

## **REPORT ON INTERNATIONAL FORUM OF ACCOUNTING STANDARD-SETTERS (IFASS) — 19-20 September 2013**

IFASS met in Brussels on 19-20 September 2013 and discussed the agenda items set out below.

### **Background**

IFASS is an informal network of national accounting standard setters from around the world, plus other organisations that have a close involvement in financial reporting issues. It is a forum at which interested stakeholders can discuss matters of common interest. The group is chaired by Tricia O'Malley, a former Chair of the Canadian Accounting Standards Board and former member of the International Accounting Standards Board (IASB).

The public meeting was attended by representatives of standard setters from, Australia, Belgium, Brazil, Canada, Denmark, France, Germany, Hong Kong, India, Indonesia, Italy, Japan, Lebanon, Malaysia, Mexico, Nepal, the Netherlands, New Zealand, Norway, Pakistan, Republic of Korea, Singapore, South Africa, Spain, Sudan, Sweden, Switzerland, Taiwan, the United Kingdom, and the United States. Representatives of the European Financial Reporting Advisory Group (EFRAG), International Accounting Standards Board, Pan African Federation of Accountants (PAFA) and the Arab Society of Certified Accountants also attended. In addition, the representative of the Arab Society of Certified Accountants also represented the Ethiopian Professional Association of Accountants & Auditors and the Yemen Association of Certified Public Accountants. A complete list of participants is attached. A number of observers were present.

### **Welcome**

Tricia O'Malley, IFASS Chairman, welcomed participants to Brussels and thanked EFRAG for hosting the meeting.

## **1. IASB Work Plan and IFRS Foundation Developments**

### **General discussion on the status of projects**

- 1.1 Peter Martin, Director, Accounting Standards, Canadian Accounting Standards Board, Alan Teixeira, IASB Senior Director of Technical Activities, and Henry Rees, from the IASB staff, provided information on the strategies and governance of the work of the International Financial Reporting Standards Foundation Trustees (Foundation), the IASB's efforts in developing and improving IFRSs and other noteworthy matters (see Agenda Paper and PowerPoint presentation both marked Paper 1.1).
- 1.2 Mr. Teixeira commented on a number of matters, including the following:
  - The International Organization of Securities Commissions (IOSCO) and the IFRS Foundation announced on 19 September, 2013 that they had agreed on a set of protocols under which the two organisations will deepen their cooperation in support of their shared commitment to the highest standards of financial reporting globally.

- The IASB organisation's expenditures to date are currently well under budget.
- The Due Process Oversight Committee is very active and its members are now speaking directly with the IASB, rather than just the staff.
- The IASB is overseen by the Trustees of the IFRS Foundation, who are in turn accountable to the Monitoring Board, a body of public capital markets authorities. The Monitoring Board has taken steps to increase the transparency of its activities.
- It's still too early to tell if the Accounting Standards Advisory Forum (ASAF) will be a success. Current issues for discussion at meetings will require the production of short-term papers. Other issues will likely require longer lead times. Mary Tokar, IASB member, commented that the conceptual framework discussion at the last ASAF meeting was a valuable exercise that brought out a number of issues and confirmed that the IASB should proceed with the conceptual framework project.
- The role of ASAF in providing advice to, and receiving information from, the IASB is evolving.

1.3 Comments by the IASB representatives on the IASB's Work Plan included the following:

- The revenue recognition project is in its final stages. This is a big and important project and the IASB is being very careful and cautious. As a result of discussions with reviewers, a number of issues require examination, such as collectability and guidance on licensing.
- At the end of last week, 408 responses had been received on the IASB's Exposure Draft on leases. Many respondents expressed strong and differing views on the proposals. The IASB has arranged a large number of roundtables and has made a significant effort to reach out to users, many of whom are supportive of the proposals. They state that the proposals would provide them with a better starting point for their analyses.
- A final standard on hedge accounting is expected in October 2013.
- The insurance contracts Exposure Draft was issued in June. This topic will be discussed at the next ASAF meeting.
- Classification and measurement of financial assets and impairment should be finalised in the first half of 2014.
- It will be difficult to ensure that the insurance contracts and classification and measurement of financial assets projects take effect at the same time.
- Not everyone is in favour of an interim standard for rate-regulated activities.
- Mr. Martin from the Canadian Accounting Standards Board staff noted that the IFRS Interpretations Committee (IFRIC) had issued only one interpretation in several years. He said that stakeholders wanted more interpretations.
- The IASB has had very positive feedback regarding the process for post-implementation reviews. There are no plans to change the existing process.
- The Conceptual Framework Discussion Paper is out for comment. The document (which can be viewed as a rough sketch) is intended to cover all relevant issues.

Comments are awaited on the quality of the definitions and the principles. This is a challenging project.

- The IASB staff is aware of the difficulties of distinguishing between educational and interpretative material. Mr. Teixeira commented that everything emanating from the IASB's offices is viewed as being interpretive and therefore authoritative. A balance needs to be struck, but in a way that does not create a series of rules. This matter is the single most important risk for the IASB and will be discussed at upcoming meetings of the IFRS Foundation and Due Process Oversight Committee. Educational material is helpful for those adopting IFRSs.
- National standard setters are the closest to the IASB in following IFRSs. Educational material is designed to move all those adopting and using IFRSs higher on the learning curve.

1.4 Representatives' comments included the following:

- A representative from Australia expressed concern that the IASB and U.S. cultures regarding revenue recognition differed. A representative from the FASB commented that his organisation was revisiting fundamental issues rather than addressing all the issues.
- A representative from the U.K. agreed that the conceptual framework project is very challenging and that the issues need to be thoroughly thought through.
- A representative from Germany said she was not aware where educational material was used.

**Minor amendments**

1.5 Liesel Knorr from the German standard setter discussed this topic. She said that although stakeholders have asked for a period of calm, IFRIC is dealing with a large number of issues. It has not produced many interpretations but it is very active and has issued many "NIFRICs" (an agenda decision, by IFRIC not to add a particular project to its agenda) (see PowerPoint presentation marked Paper 1.2 for a listing of IFRIC's activities).

