

## **REPORT OF THE MEETING OF NATIONAL STANDARD-SETTERS (NSS) 18-19 SEPTEMBER 2010**

The NSS group met in Rome on 18-19 September 2010 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 group is chaired currently by Ian Mackintosh, Chairman of the UK Accounting Standards Board (ASB).

The meeting was attended by representatives of standard setters from Australia, Austria, Brazil, Canada, France, Germany, Hong Kong, India, Italy, Japan, Malaysia, Mexico, New Zealand, Norway, Republic of Korea, Sierra Leone, Singapore, South Africa, Spain, Sudan, Sweden, Syria, Taiwan, the United Kingdom, and the United States. Representatives of the European Financial Reporting Advisory Group (EFRAG) the International Accounting Standards Board (IASB), the International Public Sector Accounting Standards Board (IPSASB), and the US Securities and Exchange Commission (SEC) also attended, as did the Chairman of the International Financial Reporting Standards (IFRS) Advisory Council (AC). A list of participants is attached. A number of observers also attended, in particular from the Italian standard-setter (the *Organismo Italiano di Contabilità*, OIC).

### **1. US Securities and Exchange Commission (SEC): Convergence and Global Accounting Standards**

- 1.1 Representatives of the staff of the US SEC gave a presentation on a work programme that the SEC (the Commission) was undertaking on considering the incorporation of International Financial Reporting Standards (IFRS) into the US financial reporting system. Their comments came with the usual disclaimer that their views did not necessarily reflect those of the Commission.
- 1.2 In February 2010, the Commission had issued a 'Statement in Support of Convergence and Global Accounting Standards', which had:
  - reaffirmed the Commission's strong commitment to a single set of high quality global accounting standards;
  - recognised IFRS as being best-positioned to be able to serve as the single set of global accounting standards;
  - recognised the on-going convergence process between the IASB and the US Financial Accounting Standards Board (FASB); and
  - summarised feedback from the nearly 240 responses to the Commission's November 2009 'Roadmap' for the potential use of IFRS by US issuers. A majority had supported the principle of using IFRS, but had raised many detailed comments.
- 1.3 In that Statement, the Commission also directed the SEC staff, led by the Office of the Chief Accountant, to develop and execute a Work Plan which would, in combination with the completion of the projects under the IASB-FASB

Memorandum of Understanding (MoU), position the Commission in 2011 to make a determination regarding incorporating IFRS into the financial reporting system for US issuers. The announcement by the IASB and FASB in June 2010 of their modified strategy for convergence had not changed the Commission's position.

1.4 The SEC staff Work Plan covered both whether and how to incorporate IFRS for US issuers in six key areas:

1. Whether IFRS are sufficiently developed and applied for the US financial reporting system in terms of their comprehensiveness, auditability and enforceability, and providing financial statements within and across jurisdictions.
2. Whether the IASB is sufficiently independent in terms of its governance, composition, funding and standard-setting process;
3. Investor understanding and education regarding IFRS – on which the SEC had issued a separate request for comments;
4. Examination of the US regulatory environment that would be affected by a change in accounting standards – including discussing issues on accounting for rate-regulated activities with some industry regulators, discussions with the US tax authorities on tax implications (it was noted that – on inventory – there was a \$50 billion Last-In-First-Out, LIFO, tax effect on the books of US companies), the concerns of some regulators of IFRS containing less detailed guidance than US GAAP, and the implications for private company financial reporting;
5. The impact on issuers – including reporting on internal controls, corporate governance, and legal and contractual arrangements, where again the SEC had issued a separate request for comments. The staff noted that accounting for contingencies was a big issue in the USA, which it wanted to understand better, not least given the fact that foreign issuers already reported under International Accounting Standard (IAS) 37; and
6. Human capital readiness – in terms of both education and training, and auditor capacity.

1.5 The SEC staff was undertaking detailed work in a number of major areas, including:

- Outreach in the USA, with a plan to hold public roundtable meetings;
- Meetings with the larger accounting firms to understand how they made decisions on the application and consistency of IFRS;
- Surveying fellow regulators and other parties in other jurisdictions, in order to learn from the experience of others who had already adopted or incorporated IFRS;
- Identifying differences between IFRS and US Generally Accepted Accounting Principles (GAAP) and assessing them in terms of their significance. For example, there were differences in the requirements on accounting for tax, but the staff view was that a lot of them were not significant;
- Reviewing IFRS filings (both US and non-US) for comparability, understandability and general compliance with IFRS.

