

## **REPORT ON INTERNATIONAL FORUM OF ACCOUNTING STANDARD-SETTERS (IFASS) — 30 September – 1 October 2014**

IFASS met in London on 30 September – 1 October 2014 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.

The public meeting was attended by representatives of standard setters from, Australia, Austria, Belgium, 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, Switzerland, Syria, Taiwan, the United Kingdom, the United States and Zimbabwe. Representatives of the Asian-Oceanian Standard-Setters Group, European Financial Reporting Advisory Group (EFRAG), International Accounting Standards Board (IASB), IFRS Foundation Asia-Oceania Office, International Public Sector Accounting Standards Board (IPSASB), Pan African Federation of Accountants (PAFA) and the International Arab Society of Certified Accountants also attended. A complete list of participants is attached. A number of observers were present.

### **Welcome**

Tricia O'Malley welcomed participants to London and thanked the IASB for hosting the meeting in conjunction with its annual World Standard Setters conference.

### **1. IASB Research Program**

- 1.1 Liesel Knorr, President of the German standard setter, detailed the role of research in the standard-setting process, the role of national standard setters and discussed the priority and longer-term projects on the IASB's research programme (see PowerPoint presentation and Paper both marked Paper I). Comments regarding some of the projects are indicated below.

#### **Dynamic Risk Management**

- 1.2 Alan Teixeira, IASB Senior Director of Technical Activities, commented that this project originated following the global financial crisis of a few years ago. He said that the purpose of the project is to identify problems and likely pathways forward. He asked interested parties to comment on the core technical matters.
- 1.3 Representatives' comments included the following:
  - A representative from EFRAG said that EFRAG, in its preliminary views, was not supportive of the proposals as the IASB had moved away from hedge accounting and set itself the objective of reflecting dynamic risk management. The IASB should,

however, be commended in its efforts to “think out of the box”, and for the relevance of its analysis of common interest-rate risk management practices by banks.

- Another representative from EFRAG stated that it was not desirable to pose a series of micro questions. It is better to ask more big-picture questions.
- A representative from the FASB said that there is a need to identify the nature and extent of the problem. The issue is open portfolio management versus closed portfolio management.

### **Business combinations under common control**

- 1.4 Mr. Teixeira said that the IASB is very concerned that a whole set of business combinations falls outside the business combinations standard. He said that initial feedback on existing practice is almost exclusively to use a “carry over” basis. He said the IASB can deal with initial recognition, but how should IPOs be dealt with? He noted that outreach is expected to commence with emerging economies in December 2014 or January 2015.
- 1.5 Mr. Teixeira said that there have been comments that the IASB is getting into areas covered by regulators.
- 1.6 The Chairman commented that it is necessary to decide whose carry over basis should be used. Without appropriate and relevant guidance there is likely to be diversity in practice. Also, the IASB must be clear whether any guidance developed for such business combinations is equally relevant for common control situations.
- 1.7 A representative from South Africa said that stakeholders should be asked if this issue is a problem. It is important to identify the exact nature of the problem.

### **Discount rates**

- 1.8 Mr. Teixeira said that the IASB is not yet clear on whether it will issue a research paper or a discussion paper on this topic. He noted that there appeared to be fewer inconsistencies than stakeholders claim. The IASB will try to identify the basic problem. He said that the conceptual framework will cover discounting and this should lead to better standards.
- 1.9 The Chairman commented that if the IASB was to use measurement as defined in the conceptual framework, it should be possible to write a discount rate measurement standard that plays a role similar to that of IFRS 13 on fair value measurement. There is a need to explain why a particular approach is selected in a particular case. It would be useful to document this once and for all.
- 1.10 A representative from the FASB said that what was done previously will not help. The question should be asked as to what is the role of discounting outside current value estimations. Often preparers choose not to account for risks.
- 1.11 A representative from the Netherlands said that the overarching question is: why discount?

**Equity method of accounting**

- 1.12 Mr. Teixeira noted that this topic will be discussed at the meeting of the Accounting Standards Advisory Forum in December 2014.

**Financial instruments with characteristics of equity**

- 1.13 Mr. Teixeira commented that the IASB has decided not to change the definition regarding liabilities and equity, but more work will be done on this topic.

**Foreign currency translation**

- 1.14 Mr. Teixeira said that this is a narrow but complicated topic and that it needs to be viewed in conjunction with hyperinflation issues.
- 1.15 A representative from Mexico stated that a paper was prepared for GLASS suggesting the application of a different approach.