1.6 Representatives' comments included the following:

- A representative from Australia said that his jurisdiction writes standards into the law. It's costly to process a large number of amendments. In addition users are confused as to which issues have been dealt with and which not. The IASB needs to rationalize its output.
- A representative from the FASB stated that the annual improvements process was set up to deal with minor issues. Now minor amendments that are not annual improvements are creeping into the process. Possibly the criteria for what is an annual improvement should be re-examined. It is a good idea to package issues.

Also, the IASB could consider issuing annual improvements at set dates; say, twice a year.

- A representative from the IASB said that the IASB is trying to package issues together and is considering a common issue date. He said that many stakeholders have stated that many of the issues being dealt with are not annual improvements.

### **Interpretation and implementation guidance**

1.7 The Chairman commented that Agenda Paper 1.3 sets out items on which the Chairman of the IFRS Advisory Council would like national standard setters' input to inform possible future discussion of the Council.

1.8 Representatives' comments included the following:

#### **IFRS Interpretations Committee issues**

- A representative from Germany commented on IFRIC's lack of progress on issues related to IAS 32.
- The representative from Malaysia asked how affected stakeholders should proceed when IFRIC issues are rejected by IFRIC because they are not widespread. The representative from Norway also wanted an answer to this concern. A representative from the IASB acknowledged that IFRIC should look at its criteria so that it does not automatically reject an issue that does not appear to be widespread.
- The representative from South Africa commented that his jurisdiction is sometimes confronted with isolated issues. The danger is that in dealing with such issues, the local jurisdiction might provide guidance beyond that in the relevant standard. South Africa generally advises the IASB of these instances. In one case, an issue turned out to more widespread than originally thought.
- A representative from Germany said that her jurisdiction has struggled to find issues that are locally based only. She commented on the large number of outreach requests being received by her jurisdiction. National standard setters need to discuss how better to understand all their issues. This should be discussed at IFASS's next meeting.
- A representative from Italy noted that issues were not always addressed on a timely basis.
- The Chairman commented that the writing of domestic guidance by IFRS adopters could cause a problem for other standard setters that follow IFRSs.
- The representative from Canada said that his jurisdiction's policy is not to engage in interpretive activities. The Canadian Accounting Standards Board has an IFRS Discussion Group that discusses domestic issues in public. It accepts that on some issues a consensus will emerge and that for others there will be a divergence of views.
- The representative from Malaysia said that it was not always easy to distinguish whether guidance represented interpretation or implementation as the matter was not always clear cut.

- A representative from Korea said that IFRIC takes too much time to respond to questions. He commented that as more countries adopt IFRSs, it might be necessary to place more resources at IFRIC's disposal.

Consultation process with national standard setters

- A representative from Australia said that, from a regional standpoint, he sensed that the IASB expects jurisdictions within regions to have consulted on whether issues are widespread.
- The representative from the Netherlands said that he is not prepared to spend a lot of time to see if other jurisdictions have similar issues. He said that some problems are very complicated and specific and not well-understood by others. The Chairman commented that if stakeholders do not respond to questions from the IASB regarding the prevalence of issues, this could result in a problem when an issue turns out to be widespread.
- A representative from the FASB asked if the IASB obtains satisfactory answers to its queries about stakeholders' problems and do stakeholders hear the outcome. He said that it is challenging to answer all the outreach requests from the IASB.
- A representative from the IASB said that agenda papers generally provide feedback from stakeholders and this is a significant factor in IFRIC deciding whether to place an issue on its agenda. Possibly, stakeholders should be selective in responding to queries from IFRIC and should provide input only for items of importance to the local jurisdiction. All input to the IASB, even on an informal basis, is helpful to the IASB staff.

Keeping converged standards converged

- A representative from the FASB said that the genesis for the creation of a "joint transition resource group" for the upcoming final converged standard on revenue recognition came from the FASB. He noted that in the U.S. there was a proliferation of industry-specific guidance on this topic and many of the major accounting firms produce industry-based guidance. The FASB is cognizant of the need, and is trying, to produce principle-based standards but fears that industry-based application guidance for the standard will emerge, once again resulting in a lot of potentially conflicting rules. There is a movement to provide initial transition assistance for all projects; however, this might be easier said than done.
- The Chairman encouraged jurisdictions to set up domestic groups that could forward problems and concerns on the implementation of the upcoming revenue recognition standard to the "joint transition resource group".
- A representative from France said that the standard setters should aim for a clear revenue recognition standard that, once published, does not need additional guidance and potential amendments.

- 1.9 The Chairman said that the criteria used by IFRIC to place issues on its agenda and whether it gets useful feedback from stakeholders should be discussed at the next IFASS meeting.

## 2. Topical Issues

### **Issue 1 — Rate regulation: Potential basis for recognition**

- 2.1 Sung-soo Kwon from the Korea Accounting Standards Board made a presentation that discussed the features of rate regulation, examples of Korean and foreign rate regulation and critical issues for the recognition of regulatory assets and liabilities (see Agenda Paper 2.1).
- 2.2 Mr. Kwon favoured the development of multiple recognition models. Based on a number of recognition criteria, he discussed three possible perspectives:
- Cost expensing perspective.
  - Cost deferral perspective.
  - Revenue recognition perspective.
- 2.3 The representative from South Africa expressed concern with the presenter's approach to accounting for rate-regulated activities. He said that the examples cited by the presenter could be extended to other industries. He stated that typically all that occurred was that profits were moved from one period to another. He said that this could apply also to banks regarding solvency. They can recover shortfalls by issuing additional capital.
- 2.4 The Chairman asked the group to send comments directly to the presenter.

### **Issue 2 — Application issues related to IFRS 11 Joint Arrangements.**

- 2.5 Tommaso Fabi, from the Italian Standard Setter, pointed out the application issues identified by the IASB staff and some other identified issues (detailed in Agenda Paper 2.2). He asked the group whether they have encountered similar issues in their jurisdictions.
- 2.6 Representatives' comments included the following:
- The representative from Canada said that similar issues occurred in his jurisdiction. Details can be found on the Canadian Accounting Standards Board's website in reports on discussions at meetings of its IFRS Discussion Group. He commented that it was rather late to sort out these issues as a third set of interim financial statements is about to be issued since the standard's implementation. Canada is now hesitant to raise these issues with IFRIC. He said that although IFRS 11 is a principles-based standard, its implementation is being form-driven.
  - A representative from France said that the issues raised were fundamental. He asked what the response should be to those who have to use the standard. They were confronted with big problems. He said that more than merely guidance was needed from the IASB. The Chairman commented that users should send their problems to IFRIC.
  - A representative from the IASB said that it was not clear whether differences in interpretation were widespread. He said that the IASB wanted to see specific real-life cases and would react as quickly as possible.

