REPORT OF THE MEETING OF NATIONAL STANDARD-SETTERS (NSS) 10 SEPTEMBER 2008

The NSS group met in Paris on 10 September 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, India, Italy, Japan, Malaysia, Mexico, New Zealand, Norway, Republic of Korea, Romania, Saudi Arabia, South Africa, Sweden, Taiwan, Tunisia and the United Kingdom. Representatives of the European Financial Reporting Advisory Group (EFRAG), the International Accounting Standards Board (IASB) and the International Public Sector Accounting Standards Board (IPSASB) also attended, plus observers from a number of other organisations.

1. **IASB Work Programme and IASC Foundation governance issues**

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 comments from the group centred on a number of themes:

- Concerns were expressed on the number of issues on the work programme and whether it was achievable. While there was an acceptance that some change was necessary, in order to create a new 'stable platform' for those jurisdictions planning to adopt International Financial Reporting Standards (IFRS) within the next few years, there were concerns about the burdensome impact of constant change and the pace of change, in particular given that many jurisdictions were already applying IFRS;
- 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 to enhance the IASB being more transparent in how it determines the priorities of items on its work programme and how it might improve its planning, for example by staging projects. A suggestion was made that the IASB should formally consult annually on its forward work programme.

NSS members briefly considered the February 2006 'Statement of Best Practice: Working Relationships between the IASB and other Accounting Standard-Setters' and agreed that it remained fit-for-purpose. Members were updated on the developments to build a closer relationship between the IASB and IPSASB.

The group also considered the proposals contained in the International Accounting Standards Committee (IASC) Foundation document 'Review of the Constitution: Public Accountability and the Composition of the IASB – Proposals for Change'. The group had reservations on the Monitoring Group (MG) proposals as they were not clear in what the exact role would be and what the MG powers would be limited to – members were all concerned that these should be to oversee the Trustees appointments and that they carried out their tasks, not to replace the Trustees role. The NSS members recommended that the proposed Memorandum of Understanding (MoU) between the Trustees and the MG should be exposed for comment too. On the increase of the IASB to 16 members there were mixed views, but there was concern as to the proposed size of the IASB and how that would affect the effectiveness of its meetings and decisions.

2. Intangible Assets research project

The Australian Accounting Standards Board (AASB) presented a staff draft of a Discussion Paper (DP) reflecting the outcome of the research on the initial accounting for internally generated intangible assets (excluding goodwill). An earlier draft had been considered by the group at its March 2008 meeting and the latest version had been updated to reflect out-of-session comments made by NSS members.

NSS members supported publication of the DP, with the AASB staff being identified as the principal authors. The group agreed that the DP should include a Foreword from the Chairman of the NSS. The proposed Foreword would make it clear that NSS representatives welcomed the publication of the DP as a contribution to the debate, but were not endorsing its conclusions, which were those of the principal authors.

The group also considered a paper on how the NSS could progress the project further, and a further paper prepared by the Accounting Standards Board of Japan (ASBJ) that presented a case study analysis of the accounting treatment of internally generated development costs under International Accounting Standard (IAS) 38 ‘Intangible Assets’.

In relation to progressing other elements of an intangible assets research project, no precise conclusions were drawn, but there was a general view that further research would be useful on fair value (including its relevance and reliability) and an engagement with users to gain an in-depth understanding of their views on intangible assets. It was agreed to bring back the paper by the AASB and ASBJ staff on possible next steps to the next meeting of the NSS group, together with progress reports on any subsequent work on intangible assets undertaken by other group members.

3. IASB Consolidations Project

Staff from the IASB reported on recent activities undertaken on the Consolidations project. The group was presented with a staff draft of a proposed IFRS that would replace IAS 27 ‘Consolidated and Separate Financial Statements’ and SIC-12 ‘Consolidation – Special Purpose Entities’. The draft was being discussed at a number of meetings and roundtables during September. The draft was being developed on the premise that IAS 27 and SIC-12 were not fundamentally flawed and the principles underpinning those requirements were sound.

