Memorandum

Australian Government
Australian Accounting Standards Board

Memorandum

To:	**AASB Members**	**Date:**	15 May 2013
From:	**Sue Lightfoot**	**Agenda Item:**	3.7
Subject:	**Accounting Standards Advisory Forum**	**File:**	

Action

For noting.

Overview

- This paper gives a high level summary of the inaugural Accounting Standards Advisory Forum (ASAF) meeting, which was held on 8 and 9 April 2013 in London.
- Agenda Paper 11.10 for this AASB meeting reproduces the IASB's summary of the ASAF meeting (as published on its website) as background reading for the educational session on 'IASB Conceptual Framework Developments (Draft Discussion Paper)'. That session will focus on two of the Conceptual Framework topics discussed at the ASAF meeting, namely: presentation in the statement of comprehensive income, and measurement.

Background

1. The ASAF is a technical advisory body set up to advise the International Accounting Standards Board (IASB). At the start of the inaugural meeting the members signed a joint Memorandum of Understanding (MoU) setting out the purpose of the ASAF and its operating activities. A copy of the MoU can be found here: http://www.ifrs.org/The-organisation/Advisory-bodies/Documents/20130408-MoU-Signed.pdf
2. The agenda focused on two main topics: 1) the IASB's Conceptual Framework project and 2) Impairment of Financial Assets.
3. A recording of the meeting can be accessed on the IASB website. The IASB also posted a summary of the ASAF meeting, prepared by IASB staff, on its website. That summary, and a link to the recording, can be found here: http://www.ifrs.org/Alerts/Meeting/Pages/Accounting-Standards-Advisory-Forum-Meeting-Summary.aspx. As noted above, the summary is also reproduced in agenda paper 11.10.
4. Details of the membership of the ASAF is included in the summary and not repeated here, save that Kevin Stevenson represented the AASB and Clement Chan represented the Asian-Oceanian Standards-Setters Group (AOSSG) of which Australia currently holds Chairmanship.
5. At the meeting it was announced by the IASB Chairman, Hans Hoogervorst, that the next meetings of the ASAF would be 25-26 September 2013 and 5-6 December 2013. There would

be no meeting in June 2013, however a conference call has since been organised for ASAF members for 3 July 2013 to discuss the impairment project prior to the comment close date of the IASB's Exposure Draft ED/2013/3 *Financial Instruments: Expected Credit Losses* on 5 July 2013 (see also agenda item 9.1, in which the AASB is asked to provide staff with directions for drafting the AASB's submission to the IASB's ED). The IASB indicated that there would be four ASAF meetings in 2014 on the following dates: 3-4 March; 2-3 June; 8-9 September and 8-9 December.

Conceptual Framework (CF)

6. Staff of the IASB noted that the Conceptual Framework papers provided to ASAF members were based on the IASB February/March 2013 Board meeting papers and that these were workings towards a Discussion Paper (DP) on the CF. Furthermore, the forthcoming DP on the CF was to provide a basis for discussion and was not intended to be an exposure of conclusions. The areas of discussion were:

   1) Measurement; 2) Presentation in the statement of comprehensive income – including use of other comprehensive income (OCI) and 3) the definition of the elements.

Measurement

7. The ASAF members discussed the three draft principles put forward in the papers:

   - Principle 1: the objective of measurement is to represent faithfully the most relevant information about the economic resources of the reporting entity, the claims against the entity, and how efficiently the entity's management and governing board have discharged their responsibilities to use the entity's resources.
   - Principle 2: although measurement generally starts with an item in the statement of financial position, the relevance of information provided by a particular measurement method also depends on how it affects the statement of comprehensive income and if applicable, the statements of cash flows and of equity and the notes to the financial statements.
   - Principle 3: the cost of a particular measurement must be justified by the benefits of reporting that information to existing and potential investors, lenders, and other creditors.

8. The members had differing views on measurement and on the draft principles, including whether all principles were weighted equally, whether principle 1 would be better split in two, and whether the principles were in fact 'principles'. Some felt principle 3 was already covered as an overall consideration.

9. IASB staff were considering combining 1 and 2 and some members opposed this. The consideration of capital maintenance concepts was raised as a fundamental issue to be discussed. Further discussion points were on whether different measurement methods should be used, and if so on what basis. The point was made that historical cost and current value were often similar for some items but this should not drive the measurement principle of whether historical cost or a current value should be used. Points were made about the validity of having different measurement methods and that historical cost or a current cost measure is a reasonable starting point for a discussion. The use of 'business model' as a basis for measurement method was raised; one member indicated that he considered that users did not care about the business model itself but that users would be worried about the influence of management intent on how items are measured. A comment was made that derecognition and measurement also need to be considered, not just recognition and measurement.