- 2.7 Mr. Teixeira asked the group to make Michael Stewart aware of specific issues. The Chairman asked representatives to think about the issues and questions in Agenda Paper 2.2 and provide their perspectives to the Italian standard setter.

**Issue 3 — Integrated reporting – roles of NSS and views formed**

- 2.8 Alan Teixeira, IASB Senior Director of Technical Activities, said that the purpose of his presentation was to raise awareness about integrated reporting and to ask for advice on how the matter should go forward.
- 2.9 Mr. Teixeira discussed the meaning and purpose of integrated reporting and its relationship with IFRS requirements (see PowerPoint presentation marked Paper 2.3). He posed a number of questions regarding representatives' understanding of integrated reporting, whether it should complement annual reports and IFRSs, its relationship to the IASB's Management Commentary Practice Statement and whether the IASB should be more, or less, involved with integrated reporting.
- 2.10 Representatives' comments included the following:
- A representative from Australia counselled the IASB to be cautious. He said that the fundamental question is to decide where financial reporting starts and stops. He asked whether the management commentary was part of financial reporting.
  - A representative from Hong Kong also said the IASB should exercise caution. He said that financial reporting is only a part of integrated reporting. Business analysis also forms a large part.
  - The Chairman commented that in many jurisdictions, the components of integrated reporting were not within the mandate of standard setters, but were under the control of regulators, and they were unlikely to relinquish such control. Also, the information relative to many of the components was not capable of being audited.
  - A representative from the FASB commented that it was also the sense in the U.S. that many of the components of integrated reporting were under the control of securities regulators.
  - A representative from France said that while these are important issues, they are not within the mandate of standard setters and should not be part of the standard-setting process. He agreed that many components were not capable of being audited.
  - A representative from the U.K. said that his jurisdiction was responsible for corporate reporting generally, including the provision of strategic guidance.
  - The representative from Denmark said that integrated reporting might result in investors being provided with better information. Standard setters should be ready to consider integrated reporting so that investors can be provided with the best financial reporting.
  - The representative from South Africa said that management plays a valuable part in financial reporting. He expressed concern that integrated reporting could be perceived as indicating that the financial statements were merely a regulatory requirement.

**Issue 4 — Disclosures required when partly owned subsidiaries are consolidated**

2.11 Martijn Bos, Policy Advisor Accounting & Audit, Eumedion,<sup>1</sup> advanced the view that full consolidation of partly owned subsidiaries requires additional disclosures. He said that the line item “non-controlling interest” causes significant uncertainties for users of financial statements, and he proposed solutions to remove these uncertainties. These would involve amending IFRS 12 *Disclosure Interests in Other Entities* (see Agenda Paper and PowerPoint presentation both marked Paper 9).

2.12 Representatives’ comments included the following:

- A representative from Italy said that the proposed additional information would not be useful. Providing the financial statements for the individual subsidiaries would provide better information. He commented that minority shareholders are unable to access cash located in a group of companies.
- A representative from the U.K. stated that sometimes cash is locked into a subsidiary and the proposed disclosures could be helpful information.
- The representative from the Netherlands commented that cash is an under-reported item in financial statements. Restricted cash is not reported.
- The representative from New Zealand said that restrictions on distributing cash could also apply to wholly owned subsidiaries. She asked if analysts were not interested in salient information about the parent company. The presenter said that such information was relevant only in the case of bankruptcy.
- The representative from South Africa commented that sometimes, although cash is unrestricted, it is not distributed because of tax and similar issues. It is necessary to identify specific areas where the proposals could be useful.
- A representative from the FASB said that the presenter had identified a problem but had not proposed the best solution.
- The Chairman noted that the credit analyst members of the Canadian Accounting Standards Board’s User Advisory Council had focused on the need for non-consolidated information, such as identifying which companies in a group held cash, and where the group debt resided. She said that the presenter’s proposed solution was more modest than what analysts desired.
- The representative from Canada expressed the view that analysts should ask the IASB continually (and at the right time) to attend to their requirements.
- A representative from the IASB commented that the presenter appeared to be asking for limited changes to IFRS 12 to give analysts a better starting point to perform their analyses.

2.13 The Chairman closed the discussion by stating that there appeared to be fairly wide support that IFRS 12 did not quite satisfy analysts’ needs on this topic. Analysts should advise the IASB (at an appropriate time) that more specific disclosure information is required when partly owned subsidiaries are consolidated.

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<sup>1</sup> Eumedion is a shareholder forum particularly focused on governance of listed companies.



**Issue 5 — Report-back regarding discount rate issues**

2.14 Liesel Knorr from the German standard setter provided a report-back on matters following the last IFASS meeting in April 2013 (see PowerPoint presentation marked Paper 11.1). She also asked whether this matter should be on the agenda for the next IFASS meeting.

2.15 Representatives' comments included the following:

- A representative from the FASB said that the use of an appropriate discount rate, and when to use it, is a huge issue. He suggested that the conceptual framework project should consider this issue in a holistic manner. He said that various standards require the use of different discount rates for no conceptual reason.
- The representatives from Brazil, the U.K. and the Netherlands supported the need to deal with the issue on a conceptual basis. The representative from the Netherlands added that this is necessary even if it results in different discount rates being applied to different standards (he said that pension funds and insurance contracts should receive the same treatment).
- A representative from France said that this topic should be on the agenda for the next IFASS meeting. He also agreed that it should be addressed in the conceptual framework project. He said that there was no need to rely on the IASB's limited resources to advance this project further. The problem should be defined and countries within the E.U. should work on this issue.
- The representative from Norway agreed that the issue should be addressed in Europe. He said that, while he sympathised, it would be very challenging to address the issue in the conceptual framework project. He said the immediate problem was to address the rate to be used for discounting pension liabilities. It was not clear why the rate for high-quality corporate bonds should be used.
- A representative from the U.K. said it was necessary to address the measurement issue first. However, he agreed that the discount rate issue needed to be resolved urgently. Another representative from the U.K. noted that the IASB's research on measurement was at an early stage and it would be better not to interfere at this time.
- A representative from Australia commented that his jurisdiction used government rates to discount defined benefit obligations. He noted that the problem is that there are multiple governments in Australia and decisions need to be made as to which government's rate should be used.