In discussion:

- There was overall support for the objectives of the project and the broad direction it was taking, but an acknowledgement that it was still very much work-in-progress;
- The group expressed some concerns about the proposed definition of control of an entity as when a party “currently has power sufficient to

enable it to manage the individual assets and liabilities of that entity so as to benefit from generating returns from them". Particular worries were expressed about the term "manage the individual assets and liabilities", which it was felt could lead to many problems. An alternative proposal from IASB staff that the definition could refer to "manage the economic activities" attracted mixed views;

- Members asked for greater clarification in the proposed draft on the issue of 'de facto' control;
- The group felt that the suggested disclosure requirements could be very burdensome;
- Members also had concerns with the requirement that an entity should disclose the nature of, and the risks and benefits associated with, entities which it did not control but with which it had "significant involvement". The draft did not define the term and the relationship between "significant involvement" and "significant influence" as used in IAS 28 'Investments in Associates' was unclear; and
- It was noted that, separately to the IASB project, the US Financial Accounting Standards Board (FASB) had its own consolidations project and was issuing consultation documents on proposals for changes to US GAAP. Members were concerned as to how the two Boards' projects might be reconciled and converged, in particular in a way that ensured that any converged proposal would remain principles-based.

In terms of action, the IASB staff representatives said that the comments made by NSS members would be taken into account in developing further revised drafts. The latest version of the IASB work programme anticipated that an Exposure Draft (ED), approved by the IASB, would be issued for formal public consultation by the end of 2008.

4. Conceptual Framework: project status

Staff from the IASB-FASB Conceptual Framework project team reported on recent activities undertaken in the joint project. The group's discussion focused on the latest working draft definition of a liability that was being considered under Phase B of the project 'Elements and Recognition'. The latest draft defined a liability of an entity as "a present unconditional economic obligation that is enforceable against the entity". The discussion also focused on two particular issues: the distinction between liabilities and general business risk; and the approach to dealing with uncertainty.

In discussion:

- A number of members expressed concerns with the removal from the definition of any reference to the likelihood of any outflow of resources from the entity, and whether the revised definition would lead to less liabilities being recognised on balance sheets;
- There was an acknowledgement that recognition criteria would need to be dealt with before the IASB formally consulted on the definitions of assets and liabilities; and
- Some members sought greater clarity on what was meant in the definition by the terms "unconditional" and "enforceable".

It was noted that the latest version of the IASB work programme anticipated that a DP would be issued in the second half of 2009.

5. Accounting for Complex Financial Instruments

Members of a working group of the French Conseil National de la Comptabilité (CNC) presented a research paper that dealt with the accounting for complex financial instruments. The objective was to analyse, through using a real-life example of a synthetic Collateralised Debt Obligation (CDO), the accounting issues faced by financial statement preparers when applying IAS 39's fair value requirements in the context of complex and illiquid financial instruments.

The accounting issues focused on a number of key areas:

- The existence and characteristics of an active market – it was noted that the concept of a "market" for bespoke CDOs was complex and highly dependent on the point of view of the market participants;
- The choice of a valuation technique – it was noted that IAS 39 did not provide explicit guidance on the choice of techniques in the absence of publicly quoted prices. The standard gave examples of valuation techniques but did not indicate whether the choice of one of those techniques had to comply with an implicit hierarchy;
- The choice of a valuation model – it was noted that IAS 39 referred to the possibility of there being a valuation technique "commonly used" by market participants, but did not address how that could be assessed, in particular in very thin/immature markets. There were also concerns that a bank could be obliged to use two separate models: one for internal risk management purposes, and the second for external financial reporting;
- The choice of inputs and possible model adjustments – a number of issues were raised including what constituted a "market input" in the choice of a valuation technique, how preparers could deal with the notion of "most advantageous market" when selecting observable inputs, the selection of non observable parameters, and which types of risk factors and valuation adjustments should be considered; and
- Issues arising from inputs becoming non observable – it was noted that IAS 39 did not provide any guidance regarding the nature of unobservable parameters that could be selected to estimate a fair value measurement, nor did it give a hierarchy of alternative sources that could be used.

