



Subject: Minutes of the 91st meeting of the AASB
Venue: Ken Spencer Room, AASB offices
Level 7, 600 Bourke St, Melbourne
Time(s): Wednesday 24 September 2008 from 8:30 a.m. to 4:55 p.m.

All agenda items except items 1 and 2 were discussed in public.

Attendance

Members David Boymal (Chairman)
 Glenn Appleyard
 Sue Highland
 Mark Jenkin
 Jan McCahey (from 10:15 a.m. to 12:15 p.m. and from 2:00 p.m. to 4:55 p.m.)
 John O'Grady (until 2:00 p.m.)
 Colin Parker
 Kris Peach
 Joanna Perry
 Bruce Porter
 Brett Rix
 Robert Williams

Apologies Frank Palmer

In Attendance Peter Batten (IPSASB member) (from 11:00 a.m. to 2:40 p.m.)

Staff Dean Arden (in part)
 Ahmad Hamidi (in part)
 Geoff Harris
 Robert Keys (in part)
 Sabine Schührer (in part)
 Joanna Spencer (in part)
 Angus Thomson
 Raymond Yu (in part)

APOLOGIES, AGENDA, MINUTES AND MATTERS ARISING FROM MINUTES

Agenda item 1

Declarations of Interest

Members indicated that, in the normal course of their day-to-day professional responsibilities, they deal with a broad range of financial reporting issues. Members have adopted the standing policy in respect of declarations of interest that a specific declaration will be made where there is a particular interest in an issue before the Board.

Minutes

The Board confirmed the minutes of the ninetieth meeting held on 27 August 2008.

CHAIRMAN'S REPORT

Agenda Item 2

The Chairman informed members that:

- (a) he, Angus Thomson and Clark Anstis met with staff of the Office of Legislative Drafting (OLD) to discuss approaches to the adoption of IFRSs and their inclusion in Australian law. Members were informed that there is little prospect of the Corporations Law being amended to refer directly to adoption of IFRSs. Members were advised that the OLD consider that there is scope to change the existing approach for processing amendments to Australian Accounting Standards as it is feasible to refer to the IFRS amendments in a legislative document and to identify the actual amendments in a schedule. Members noted that one of the implications of this type of approach is that the Board will need to ensure that compilations of Standards are kept up to date. Members considered that such an approach would be a positive development and indicated that it should be further explored with the OLD;
- (b) he and Robert Keys attended the recent meetings of the National Standard Setters (NSS) and the IASB's meeting with World Standard Setters. Members noted that the NSS has agreed to support the publication of a AASB staff paper on accounting for intangible assets; and
- (c) in early November the FRC will hold a public sector workshop to discuss a post-implementation review of the application of the Standards issued in relation the FRC directive regarding GAAP/GFS harmonisation. Members noted that the Chairman and senior technical staff have been invited to participate in the workshop.

Action:	Staff
	Chairman

SUPERANNUATION PLANS AND APPROVED DEPOSIT FUNDS

Agenda item 3

The Board had before it:

- (a) a memorandum from Dean Ardern dated 12 September 2008 (Agenda Paper 3.1); and

- (b) draft Exposure Draft ED 16X *Superannuation Plans and Approved Deposit Funds* (Agenda Paper 3.2).

The Board decided that draft Exposure Draft (ED) should:

- (a) retain the overall approach that, when relevant, other Australian Accounting Standards apply unless otherwise specified in the ED;
- (b) include a core principle that outlines the information that a superannuation plan or approved deposit fund (ADF) needs to report to provide users with a basis for understanding the:
- (i) financial position, financial performance and cash flows of the entity, including:
 - the fair value adjusted for costs to sell of the entity's assets and liabilities other than members' accrued benefits; and
 - members' accrued benefits;
 - (ii) capacity of the entity to meet members' benefits; and
 - (iii) financial risks to which the entity is exposed that could affect its capacity to meet members' accrued benefits;
- (c) require a superannuation plan that has defined benefit members to determine the present value of its obligation for those members' accrued benefits by attributing benefits to periods of service/membership under the plan's benefit formula. Accordingly, if a plan's benefit formula prescribes that members accrue materially higher levels of benefits as they near retirement age, the plan would need to attribute members' benefits on an appropriate basis, and would not automatically use a straight-line basis as required by AASB 119 *Employee Benefits* in respect of a defined benefit obligation of an employer sponsor;
- (d) specify that all assets, not just reinsurance assets, arising from insurance contracts issued by a superannuation plan or ADF should be accounted for in accordance with AASB 1038 *Life Insurance Contracts*; and
- (e) include more of the explanatory material from the Application Guidance in the body of the Standard.