2.16 The Chairman closed the discussion by stating that year ends were looming and this issue requires the urgent attention of the IASB or IFRIC. If the work was not done at that level, actuaries and auditors will try and determine the procedure to be followed. This would not be an ideal solution. IFASS should, at the least, urge the IASB or IFRIC to specify ranges of acceptability, or rule out that which is unacceptable. She stated that the topic would be placed on the agenda for the next IFASS meeting in March 2014.

**Issue 6 — Presentation of exceptional items in the statement of profit or loss**

2.17 Sanjeev Maheshwari of the Institute of Chartered Accountants of India made a presentation stating that the present practice of presenting exceptional items in the statement of profit and loss impedes a clear view of a company's earnings (see Agenda Paper and PowerPoint presentation both marked Paper 11.2).

2.18 Representatives' comments included the following:

- The representative from Malaysia said that the designation of an item as exceptional might differ from entity to entity.
- The representative from New Zealand said there were sometimes good reasons for an entity to designate an item as exceptional, unusual, non-recurring etc.
- The Chairman said that in the first round of the improvements programme, as part of the stable platform, the requirement to disclose operating profit was removed because it was difficult to define the term. Maybe this problem should be referred to the regulators for a solution.
- The representative from South Africa said that his jurisdiction had issued a circular advising where exceptional items should be placed in the earnings statement. For example, exceptional items that were of an operating nature should be included in the section reporting operating earnings. This is particularly important when earnings announcements are issued.
- The Chairman suggested that there be a clear reconciliation between GAAP earnings and reported earnings and why an item is designated as being exceptional.

**3. Conceptual Framework Issues**

**IASB Conceptual Framework Discussion Paper: Measurement**

3.1 Kevin Stevenson, Chairman, Australian Accounting Standards Board, commented generally on the ideal qualities of measurement concepts (see PowerPoint presentation marked Paper 3.2).

3.2 Representatives' comments included the following:

- A representative from the IASB commented that in preparing the Discussion Paper, the IASB staff concluded that at the conceptual framework level they should not be confined to a single measurement attribute. More than one measurement might be appropriate in standard setting. The initial draft of the Discussion Paper had a laundry list of attributes. The second draft confined itself to a number of measurement methods. The representative said that those not trained as accountants would not be able to understand the nuances of different attributes. Accordingly, she favoured fewer attributes. She also said that clear thought about the use of an asset or the settlement of a liability should influence the attributes. The Discussion Paper proposes different measurement objectives in different settings.

- The presenter commented that a measurement method should be selected for a particular item. He disagreed with the proposal in the Discussion Paper to start with a pragmatic answer. He said that the Discussion Paper details methods not attributes.
- A representative from EFRAG said that if the objective of financial reporting is to predict future cash flows, she supported the IASB's approach.
- A representative from the U.K. said that the conceptual framework should be aspirational in nature. He said that much work still needs to be done on the topic.

3.3 Thereafter representatives were divided into three break-out groups to discuss the issue of prudence.

### **Reports on breakout sessions**

3.4 Mr. Lennard reported back the following observations from one group:

- General views
  - No-one believed prudence should always prevail.
  - Half of the participants took the view that prudence need not be explicitly considered.
  - The other half believed that prudence needs to be part of the balance.
  - No-one believed it should be a fundamental as opposed to an enhancing attribute.
  - Prudence (if it has a role) should be applied by both standard setters and preparers.
- Qualitative characteristics in Chapters?
  - It would seem odd to use something in later Chapters that is not in qualitative characteristics.
- More specifically
  - If the range of an asset or liability is known with certainty, no-one would bias the measurement on grounds of prudence.
  - Demand deposits at amount payable on demand: is this prudence or relevance?
  - Lower of cost or fair value: cost has been selected as a relevant attribute, fair value is used when cost is not relevant.
  - Prudence could justify not recognising an asset.
  - Prudence could not justify recognising as a liability an item that is not a liability.
  - On contingent/uncertain liabilities the key is relevance, or what is most useful to investors.
- Most emphatically
  - The conceptual framework should provide a clear definition or description. Bear in mind different languages and cultures.

3.5 Mr. Linsmeier reported back the following observations from a second group:

- Definition of prudence
  - When uncertain, accounting should understate income by understating assets or overstating liabilities
- Need for prudence for two reasons
  - To counter preparers' inclination to bias accounting numbers upward.
  - Downside consequences should be given greater consideration in reporting.
- Who should apply prudence?
  - Concluded that standard setters should do so.
  - Did not reach conclusion regarding whether reporting entities also should do so.
- Conclusion
  - In applying prudence, a balance needs to be struck as to when standard setters should apply it, which suggests that prudence is not a fundamental concept that needs to be applied throughout the conceptual framework, but should be applied in limited circumstances in the presence of either recognition or measurement uncertainty.
  - As a result, the majority view was that prudence should not be included in the conceptual framework as either a fundamental or enhancing qualitative characteristic, because, if it was included as a qualitative characteristic, prudence would need to be applied consistently to all accounting decisions. Rather, depending on certain facts and circumstances, prudence may affect (i) recognition by recognizing uncertain liabilities more often than uncertain assets, (ii) measurement by not including variable consideration in measures of revenue, except when there is little uncertainty, and (iii) disclosure by providing more information in the presence of downside risk versus upside opportunity.
- Majority view
  - Prudence should be discussed in the conceptual framework as an item to be considered in limited circumstances by standard setters in the presence of either existence or outcome uncertainty to possibly affect recognition, disclosure and perhaps measurement requirements set by standard setters.

3.6 Mr. Stevenson reported back the following observations from a third group:

- Prudence equates to “caution” and not “bias”. It is closer to the meaning of conservatism in the traditional sense.
- The majority thought that an appropriate balance should be struck between all the qualitative characteristics.
- The majority expressed the view that, in addition to assisting standard setters, the conceptual framework was also relevant to preparers.