- 1.6 The SEC was planning to issue a progress report in October 2010 on all the above issues, although decisions on future actions would not follow until 2011.
- 1.7 In discussion, NSS members:
- Commended the SEC on the very thorough and transparent approach it was adopting. There were some concerns as to whether the modified strategy in the MoU and its impact on the timing of completing projects would be viewed adversely by the Commission, but the SEC representatives sought to allay such concerns;
  - Sought clarification of the work being undertaken by the SEC to review the governance structure of the IFRS Foundation and whether that implied a concern about the IASB's governance. The SEC representatives noted that they had no concerns with independence, but were mindful of the impact of political pressure put on the IASB. That said, it was acknowledged that similar political pressure existed in the USA. The SEC felt that the IASB's funding was an issue, but noted that the USA was a laggard in providing its share to the IFRS Foundation;
  - Questioned the SEC's use of the term 'incorporation' rather than adoption of IFRS. It was noted that a number of other jurisdictions had used the term incorporation, which was – in any event – more appropriate given that there were legal hurdles to overcome, not least the fact that US GAAP was used as a phrase across a range of US legislation. In some jurisdictions, 'filter mechanisms' had been put in place. That said, at least one jurisdiction (New Zealand) noted that it had applied a full adoption route, but still continued to use the term NZ GAAP in law;
  - Shared some of their own experiences in moving to IFRS. For example, Italy noted some of the wider impacts it had faced (in areas such as tax and distributable profits) by making IFRS compulsory for not just consolidated accounts, but also the individual and separate financial statements for quoted companies and banks. Phased approaches were also discussed. Korea highlighted the problems of the burden of change for IFRS adopters and those moving to IFRS, and the constant change to the IASB's standards;
  - Raised the issue of differential reporting and whether the IFRS for Small and Medium-sized Entities (SMEs) could be useful, although there were varying views on that, in particular given the recognition and measurement differences with full IFRS;
  - Raised the question of the future as regards harmonisation and interpretation; and
  - Highlighted the importance of cultural issues, and whether the US community would accept the reduction in the level of guidance in IFRS as compared to US GAAP. Would the relative lack of specificity in IFRS result in more disclosures in IFRS filings?
- 1.8 In summing up, the Chairman welcomed the engagement of the SEC with the NSS and looked forward to the October progress report. He noted that the SEC had submitted a number of specific questions to NSS members on their own experiences of IFRS and its implementation in their own jurisdictions. He would liaise with the SEC to review the questions and then send them to NSS members, who could answer them if they wished.

## **2 Current international developments in financial reporting and the IASB's work programme**

2.1 A representative of the UK Accounting Standards Board (ASB) updated NSS members on developments related to the global financial crisis and their implications for financial reporting.

2.2 The latest most significant developments included:

- The forthcoming G20 Economic Summit in Seoul in November would review progress on its recommendations to the IASB and FASB on the accounting issues to be addressed as a result of the crisis;
- In September, the Group of Governors and Heads of Banking Supervision, the oversight body of the Basel Committee on Banking Supervision (BCBS) announced a strengthening of the global minimum capital standards for banks (the so-called Basel III standards). In terms of headlines, the reforms agreed would increase banks' minimum capital requirements, introduce a capital conservation buffer and – subject to national circumstances a countercyclical capital buffer (where it was not clear whether it would be a regulatory adjustment or impact the financial statements).

2.3 The IASB and FASB were still working hard on projects related to the financial crisis, in particular those related to accounting for financial instruments, where NSS members noted that:

- The comment period was still open on the FASB's Exposure Draft (ED) of a new comprehensive standard on financial instruments. It was noted that, under the FASB's proposals, almost all financial assets and financial liabilities would be measured at fair value in the primary financial statements. The FASB's view was that a single measurement attribute – fair value – was more appropriate and relevant than other measurements in assessing the effect of current economic events on the reporting entity. This compared to the IASB's mixed measurement approach (amortised cost and fair value). The FASB was currently receiving comment letters at a rate of 50 per day. A number of NSS members shared views on the responses they had submitted already or were preparing for submission to the FASB. It was noted that no-one at the meeting expressed support for the FASB's single measurement approach;
- On Amortised Cost and Impairment, it was noted that many of the respondents to the IASB's November 2009 ED had expressed support for a move towards an Expected Loss (EL) impairment approach. However, there was no consensus on what was meant by an EL model, the operational complexities were highlighted, as was the need for the approach to deal with open portfolios. The IASB was working closely with regulators on the issue, and was hopeful of making significant progress on the issue from October onwards with the FASB (ie after the comment period has closed on the FASB ED);
- On hedge accounting, the IASB was making progress and was tackling the knotty issue of portfolio hedging. It was hoped that an ED would be issued in November 2010.