The Board also agreed that the draft ED should be amended in accordance with the changes described in Attachment A to these minutes.

The Board agreed to continue its deliberations of the draft ED at its October meeting.

Action: Staff

AMENDMENTS TO AASB 1049 FOR CONSISTENCY WITH AASB 101

Agenda item 4

The Board had before it:

- (a) a memorandum from Robert Keys and Robert Orford dated 9 September 2008 (Agenda Paper 4.1);
- (b) a staff analysis of submissions on ED 163 *Proposed Amendments to AASB 1049 for Consistency with AASB 101* (Agenda Paper 4.2);

- (c) draft Standard AASB 2008-X *Amendments to AASB 1049 for Consistency with AASB 101* (marked-up version of ED 163 [except paragraph 40(g)R3 and Basis for Conclusions]) (Agenda Paper 4.3);
- (d) draft 'compiled' AASB 1049 – marked-up from AASB 1049 (October 2007) (Agenda Paper 4.4);
- (e) a submission on ED 163 from the Australasian Council of Auditors-General (ACAG) (Agenda Paper 4.5);
- (f) a submission on ED 163 from the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) (Agenda Paper 4.6); and
- (g) ED 163 *Proposed Amendments to AASB 1049 for Consistency with AASB 101* (Agenda Paper 4.7)

The Board considered the responses to ED 163 and the staff analysis of those responses and decided that some of the issues raised by respondents (noted on Attachment B to these minutes) are outside the limited scope of ED 163 and should be considered as part of a separate post-implementation review of AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

The Board reviewed the draft amending Standard AASB 2008-X, which reflected some of the comments made by respondents. Subject to amendments agreed to by the Board (see Attachment B to these minutes) and final quality control processes by staff and clearance by the Chairman, the Board made AASB 2008-9, which is applicable to annual reporting periods beginning on or after 1 January 2009. Early adoption is permitted provided AASB 101 *Presentation of Financial Statements* (September 2007) is applied at the same time.

Action:	Staff Chairman
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INTERPRETATIONS

Agenda Item 5

The Board had before it:

- (a) a memorandum from Joanna Spencer dated 16 September 2008, re Interpretations (Agenda paper 5.1);
- (b) a paper: Interpretations Issues in Progress (IFRIC and domestic topics) as at 16 September 2008 (Agenda paper 5.2);
- (c) a memorandum from Joanna Spencer, dated 16 September 2008, re revised AASB 1048 *Interpretation and Application of Standards* (Agenda paper 5.3);
- (d) draft Accounting Standard AASB 1048 *Interpretation and Application of Standards* (clean copy) (Agenda paper 5.4);
- (e) draft Accounting Standard AASB 1048 *Interpretation and Application of Standards* (mark up) (Agenda paper 5.5);
- (f) a memorandum from Joanna Spencer, dated 16 September 2008 re Tentative and Final IFRIC Agenda Decisions (Agenda paper 5.6); and
- (g) *IFRIC Update* (September 2008) (Agenda paper 5.6).

The Board made AASB 1048 *Interpretation and Application of Standards* (September 2008) which is applicable for annual reporting periods ending on or after 30 September 2008.

