

REPORT OF THE MEETING OF NATIONAL STANDARD-SETTERS (NSS) 27-28 MARCH 2008

The NSS group met in Melbourne on 27-28 March 2008 and considered the agenda items set out below.

Background

The NSS is a grouping of national accounting standard-setters from around the world, plus other organisations that have a close involvement in financial reporting issues. The meeting was attended by representatives of standard setters from Australia, Canada, France, Germany, Hong Kong, Japan, Lebanon, New Zealand, South Africa, Taiwan and the United Kingdom. Representatives of the International Accounting Standards Board (IASB) and the European Financial Reporting Advisory Group (EFRAG) also attended.

1. Structure and purpose of the NSS group

On the structure and purpose of the group, NSS members discussed and agreed the following:

- Role and objectives of the NSS group – the main priority for the group should be undertaking research, both pro-actively and at the request of the IASB, aimed at influencing the IASB in its deliberations. It was also agreed that the group should submit a report to the IASB and the public on the outcome of its meetings;
- Longer-term role: the NSS group discussed how it might engage in the forthcoming IASCF constitutional review (concluding in 2009) and what place – if any – the group saw for itself with the IASB going forward. NSS members agreed that to review the existing *Statement of Best Practice: Working Relationships between the IASB and other Accounting Standard-Setters* to see whether it remained relevant ;
- Membership of the NSS group – it was agreed that membership of the group should be kept flexible and open to any standard-setter (or regional organisation such as EFRAG) that was willing and able to invest the time and resources in attending and actively participating in the group;
- Meetings of the group – it was agreed that the current cycle of two meetings a year was about right, with one scheduled adjacent to the IASB’s annual meeting with World Standard-Setters. There was a general consensus that the meetings should be in public and an investigation undertaken of how the activities of the group might be better publicised through the web;
- Chairmanship – it was agreed that Ian Mackintosh (Chairman of the UK Accounting Standards Board, ASB) would continue to chair the group for the time being.

2. IASB Work Programme

NSS members considered the latest version of the IASB’s published work programme and whether the group should feed back any key messages to the IASB. The group agreed that the Chairman should write to the IASB Chairman highlighting a number of themes:

- To encourage the IASB and the US Financial Accounting Standards Board (FASB) to review the Memorandum of Understanding (MoU) in the light of the Securities and Exchange Commission's (SEC's) decision to permit foreign registrants to submit financial statements using IFRS without reconciliation to US GAAP and the potential for the US to adopt IFRS for domestic companies;
- To stress the importance of the conceptual framework project and to explore ways of accelerating progress.
- To encourage the IASB to prioritise as much as possible the agenda items on the work programme (while acknowledging that different NSS had different views on what the main priorities should be); and
- To support any proposal that might rationalise the way in which cross-cutting issues were dealt with by the IASB.

3. Intangible Assets research project

The Australian Accounting Standards Board (AASB) presented a paper which outlined the work which it had undertaken to date, on behalf of the IASB, on accounting for intangible assets. At their December 2007 meetings, the IASB and FASB had considered an agenda proposal on intangible assets, but decided not to take the project onto their active agendas at the present time. The IASB Chairman had subsequently written to the Chairman of the AASB to suggest that the research might be continued under the aegis of the NSS group. In discussion, the group:

- Encouraged the AASB to press ahead and finalise its research on the initial accounting for internally generated intangible assets for publication as a Discussion Paper, with the AASB staff being the principal authors; and
- Noted that the staff of the AASB and the Accounting Standards Board of Japan (ASBJ) would give consideration to progressing other elements of an intangible assets research project and bring a paper on possible next steps to the next meeting of the NSS group.

4. Accounting and Reporting by Retirement Benefit Plans

The Canadian Accounting Standards Board (AcSB) staff presented a paper on whether the NSS should propose to the IASB that a sub-group of NSS undertake a project to research the key issues in accounting by pension plans, which would potentially result in the preparation of a draft exposure draft of a replacement for IAS 26, for consideration by the IASB. This could be on the basis of a 'narrow scope' project to address the key concerns with IAS 26, or a broader scope project for a total replacement standard. In discussion:

- The group agreed that, as a consequence of the developments in retirement and pension arrangements and other accounting standards over the past two decades, IAS 26 no longer provided adequate reporting guidance. In addition, the permissive nature of IAS 26 was inconsistent with the IASB's efforts to minimise the availability of alternative accounting treatments in other accounting standards;
- However, NSS members also agreed that the group should first consider the implications of withdrawing IAS 26 before initiating formal communications with the IASB on the matter. It was noted that the implications of withdrawal might be different for different jurisdictions given the jurisdiction-specific regulations affecting retirement benefit plans.

The New Zealand Financial Reporting Standards Board (FRSB) undertook to research IAS 26 experience both domestically and around the world, and to examine the implications of the IASB withdrawing IAS 26. The findings would be presented to the next meeting of the group.