2.4 NSS members also considered and discussed a number of the other major projects under the MoU and on the IASB's Work Plan:

- The importance of the Insurance Contracts project was noted, although there was some divergence of views on the level of support for the proposals in the IASB's ED, in terms of – for example – the depiction of performance, the definition of margins and the classification of some contracts. The implications of the proposals in the ED for other projects (eg revenue recognition, liabilities and leases) was noted, as was the timetable;
- Some divergence of views was also noted on the proposals in the ED 'Revenue from Contracts with Customers', and whether they represented an improvement on the current requirements. Particular concerns were expressed on how the proposals impacted on long-term construction-type contracts and a view expressed that the proposals needed to be field-tested;
- Similar divergence was evident on the proposals in the Leases ED, with concerns expressed about determining the boundary between leases and services arrangements, and the boundary between a lessor applying either the performance obligation or derecognition model. Some jurisdictions (such as Australia) were supportive of the proposals, as it reflected the information analysts in certain sectors (such as retail) were seeking; and
- It was noted that there would be a discussion of the major projects at the second meeting of the Asian-Oceanian Standard Setters Group (AOSSG) to be held in Japan at the end of September and that AOSSG had established working groups on a number of them.

2.5 NSS members also discussed the implications of the 2011 deadline for many projects and what would happen if that timing was not achieved. Why had the IASB and FASB set such an aggressive timetable? A representative of the IASB staff noted that the timetable had been set to meet the pressure coming from the G20 and others. That said, while achieving quality solutions was paramount, setting deadlines provided a focus. It was also noted that there was no appetite to extend the convergence programme. That triggered a discussion on the balance between achieving convergence in a timely fashion and achieving a high quality solution, which might take more time, but would allow for a fuller assessment of the substance of the issues. Summing up, the NSS Chairman noted that there was a delicate balance to be struck, but expressed his view that the longer the convergence programme went on, the more the law of diminishing returns would kick in.

### **3 Accounting standards and XBRL**

3.1 A representative of Singapore's Accounting and Corporate Regulatory Authority (ACRA) gave a presentation on XBRL (eXtensible Business Reporting Language) and its relationship to accounting standards and financial statements. The experience in Singapore was highlighted, where XBRL had been introduced to enable a value-enhancing information flow to the business community. ACRA was also exploring on a "one stop information repository" for all business information in reporting to the Government.

- 3.2 Among other things, the presentation highlighted the alignment of the XBRL taxonomy with accounting standards, in particular the IFRS taxonomy that had been developed by the IFRS Foundation.
- 3.3 In terms of the role NSS might play in XBRL, the ACRA representative called for the contribution of NSS members towards to the development of local taxonomies, on the grounds that:
- XBRL and accounting standards shared the same objectives; and
  - The development of accounting standards and the availability of the XBRL taxonomy should go hand in hand.
- 3.4 The presentation was accompanied by a demonstration of XBRL-enabled analytical tools, using data taken from the 2008 financial statements of a Singapore listed company.
- 3.5 While the session was primarily an educational one, it generated some discussion and comment from NSS members:
- Some concerns were expressed about the XBRL business model and its governance. That said, a number of NSS members noted the fact that XBRL was already being used in their jurisdictions, either for regulatory filings (as in India) and/or for financial reporting (as in Italy);
  - It was noted that local taxonomies had been developed in certain jurisdictions, in some cases with separate taxonomies by separate regulatory bodies. The question of extensions to taxonomies was raised, and it was noted that in at least two cases (Australia and the USA), the NSS was already playing a role in quality control;
  - In terms of the IFRS taxonomy, it was noted that there was already a closer relationship between the IASB technical staff and the XBRL team in the IFRS Foundation, so that amendments to the IFRS taxonomy could be proposed at the ED stage of any proposed new/amended IFRS;
  - The relationship between the IFRS and US GAAP taxonomies was noted and highlighted as an issue that needed to be addressed as part of the SEC's Work Plan. The IFRS taxonomy contained only around 2,500 tags, whereas that for US GAAP had around 18,000. There was a need to think carefully about the level of comparability that users wanted.
- 3.6 Summing up, the NSS Chairman noted that XBRL was an issue that needed to be monitored carefully and one that was likely to become increasingly important in the years ahead.

