

## AASB ACTION ALERT

Number 101 – 16 February 2007

AASB, Level 7, 600 Bourke Street, Melbourne, Victoria 3000 Australia. PO Box 204, Collins St West, Victoria 8007

E-mail: [standard@aab.com.au](mailto:standard@aab.com.au) Website: [www.aab.com.au](http://www.aab.com.au) Telephone: [+61] (3) 9617 7600 Fax: [+61] (3) 9617 7608

Copyright © 2007 Australian Accounting Standards Board. Not to be copied by any means without written permission from AASB.

*74th meeting of the AASB, held on 14-15 February 2007*

### Board Membership

The Board welcomed Sue Highland, Director, Financial Management Branch, Queensland Treasury, to her first meeting as a member of the Board from 15 February 2007 to 31 December 2009.

The Board expressed appreciation for the contributions of Professor Ken Leo, Deputy Chairman, to its activities and to financial reporting developments in Australia and internationally, on his retirement from the Board.

The Board appointed Bruce Porter as Deputy Chairman to succeed Professor Leo.

### Work Program

The Board reviewed its work program and agreed on the project areas that would be the key focus for 2007, namely:

- \* Whole of government GAAP/GFS Harmonisation
- \* Review of AAS 27, AAS 29 and AAS 31
- \* Review of public sector not-for-profit entity issues arising from the implementation of Australian equivalents to IFRSs
- \* Superannuation entities
- \* Reporting entity/differential reporting/SME issues
- \* Revenue from non-exchange transactions (with New Zealand)
- \* Control of an entity/asset in the not-for-profit public sector
- \* Insurance phase 2
- \* Conceptual framework relating to the IASB/FASB work
- \* Conceptual framework relating to the IPSASB work
- \* Service concessions from a grantor perspective

### Superannuation Entities

The Board considered an update of the scope of the proposed project plan for the comprehensive review of AAS 25 *Financial Reporting by Superannuation Plans*. The Board noted that the proposed project plan identified additional guidance in relation to the measurement of assets as a potential issue for consideration. The Board agreed that, if such guidance were to be issued, its application should not be limited to superannuation entities. Accordingly, the issue of measurement guidance is outside the scope of the comprehensive review of AAS 25.

The Board also considered an issues paper discussing the implications of requiring defined benefit obligations to be measured at fair value in accordance with Australian equivalents to IFRSs, bearing in mind the current IASB consultation around the United States FASB Standard SFAS 157 *Fair Value Measurements*. The Board noted that the fair value measurement of a defined benefit obligation would potentially be different from the amount of the defined benefit obligation measured in accordance with AASB 119 *Employee Benefits*. The Board agreed that, in the current circumstances, it would be best to use the current requirements in AASB 119 in relation to the measurement of defined benefit obligations as a basis for developing proposals for the purpose of a replacement standard for AAS 25. The Board also agreed that an issues paper examining the implications of applying the

measurement principles for defined benefit obligations in AASB 119 to superannuation plans, including the potential benefits to users, should be prepared for the Board's consideration.

### **Review of Public Sector Not-for-Profit Entity Issues**

The Board commenced reviewing a staff paper on public sector not-for-profit entity issues arising from the implementation of Australian equivalents to IFRSs. The Board made a range of decisions about the manner in which it should proceed to address those issues and will continue its deliberations at the March meeting.

### **Differential Reporting / Small and Medium-sized Entities (SMEs)**

The Board decided that under a revised financial reporting regime all financial reports that are prepared and lodged with the ASIC under the *Corporations Act 2001* would be regarded as general purpose financial reports on the basis of being available on a public register for access by users.

The Board considered staff papers on the three-tier approach for the corporate sector and proposals in relation to the definition of a publicly accountable entity. The Board agreed that a two-tier approach requiring Australian equivalents to IFRSs for publicly accountable corporates and a SMEs Standard for corporates that are not publicly accountable but prepare general purpose financial reports should be proposed. The Board noted that a third tier may become necessary should the disclosure requirements of the future IFRS for SMEs be considered too onerous for entities at the lower end of the second tier. The Board also asked for a paper identifying the issues that arise for subsidiaries of public companies that might be classified as SMEs for consideration at its March meeting.

In respect of for-profit corporates, the Board agreed to use the IASB's definition of publicly accountable. However, the Board noted that, if the IASB reduces the level of disclosure or the rigour of the recognition and measurement requirements of the IFRS for SMEs, it may need to widen the definition of publicly accountable by identifying certain types of entities that should fall within the definition.

The Board also agreed that all public sector entities should be regarded as publicly accountable, although members expressed concerns about the reporting burden on small entities.

The Board will consider at its March meeting the manner in which it will propose to deal with not-for-profit entities in the private sector in terms of the future IFRS for SMEs.

