

rearrangement in the way in which a government's activities and responsibilities as prescribed under legislation or other authority are allocated between the government's controlled entities."

- (c) note that it is not intended that the proposed requirements necessarily be applied by analogy to restructures of commonly controlled private sector entities. The Board noted that restructures of commonly controlled entities are scoped out of AASB 3 *Business Combinations* and, therefore, issues relating to such restructures will need to be addressed in due course. The ED should also note that it is timely to specify requirements for restructures of administrative arrangements, which arise only in relation to government controlled entities, in light of the withdrawal of AAS 29 and the existing definition of contributions by owners that is contained in AASB 1004, which is applicable only to not-for-profit entities. Furthermore, in contrast with the outcome if government controlled entities were treated as branches, the ED should note that the approach proposed assumes that, for an entity affected by the proposals, owners exist and there is a residual;
- (d) include a specific matter for comment seeking constituent views on the consequences of the Standard remaining silent on the measurement basis for transferred assets and liabilities. In doing so, the question should be expressed along the lines of "whether there are any anticipated adverse implications of the proposed Standard not specifying a measurement basis for assets and liabilities transferred as a consequence of a restructure of administrative arrangements". Furthermore the question should cross-reference to the Board's rationale outlined in the ED that measurement is not specified because AASB 3 does not specify measurement of transfers amongst commonly controlled entities. However, the ED should acknowledge that although it does not propose to specify the measurement basis for transferred assets and liabilities, alternative measurement methods are available, including book value or fair value;
- (e) include a specific matter for comment seeking constituent views on whether limiting the amendments to AASB 1004 to restructures of administrative arrangements, as defined, is broad enough;
- (f) propose that AASB 1004 be amended to require, where practicable, transferees to disclose the expenses and revenues attributable to transferred activities for the reporting period, showing separately those expenses and revenues recognised by the transferor during the reporting period. The requirement should be expressed along the lines of draft paragraph 18 in the staff view 3 of agenda paper 10.2. In addition, the ED should include a specific matter for comment seeking constituent views on the proposal. The Board noted that the proposed disclosure requirements are consistent with a stewardship objective and with disclosures currently required by AAS 29. The Board noted that the proposals differ from the corresponding disclosures required by AASB 3; and
- (g) broadly consistent with corresponding disclosure requirements in AASB 3, propose that AASB 1004 be amended to require, for each material transfer, the assets and liabilities transferred to be disclosed by class and the transferor/transferee entity be identified. With respect to transfers that are individually immaterial, but collectively material, the assets and liabilities transferred should be disclosed on an aggregate basis.

Accounting for restructures of local governments

The Board decided that it is not necessary to amend other Standards in relation to accounting for restructures of local governments on the withdrawal of AAS 27 as the general principles expressed in AASB 3 or AASB 1004, as applicable, for a transferee and AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* or other relevant standards for a transferor are appropriate and adequate.

On the question of whether local governments are commonly controlled entities, the Board noted that the question of control should be decided on a case-by-case basis as the position may be different in different States and may change over time. However, the Board also noted that paragraph Aus13.4 of AASB 127 *Consolidated and Separate Financial Statements* currently reflects a view that local governments are not commonly controlled entities. AASB 127 currently states that the financial statements of local governments are not required to be consolidated with the financial statements of a government. The Board noted that there appears to be some differences in the criteria for ‘control’ used in older Australian Accounting Standards, such as AAS 31 *Financial Reporting by Governments* and reflected in the Aus paragraphs in AASB 127, as compared to more recently issued International Accounting Standards. However, in light of paragraph Aus13.4 of AASB 127, the Board decided that local governments should not be treated as commonly controlled entities for the purposes of the ED.

Accordingly, the Board decided that the ED proposing the withdrawal of AASs 27, 29 and 31 should explain that the issue of whether local governments are commonly controlled entities has not been fully analysed by the Board. The Board decided that in due course, and consistent with the Board’s longer term draft strategy for dealing with public sector issues, paragraph Aus13.4 as well as related Aus paragraphs in AASB 127 should be reviewed, and reflect the position that the question of control of local governments depends upon the particular facts and circumstances in a jurisdiction. In the interim the ‘Compliance with IAS 27’ statement that accompanies AASB 127 should be amended to note that compliance with paragraph Aus13.4 of AASB 127 may not result in compliance with IAS 27.