#### 4. Statement of Best Practice

##### **Redraft of existing Statement outlining relationship of IASB and NSSs**

- 4.1 The Chairman referred representatives to a draft of a *Charter – The IASB and other accounting standard setters*, which was designed to replace the *Statement of Best Practice: Working Relationships between the IASB and other Accounting Standard Setters* to take the creation of ASAF and other developments into account. She called for members comments on the draft (see Agenda Paper 4.1A).
- 4.2 A representative from France said that the above Charter should not be viewed as the final draft as the French standard setter had also prepared a proposed Charter for discussion (see Agenda Paper 4.1B). He said that the French draft contained differences compared with the Agenda Paper 4.1A. The final Charter should strike a balance between the requirements of the IASB and the needs of national standard setters.
- 4.3 Following discussion, the Chairman summed up the next steps as follows:
- The French standard setter will compare the two versions and circulate a list of the most significant differences to the group for comments.
  - Comments on the process, differences and editorial suggestions should be sent to the Chairman.
  - The Chairman will prepare a single revised draft, with areas of differences highlighted. These differences will be discussed at the next IFASS meeting in March 2014 in New Delhi

##### **IFASS Charter**

- 4.4 The Chairman referred representatives to Agenda Paper 4.2, which presented a draft of one of the documents describing the network of relationships between the organisations involved in accounting standard setting internationally and called for comments on the document.
- 4.5 Representatives' comments included the following:
- A representative from Australia asked who was eligible for membership of IFASS. For example, should professional accounting bodies that might assist in implementing standards, be eligible for membership?
  - The representative from the Netherlands said that all who assist the process should be welcome to participate.
  - A representative from the FASB commented on the proliferation of accounting bodies in the U.S. and doubted they should all be eligible for membership. Maybe membership should be restricted to those bodies that the IASB focused on.
  - The Chairman said that the requirements for participation in IFASS's activities in the draft were fairly informal. At some stage attention should be given as to who should decide whether applicants were eligible for membership.

- The representative from Denmark counselled against formal membership requirements.
- A representative from Italy said that the role of IFASS should be to help standard setters to deal with implementation issues. He was not in favour of IFASS meeting in London in conjunction with the World Standard Setters Conference.
- A representative from France expressed the view that the document under discussion might be unnecessary.
- A representative from Norway said the draft was useful; it describes the process and avoids confusion about the purpose of IFASS meetings.
- A representative from the FASB said the document should not be overly prescriptive. It should be viewed as a vehicle for getting interested parties to meet and learn from each other so that they could be more strategically effective. The fact that the draft was not written by the IASB is an indication of IFASS's unique place in standard setting.

4.6 The Chairman asked representatives to advise her whether there was any particular message that they wished to send to the IASB Chairman.

**Consider if changes are necessary to the Model for National Standard Setters**

4.7 The Chairman referred representatives to Agenda Paper 4.3.1, which contained a draft revised version of the Model for National Standard Setters, reflecting developments since the September 2012 IFASS meeting.

4.8 A representative from France stated that the Model should not be overly descriptive.

4.9 The representative from the Netherlands suggested that the document should be amended to make it more generic in nature

**5. Post-Implementation Review of IFRS 3 *Business Combinations***

5.1 Mariela Isern from the staff of the IASB said that the purpose of this session was to provide information about the Post-implementation Review (PIR) of IFRS 3 and the envisaged role of IFASS, and to request input on matters that the IASB should consider during Phase I of the PIR. She provided information to representatives, as detailed in Agenda Papers 6 and 6A and in a PowerPoint presentation marked Paper 6, and asked for representatives' views on the issues detailed in paragraphs 18 and 19 of Agenda Paper 6A.

5.2 Representatives' comments included the following:

- A representative from Australia questioned whether IFRS 3 and IFRS 10 articulated. He said that step acquisitions were covered in IFRS 3, not IAS 27.
- In answer to a question from the representative from Mexico whether feedback would be sought from regulators, Ms. Isern answered that IOSCO and the European Securities and Markets Authority (ESMA) would be consulted.
- A representative from the FASB was impressed by the exercise's ambition. He said it is challenging to look at the consequential implications of the review. He noted that

there were implications for the definition of a business, which was very loose in the U.S. It is necessary to consider if IFRS 3 should cover everything that could be considered to be a business (for example, groups of assets).

- The representative from France also expressed the view that this PIR is an ambitious project. The IFRS 3 PIR is a larger and more difficult project than the PIR for IFRS 8 (which had a positive outcome). He said that the IASB staff should consult with the right stakeholders to get a fair representation of the problems. Regulators, such as ESMA, should be consulted at the end of the process. Ms. Isern said that it is appropriate to consult ESMA because it is reviewing IFRS 3. She asked representatives to advise her of appropriate stakeholders who should be consulted.
- The representative from France said that some of the stakeholders targeted for consultation are not business practitioners; they are associations of professionals that hold certain views. It is essential for the IASB to draw comprehensive and clearly understood conclusions from the input received.
- In reply to a question from a representative from Denmark, Ms. Isern said that all relevant issues, including those raised earlier in the process, will be dealt with.
- The representative from South Africa questioned whether goodwill is an asset. He asked if it met the criteria to be considered an asset.
- In reply to a question from a representative from Germany about the definition of a business, a representative from the FASB said there was a very legitimate concern expressed by the business community in the U.S. about the cost to perform a fair value exercise, in that there is a lack of internal experts able to do this. The result is that outside experts, who support the use of costly models, have to be brought in. It is unclear whether this is necessary. The Chairman noted that many large entities engaged outside valuers to develop models to value goodwill, thus obviating the need to incur ongoing expenses to perform valuations.
- Ms. Isern said that, in addition to the International Valuation Standards Council, valuation specialists from the valuation disciplines of the accounting firms would be consulted.
- In reply to a question from the Chairman, Ms. Isern said that relevant academic literature on the topic would be consulted and presented to the IASB in November 2013. A representative from the FASB commented that he would request the U.S. Financial Accounting Foundation to provide the IASB with information from the FASB's equivalent process.
- A representative from the U.K. stated that in addition to sell-side analysts, buy-side analysts should be consulted.

5.3 Ms. Isern asked representatives to email further issues to her.

## 6. Reports from Regional Groups

### Update on activities of the Asian-Oceanian Standard-Setters Group (AOSSG)

6.1 The AOSSG Chairman, Kevin Stevenson, provided an update on the group's activities (see PowerPoint presentation marked Paper 10.1). In particular, he noted the following:

- All major IASB projects are covered by working groups.