### **GAAP/GFS Harmonisation for Whole of Governments and PNFC sectors and PFC sectors**

The Board noted the FRC's December 2006 decision that clarifies the scope of the GAAP/GFS harmonisation project. In particular, the project now comprises two phases. Phase 1 includes GGSs (the subject of AASB 1049 *Financial Reporting of General Government Sectors by Governments*), Public Non-Financial Corporation (PNFC) sectors, Public Financial Corporation (PFC) sectors and whole of governments of the States, Territories and the Commonwealth. Phase 2 includes entities within the GGSs of the States, Territories and the Commonwealth. Accordingly, GAAP/GFS harmonisation will not be pursued for entities originally contemplated to be considered in Phase 3 of the project, which includes local governments, government business enterprises, universities and other multi-jurisdiction entities.

The Board gave preliminary consideration to the main issues that need to be resolved in developing a GAAP/GFS harmonisation standard for whole of governments and PNFC and PFC sectors of the States, Territories and the Commonwealth.

The *AASB Action Alert* is issued by the AASB. It reports on meetings of the AASB as a service to the AASB's constituents. Decisions reported are tentative and may be changed or modified by the AASB. Decisions become final only after completion of the formal processes required to issue documents. No responsibility is taken for the results of actions or omissions to act taken on the basis of any information in this report, or for any errors or omissions.

Broadly, the Board decided that the manner in which AASB 1049 applies GAAP and accommodates GFS principles should, where appropriate, be adopted for whole of government reporting. This would mean that whole of governments would be required to, for example:

- (a) consolidate all controlled entities (in accordance with AASB 127 *Consolidated and Separate Financial Statements*);
- (b) adopt other GAAP recognition and measurement principles and, where GAAP provides options, adopt the GAAP option(s) that align with GFS;
- (c) prepare a comprehensive income statement (rather than a separate income statement and statement of changes in equity);
- (d) adopt various GFS concepts for presentation purposes (including the presentation of key fiscal aggregates and the presentation of a distinction between transactions and other economic flows);
- (e) disclose reconciliations of key fiscal aggregates between GAAP and GFS;
- (f) disclose disaggregated information on a functional basis; and
- (g) disclose budgetary information, but only where a whole of government budget is presented to Parliament.

The Board also decided that separate requirements for PNFC sector and PFC sector financial reports should not be developed. However, consideration will be given to requiring the whole of government financial report to include note disclosures of:

- (a) the financial statements of the GGS, PNFC sector and PFC sector, prepared on a GAAP/GFS harmonised basis;
- (b) a reconciliation of those financial statements to the whole of government financial statements (in the form of an adjustments column); and
- (c) reconciliations of key fiscal aggregates between GAAP and GFS for each sector.

In implementing its decisions, the Board decided that the first draft of an ED to be considered by the Board at a future meeting should be in the form of a marked-up AASB 1049, highlighting how AASB 1049 would need to be amended for whole of government GAAP/GFS harmonised reporting purposes. Staff will also commence work on a draft ED that incorporates whole of government requirements into AASB 1049, thereby contemplating a single standard specifying GAAP/GFS harmonisation requirements for GGSs and whole of governments. The Board will decide at a future meeting whether the ultimate ED should only focus on whole of governments or whether it should cover both GGSs and whole of governments.

After noting the urgency of the project, the Board concluded that its due process should not be compromised and that an Illustrative Example of whole of government financial statements and selected notes should be included in the ED.

### **Operating Segments**

The Board agreed to vote on making AASB 8 *Operating Segments*, the Australian equivalent to IFRS 8 *Operating Segments*, and AASB 2007-3 *Amendments to Australian Accounting Standards arising from AASB 8* out of session. The scope of AASB 8 will be the same as that of IFRS 8 and will apply to for-profit entities whose debt or equity securities are traded in a public market or that are entities in the process of filing financial statements with a regulatory organisation for the purpose of issuing a class of instruments in a public market. This is narrower than the scope of AASB 114 *Segment Reporting*, which applies to all reporting entities in the for-profit sector. The proposed AASB 8, which will supersede AASB 114, will apply for annual reporting periods beginning on or after 1 January 2009. Earlier adoption will be permitted.

## Interpretations

### *Group and Treasury Share Transactions*

The Board approved AASB Interpretation 11 *AASB 2 – Group and Treasury Share Transactions*, the Australian equivalent to IFRIC Interpretation 11. AASB Interpretation 11 will apply to annual reporting periods beginning on or after 1 March 2007, with early adoption permitted. The Interpretation will be published on the website shortly.

The Board continued its discussion from the December 2006 meeting concerning the transitional paragraph in IFRIC Interpretation 11, which refers to the transitional provisions in IFRS 2 *Share-based Payment*. The Board decided to adopt the same approach in AASB Interpretation 11. As a consequence, the Board also approved AASB 2007-1 *Amendments to Australian Accounting Standards arising from AASB Interpretation 11* to insert into AASB 2 *Share-based Payment* the transitional provisions which had been excluded when the Standard was made in July 2004 as part of the adoption of IFRSs.

