



Issue: Number 114
Date: 23 May 2008
Subject: AASB Meeting 87, 21-22 May 2008

Board Membership

The Board expressed its appreciation for the contributions made to its activities by Des Pearson, Auditor-General Victoria, on his retirement from the Board on the completion of his term on 6 June 2008.

Key Management Personnel Disclosures

The Board considered submissions on ED 162 *Proposed Amendments to Key Management Personnel Disclosures by Disclosing Entities* and agreed to make out-of-session a proposed Accounting Standard AASB 2008-X *Amendments to Australian Accounting Standard – Key Management Personnel Disclosures by Disclosing Entities*. The proposed AASB 2008-X will exempt disclosing entities that are companies that are required to disclose remuneration information about individual key management personnel (KMP) in the remuneration report under section 300A of the *Corporations Act 2001* and Regulation 2M.3.03 from complying with the equivalent KMP disclosures in AASB 124 *Related Party Disclosures* [paragraphs Aus25.2 to Aus25.7.2].

GAAP/GFS Harmonisation for Entities within the General Government Sector (GGS) of the Federal, State and Territory Governments

Consistent with the FRC's direction to the Board that the GAAP/GFS Harmonisation Project should cover entities within the GGS (which include government departments and statutory authorities), the Board discussed the implications of applying the principles in AASB 1049 *Whole of Government and General Government Sector Financial Reporting* to such entities. The Board formed tentative views on a range of issues for the purpose of drafting an ED that will be considered by the Board at a future meeting.

The Board decided that the broad principles of harmonisation currently applicable to GGSs and whole of governments through AASB 1049 should be applied to not-for-profit entities within the GGS. This would mean, for example, that financial reports of not-for-profit entities within the GGS should be prepared on a GAAP basis, modified particularly from a presentation and disclosure perspective to accommodate harmonisation with GFS. This would include:

- presenting a statement of comprehensive income that distinguishes between transactions and other economic flows;
- presenting key fiscal aggregates, such as net lending/borrowing, on the face of the financial statements and disclosing reconciliations to GFS measures of those same key fiscal aggregates;
- disclosing sector-like information;

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- disclosing information about the recognised expenses, excluding losses, included in operating result and assets that are reliably attributable to broad functions (determined to the ABS GFS Manual four-digit level of classification shown in Appendix 3 of that Manual); and
- disclosing budgetary information consistent with the requirements in AASB 1049 if a budget has been made publicly available.

The Board also tentatively decided that:

- it should consider as part of its Differential Reporting Project whether it is appropriate that not-for-profit entities within the GGS be relieved from the full effect of the harmonisation principles, perhaps using size-based criteria;
- a net cost of services format for the statement of comprehensive income should continue to be allowed;
- in light of its decision relating to disaggregated disclosures based on GFS functional classifications, the requirements in AASB 1052 *Disaggregated Disclosures* should no longer be mandatory for government departments. A subsequent Board review of AASB 1052 should consider what the appropriate segment-like reporting requirements should be for not-for-profit entities;
- the current accounting treatment for administered items under AASB 1050 *Administered Items* should continue to apply (when the Board undertakes its separate Administered Items Project, it will have regard to GAAP/GFS harmonisation issues);
- the AASB 1004 *Contributions* requirements for 'compliance with appropriations' disclosure should co-exist with the GAAP/GFS harmonisation budgetary information disclosure requirements;
- for the purpose of the first draft of an ED, requirements for not-for-profit entities within the GGS should be incorporated into AASB 1049 rather than issued as a separate Standard;
- an illustrative example (using a net cost of services format for the statement of comprehensive income) should be provided with the ED or shortly after the ED is issued; and
- sufficient time should be allowed before the proposed Standard becomes operative to allow for appropriate training, education and systems development to take place.

It is planned to issue an ED early in 2009 and a Standard in early 2010.

Superannuation Plans and ADFs

For the purposes of preparing a draft ED, the Board agreed:

- that the primary users of the financial statements of superannuation entities are members and beneficiaries, parties that are employed to act on behalf of members and beneficiaries, such as financial analysts, advisors and unions, and employer sponsors;
- to adopt, as a starting point, the general principle that, if a particular IFRS recognition, measurement or

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presentation requirement applies to a superannuation plan or ADF, the entity should also apply the relevant accompanying IFRS disclosure requirements. The Board noted, however, that information disclosed under this general principle may not be regarded by some users as essential for making economic decisions in a superannuation context, and may vary with respect to similar items. Accordingly, the Board agreed to consider additional principles to facilitate consistent disclosures that users would regard as essential for decision making in a superannuation context;

- that superannuation plans that have members who are entitled to the higher of a defined benefit entitlement or a contribution-based amount should:
 - separate such entitlements into a ‘host promise’ and a ‘higher of option’;
 - recognise and account for the host promise in the same way as defined benefit entitlements; and
 - recognise the higher of option separately and measure it at its fair value, assuming the terms of the benefit entitlements do not change; and
- that a deficiency in assets attributable to the plan’s defined benefit members compared with the members’ accrued benefits would not give rise to a receivable from the employer sponsor, unless there is a specific contractual agreement between an employer sponsor and its superannuation plan, because the superannuation plan does not control future contributions from the employer sponsor; and
- that a plan that presents a defined benefit deficiency should disclose information that enables users to evaluate the nature and implications of the deficiency.