5. Conceptual Framework: project status

Staff from the IASB-FASB Conceptual Framework project team reported on recent activities undertaken in the joint project. The group discussed various issues relating to the active phases of the project and noted that the next outputs were scheduled to be published by the end of the 2nd quarter of 2008, comprising:

- An Exposure Draft on Phase A 'The Objective of Financial Reporting and the Qualitative Characteristics of Decision-useful Financial Reporting Information'; and
- A Discussion Paper on Phase D 'The Reporting Entity'.

6. Rate-regulated Operations

Staff of the Canadian AcSB presented a paper that outlined the work that they and the Accounting Standards Board of India had been carrying out on whether rate-regulated operations could create assets and liabilities and, if so, what was the nature of those assets and liabilities. It was noted that the intention was to refer issues relating to rate-regulation to the International Financial Reporting Interpretations Committee (IFRIC) for consideration. The NSS members discussed a number of issues to assist those standard-setters that were planning to refer the matter to IFRIC.

7. Measurement

The UK ASB presented a paper that set out some thoughts towards a conceptual framework for measurement and conclusions for debate. The paper discussed various aspects of current value, addressing the valuation of assets that were traded on markets, assets where market evidence was lacking, the deprival value model, and the requirements of the US standard FAS 157. The paper stimulated a good discussion, which NSS members agreed would be useful preparation for considering the issues that would need to be examined when the IASB issued its Discussion Paper on the measurement phase of the conceptual framework project. The UK ASB will be giving consideration to the publication of this paper.

8. Complexity in corporate reporting

The UK ASB presented a paper informing NSS of the project being undertaken by the UK Financial Reporting Council (FRC) to review the complexity and relevance of corporate reporting requirements and seeking their input. The group noted that there were a number of related initiatives underway internationally (such as the work of the Pozen Committee in the USA). In discussion, NSS members raised some issues for consideration by the FRC project team, including:

- Whether a distinction should be made between volume and complexity, as one did not necessarily imply the other, although concerns were expressed about the extent of note disclosures to the financial statements that had grown up over the years;

- Whether the link between volume and the form of reporting needed to be investigated. In at least one jurisdiction, permitting accounts to be published in electronic form had had the effect of increasing volume and reducing the number of concise accounts that had previously been issued in hard copy;
- The fact that complexity was coming not just from accounting standards (although the need for companies operating cross-border to apply different GAAPs was not helpful), but from the wider regulatory scene, such as prudential regulation for financial services entities (where regulatory 'second-guessing' could be a problem), market (Listing) rules, wider market discipline and practice, best practice pressures, and pressures from investors and other stakeholders. Seeking to address the needs of too many classes of users could also be a cause of complexity;
- Whether the regulatory responses to past crises in recent decades had contributed to increasing complexity.
- That more complex reporting may simply mirror the growing complexity of business transactions and arrangements.

9. **Non-Consolidated Information**

The Canadian AcSB staff presented a paper highlighting a significant concern raised by the AcSB's User Advisory Council regarding the inability of users to obtain non-consolidated financial information about entities in a consolidated group from the parent's consolidated financial statements. Current IFRS did not necessarily provide sufficient information for users to understand the relationship between a parent and its subsidiaries. It was noted that the situation was different in different jurisdictions, and members were asked to provide any insights from their own experience. The NSS group agreed that further work was worthwhile, particularly in the context of the parent company and the AcSB was encouraged to undertake further research, liaise with the staff supporting the IASB consolidations and conceptual framework projects, and come back with the results to the next meeting of the NSS group.

10. **Closure and Action Points**

The group considered a number of suggestions from the Chairman of the IASB on the projects on which it might take forward work:

- Intangible assets – this was already being taken forward by the AASB and ASBJ (see item 3 above);
- Accounting for Tax – the UK ASB agreed to bring a paper to the next NSS meeting on what might be taken forward in this area; and
- IFRS 2 – the NSS members agreed to keep this on the list of potential agenda items at future meetings. The French Conseil Nationale de la Comptabilité (CNC) was undertaking some research on the application of IFRS 2.

It was tentatively agreed that the NSS group would next meet in Paris (for one day) in September 2008, with a 2-day meeting to be held in South Africa in March/April 2009.

For the September 2008 meeting, potential agenda items were identified as follows:

- IASB work programme – as a standing item, with action by the UK ASB (see item 2 above);
- Intangible assets – action by the AASB and ASBJ (see item 3 above);
- Retirement benefit plans – action by the NZ FRSB (see item 4 above);

- Conceptual framework project - as a standing item, with action by the IASB -FASB project team (see item 5 above);
- Non-Consolidated Information - action by the Canadian AcSB (see item 9 above).
- Accounting for Tax - as noted above. Action by the UK ASB.