#### **4 IAS 41 'Agriculture'**

- 4.1 A representative of the Malaysian Accounting Standards Board (MASB) gave a presentation on Malaysia's experience with IAS 41 and the problems that had been encountered with applying the requirements in that standard to fair value Bearer Biological Assets (BBA).
- 4.2 It was noted that there were essentially two types of biological assets. Biological assets harvested as agricultural produce were known as consumable biological

assets (CBA). Biological assets other than CBA were BBA, which were not agricultural produce but, rather, were more like property, plant and equipment, such as oil palm and rubber trees.

4.3 The application of fair value to BBA had resulted in the reporting of their price changes rather than their biological transformation (regarded by the MASB as a concept of growth towards maturity), which was misleading as BBA were not held for sale. The operation of BBA should be regarded as broadly similar to that of a manufacturing entity. As such, it would be preferable for BBA to be measured in line with the provisions of IAS 16 'Property, Plant and Equipment' (PP&E). A MASB survey of analysts found little support for the usefulness of fair value information of BBA.

4.4 Given the above, the MASB was calling for a review of IAS 41, which would incorporate:

- The addition of definitions of BBA and CBA into the standard;
- The scoping out of BBA from IAS 41 to be included in IAS 16;
- An option to measure immature BBA at either fair value under IAS 41 or the IAS 16 cost approach;
- The application of IAS 16 to measure mature BBA, using either the cost model or the revaluation model; and
- For CBA growing on BBA, separate recognition and the application of fair value until the point of harvest.

4.5 In discussion, NSS members:

- Commended the MASB for the work it had carried out on the issue. While there was general support for what the MASB was seeking to achieve, some NSS members expressed caution that the solution proposed might be harder to achieve than the MASB anticipated. Others (such as Brazil, India and Taiwan) expressed enthusiastic support;
- A number suggested that the difficulties of fair valuing mature BBA might vary depending on the environment being considered and/or the specific biological assets. For example, it was noted that the MASB solution might work for BBA as trees and vines, but be more challenging for livestock;
- Noted that this was an early, and good, example of how a Post-Implementation Review (PIR) might work. It was generally accepted that this was an issue for the IASB's post-2011 agenda and an area where NSS could provide valuable input. A number of NSS members (Canada and New Zealand) offered to assist the MASB in taking work forward on the issue.

4.6 Summing up, the NSS Chairman noted the general support for the MASB review and encouraged work on it to continue.

## **5 Corporate Income Taxes**

5.1 Representatives of the UK ASB and the European Financial Reporting Advisory Group (EFRAG) gave a presentation of the progress to date on their project,

being conducted also in partnership with the German Accounting Standards Board (GASB), on accounting for corporate income taxes.

- 5.2 The aim of the project, which was still work-in-progress, was to develop proposals for a new accounting standard that would replace the current standard IAS 12 'Income Taxes'. Many regarded IAS 12 as complex and difficult to apply. The usefulness of information presented in accordance with IAS 12 had also been questioned. A back to basics approach had been adopted for the project, with the aim of arriving at a solution that was both conceptually sound and practical enough to be implemented at reasonable cost to provide information that was useful to readers of financial statements.
- 5.3 The project had made rather more progress on critiquing current arrangements for the financial reporting of corporate income tax than on what to do in its place. The report sought to highlight key aspects of the thinking so far on:
- The conceptual as well as the operational problems with IAS 12;
  - The arguments for and against flow-through (ie an approach where the only recognition of tax in the financial statements was the tax assessed on the profits of the current period) and the provisional conclusions that the focus of the project should not be on how to make flow-through work; and
  - The prospects for a different approach.
- 5.4 In terms of a different approach, work had been undertaken on developing two potential avenues to determine whether there was a liability (or an asset), which were:
- Cases where a transaction or event was recognised for financial reporting purposes in an earlier period than that for which it was recognised for tax purposes (referred to as 'Book Earlier Tax Later', or BETLs); and
  - Cases where a transaction or event was recognised for tax purposes in an earlier period than that for which it was recognised for financial reporting purposes (referred to as 'Tax Earlier Book Later' or TEBLs).
- 5.5 In discussion, NSS members:
- Acknowledged that this was a very difficult and complex issue. There were, however, differing views expressed about the analysis to date and the potential approaches outlined. Some concern was expressed that the proposals being developed could be as complex as those in IAS 12. One member (Japan) was not convinced that the problems in practice were such that IAS 12 needed replacement as a priority;
  - Offered some suggestions for the project to develop thinking in a number of areas, including one that encouraged an analysis to start by considering what was a liability for tax and at what point was it considered that a tax liability existed. Some suggestions were made for further issues to be looked at, including the tax implications of functional currency and presentational currency reporting;
  - Expressed a view that more work could be done on a valuation adjustment approach;



- Wondered what the users of financial statements really wanted to see in the accounting for tax and, if necessary, to be challenged, for example, why they claimed that they wanted to know future effective tax rates
- 5.6 Summing up, the NSS Chairman noted that this was a very difficult project, where there were very different views. He encouraged the project team to continue its work and to report back on further developments to the NSS group.