Amendments to AASB 1049 relating to AASB 101

The Board approved ED 163 *Proposed Amendments to AASB 1049 for Consistency with AASB 101*, which proposes amendments to AASB 1049 primarily to align it with AASB 101 *Presentation of Financial Statements* (September 2007). The main proposal is to require whole of governments and GGSs to prepare a statement of changes in equity in a manner consistent with the revised AASB 101. The ED will be placed on the AASB website shortly for a one-month comment period.

Differential Reporting/SMEs

For the purposes of progressing the project, the Board discussed the following key issues pertaining to differential reporting in the not-for-profit (NFP) sector:

- the appropriate number of reporting tiers;
- possible classifications of different types of entities within the NFP sector for differential reporting purposes; and
- use of approaches based on public accountability and size thresholds.

The Board agreed that neither public accountability nor size thresholds provide a robust basis for identifying different tiers of reporting requirements in the NFP sector. The Board tentatively decided that there should not be any classification of different types of entities in the NFP sector other than between private and public entities, and that

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differential reporting in the NFP private and public sectors should be dealt with in the following manner:

- (a) all NFP private sector entities apply a reporting system consisting of three choices:
- (i) full IFRSs (as adopted in Australia); or
 - (ii) the IFRS for SMEs (as adopted in Australia); or
 - (iii) a regime of full IFRS recognition and measurement requirements and limited specified disclosures to be determined by the AASB;
- (b) NFP public sector entities apply a reporting system with two tiers:
- (i) Tier 1: financial reporting at Federal, State and Territory levels would apply full IFRSs (as adopted in Australia)
 - (ii) Tier 2: all other public sector entities would have the choice of applying one of the following:
 - full IFRSs (as adopted in Australia); or
 - the IFRS for SMEs (as adopted in Australia); or
 - a regime of full IFRS recognition and measurement requirements and limited specified disclosures to be determined by the Board.

The Board noted that respective NFP jurisdictional authorities could determine the choices that would be followed by NFP entities in their jurisdiction.

The Board also noted that reporting requirements in (a) and (b) above would apply only to general purpose financial statements. Moreover, final decisions about having a regime involving full IFRS recognition and measurement requirements with limited specified disclosures would be made when the final content of the forthcoming IFRS for SMEs is known.

The Board decided to consider the following issues at future meetings:

- the relationship between lodgement on a public register and the general purpose nature of financial statements;
- the nature of the financial statements of grandfathered companies prepared in accordance with accounting standards; and
- a draft Application Standard depicting a change of application focus from 'reporting entity' to 'general purpose financial statements'.

Not-for-Profit Entity Definition

The Board considered comments received on ITC 14 *Proposed Definition and Guidance for Not-for-Profit Entities*, which incorporated the New Zealand FRSB's definition and guidance on public benefit entities.

The Board agreed that:

- the project should be dealt with as part of the criteria being developed for determining when it might be appropriate to permit or require a departure from IFRSs in respect of not-for-profit entities;
- there is not a sufficient basis for changing from the existing term 'not-for-profit entity';
- as a working principle, the existing content of the definition should be used;

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- draft guidance should be developed using a range of sources, including the guidance prepared by the New Zealand FRSB, the Heads of Treasuries Accounting and Reporting Advisory Committee and the Australasian Council of Auditors-General; and
- it be proposed that not-for-profit entities disclose their status in certain circumstances.

Interpretations

The Board received an update on the status of interpretation issues in progress.

EU Equivalence Mechanism

The Board noted that a Working Paper of the European Commission on the convergence of third country GAAP with IFRSs indicates that the Commission strongly welcomes the fact that a number of jurisdictions, including Australia, have already fully adopted IFRSs and that no further decision under the EU equivalence mechanism is necessary for those jurisdictions.

Consultative Group

The Board met with its Consultative Group on 21 May and received feedback on issues relating to accounting for superannuation plans and ADFs, parent entity financial statements, differential reporting, the use of IPSASs and the content and relative priorities of projects on its work program.

Minutes

The Board approved the minutes of the meeting held on 17 April 2008. These are now published on the website.

Next Meeting on 25-26 June 2008

It is anticipated that the Board will also deal with the following items:

- Annual Improvements
- Cost of a Subsidiary
- GAAP/GFS (Entities within the GGS)
- Interpretations
- Service Concessions (IPSASB proposals)
- Social Benefits
- Superannuation Plans and ADFs

2008 Meeting Dates

Remaining 2008 meeting dates are:

- 25-26 June
- 30-31 July (joint meeting with NZ FRSB – Auckland)
- 27 August
- 24-25 September
- 12-13 November
- 17-18 December

Unless indicated otherwise, meetings are held in Melbourne.

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