The discussion highlighted the range of issues involved and the need for the exercise of judgement, but some concerns were expressed as to whether the IASB should provide further guidance on these issues, which could run the risk of imposing further rules on preparers. There was a clear link between the issues raised in this session and the IASB's project on fair value measurement guidance, and the work being undertaken for the IASB by its Expert Advisory Panel on fair value measurement when markets were no longer active.

6. Accounting for Tax

The UK Accounting Standards Board (ASB) presented a paper that set out a proposal for a project to review the accounting standards on tax. It was noted that many found the current international accounting standard, IAS 12 'Income Taxes', complex and difficult both to apply and understand. Notwithstanding that the IASB was shortly to issue an ED of a revised version of IAS 12, the IASB Chairman had indicated that income tax was an area where work by the NSS on a fundamental rethink of accounting for tax would be welcome.

The current plan was that the project would be run jointly by the ASB and the German Accounting Standards Committee (DRSC), although further discussions had still to take place on whether other organisations would participate, notably whether the project would form part of the Pro-active Accounting Activities in Europe (PAAinE) initiative. The objective of the project was to develop a DP that would identify and recommend principles for a new accounting standard that would replace IAS 12. To assist in the development of the DP, the two Boards proposed to form an Advisory Group.

NSS members supported the proposal and agreed that the project should take a 'clean sheet of paper' approach to accounting for tax. NSS members were asked to provide any input that might be relevant, which could be submitted out of session.

7. **Reports Back**

NSS members received update reports on developments in a number of areas that were discussed at the group's March 2008 meeting in Melbourne:

- The UK ASB provided an update on progress in developing a paper that set out some thoughts towards a conceptual framework for **measurement** and conclusions for debate. The intention was that, subject to approval by the ASB, a paper would be finalised by the end of 2008;
- The French CNC provided an outline of a project plan for a post-implementation review of **IFRS 2 'Share-based Payment'**. It was noted that, at its September 2008 meeting, the IASB was being asked whether it wanted to add an IFRS 2 project to its technical agenda (at the meeting, the IASB stated that it did not). The CNC plan proposed that a report on the perceived issues and difficulties on the implementation of IFRS 2 would be presented to the next meeting of the group;
- The Canadian Accounting Standards Board (AcSB) gave an update on the concern regarding the inability of users to obtain **non-consolidated financial information** about entities in a consolidation group from 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 IASB's forthcoming ED on a new consolidations standard (see item 3 above) was expected to include disclosure requirements that address the need for non-consolidated information
- The New Zealand Financial Reporting Standards Board (FRSB) provided an update of the research it had undertaken on the use around the world of **IAS 26 'Accounting and Reporting by Retirement Benefit Plans'** and noted that it had received some indications of support for the withdrawal of the standard. The FRSB noted that it had still to conduct its research into the experience of using IAS 26 in New Zealand. A number of NSS members supported further work being undertaken on this issue and it was agreed that this would be included on the agenda of the next meeting of the group. The AASB noted that it was

working on developing an ED of its own standard on accounting by pension plans, which could be shared with the group. The UK ASB noted that it was currently analysing the responses to its preliminary views on accounting by pension plans contained in the PAAinE DP 'The Financial Reporting of Pensions', which could also be shared with the group.

8. **Closure and Action Points**

It was noted that the NSS group would next meet on 8-9 April 2009 in South Africa. The Chairman noted that the German DRSC had offered to host in Frankfurt the 1-day meeting to be held in September 2009.

NSS members were asked to submit suggestions for agenda items for the April 2009 meeting, including any research they had conducted which they wished to share with the group. In the meantime, a number potential agenda items were identified as follows:

- IASB work programme – as a standing item, with action by the UK ASB (see item 1 above);
- Intangible assets – action by the AASB and ASBJ (see item 2 above);
- Conceptual framework project - as a standing item, with action by the IASB –FASB project team (see item 4 above);
- Accounting for Tax – update on project progress and issues arising from the UK ASB and German DRSC (see item 6 above);
- IFRS 2 Implementation – action by the French CNC (see item 7 above);
- Retirement benefit plans – action by the NZ FRSB, with input from the AASB and UK ASB (see item 7 above).