- (a) the approach to GAAP/GFS harmonisation for entities within the GGS should differ from that adopted in AASB 1049 *Whole of Government and General Government Sector Financial Reporting* for GGSs and whole of governments, particularly on the grounds of the relevance of information for users;
- (b) GAAP/GFS harmonisation for entities within the GGS could be achieved by those entities adopting applicable Australian Accounting Standards and by the Board amending AASB 101 *Presentation of Financial Statements* to specify that those entities should adopt the financial statements formats prescribed in AASB 1049 (in particular, the transactions/other economic flows split in the statement of comprehensive income), but exclude the key fiscal aggregates section at the foot of the statements; and
- (c) the key fiscal aggregates section at the foot of the GGS and whole of government financial statements would not be relevant to users of financial statements of entities within the GGS.

The Board also agreed that:

- (a) the other GAAP/GFS harmonisation requirements in AASB 1049 are also not relevant at an entity-within-the-GGS level, including the requirement to disclose sector information, GFS functional information and reconciliations of GAAP measures to GFS measures of key fiscal aggregates;
- (b) it is not necessary for the Board to limit the recognition and measurement choices in Australian Accounting Standards to align with GFS, because the relevant authority in each jurisdiction can impose such limitations;
- (c) to limit the scope of the project, other requirements imposed on GGSs and whole of governments by AASB 1049 should not be imposed on entities within the GGS, including budgetary reporting requirements, which will be the subject of a separate future project;
- (d) differential reporting issues should not be addressed as part of the GAAP/GFS harmonisation project. Rather, it should be addressed as part of the separate differential reporting project;
- (e) it is not necessary for the GAAP/GFS harmonisation project to separately address parent entity reporting by entities within the GGS because AASB 127 *Consolidated and Separate Financial Statements* deals with the pertinent issues; and
- (f) AASB 1052 *Disaggregated Disclosures* (which itself is the subject of review as part of a separate future project) should continue to apply to government departments, and be expanded to apply to other entities within the GGS. As a result, it is not necessary to impose the requirement in AASB 1049 to disclose information about recognised expenses, excluding losses, included in operating result and assets that are reliably attributable to broad GFS functions on entities within the GGS.

The Board directed staff to prepare a draft Exposure Draft that proposes amendments to AASB 101 consistent with the above decisions for consideration by the Board at a future meeting. The Board indicated that the proposed amendments should express the requirements in a manner that is consistent with the more general principles for the presentation of financial statements in

AASB 101. It is intended that the proposals, being consistent with GAAP, would apply to all entities within the GGS (whether incorporated or unincorporated, and whether for-profit or not-for-profit).

The Board also decided that the Chairman writes to HoTs in response to their letter, outlining the Board's decisions and should also contact relevant FRC members to explain the Board's intended approach.

Action: Staff
Chairman

CONCEPTUAL FRAMEWORK

Agenda item 7

The Board had before it:

- (a) a memorandum from Ahmad Hamidi and Raymond Yu dated 16 September 2008 (Agenda paper 7.1);
- (b) a draft AASB submission on the IASB Discussion Paper *Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Reporting Entity* (Agenda paper 7.2);
- (c) a summary of Comments by Participants in ITC 17 Roundtable (Agenda paper 7.3);
- (d) Comment Letters on ITC 17, including a summary major points raised (Agenda paper 7.4); and
- (e) ITC 17 *Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Reporting Entity* (Agenda paper 7.5).

The Board considered a draft submission on the IASB-FASB Discussion Paper *Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Reporting Entity* (DP), having regard to the comments received on the AASB's related Invitation to Comment (ITC 17) and comments made at its Conceptual Framework Roundtable in August. The Board agreed that its submission should comment that:

- (a) it agrees with providing a broad description of a reporting entity as proposed by the DP, rather than seeking to develop a precise definition;
- (b) its submission on the IASB Exposure Draft on phase A of the joint IASB-FASB conceptual framework should comment that the notion of a general purpose financial report needs to be clarified in the context of setting out the objective of financial reporting;
- (c) the controlling entity model is distinctly different from a risks and rewards model. Consistent with the view articulated in the DP, control should be used for determining the composition of a group reporting entity. However, a risks and rewards analysis may be useful at the standards level in assisting the determination of where control resides;
- (d) a discussion of benefits in forms other than cash should be included. As an example stapled securities should be mentioned where limiting benefits to cash would be problematic for establishing control;

- (e) the dual listed company arrangements and stapled securities arrangements are examples of situations where a common control model may be employed. Currently, in Australia, the composition of the group reporting entity in such cases is determined using a controlling entity model by requiring one of the entities in the stapling arrangement to be designated as the parent, which can give rise to reporting information that is not useful;
- (f) it agrees with using the entity perspective in preparing group financial reports and that the submission should articulate the reasons for adopting an entity perspective, rather than a proprietary perspective; and
- (g) holding options over voting rights is not sufficient, in itself, to establish control of an entity.