Liabilities arising from public policies of government

The Board agreed with staff views 1 to 4 in agenda paper 10.4. Accordingly, the ED giving effect to the withdrawal of AASs 27, 29 and 31 and consequential amendments to other Standards should propose amendments to AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* be made to scope out, in respect of not-for-profit public sector entities, obligations arising from local government and government budget policies, election promises or statements of intent, and to effectively grandfather current practice.

Furthermore, the “Compliance with IAS 37” statement that accompanies AASB 137 should be amended to reflect this approach.

Local governments, government departments and governments as reporting entities

The Board considered whether it is necessary to amend other Standards to address the concern expressed by some that the withdrawal of AAS 27, 29 and 31 would mean that no Standards explicitly state that all local governments and governments and most, if not all, government departments are reporting entities. The Board decided that it is not necessary to amend other Standards because the definition of reporting entity in AASB 3, together with the guidance in SAC 1 *Definition of the Reporting Entity*, is adequate for ensuring that current practice in identifying the existence of a reporting entity is continued. The Board decided that the ED should convey this view to constituents.

Net cost of services format of the income statement

The Board considered whether it is necessary to amend other Standards to address the concern expressed by some that the withdrawal of AAS 29 could mean that there is inadequate acknowledgement that the net cost of services format of the income statement is a valid format for disclosure purposes in appropriate circumstances. The Board decided that in the absence of AAS 29, there is sufficient support in AASB 107 *Cash Flow Statements* and AASB 101 *Presentation of Financial Statements*, including the Australian Implementation Guidance in AASB 101, to allow government departments and other entities, where appropriate, to adopt the net cost of services format for the income statement. Therefore, no additional guidance or amendments are necessary.

SEGMENTS

Agenda item 11

The Board had before it:

- (a) a memorandum from Geoff Harris dated 11 October 2005 (Agenda paper 11.1);
- (b) ED-X *Segments* (IASB first pre-ballot draft) Agenda paper 11.2);
- (c) IPSAS 18 *Segment Reporting* (Agenda paper 11.3); and
- (d) draft proposed ED-Y *Segment Reporting – Not-for-Profit Entities* (Agenda paper 11.4).

The Board deferred consideration of this item until its November meeting.

IPSASB REPORT

Agenda item 12

The Board had before it:

- (a) an IPSASB media release dated 23 September 2005 announcing the issue of IPSASB ED 25 *Equal Authority of Paragraphs in IPSASs* and ED 26 *Improvements to International Public Sector Accounting Standards* (Agenda paper 12.1);
- (b) an IPSASB media release dated 11 October 2005 announcing the issue of IPSASB ED 27 *Presentation of Budget Information in Financial Statements* and ED 28 *Disclosure of Financial Information about the General Government Sector* (Agenda paper 12.2); and
- (c) an AASB media release dated 14 October 2005 informing AASB constituents of the issue of IPSASB EDs 25, 26, 27 & 28 (Agenda paper 12.3).

The Board noted that at the next meeting the IPSASB is expected to make substantial progress on the non-exchange revenue and social policy obligations projects, and to commence a review of an IPSASB equivalent of IAS 19 *Employee Benefits*. The IPSASB is also expected to consider at the meeting a strategy for dealing with IASB/IFRIC decisions relating to service concessions. The Board also noted that it is anticipated that an IPSASB Research Report on heritage assets will be issued shortly, and be based on the work of the UK ASB.

Members noted the recent issue of the four IPSASB Exposure Drafts and decided that:

- (a) staff, rather than the Board, should make submissions to the IPSASB on EDs 25 and 26;
- (b) the Board should make a submission to the IPSASB on ED 27, after having regard to any comments made by Australian constituents as contemplated in the AASB media release. The Board noted that its draft strategy paper *Australian Accounting Standards and Public Sector Entities* anticipates issuing IPSASB ED 27 in Australia for comment. The Board decided that because its proposals relating to budgetary reporting in ED 142 *Financial Reporting of General Government Sectors by Governments* differ significantly from the proposals in IPSASB ED 27, it would not be appropriate to issue IPSASB ED 27 as an Australian ED and to amend the draft strategy paper accordingly; and

- (c) staff, having regard to input from the AASB public sector sub-committee, should make a submission to the IPSASB on ED 28.