## **6 IASB-FASB Conceptual Framework Project: Progress Report**

6.1 A representative of the US FASB presented a paper on the objectives and status of the conceptual framework project:

- Publication of the final output of Phase A of the project (Objectives and Qualitative Characteristics) would be before the end of September;
- On Phase D (Reporting Entity), the staff was in the process of analysing the comments to the March 2010 ED, which would be considered by the Boards in the near future, with the aim of issuing a final output in early 2011;
- On Phase C (Measurement) some progress had been made in developing a Discussion Paper (DP) for publication in the first half of 2011, the objective of which was to provide guidance to the two Boards for selecting measurement bases that satisfied the objectives and qualitative characteristics of financial reporting;
- Work on Phase B (Elements and Recognition) had been inactive for some time, although the plan was to reactivate it within the next 6 months.

6.2 The NSS Chairman noted the update on the project.

## **7 Conceptual Framework project: the Unit of Account**

7.1 A representative of the UK ASB noted that, following a discussion at the meeting of the NSS group in Seoul in April 2010, the NSS Chairman had written to the IASB and FASB offering NSS support to play a more active role with the IASB and FASB in their joint conceptual framework project. The response from the two Boards had been to ask whether the NSS could help in working on unit of account issues.

7.2 As a consequence, a representative of the UK ASB presented a paper suggesting that the NSS should take up the issue, with the objective of developing proposals for the principles that should govern the selection of the level of aggregation to be used in the preparation of financial statements. The final output would be a report setting out the proposed principles and the rationale for them.

7.3 Unit of account issues were cropping up in many projects. For example:

- Financial instruments: should they be accounted for at the level of each individual instrument or as a portfolio (and what was a portfolio)?
- Revenue recognition: how many performance obligations in a contract?

- Leases: if a lessee should account for its right to use the asset separately from its right to receive services, then the related expenses might also be reported as separate items.
- 7.4 In terms of the approach to the project, two directions were suggested. First, a 'top down' direction would identify (and then seek to answer) some basic questions that the project needed to answer on the unit of account. Second, a 'bottom up' approach would look at specific examples where unit of account issues had been addressed in standards (and proposals for standards) and assess the underlying rationale that had been used.
- 7.5 The proposal generated a lively discussion, the main points of which included:
- Strong support from some NSS members (including the FASB, IASB, Korea and Japan). A representative of the IASB stressed that the two Boards were looking for help on this issue, if only to clarify what was meant by the unit of account, given that at present it meant different things to different people. Comments were made that some consideration needed to be given as to the circumstances in which one might consider inflows and outflows individually rather than as linked, and those where a different level of aggregation could change an accounting answer;
  - Some other NSS members (including France, New Zealand, Sierra Leone and Sweden) expressing caution and some confusion as to exactly what was the objective of the project, what problem was it trying to solve, and whether there was a danger of it becoming too much of an academic exercise;
  - A view that this might help the IASB and FASB become more efficient in developing their standards in the future by giving them some principles by which they can be consistent in thinking through unit of account issues.
- 7.6 The presenter noted that all the comments would be considered in drawing up how to take forward the project. In return, all NSS members were asked to reflect on the issues raised and to provide input and expressions of interest to join in the project by the end of October 2010. Canada and Japan had already volunteered to participate.
- 7.7 Summing up, the NSS Chairman noted the challenges involved and that a report on developments would be brought back to the next meeting of the NSS group.

## **8 IPSASB Conceptual Framework project: Measurement**

- 8.1 Representatives of the staff of IPSASB and the UK ASB gave a presentation of the work to date by IPSASB in developing a Consultation Paper (CP) as part of its project to develop a Public Sector conceptual framework.
- 8.2 In summary, the presentation:
- Set out some thoughts on what the conceptual framework could be expected to achieve on the topic of measurement;
  - Noted some general features of measurement bases;

- Analysed a number of measurement bases: historical cost, market value and replacement cost; and
- Discussed the deprival value model, which provided a rationale for choosing between an entry value (replacement cost) and an exit value (recoverable amount).