The Board also agreed to omit the following items from its submission:

- (a) subparagraphs (a), (c) and (f) of the covering letter; and
- (b) paragraphs (3), (4), 5(f), 6, 8 and 20 of the draft submission.

The Board will consider a further draft submission at its October 2008 meeting.

Action: Staff

OTHER BUSINESS AND CORRESPONDENCE

Agenda item 8

The Board noted the *FRSB Alert* (Summary as at 4 September 2008) (Agenda paper 8.1).

CLOSE OF MEETING

The Chairman closed the meeting at 4:55 p.m. on 24 September 2008.

APPROVAL

Signed by the Chairman as a correct record
this tenth day of October 2008.

ATTACHMENT A

SUPERANNUATION PLANS AND APPROVED DEPOSIT FUNDS

Agenda item 3

The Board considered draft Exposure Draft ED 16X *Superannuation Plans and Approved Deposit Funds* (Agenda Paper 3.2) and decided to:

- (a) replace the word ‘necessary’ with ‘relevant’ in the last sentence of the ‘Reasons for Issuing this Exposure Draft’ section, and in paragraph 1, thereby ensuring consistency with the terminology used in the *Framework*;
- (b) insert the words ‘are intended to’ after ‘Standard’ in paragraph 1;
- (c) specify in the ED that the financial risks to which a superannuation plan with defined benefit members is exposed includes the risk that the employer sponsor may or may not continue to make contributions to the plan at a level that would permit the plan to meet members’ accrued benefits;
- (d) amend paragraph 7 to clarify that paragraph 1 of the Application Guidance identifies the Australian Accounting Standards that contain measurement and disclosure principles and requirements that a superannuation plan or ADF would not apply under a replacement Standard for AAS 25;
- (e) amend the Specific Matters for Comment section to:
 - (i) note that, under a replacement Standard for AAS 25, other Australian Accounting Standards would apply unless otherwise specified in the ED. Accordingly, the ED identifies the specific exceptions that apply to a superannuation plan or ADF; and
 - (ii) include a question asking constituents whether this approach is helpful and, if not, ask them to describe the type of approach they would prefer;
- (f) replace the words ‘except for the following’ with ‘however’ in paragraph 8;
- (g) insert the word ‘always’ after ‘shall’ and replace the words ‘in accordance with paragraph 12 of this Standard’ with ‘as liabilities’ in paragraph 8(a);
- (h) delete all unnecessary references to a parent entity;
- (i) delete the word ‘deferred’ when it appears in relation to tax assets and liabilities/balances and is unnecessary in the particular context;
- (j) amend paragraph 9 to:
 - (i) insert the word ‘recognised’ after ‘All’; and
 - (ii) clarify that any balancing item arising on the consolidation of a subsidiary in accordance with the proposals in the ED is not measured at fair value less costs to sell;
- (k) replace the term ‘higher of option’ with a more explanatory term, such as ‘benefit option’;
- (l) amend paragraph 10 to:
 - (i) insert the word ‘recognised’ after ‘All’; and
 - (ii) amend (c) to clarify what a ‘benefit option’ is;
- (m) delete paragraph 12;