Action:	Staff AASB public sector sub-committee
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SUPERANNUATION PLANS

Agenda item 13

The Board had before it:

- (a) a memorandum from Dean Ardern, dated 12 October 2005 (Agenda paper 13.1);
- (b) an extract from the notes to the 2004 annual financial statements of the Australian Government Employees Superannuation Trust (AGEST) detailing the impact of adopting Australian equivalents to International Financial Reporting Standards on the superannuation plan (Agenda paper 13.2);
- (c) a memorandum from Dean Ardern, dated 7 October 2005 (Agenda paper 13.3); and
- (d) an extract from the notes to the 2004 annual financial statements of the Australian Government Employees Superannuation Trust (AGEST) providing a summary of significant accounting policies adopted by the superannuation plan (Agenda paper 13.4).

The Board considered the potential implications of superannuation plans having to treat credit balances of hedging instruments and derivatives in accordance with the recognition, measurement and disclosure requirements in AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*.

The Board noted that at a meeting on 12-13 March 2003, while discussing the convergence of AASB and IASB Standards, the Board agreed to deal with IAS 26 *Accounting and Reporting by Retirement Benefit Plans* as a separate project relating to AAS 25 *Financial Reporting by Superannuation Plans* and not as a convergence issue. Accordingly, the Board agreed that superannuation plans subject to AAS 25 could be permitted to treat all hedging instruments and derivatives that would otherwise be recognised as financial liabilities in accordance with AASBs 132 and 139 in a manner consistent with the approach adopted in AAS 25 *Financial Reporting by Superannuation Plans* with respect to assets. However, the Board emphasised that the proposed amendments to AAS 25 are temporary measures that will be reviewed when the Board undertakes its comprehensive review of AAS 25.

The Board also discussed issues arising from the impact of AASB 3 *Business Combinations* and AASB 127 *Consolidated and Separate Financial Statements* on AAS 25. The Board confirmed that superannuation plans are required to consolidate subsidiaries.

To give effect to its decisions regarding the treatment of hedging instruments and derivatives by superannuation plans, the Board agreed to issue an Invitation to Comment proposing that hedging instruments and derivatives held by superannuation plans be measured at their net market values and any changes in these net market values be recognised in the profit or loss for the reporting period. The Board also agreed that the Invitation to Comment should be issued for a limited time and that 30 days is appropriate in the circumstances. The Board directed staff to notify the Australian Prudential Regulation Authority of the proposed changes to AAS 25.

STRATEGY ISSUES

Agenda item 14

The Board had before it:

- (a) a memorandum from Bruce Porter and Garth Campbell-Cowan dated 18 October 2005 (Agenda paper 14.1); and
- (b) Draft Invitation to Comment *Proposed Interpretations Model for Australian Accounting Standards* (Agenda paper 14.2).

Communication

Members were informed that a communications consultant is reviewing the AASB's communications processes. Members agreed that upon completion the consultant should present his report at a Board meeting.

Proposed Interpretations Model

Members decided to:

- (a) remove Section B from the Draft Invitation to Comment and focus attention on the proposed Interpretations Model;
- (b) expand the Background section to emphasise changes in the financial reporting environment and the relationships with the IFRIC processes and explain why the proposed model is more appropriate;
- (c) noted that under the Proposed Interpretations Model, submissions on IFRIC Draft Interpretations and the adoption of IFRIC Interpretations in Australia will be undertaken by the Board;
- (d) name the AASB Agenda Committee the Interpretations Agenda Committee;
- (e) request comments on the Invitation to Comment by 18 January 2006 in order to facilitate implementation of any changes by 1 July 2006; and
- (f) discuss the Proposed Interpretations Model with the Consultative Group at its meeting on 9 November 2005.

Action:

Sub-committee
Staff

FRIENDLY SOCIETIES

Agenda item 15

The Board had before it:

- (a) a memorandum from Angus Thomson & Crystal Zhang dated 12 October 2005; and
- (b) a letter from Steve Somogyi, APRA member, dated 8 September 2005.

The Board noted that AASB 1038 *Life Insurance Contracts* covers life insurance contracts written by friendly societies, whereas the previous version of the standard (AASB 1038 *Life Insurance Business*)

did not. This coincides with the removal of relief for friendly societies from various APRA and ASIC reporting requirements in relation to life insurance contracts. The Board also noted that both the new and old versions of AASB 1038 contemplate that life insurers operating in overseas markets may have unallocated surplus that is “policyholder equity” because it cannot necessarily be classed as shareholder equity or policyholder liabilities.