The Board also approved the insertion of an Aus paragraph into the Basis for Conclusions of AASB Interpretation 11, to indicate that application of the transitional requirements in the Interpretation does not supersede an entity's application of the optional transition provisions in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*

### *Service Concession Arrangements*

The Board approved AASB Interpretation 12 *Service Concession Arrangements*, which addresses the accounting by service concession operators, but not grantors, for public-to-private service concession arrangements. AASB Interpretation 12 is the Australian equivalent to IFRIC Interpretation 12. It will apply to annual reporting periods beginning on or after 1 January 2008, with early adoption permitted. The Interpretation will be published on the AASB's website shortly. . [The accounting by grantors for service concession arrangements will be addressed by the Board through a due process involving an Interpretations Advisory Panel.]

Consequential amendments were made to UIG Interpretation 4 *Determining whether an Arrangement contains a Lease* and UIG Interpretation 129, now titled *Service Concession Arrangements: Disclosures*. The revised Interpretations will be issued as AASB Interpretations.

Furthermore, AASB 1 is amended (consistent with IFRS 1) to include an optional exemption concerning service concession arrangements for first-time adopters. The amending Standard, AASB 2007-2 *Amendments to Australian Accounting Standards arising from AASB Interpretation 12*, also amends references in AASB Standards to UIG Interpretations to refer simply to Interpretations instead.

## Proposed Amendments to AASB 1

The Board agreed to issue ED 152 *Proposed Amendments to AASB 1 First-time Adoption of Australian equivalents to IFRSs*, which incorporates an IASB ED proposing that, on first-time adoption, a parent can measure its interest in a subsidiary at the fair value or carrying amount of net assets at transition date and subsequently treat this as the cost of the investment.

## Inventories

A number of constituents have highlighted difficulties in complying with the requirement in AASB 102 *Inventories* to measure certain types of inventories held for distribution by not-for-profit entities at the lower of cost and current replacement cost. The Board decided that a draft proposal should be prepared for consideration at the March meeting that proposes replacing the existing measurement requirement with a principle-based requirement to use cost, adjusted for any loss of service potential.

The *AASB Action Alert* is issued by the AASB. It reports on meetings of the AASB as a service to the AASB's constituents. Decisions reported are tentative and may be changed or modified by the AASB. Decisions become final only after completion of the formal processes required to issue documents. No responsibility is taken for the results of actions or omissions to act taken on the basis of any information in this report, or for any errors or omissions.

### **IASB Intangible Assets Project Proposal**

The Board received a status report on the IASB's Intangible Assets project proposal that is being developed by AASB staff.

The Board noted that the IASB has agreed that the project, if approved, should be conducted by a joint project team comprising IASB staff and FASB staff, with consideration given to involving members of the staff from other interested accounting standard setters, including the AASB, as project team members.

AASB staff will continue to develop the agenda proposal in consultation with IASB staff and Board advisors, and AASB Board advisors where practicable. The AASB will continue to monitor progress on the project.

### **Fair Value Measurements**

The IASB have extended the period for public comment on the DP on Fair Value Measurements to 4 May 2007. The Board agreed to extend the deadline for which Australian constituents should respond to the AASB to 2 April 2007.

### **Revenue from Non-Exchange Transactions**

The New Zealand FRSB and the AASB have agreed to develop a joint Standard on revenue from non-exchange transactions. In Australia, that Standard would replace AASB 1004 *Contributions*. At this meeting, the AASB made decisions about some due process and project management issues. The first public consultation document for this project will be a discussion paper. No technical decisions were made.

### **IPSASB Report**

The Board received a report on topics likely to be discussed at the IPSASB's March 2007 meeting. These topics include disclosure of social policy obligations (a draft ED for approval), service concessions, public sector conceptual framework, heritage assets, and a draft strategy and operational plan for 2007-2009 (including work program). The last of these topics is likely to include a review of how best to converge IPSASs with IFRSs.

### **Minutes**

Approved minutes of the Board meeting held on 12-13 December 2006 are now published on the AASB's website.

## **Meeting on 14-15 March 2007**

Anticipated principal agenda items include:

- Review of Australian Additions to, and Deletions from, IFRSs (ED 151)
- Differential Reporting/SMEs
- Fair Value Measurements
- Interpretations
- Inventories
- Revenue from Non-Exchange Transactions
- Review of AAS 27, AAS 29 and AAS 31
- Review of Public Sector Not-for-Profit Entity Issues arising from the Implementation of Australian Equivalents to IFRSs
- Superannuation Entities

**Meeting Dates 2007**

Remaining meeting dates for 2007 are:

March	14-15
May	23-25
June	27-28
August	1-2
September	5-6
October	3-4 (jointly with FRSB – Sydney)
November	14-15
December	12-13

---