- Steve Lim of the Korea Accounting Standards Board is the AOSSG Vice-Chair pro tem. Clement Chan of the Hong Kong Institute of Certified Public Accountants will assume the Vice-Chair position in November 2013.
- The AOSSG continues to develop standard-setting capacity in the region.
- Forty participants attended an inaugural training exercise in Nepal. A second one will be held in early 2014. The process will result in the production of a useful suite of materials.

#### **Update on EFRAG activities**

6.2 Françoise Flores, Chairman of EFRAG, provided an overview of EFRAG's recent activities (see PowerPoint presentation marked Paper 10.2). In particular, she commented on the following:

- EFRAG published its field test policy in July 2013. Field tests have commenced on leases and insurance contracts.
- EFRAG is considering the consequences for the long-term business model stemming from the finalisation of IFRS 9 and IFRS 4.
- A discussion document regarding equity accounting (one-line consolidation or measurement basis) will be issued in January 2014.
- Procedures regarding working with ASAF are being developed.

6.3 In reply to a question from a representative from Australia, regarding developments in Europe, Ms. Flores said that the E.U. was considering how to increase its influence on the development of IFRSs in conjunction with economic policy. The E.U. is considering whether it should revisit its endorsement process. There is an ongoing debate regarding the idea that IFRSs are not compatible with the "true and fair" concept and the notions of "prudence" and "stewardship".

6.4 A representative from the U.K. noted that European laws regarding financial statements require the application of the "true and fair" concept. The situation in Europe is complicated and will have to be monitored.

#### **Update on the activities of the Group of Latin American Accounting Standard Setters (GLASS)**

6.5 Felipe Perez-Cervantes, Chairman of the Mexican Financial Reporting Standards Board and member of the board of GLASS, commented on GLASS's activities as is detailed in the PowerPoint presentation marked Paper 10.3.

#### **Update on the activities of the Pan African Federation of Accountants (PAFA)**

6.6 Vickson Ncube, PAFA Chief Executive Officer, commented on PAFA and its activities (see Agenda Paper 10.4). In particular, he noted the following:

- The PAFA Technical/Standard Setters Forum held its inaugural meeting on 13 May 2013.
- A three-year capacity building programme will be launched next year.



- A consultant has been hired to train the group as to how to gather information from stakeholders, and to compile and submit comment letters to the IASB.

6.7 The Chairman suggested that AOSSG Chairman, Kevin Stevenson, be consulted regarding capacity building.

## **7. Report back on IFASS member projects**

### **Role of the business model in financial reporting**

7.1 Hans Schoen, Acting Director, Research, EFRAG, made a presentation on this topic and posed a number of questions (see PowerPoint presentation marked Agenda Paper 7).

7.2 Representatives' comments included the following:

- A representative from the FASB said that the most important thing is that in certain cases business models matter and in others they do not. This also applies to the notion of "prudence". These might not be fundamental concepts. The presentation is actually describing the notion of "faithful representation," and does not indicate how to perform "recognition". He asked how recognition should be performed when uncertainty is present. Value realisation should not be categorized as a business model.
- A representative from the U.K. said that management intent can be confused with the notion of the business model. This model is also about performance reporting. In fact it permeates standard setting.
- A representative from Australia said that business models exist. The bigger question is to consider the ramifications for accounting. He expressed the view that the analysis is incomplete, noting that every asset has multiple attributes. He asked which attribute of an asset the accounting should be focused on when that asset is de-recognised.
- A representative from the FASB said that it is not clear that one can distinguish sufficiently between business models and how it permeates accounting. He stated that this is not a binary situation. The Chairman commented that looking at what a particular asset is used for can bring out the commonality of business models.
- A representative from France said that the emphasis should be on the activity rather than the tools to accomplish that activity. The business model is a tool for thinking about faithful representation. Something very fundamental needs to be done on this matter.
- The representative from New Zealand said that the business model is a way of applying the notion of faithful representation and relevance.
- A representative from the U.K. said that without the business model, one is into a pure balance sheet approach. The IASB wants to give equal weight to the balance sheet and the income statement. The use of the business model will encourage proper financial reporting.
- A representative from Norway said that the business model plays a role in financial reporting, but it is not a universal concept. The concept of the business model should not be in the conceptual framework. A definition of the business model is

required. The representative was not convinced that it is helpful to distinguish between the business model and management intent.

- A representative from the Netherlands stated that the concept of the business model occurs in industry standards. It enhances choice, definitely plays a role and is required.
- A representative from Japan said that although the concept of the business model is important in accounting standards setting, it would arguably be very difficult to describe it in the conceptual framework because of varying usages of the term.
- A representative from Hong Kong said there is not much difference between this concept and faithful representation. It is important to reflect economic phenomena faithfully.
- The representative from South Africa said that here is a need to identify the standards that use the concept and those that do not.

7.3 Mr. Schoen commented that his presentation had achieved its objective, which was to stimulate debate. He said if the concept is used in some standards and in the conceptual framework, it should be explained. The concept would be better understood if it was in the conceptual framework; it could be part of faithful representation. Any deviation from the requirements of the conceptual framework should be explained.

7.4 Mr. Schoen asked representatives to let him have examples of the business model.

## **8. Updates on Major Agenda Projects**

8.1 Breakout sessions were held on the topics of leases, financial instruments and insurance contracts (see PowerPoint presentations marked Papers 8.1, 8.2 and 8.3, respectively). The discussion leaders provided the following summaries.

### **Leases**

8.2 The IASB staff discussed with participants the outreach activities they had undertaken since the revised Leases Exposure Draft was published in May 2013. In particular, the IASB staff explained the feedback that they had heard from the investors, analysts and user groups that they had spoken to around the world. They highlighted the strong support expressed, particularly from credit analysts, for the principle of lessees recognising assets and liabilities from leases, but noted that the views of equity analysts are mixed. They also explained that while industry-specific analysts generally supported the proposed dual approach to lessee accounting, other users, particularly credit analysts and others who view leases as giving rise to debt-like obligations, would prefer a single model similar to Type A in the Exposure Draft. Participants questioned the IASB staff about the feedback received.

8.3 The IASB staff also discussed with participants the feedback that they had received from the preparer workshops that had been undertaken to date. The staff noted some of the specific areas for which lessees were looking for simplifications. Representatives noted that, if simplifications are to be made, they should be clearly labelled as practical changes so that there are not consequences for either the project or other projects.