The APRA letter outlines the burden that might be placed on friendly societies if they were to be required to always make an allocation between member’ equity and policyholder liabilities and the minimal benefit that might arise from such an allocation.

The Board agreed to issue an Invitation to Comment on the AASB’s web site that proposes amendments to AASB 1038 acknowledging that friendly societies may also have policyholder equity, thereby alleviating the need for them to always make an allocation between members’ equity and policyholder liabilities. The Board agreed that the amendments should be finalised before 31 December 2005.

Action:

Staff

OTHER BUSINESS

Agenda item 16

The Board had before it:

- (a) a memorandum from Angus Thomson dated 12 October 2005 (Agenda paper 16.1);
- (b) IASB Draft Technical Correction 1 (Agenda paper 16.1.1);
- (c) AASB Media Release re IASB Draft Technical Correction 1 (Agenda paper 16.1.2);
- (d) AASB submission on IASB Technical Corrections Policy dated 12 September 2005 (Agenda paper 16.1.3);
- (e) a letter from Nigel Chadwick, VP Group Accounting & Controller, BHP Billiton, received 10 October 2005 to David Boymal, Chairman, AASB, re Joint Ventures (Agenda paper 16.2); and
- (f) a draft letter from David Boymal, Chairman, AASB dated 17 October 2005 to The Hon. Chris Pearce MP, Parliamentary Secretary to the Treasurer re: IFRS and Distributable Dividends (Agenda paper 16.3).

Technical Corrections — Net Investment in a Foreign Operation

Agenda item 16.1

The Board noted that:

- (a) the IASB’s Technical Corrections Policy has yet to be finalised;
- (b) Draft Technical Correction 1 is for comment by 31 October 2005;
- (c) Draft Technical Correction 1 proposes that a monetary item forming part of a net investment in a foreign operation can be denominated in any currency;
- (d) the existing IAS 21 *The Effects of Changes in Foreign Exchange Rates* (and AASB 121 *The Effects of Changes in Foreign Exchange Rates*) only permits a monetary item to form part of a

net investment in a foreign operation when it is denominated in the functional currency of the reporting entity or the foreign operation;

- (e) the IASB proposes that the amendment apply retrospectively with immediate effect.

The AASB agreed that a submission be sent to the IASB commenting that:

- (a) the proposed amendment is supported from a technical point of view and represents an improvement on the existing requirement;
- (b) it is inappropriate to propose the amendment before the IASB has finalised its process for dealing with technical corrections;
- (c) the proposed amendment is more substantive than a technical correction as outlined in the *Proposed IASB Policy on Technical Corrections*;
- (d) the application of the amendment retrospectively with immediate effect would seem to imply that an entity affected by the change would need to recalculate the relevant amounts as if the new policy had always applied and that this is unreasonable at this late stage of implementing IFRS for 2005; and
- (e) if the amendment is made, depending on when it is finalised, the AASB may not be able to make the same amendment in Australian equivalents to IFRSs in a timeframe that requires or even allows entities affected by the change to be IFRS compliant for 2005.

Action

Staff
Chairman

PUTTABLE INSTRUMENTS AND CONCEPTUAL FRAMEWORK PROJECT

Agenda item 17

The Board had before it:

- (a) a memorandum from Geoff Harris dated 11 October 2005 (Agenda paper 17.1);
- (b) FRSB Memorandum (10/10/05) – IASB Project – Financial Instruments Puttable at Fair Value (Agenda paper 17.2);
- (c) IASB – Information for Observers – Financial Instruments Puttable at Fair Value (Agenda paper 17.2.1); and
- (d) FRSB Memorandum (10/10/05) – IASB/FASB Conceptual Framework Project (Agenda paper 17.3);

The Board noted status reports on the IASB project on Financial Instruments Puttable at Fair Value and the IASB/FASB Conceptual Framework project being led by the FRSB.

REVIEW

Agenda item 18

Members discussed:

- (a) whether the Board should consider the development of a policy in respect of the potential for multiple views regarding interpretations;

- (b) the desirability of enhanced communications with the FRC;
- (c) the success of the dinner, hosted by Deloitte, with constituents on Tuesday 25 October 2005 and agreed that similar dinners and other functions should be held more regularly; and
- (d) the success of the meeting with regional standard-setters and the importance of maintaining liaison between meetings.

CLOSE OF MEETING

The Chairman closed the meeting at 4:30 p.m. on 26 October 2005.

APPROVAL

Signed by the Chairman as a correct record
this 10th day of November 2005.