8.3 In discussion, NSS members:

- Noted the need to link the consideration of the measurement base to select with the objectives of financial reporting in the public sector. One particular suggestion made was to bring much more upfront the premise that the choice of measurement base reflected the highest economic value that the entity was able to derive from the asset. Another suggestion was to highlight that the difference in the primary users of financial reporting in the public sector as identified by IPSASB could have a significant impact on the information needs and therefore on the measurement base;
- Suggestions that the analysis in the DP could set out more fully the advantages and disadvantages of a number of the measurement bases, in particular replacement cost, as well as deprival value, together with consideration of practical issues; and
- There was one suggestion (from Sierra Leone) that the discussion should be related to the usefulness of the alternative bases in providing information that was useful to users in assessing the performance of the public sector entity in executing its functions at each stage of its business cycle -inputs, outputs, outcomes and impacts. For example, historic cost might be more relevant in assessing the value of inputs whilst deprival value might be more relevant to the assessment of impacts. It was also suggested that the impact of replacement cost in the performance statement could provide useful information. However, there were differing views on this and some took the view that this was going much wider than financial reporting.

8.4 Summing up, the NSS Chairman noted that IPSASB was to consider a draft of the CP at its next meeting in November 2010.

**9 Towards a Measurement Framework for Financial Reporting by Business Entities**

9.1 A representative of the Canadian Accounting Standards Board (AcSB) presented a progress report on the preparation of a paper setting out a proposed approach to developing a conceptual measurement framework for financial reporting by business entities. An earlier draft had been considered by the NSS group at its meeting in Seoul in April 2010.

9.2 The paper remained a work in progress. The comments received to date indicated a measure of support for the premises underlying the proposed approach, but also some reservations. Work would continue on a further draft of the paper, with a possible report back to the next meeting of the NSS group.

**10 Towards a Measurement Framework for Financial Reporting by Business Entities: An Alternative View**

- 10.1 Andreas Bezold (an independent consultant on international accounting matters) presented an alternative view to that of the AcSB referred to in section 9 above.
- 10.2 The alternative approach focused on the objective of financial reporting, defined for this purpose as the cash generating activities of business entities. To this end, the argument was put that it developed the input/output logic of non-cash resources that businesses invested in and established the cash generating activities as the central focus for measurement concepts of financial reporting.
- 10.3 The two critical issues of market relevance were highlighted as the representational quality of market prices in the absence of real transactions and the impact of changes in market prices on the economic resources serving a business activity. The analysis challenged the efficient market hypothesis and the relevance of fair value.
- 10.4 The argument was put that market prices represented a causal event for financial income reporting if and only if their changes led to changes in cash flows. So whilst the market price of an asset might change, it might not cause a change in expected future cash flows from the activity compared to prior expectations. This was contrasted with the principles for selecting the measurement basis for financial reporting, which focused on the contribution to real cash flows by the items that were being measured.
- 10.5 In discussion, NSS members:
- Acknowledged that the presentation had highlighted that market values were not always appropriate and that markets were not always efficient. However, some NSS members challenged the views on the relevance of market values and the proposal that they were only appropriate when cash flows were imminent. It was noted that even historical cost could contain elements of irrationality;
  - Acknowledged that the views expressed were a useful contribution to the debate and highlighted many of the issues that the IASB and FASB had discussed during their own considerations on measurement.
- 10.6 Summing up, the NSS Chairman noted the different views and the fact that the measurement debate still had a long way to run.

## **11 Business Combinations under Common Control (BCUCC)**

- 11.1 Representatives of the Italian OIC and EFRAG gave a presentation on the background and progress on their joint project on BCUCC, on which a draft DP which was expected to be developed by the end of 2010.
- 11.2 In terms of scope, the project was considering the initial measurement in the books of the transferee (the reporting entity that had acquired the business), including the consolidated and separate financial statements. The transaction might involve either the transfer of a business or of a controlling interest in a reporting entity directly or indirectly controlling an underlying business.

11.3 In terms of defining the problem, some key characteristics of a BCUCC were considered:

- The existence of a related party transaction and absence of an arm's length negotiation;
- The nature of the exchange between the transferor and transferee (the business versus consideration given up);
- The business purpose behind the transaction; and
- The change in economic substance.