### **Financial Instruments – Impairment and Hedging**

- 8.4 The aim of this session was for the IASB staff to give an update on recent developments and future plans regarding Impairment and Hedge accounting (including Macro Hedge accounting). The initial part of the session focused on Impairment, where the latest IASB decisions regarding model responsiveness, the objective of Stage One measurement and definition of default were discussed. The balance of the session was dedicated to Macro Hedge accounting. An overview of the model was presented and then specific areas of the model were discussed. Whilst it was acknowledged that the model has been developed with interest risk in mind, it was clarified that the aim of the project was not to restrict it to hedges of interest rate risk only. A significant amount of time was spent discussing the manner in which the model could be extended to other risks, especially commodities. The session also briefly touched upon the Hedge accounting model to be included in IFRS 9.

### **Insurance contracts**

- 8.5 The IASB staff provided an overview of the feedback they had received to date on the proposals in the 2013 Exposure Draft “Insurance Contracts”. The IASB conducted 85 outreach meetings since finalising the Exposure Draft. The update included the following:
- There is general support for the proposals for the unlocking of contractual service margin. There are some questions about the detailed mechanics of the proposals, including the reversal of losses before the contractual service margin is rebuilt, and questions on whether changes in the risk adjustment relating to future coverage should unlock the margin.
  - While there is sympathy for the IASB's objectives in proposing the mirroring exception, there are serious doubts about whether the proposals are, or can be made, operational. Some question whether the scope of the exception is too narrow, and fairly reflects the economics of insurance contracts.
  - There are evolving views on insurance contract revenue. Debate is now focused on whether insurance contract revenue will provide useful information for users of financial statements. There remain mixed views about whether deposits should be excluded from revenue, and it was noted that this would be an important part of the EFRAG's field testing exercise.
  - There are mixed views on the role of other comprehensive income in the presentation of interest expense. However, there is near-universal concern expressed about the accounting mismatches that would arise when some changes in the insurance contract liabilities are presented in other comprehensive income and assets are accounted for using a mixed-measurement-attribute model. Some noted that while those mismatches exist, there would be benefit in permitting entities to unbundle more investment components. There was a discussion about the level of aggregation to which an option could apply, including a suggestion that the level of aggregation follow segment reporting.
  - There was general acceptance that the remaining contractual service margin should be estimated at the date of transition.
- 8.6 In addition, participants also observed that they had heard concerns about the unit of account generally, the need to align effective dates for insurance contracts and IFRS 9, and the need for a period to review the text of a new standard before it is effective.

## 9. Administrative Matters

### **Date of H1 2014 IFASS Meeting in New Delhi**

9.1 The Chairman said that India had kindly agreed to host the next IFASS meeting in New Delhi. ASAF will be meeting in London in early March 2014 and IFASS will likely meet shortly thereafter. The exact date will be confirmed as soon as possible.<sup>2</sup>

### **Location of IFASS meeting in H2 2014**

9.2 The Chairman advised that Norway had offered to host the IFASS meeting in September 2014. Representatives expressed differing views as to whether the IFASS meeting should be held in conjunction with an ASAF meeting or the meeting of the World Standard Setters.<sup>3</sup> The Chairman said she would arrange the dates for the IFASS meeting in conjunction with the IASB.

### **IFASS Meeting Assessment – São Paulo, 17-18 April 2013**

9.3 The Chairman referred representatives to Agenda Paper 12.1, which provided an analysis of the views of participants who attended the above meeting. She thanked Steve Lim and his team (Hyejung Lee and Dae-Hyun Kim – Korea Accounting Standards Board), Felipe Perez-Cervantes (Mexican Financial Reporting Standards Board) and Didrik Thrane-Nielsen (Norwegian Accounting Standards Board) who analysed and summarized participants' responses and made a number of recommendations.

9.4 The Chairman commented that Mexico (Felipe Perez-Cervantes) had agreed to compile the assessment of the current meeting and that Norway (Didrik Thrane-Nielsen) and Hong Kong (Clement Chan) will perform the review.

9.5 In completing their assessments of the current meeting, the Chairman asked representatives to provide her with specific comments on the following matters:

- Whether they were satisfied with the IASBs' representation at IFASS meetings?
- Did the breakout sessions contribute to the effectiveness of the meeting and were the topics discussed appropriate?
- Did they have suggested topics for discussion at breakout sessions in future meetings?
- Would the creation of a dedicated website speed up the distribution of meeting materials?

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<sup>2</sup> Subsequent to the meeting, the Chairman advised that the meeting would be held on 6-7 March 2014.

<sup>3</sup> Subsequent to this IFASS meeting, the Chairman advised that the World Standard Setters conference would be held on 29 September 2014, IFASS and the World Standard Setters would meet jointly on 30 September, 2014 and that the IFASS meeting would be held on 1 October. All sessions would be held in London. The ASAF meeting is scheduled for 25-26 September, 2014.

- Should the secretariat establish absolute deadlines for the receipt of materials from presenters, with non- receipt resulting in the removal of the topic from the agenda?
- 9.6 The Chairman asked representatives to provide her with their suggestions for the coordination and formats of the plethora of international standard-setter meetings (IFASS, World Standard Setters and ASAF). Factors to be considered included travel time, cost and agenda topic duplication.
- 9.7 Representatives' comments included the following:
- A representative from France said that because of the cost of attending meetings, IFASS should operate in a cost-efficient manner that makes good use of representatives' time. The meeting agenda should be efficiently compiled to avoid duplication of discussions at related standard-setter meetings. It is essential that IASB members participate in IFASS meetings, as appropriate.
  - A representative from Japan reiterated that it was essential for the IASB to participate in IFASS meetings. He said that meetings required clear objectives. Meetings should be used to explore accounting solutions and identify issues that could be passed on to the IASB for it to conduct further research. A representative from Italy supported these assertions. He said that the aim of IFASS meetings was to pass on relevant information to the IASB.