- (n) amend paragraph 13 to clarify that defined contribution members' accrued benefits is measured on the basis of the amount that would be payable to or on behalf of those members at the reporting date;
- (o) amend paragraph 14 to explain the relationship between the Projected Unit Credit Method, actuarial assumptions, discount rates and salaries and benefits, thereby providing a link between paragraphs 14 and 15 – 17;
- (p) delete the words 'where appropriate' from paragraph 17(b);
- (q) relocate the words 'for example, in line with future changes in general price levels of general salary levels' in paragraph 17(c)(ii) to an appropriate place in the Application Guidance;
- (r) relocate the features of paragraph BC48 in the Basis for Conclusions to follow paragraph 18;
- (s) replace the words 'accounted for' with 'measured in paragraph 19';
- (t) combine paragraphs 20 and 21 and clarify that all income and expense items are treated in accordance with applicable Australian Accounting Standards, except that:
 - (i) all remeasurement changes in:
 - assets and liabilities measured at fair value adjusted for costs to sell;
 - assets and liabilities arising from insurance contracts; and
 - defined benefit members' accrued benefits;are recognised as gains or losses in the profit or loss in the period in which they occur; and
 - (ii) all changes in income tax assets and liabilities attributable to members' accrued benefits, such as tax attributable to deductible contributions and superannuation contributions surcharge balances, are recognised in the statement of changes in members' accrued benefits;
- (u) amend paragraphs 22 and 23 to clarify that a superannuation plan or ADF presents:
 - (i) a statement of financial position, a statement of cash flows and, where relevant, a statement of changes in equity, in accordance with Australian Accounting Standards;
 - (ii) notes in accordance with applicable Australian Accounting Standards except where the disclosure principles in the replacement Standard apply instead;
 - (iii) an income statement; and
 - (iv) a statement of changes in members' accrued benefits;
- (v) amend paragraph 24 to clarify that, where the amount of net assets attributable to members does not equal members' accrued benefits, a superannuation plan or ADF classifies the residual as equity and presents it in accordance with applicable Australian Accounting Standards;
- (w) incorporate paragraphs 25 and 26 into paragraphs dealing with the presentation of an income statement;
- (x) amend paragraph 27 in the body of the Standard and paragraphs 50 – 52 in the Application Guidance to clarify that a superannuation plan or ADF:

- (i) recognises in its consolidated financial statements all of the assets and liabilities of a subsidiary in accordance with Australian Accounting Standards at fair value adjusted for costs to sell; and
- (ii) presents separately in its consolidated financial statements the difference between:
 - the fair value adjusted for costs to sell of subsidiaries' recognised net assets; and
 - the aggregate of:
 - the fair value less costs to sell of the parent entity's interests in subsidiaries; and
 - the amount of any non-controlling interest in subsidiaries measured in accordance with AASB 3 *Business Combinations*;as a balancing item at each reporting date;
- (y) identify an appropriate term to describe the balancing item that might arise on the consolidation of subsidiaries;
- (z) amend paragraphs 50 – 53 of the Application Guidance to clarify that a balancing item that arises on the consolidation of subsidiaries is a credit balance and would be presented in the statement of financial position and therefore would not be eliminated against profit or loss in accordance with AASB 3;
- (aa) include in the Specific Matters for Comment section a question asking constituents whether a superannuation plan or ADF should be required to present the balancing item that arises on the consolidation of subsidiaries as a single amount or whether an entity should be either permitted or required to separately recognise any internally generated intangible assets, internally generated goodwill, contingent assets and contingent liabilities that that comprise the balancing item when they are reliably measurable;
- (ab) insert a paragraph before paragraph 31 specifying that a superannuation plan or ADF that issues insurance contracts to members for death and/or disability cover discloses information in accordance with AASB 1038 *Life Insurance Contracts*;
- (ac) amend paragraph 15 of the Application Guidance:
 - delete the second sentence; and
 - amend the paragraph to clarify that, by requiring a superannuation plan to determine the present value of its obligation for defined benefit members' accrued benefits by attributing benefits to periods of service/membership under the plan's benefit formula, the approach proposed in the ED differs from the corresponding requirements under AASB 119 *Employee Benefits* in respect of a defined benefit obligation of an employer sponsor; and
- (ad) delete the word 'current' from the phrase 'current benefit cost'.