Presentation in the statement of comprehensive income

10. The ASAF members discussed the three draft principles put forward in the papers:

- Principle 1: Items presented in profit or loss communicate the primary picture of an entity's financial performance for a reporting period.
- Principle 2: All items of income and expense should be recognised in profit or loss unless presenting an item in OCI provides a better depiction of the financial performance.
- Principle 3: An item that has previously been presented in OCI should be reclassified (recycled) to profit or loss if the reclassification results in relevant information about financial performance in that period.

11. The draft papers identified two types of items that would be presented in OCI as 1) bridging items and 2) mismatched remeasurements. The IASB staff had attempted to categorise existing items that are presented in OCI as either of these two items.

12. The members, again, had a variety of views. Some members considered that 'comprehensive income' should be defined, though some had concerns as to whether consensus could be achieved on such a definition. A view was given that presentation would be more useful if based on the 'predictive value' of the item, which may not be a binary classification between OCI and profit or loss. A view was given that the one-statement approach needed to be fleshed out more in the DP. Some members supported recycling from OCI to profit or loss. One member raised the point that impairment is a remeasurement however most would consider that impairment is most appropriately recognised in profit or loss and not OCI. It was noted that currently use of OCI was driven by a set of rules rather than principles and consistency was a concern. It was noted that in some cases use of OCI was the 'price paid' for getting an item measured appropriately in the statement of financial position.

The definition of the elements

13. The IASB had discussed whether to remove the term 'expected' from the definition of an asset and a liability to remove the possible implication that there is a minimum threshold to be met before an asset or liability exists. It was also being considered by the IASB whether the word 'capable' should be included in the definition, rather than 'probable'.

14. Various views were given by the ASAF members. A discussion was had about the distinction between element existence (and existence uncertainty), recognition and measurement. A distinction was made between element existence uncertainty and outcome uncertainty. Some members considered that existence should be considered separately from recognition. It was noted that historically it had been seen that, over time, more items had been capable of being accounted for. One member considered that whether to define a threshold for recognition was really a policy, rather than conceptual, issue. There was some support for including the word 'capable' (instead of 'probable') in the definition.

15. One member raised a question about goodwill and whether it would meet the definition of an asset. Another member was keen for prudence to be reinstated into the CF, however others disagreed. It was noted that different groups understood different things by what is meant by 'stewardship'. Relevance and faithful representation were raised as being useful concepts to determine inclusion of items in financial statements. The question of how bilateral agreements (where agreements are equally proportionally unperformed) should be treated conceptually was raised (ie. do assets and liabilities arise, or are they netted out because they offset each other). A request was also made for illustrative examples to be included in the DP. The

question of needing to identify common information needs of users was raised (ie. rather than a much broader notion of users' needs) – this was not included in the draft DP.

Impairment

16. IASB staff presented on the IASB's impairment model, as proposed in its ED/2013/3 *Financial Instruments: Expected Credit Losses*. This was followed by a presentation by Leslie Seidman, Chair of the FASB, on the model proposed by the FASB in its proposed Accounting Standards Update *Financial Instruments: Credit Losses* (subtopic 825-15). It was confirmed by the Chairs of the IASB and FASB that re-deliberations on the models would begin in July and attempts would be made to move closer to convergence if possible.

17. Some members expressed concerns about the levels of subjectivity in both models and how the models would react in different scenarios (eg growing and declining portfolios and improving as well as declining credit environments). A member posed an example of a portfolio of mortgage receivables with a maximum historic default rate of 1.5%, with a low expectation of losses within 12 months (because i) the value of collateral was very high compared to the loan and ii) thorough credit assessments were performed upfront). As the 1.5% loss typically was outside of 12 months, the member was concerned whether any provision would be recognised at all on such a portfolio under the IASB model.

18. Concern was also raised about the appropriateness of the rebuttable presumption in the IASB's ED (ED/2013/3 paragraph 9) that 30 days past due would indicate a significant increase in credit risk since initial recognition (hence triggering lifetime expected losses to be recognised). Concern was expressed by some members about the potential of the model(s) to influence lending behaviour, in particular due to the recognition of day 1 losses.

19. The members agreed to hold a conference call to further discuss the topic – as noted above, the call has subsequently been arranged for 3 July 2013.