**Consider whether update/additions/revisions to agreed Chairman Appointment process are needed**

- 9.8 The Chairman referred representatives to Agenda Paper 12.2 which presented recommendations for consideration for updates to the agreed IFASS Chairman criteria and appointment process.
- 9.9 A representative from Japan advised participants that Ikuo Nishikawa, the returning officer for the past election of the IFASS Chairman, had a previous commitment and was unable to attend the current meeting. He proffered Mr. Nishikawa's regrets.
- 9.10 Representatives' comments included the following:
- In reply to questions about the operations of the advisory panel, a representative from Australia suggested that the elimination of this panel might simplify the process.
  - A representative from Italy said that if a Chairman stepped down before the end of his or her term, an election should take place.
  - A representative from the U.K. said that the voting process should be more transparent.
  - A representative from France concurred with the comments of the representatives of Italy and the U.K. and asked that the process be more transparent. He suggested that it might have been simpler to elect the Chairman by a show of hands.

9.11 Representatives agreed that the documentation be amended as follows:

- The proposed amendments in paragraph 5 of Appendix A should be deleted. This means that IFASS member organizations should not be responsible for providing replacement Chairs.
- There is no need to form an advisory panel for future elections.
- The returning officer for future elections should report on the number of delegations eligible to vote and the number of votes that were cast.<sup>4</sup>

9.12 The Chairman closed the discussion by stating that the amended documentation would be circulated to the group.

**Acknowledgment globally of long-serving technical staff**

9.13 Kevin Stevenson, Chairman, Australian Accounting Standards Board, referred representatives to Agenda Paper 12.3, which suggested ways to acknowledge the services of long-serving technical staff.

9.14 Representatives were in favour of the suggestion in the Paper to establish an honour board listing staff who have served for an extended period of time (more than 15 years).

9.15 The Chairman asked representatives to send the requisite information to Mr. Stevenson. A decision as to what to do with this information will be made at a later time.

**10. Conclusion**

10.1 The Chairman concluded the meeting by thanking Françoise Flores, Nathalie Saintmard and other EFRAG personnel for their hard work in making this a very successful and well-organized meeting

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<sup>4</sup> Subsequent to the meeting, the returning officer for the past election provided this information for the recent election.

Appendix A

**IFASS – 19-20 September 2013, Brussels – LIST OF PARTICIPANTS**

	<b>Name</b>	<b>Organisation</b>
1	Dr. Oussama Tabbara	Arab Society of Certified Accountants Ethiopian Professional Association of Accountants & Auditors Yemen Association of Certified Public Accountants
2	Kevin Stevenson	Australian Accounting Standards Board
3	Sue Lightfoot	Australian Accounting Standards Board
4	Jan Verhoeve	Belgian Accounting Standards Board
5	Sadi Podevijn	Belgian Accounting Standards Board
6	Idesio S Coelho	Brazil Accounting Pronouncements Committee
7	Peter Martin	Canadian Accounting Standards Board
8	Stig Enevoldsen	Danish Standard Setters Committee
9	Hans de Munnik	Dutch Accounting Standards Board
10	Françoise Flores	European Financial Reporting Advisory Group
11	Filippo Poli	European Financial Reporting Advisory Group
12	Hans Schoen	European Financial Reporting Advisory Group
13	Jérôme Haas	French Accounting Standard Authority
14	Gerard GIL	French Accounting Standard Authority
15	Liesel Knorr	Accounting Standards Committee of Germany
16	Dr. Sven Morich	Accounting Standards Committee of Germany
17	Clement Chan	Hong Kong Institute of Certified Public Accountants
18	Simon Riley	Hong Kong Institute of Certified Public Accountants
19	Patrina Buchanan (20 September only)	IASB
20	Kumar Dasgupta (20 September only)	IASB
21	Mariela Isern (20 September only)	IASB
22	Henry Rees	IASB
23	Alan Teixeira	IASB
24	Mary Tokar	IASB
25	Harry Klompas	IFASS
26	Tricia O'Malley	IFASS
27	Sanjeev Maheshwari,	The Institute of Chartered Accountants of India
28	Rosita Uli Sinaga	Indonesian Financial Accounting Standard Board
29	Ersa Tri Wahyuni	Indonesian Financial Accounting Standard Board
30	Alberto Giussani	Italian Standard Setter
31	Tommaso Fabi	Italian Standard Setter
32	Takao Kamiya	Accounting Standards Board of Japan
33	Tomokazu Sekiguchi (20 September only)	Accounting Standards Board of Japan
34	Sung-soo Kwon	Korea Accounting Standards Board
35	Steve Lim	Korea Accounting Standards Board
36	Dany Akel	Lebanese Association of Certified Public Accountants

37	Tom AbouSselman	Lebanese Association of Certified Public Accountants
38	Tan Bee Leng	Malaysian Accounting Standards Board
39	Felipe Perez Cervantes	Mexican Financial Reporting Standards Board (CINIF)
40	William Biese	Mexican Financial Reporting Standards Board (CINIF)
41	Narayan Bajaj	Nepal Accounting Standards Board
42	Iswar Raj Shrestha	Nepal Accounting Standards Board
43	Kimberley Crook	New Zealand Accounting Standards Board
44	Erlend Kvaal	Norwegian Accounting Standards Board
45	Didrik Thrane-Nielsen	Norwegian Accounting Standards Board
46	Rashid Rahman Mir	Institute of Chartered Accountants of Pakistan
47	Hafiz Yousaf	Institute of Chartered Accountants of Pakistan
48	Vickson Ncube	Pan African Federation of Accountants
49	Suat Cheng Goh	Singapore Accounting Standards Council
50	Ivan Koo	Singapore Accounting Standards Council
51	Garth Coppin	Financial Reporting Standards Council (South Africa)
52	Isabel Serantes	Spanish Institute of Accounting and Accounts Auditing
53	Zein El Abdin El Borai Ahmed	Sudan
54	Claes Janzon	The Swedish Financial Reporting Board
55	Philipp Leu	Swiss GAAP FER
56	Louise Wu	Accounting Research and Development Foundation (Taiwan)
57	Linda Yu	Accounting Research and Development Foundation (Taiwan)
58	Michelle Sansom	Financial Reporting Council (U.K.)
59	Melanie McLaren (19 September only)	Financial Reporting Council (U.K.)
60	Roger Marshall (20 September only)	Financial Reporting Council (U.K.)
61	Thomas J. Linsmeier	Financial Accounting Standards Board (U.S.)
62	James L. Kroeker	Financial Accounting Standards Board (U.S.)