**Income taxes**

- 1.16 Mr. Teixeira stated that this project will be managed out of the Asia-Oceania Office. The staff is considering preparing a research paper. The alternatives are either a taxes payable with disclosure remedy or a more principles-based approach.
- 1.17 A representative from the UK said that his jurisdiction would share work that its staff had done with the IASB staff.

**Liabilities – amendments to IAS 37**

- 1.18 Mr. Teixeira said that some preliminary work has been done to assess the implications of the IASB decisions in the Conceptual Framework project. In reply to a question, he said that there appears to be diversity in practice and that this is a worthwhile project. He noted that a paper on consequential amendments had been produced that was limited to terminology matters, not fundamental accounting questions.

**Performance reporting**

- 1.19 A representative from the FASB said that the FASB staff has performed good research on this topic and the FASB is willing to share this with the IASB.

**Rate-regulated activities**

- 1.20 In reply to a question, Mr. Teixeira noted that the comment period for the Discussion Paper on this topic was four months, which is the standard comment period.

### **Post-employment benefits**

- 1.21 A representative from the FASB said that the FASB staff has done significant work on this topic and the FASB is willing to share the results with the IASB.

### **Extractive activities / Intangible assets / R&D activities**

- 1.22 Mr. Teixeira stated that the IASB was thinking of forming a consortium of national standard setters to assist in the research activities.
- 1.23 The representative from Norway suggested that a limited project on disclosure of reserves might be worthwhile.

### **Conclusion**

- 1.24 The Chairman asked participants to advise Mr. Teixeira of potential research topics not on the IASB's list. She also asked participants to advise Mr. Teixeira, or the IFASS Secretary, if they would like to co-operate in working on any of the projects.

## **2. International Public Sector Accounting Standards Board (IPSASB)**

- 2.1 John Stanford from the IPSASB staff discussed the Conceptual Framework project, which is IPSASB's main strategic project at present and is designed to fill a major gap in IPSASB's literature. He also provided details of IPSASB's other current projects, stating that guidance on Social Benefits is a big gap in IPSASB's literature (see PowerPoint presentation marked Paper 2E).
- 2.2 Ian Carruthers, a U.K. member of IPSASB, provided information on IPSASB's governance (see PowerPoint presentation marked Paper 2E). He said that after 10 years, the question of IPSASB oversight has still not been resolved. He stated that it is likely that IPSASB will remain under the aegis of IFAC with a separate oversight board, and that this will likely be supported by most stakeholders.
- 2.3 Mr. Carruthers commented on a survey commissioned by the U.K.'s Consultation Committee of Accountancy Boards on whether there was an appetite for international financial reporting for the not-for-profit sector (see PowerPoint presentation marked Paper 2F). He said that 72 per cent of the respondents to the survey agreed that international standards would be useful. He asked participants interested in the concept of international standards, or collaborating on a potential project, to contact him.

## **3. Administrative Matters**

### **New colleagues**

- 3.1 The Chairman welcomed and acknowledged the presence of the new Chairs of the Korean and Japanese standard-setting boards.

**IFASS meeting assessment – New Delhi, 6-7 March 2014**

- 3.2 The Chairman referred representatives to Paper 3, which provided an analysis of the views of participants who attended the above meeting. She thanked Felipe Perez-Cervantes (Mexican Financial Reporting Standards Board) and Didrik Thrane-Nielsen (Norwegian Accounting Standards Board) for analysing and summarizing participants' responses and putting forward a number of recommendations.
- 3.3 The Chairman said that the same individuals had agreed to compile the assessment of the current meeting and noted that she would ask another jurisdiction to assist the gentlemen from Mexico and Norway.
- 3.4 She noted the following comments in the analysis:
- Meeting presenters should not repeat information that is in their papers.
  - Participants are in favour of breakout sessions.
  - Participants would like to have the proceedings at such sessions summarized for the main meeting.
  - Consider how to make breakout sessions more effective.

**Future meetings**

- 3.5 Participants' comments included the following:
- Consider the merits of running IFASS and World Standard Setters (WSS) meetings consecutively (participants who spoke favoured the practice).
  - Consider whether the agendas for IFASS and WSS meetings are properly integrated.
  - Consider if consecutive meetings allow enough time for IFASS matters.
  - Are participants content to have five (or more) consecutive days of meetings? (There did not seem to be a negative reaction.)