ATTACHMENT B

AMENDMENTS TO AASB 1049 FOR CONSISTENCY WITH AASB 101

Agenda item 4

The Board considered Agenda Paper 4.2 and decided that:

- (a) consistent with staff view 1, where an entity elects to early adopt revised AASB 1049 it should also early adopt AASB 101 *Presentation of Financial Statements* (September 2007);
- (b) consistent with staff view 2, issues raised by HoTARAC relating to budgetary reporting should be considered in the context of a post-implementation review of AASB 1049 and not in the context of this limited-scope project;
- (c) consistent with staff view 3, for consistency with AASB 101 and the broad approach in AASB 1049, a statement of changes in equity should be required for GGSs and whole of governments (and the sectors therein). Some Board members questioned whether such a statement would necessarily provide useful information, particularly in relation to the PNFC and PFC sectors, and in circumstances where there are no distributions to owners as owners. The Board noted, however, that the Amending Standard would not require a statement of changes in equity to be prepared when it is concluded that it is not necessary on materiality grounds;
- (d) in relation to staff view 4, the illustrative statement of changes in equity for the whole of government by sector to be included in the amended AASB 1049:
 - (i) should adopt a down-the-page format, rather than an across-the-page format;
 - (ii) for consistency with the fact set in the Illustrative Examples in AASB 1049, a 'dividend' column should be added, to illustrate the payment of dividends by the PNFC and PFC sectors to the GGS;
 - (iii) sub-totals should be shown for each sector, for consistency with the requirement in paragraph 106(a) of AASB 101 for the comprehensive result to be shown in the statement;
 - (iv) staff should consider a way of describing the line items currently described as 'net gain ...' (which implies a flow notion) to be consistent with the stock notion adopted for the other line item descriptions; and
 - (v) to simplify the example, the 'zero' shown for the line item currently described as 'net gain on equity investments in other sector entities measured at proportional share of the carrying amount of net assets/(liabilities)' should be avoided whilst maintaining the consistency of numbers throughout the illustrative examples;
- (e) ED 163 proposals relating to transitional requirements should be adopted;
- (f) overall, a Standard adopting the proposals in ED 163 amended to reflect the above decisions would result in financial statements that would be useful to users and is in the best interests of the Australian economy;
- (g) consistent with staff view 5, the exemption from disclosing certain information that enables financial statement users to evaluate the entity's objectives, policies and processes for managing capital as per paragraph Aus1.7 of AASB 101 should not be reviewed as part of

this project. Instead, the issue should be considered as part of the post-implementation review of AASB 1049; and

- (h) the ACAG suggestion that AASB 1049 be amended to clarify whether or not GGS financial statements comply with the 'fair presentation' framework should not be addressed as part of the ED 163 project, for the reasons presented in staff view 6.

The Board considered the draft amending Standard (Agenda Paper 4.3) and approved the issue of the Standard, subject to the above and following decisions:

- (i) the mark-up in paragraph 3 within paragraph 6, which refers to early adoption of AASB 101, should be moved to the end of paragraph 4 within paragraph 6, because that is where early adoption of AASB 1049 is referred to;
- (j) in relation to paragraph 28, the Board agreed that revised paragraph 45 of AASB 1049 should refer to the latest version of AASB 127. The Board also agreed with the staff view noted in the margin text-box that footnote 1 of the amending Standard adequately deals with the fact that two versions of AASB 127 will co-exist for a short period of time;
- (k) in relation to paragraph 32 (and elsewhere), the Board noted that the drafting style of, for example, amended paragraph 52 of AASB 1049 is "the whole of government shall disclose ..." rather than "the whole of government financial statements shall disclose ...". The latter is more consistent with the Board's usual style of drafting. The Board agreed to retain the new style, noting that it uses fewer words and is clear in its meaning. However, the Board decided to change phrases like 'disclosed by whole of governments' to 'disclosed for whole of governments'; and
- (l) in relation to paragraph 39, containing the amendments to the term and definition of 'whole of government financial report' currently used in AASB 1049, the Board asked staff to ensure that the relationship between the term 'financial statements' and 'general purpose financial statements' is clear, by having regard to the approach used in AASB 101. The approach used in AASB 101 would mean that the term 'whole of government financial statements' could be used throughout an amended AASB 1049 as effectively a reference to 'whole of government general purpose financial statements'.