11.4 NSS members were asked for their views. In discussion, NSS members:

- Questioned whether the analysis had focused enough on whether an exchange had taken place. One suggestion was that the IPSASB work in this area could be looked at, although an IPSASB representative cautioned that there were difficulties in assessing the exchange/non-exchange distinction;
- In some cases, questioned whether there was a problem in practice, to which the response was that there seemed to be, given the divergence in the literature of the 'Big 4' accounting firms. A representative of the South Africa Accounting Practices Board confirmed that it was a live issue for them.

11.5 The presentation also considered BCUCC from the perspective of applying the conceptual framework, which raised issues around the definition of a reporting entity, in particular whether financial statements should be drawn up from the perspective of the owners of the entity (proprietary perspective) or the entity itself (entity perspective).

11.6 The presentation also considered whether the issues would differ from looking at the Consolidated Financial Statements (CFS) as opposed to the Separate Financial Statements (SFS). This was still being considered by the project team, although a comment was made about the importance of SFS and the fact that a different accounting method could be applied.

11.7 Summing up, the NSS Chairman noted the progress and looked forward to further developments.

## **12 Considering the Effects of Accounting Standards**

12.1 Representatives of EFRAG and the UK ASB presented a draft DP setting out proposals for considering how the effects of accounting standards might be integrated, or further embedded, into a standard-setter's due process. The draft DP had been discussed by the EFRAG Technical Experts Group (TEG) and the UK ASB, and was scheduled to be issued around the end of 2010.

12.2 The purpose of the DP is to stimulate a wider public discussion on how standard-setters (primarily the IASB) should integrate or further embed into their due process a systematic approach for considering the effects of accounting standards as those standards are developed and implemented.

12.3 In discussion, NSS members:

- In general welcomed the draft DP, but questioned the articulation of what was meant by standard setters working in the “public interest” and the number of references to public interest. Some concerns were expressed as to how this had been set out in the IFRS Foundation Constitution. It would be better to state that standard-setters serve the public interest by developing high quality standards;
  - Expressed a view that the DP could place more emphasis on the transparency of the process;
  - Acknowledged that this was happening in other areas of regulation and, in a number of cases (Australia and the UK) had already come into play in the standard-setting arena, which provided some examples to consider;
  - Expressed some concerns about which effects needed to be considered and how the standard setter might tackle them. A suggestion was made that the paper could highlight some examples;
  - One comment (from Sierra Leone) that effects should be related to the conceptual framework of accounting that explained the purpose of accounting information. Three potential benchmarks for effects studies might be the effects on uncertainty, on inter-organisational trust and on social trust; and the economic consequences that flow from the effects of the standards; and
  - One concern (from the French *Autorité des Normes Comptables*, ANC) was expressed that economic consequences must be at the heart of effects studies. In particular, the draft DP should consider not only whether a given standard reached its goal from the standpoint of the ‘quality of accounting’ (which was not defined), but also its impact on the ‘rest of the world’ (for example, accounting should not be about changing business models); and
  - One comment that the draft DP raised the question of ‘what’ was an effects analysis, but the question of ‘who’ undertook it would also have to be addressed. The ASBJ commented that it could be useful having a third-party organisation to undertake the analysis in order to ensure its objectivity
- 12.4 Summing up, the NSS Chairman noted that the comments from NSS members would be considered in the finalisation of the DP for issue.

### 13 IFRS 2 ‘Share-based payment’ review project

- 13.1 A representative of the staff of the French *Autorité des Normes Comptables* (ANC) gave a presentation of the progress of its project to review IFRS 2 and to develop a draft revised standard without changing the basic principles underlying the existing standard, in accordance with the IASB’s objectives. The work was being taken forward by a working group set up by the ANC.
- 13.2 NSS members were reminded that the ANC’s objectives of the review project were to:
- (a) clarify the underlying accounting principles of IFRS 2;
  - (b) ensure the consistency of these principles both within IFRS 2 and with other IFRS; and
  - (c) make the standard easier to understand and apply.
- 13.3 The paper provided a further update of the work of the ANC working group on two possible accounting objectives of what the standard was setting out to portray:

- (1) to represent assets acquired by or services rendered to the reporting entity as part of a share-based payment transaction irrespective of whether there was an identifiable payment made by the entity (or by an entity's shareholder or another entity of the group). This implied that these services were supposed to be rendered regularly on an accrual basis and were supposed to be proportional to the employee's presence (or performance); or
- (2) to represent share-based payments made by the reporting entity (or by an entity's shareholder or another entity of the group) irrespective of whether there was an identifiable service rendered to the entity. This implied that services were supposed to be received only if all conditions (presence and performance) were fully completed.
- 13.4 The ANC working group was still to reach a consensus on which of the accounting objectives referred to in paragraph 13.3 above was the more appropriate. It was highlighted that the current Conceptual Framework as well as the revised one (under development) did not provide decisive arguments in favour of one of these objectives. Further work appeared to be needed on which kind of performance should be represented in the financial statements before one might conclude on which of the objectives and related representations was preferable.
- 13.5 Given the time available, NSS members were asked to submit any written comments to the ANC. A representative of the IASB noted that the ANC's work to date had highlighted many issues with IFRS 2. He noted that the IFRS Interpretations Committee (IFRIC) was taking a stronger role in assessing potential candidate projects for the IASB's forward agenda and it was felt that this would be a good issue for the IFRIC to discuss. An invitation was extended to the ANC to present the results of its work to date on IFRS 2 to a future IFRIC meeting.
- 13.6 Summing up, the NSS Chairman noted that this was a good outcome and hoped that further progress could result from taking this route.
- 14 Operational matters for the Group**
- 14.1 The NSS Chairman noted that this was a standing item. He had three issues to raise.
- 14.2 The first issue related to the NSS website and the NSS portal that had been made available on the IASB's website. The main challenge was getting the contacts database right and it was agreed that work would be taken forward on this.
- 14.3 The second issue was a proposal that, at the next meeting of the NSS group (scheduled to take place in March/April 2011), the group should consider a paper on organisational issues, such as membership of the group, proposals and nominations for a new Chairman, as well as an overall review of the group's operations and procedures.

- 14.4 The third issue concerned the location of the next meeting, which on a show of hands was agreed would be held in the United States, with FASB hosting.
- 14.5 In terms of follow-up to this meeting, the usual letter to the IASB on the meeting and any thoughts of the group would be drafted.
- 14.6 Drafts of the letters and of the reporting of the meeting would be circulated to NSS members for comment.



Appendix A

NSS MEETING - ROME: LIST OF PARTICIPANTS

Surname	First name	Country
Stevenson	Kevin	Australia
Prachner	Gerhard	Austria
Broedel Lopes	Alexsandro	Brazil
Gelbcke	Ernesto Rubens	Brazil
Fowler	Gord	Canada
Martin	Peter	Canada
O'Malley	Tricia	Canada
Abela	Mario	EFRAG
Ashley	Mike	EFRAG
Bezold	Andreas	France (consultant)
Bui	Philippe	France
Gil	Gerard	France
Grauer-Gaynor	Isabelle	France
Haas	Jérôme	France
Knorr	Liesel	Germany
Nowicka	Iwona	Germany
Chan	Clement	Hong Kong
Ong	Steve	Hong Kong
Teixeira	Alan	IASB
Upton	Wayne	IASB
Zhang	Wei-Guo	IASB
Cherry	Paul	IFRS Advisory Council
Chander	Avinash	India
Fadnis	Manoj	India
Ramaswamy	G	India
Stanford	John	IPSASB
Caso	Angelo	Italy
Fabi	Tommaso	Italy
Giussani	Alberto	Italy
Tezzon	Massimo	Italy
Kogasaka	Atsushi	Japan
Kato	Atsu	Japan
Yoshioka	Toru	Japan
Tan	Lee Beng	Malaysia
Yeo	How	Malaysia
Gras	Juan	Mexico
Perez-Cervantes	Felipe	Mexico
McBride	Patricia	NZ
Perry	Joanna	NZ
Thrane-Nielsen	Didrik	Norway
Jones	Dele	Sierra Leone
Chin	Chee Kiat	Singapore
Goh	Euleen	Singapore
Lee	Andrew	Singapore
Sia	Su Chun	Singapore
Ludolph	Sue	South Africa
Watson	Alex	South Africa
Suh	Chungwoo	South Korea
Martinez-Pina	Ana	Spain
Borai	Zein Ahmed	Sudan
Bohlin	Carl-Eric	Sweden

*Report of the meeting of National Standard-Setters (NSS): 18-19 September 2010*

Al Achhab	Maazza	Syria
Al Kourki	Abdul Razak	Syria
Chang	Conrad	Taiwan
Lennard	Andrew	UK
Loweth	David	UK
Mackintosh	Ian	UK
Beswick	Paul	United States (SEC)
Kroeker	James	United States (SEC)
Linsmeier	Tom	United States
Lott	Ron	United States