**Location and date of H1 2015 IFASS meeting**

- 3.6 The Chairman said that many IFASS participants had commented that the situation in the Middle East had changed since Jordan had graciously volunteered to host the first IFASS meeting in 2015 and that there is a risk that there would be a very low attendance should the meeting be held in that country. Participants agreed that it would be desirable to seek another venue for the initial 2015 IFASS meeting.
- 3.7 The Chairman said she would write to Mr. Kawasmy of the Jordanian standard setter apologizing for the late change in arrangements and to update him on today's discussions.
- 3.8 In reply to a question, the Chairman said that Norway and the east coast of the U.S. were under consideration as sites for the first IFASS meeting in 2015. After further consideration, participants agreed that the initial 2015 meeting should be held in Dubai. The initial 2016 meeting will be held in Canada as previously planned.

#### 4. Report back on IFASS member projects

##### Goodwill impairment and amortisation

- 4.1 Tomasso Fabi from the Italian standard setter and Tomo Sekiguchi from the Japanese standard setter provided feedback regarding surveys conducted by EFRAG and the Italian and Japanese standard setters on the relevance and limitations of the impairment-only approach for goodwill (see Paper and PowerPoint presentation both marked Paper 4.1).
- 4.2 Representatives' comments included the following:
- A representative from South Africa said that if an approach is adopted in line with IFRS 3, there is a big concern with the potential treatment of significant overpayments in a business combination, particularly when there is clear evidence of overpayment.
  - Commenting on the rebuttable presumption that the useful life of goodwill should not exceed 10 or 20 years, a representative from Hong Kong stated that he favoured the shorter period, but that further empirical evidence is needed. The presenters commented that there is a presumption that, in the absence of exceptional circumstances, any overpayment is part of core goodwill. It is difficult to find acceptable evidence of the nature of any overpayments.
  - A representative from France said that the topic was debated in her jurisdiction during the post implementation review. At this time, the French standard setter does not have a preferred amortisation and impairment approach. The French standard setter will likely not be able to respond to the published Paper before the end of December 2014. The representative said this is an important topic and encouraged stakeholders to respond to the published Paper.
  - A representative from the U.K. commented that the Paper's preparers adopted a "bottom-up" approach. There is a need to investigate the assertions of those who say that goodwill should not be amortised. It all comes down to what is most useful.
  - A representative from Hong Kong said that the treatment of goodwill becomes a big problem in a successful business. Preparers sometimes hope for a "bad year" so that goodwill can be written off. The ability to write off goodwill sometimes results in management over paying for acquisitions. A requirement to amortise goodwill might cause management to think twice about its actions.
  - The representative from Norway said there is no simple solution and this issue could persist for some time. He asked if consideration has been given to imputed depreciation on goodwill. He said that goodwill impairment has confirmation value. The concept of impairment is still required in an amortisation model.
  - A representative from the FASB said that the impairment only approach has a minimal benefit and is not justified by its high cost. He suggested that consideration should be given to using the straight line method of amortisation over a short period of time (three to seven years).
  - A representative from the staff of the IASB said there is compelling evidence that the concept of impairment provides incremental information. He said that the adoption of an amortisation method would still require impairment testing. He

noted that the onus is on the IASB to indicate why any change to the existing approach is necessary. A change would be costly and requires persuasive arguments. He said the empirical evidence is that the system is working better in the post-implementation period.

- Commenting on the costs and difficulty of impairment testing, a representative from the FASB said it would be desirable to obtain a better understanding of the cost versus benefit issue. If one were to adopt the principle of amortising goodwill, how should intangibles be treated? Does it make sense to have definite-life goodwill and indefinite-life intangibles?
- The presenter from the Italian standard setter stated that the U.K. is working on consideration of wasting intangibles and that the preparers of the Paper would look at that work. He noted that the proposals do not change how to do impairment testing. The proposals would result in timing changes and this could affect cost.
- The Chairman commented that the way forward could be to do impairment testing when there are indications of impairment, and not on an annual basis.

### **The equity method**

4.3 A representative from EFRAG provided feedback on the responses to the EFRAG Short Discussion Series Paper *The equity method: a measurement basis or one-line consolidation* (see Paper and PowerPoint presentation both marked Paper 4.2).

4.4 Representatives' comments included the following:

- A representative from the FASB said that this is a perennial issue. He said there is very little conceptual foundation for the equity method, as required by U.S. GAAP, but that standard setters have lacked the motivation to abandon it. It is necessary to ascertain why there is a demand for this method. It's an arbitrary measurement method that does not provide decision-useful information. He was not in favour of the view that the method is one-line consolidation, because one should not consolidate a non-controlling interest.
- A representative from EFRAG complimented the Korean standard setter on its Paper and said that it is hard to disallow the equity method. The intention of the EFRAG Discussion Paper was neither to question nor suggest a fundamental rethink around the equity method; rather it was to encourage the IASB to eliminate existing conflicts between the requirements on how to apply the equity method and recent developments in the basic principles underpinning IFRSs.
- A representative from Korea said that the Korean Papers is on its website. The Paper was circulated to the IFASS group and is also on the IASB's SharePoint website.
- A representative from Japan said that his jurisdiction prepared a summary of the equity method's usefulness. He stated that respondents advised that application is generally useful for presenting financial performance; however, they also noted that sometimes the method is inappropriate and does not provide useful information. Respondents also emphasised that it is sometimes not possible to collect the necessary data on a timely basis.

- A representative from Singapore said that the effect of the equity method is that the profit generated by an associate is fully paid out to the investor and reinvested into the associate. In effect, this is an extension of accrual accounting.
  - The representative from Taiwan suggested that thought be given to increased disclosure, including the fair value of the investment.
  - A representative from New Zealand said there appeared to be a demand for the equity method, although there is a lack of clarity as to its meaning. She asked about the feasibility of a short-term solution rather than entering into a long-term project.
- 4.5 The Vice-Chairman of the IASB noted that dealing with equity accounting could be a big project. He commented that this topic will likely be considered when the IASB does its agenda consultation in 2015. Consideration needs to be given as to how broken the accounting is.
- 4.6 The Chairman closed the discussion by stating that it would be necessary to know the objective if the IASB were to undertake a project on equity accounting. She commented that maybe equity accounting should receive priority on the IASB's research agenda.

#### **Cash flow statement issues**

- 4.7 Andrew Lennard, Director of Research at the U.K. Financial Reporting Council (FRC), presented the views of the FRC staff on some cash flow statement and related disclosure issues (see PowerPoint presentation and paper both marked Paper 4.3).
- 4.8 Representatives' comments included the following:
- A representative from Germany commented that narrow-scope projects sometimes have consequences. Any potential action on a project for this topic should be carefully considered.
  - A representative from Australia said that both Australia and New Zealand require disclosure of a reconciliation between cash flow from operations and operating profit when the direct approach is used. The IASB should consider mandating this requirement.
  - A representative from Singapore commented that the disclosure of depreciation in cash flow statements is merely a mechanism to arrive at cash flow from operations. Non-accountants could be confused by the inclusion of depreciation in these cash flow statements.
  - A representative from the FASB was in general agreement with the FRC staffs' views and suggested that a test-case scenario of stakeholders' reactions to many of the proposals in this report will be provided by the FASB's soon-to-be issued Exposure Draft on not-for-profit financial statements.
  - A representative from New Zealand stated that her jurisdiction had reinstated optional use of the indirect method, but most preparers still used the direct method. She speculated that this might be a result of inertia. It would be useful to know which method stakeholders found most useful.



- In reply to a question from a representative from Japan, Mr. Lennard said that operating profit in the statement of profit and loss was often the same as profit before interest and income tax.
- A representative from the FASB stated that the “maintenance” component of property, plant and equipment purchases should be disclosed as an operating activity and that the “growth” component should be reported as an investing activity. A representative from the Netherlands concurred with this statement.
- A representative from Korea asked if the IASB could provide guidance on the disclosure of operating profit in the statement of profit and loss.
- A representative from South Africa questioned the rationale of including purchases of property, plant and equipment as an operating activity. He said the same reasoning could be applied to loan payments.

4.9 Mr. Lennard encouraged participants to email him with any additional views they might have on the issues raised in Paper 4.3.

### **Separate Financial Statements**

- 4.10 Filippo Poli, Deputy Research Director, EFRAG, provided information on a Discussion Paper *Separate Financial Statements* issued by EFRAG and the Spanish, Italian and Dutch standard setters (see PowerPoint presentation and paper both marked Paper 4.4). He asked if there should be specific requirements for separate financial statements and how users used such statements.
- 4.11 A representative from Malaysia stated that the objective of separate financial statements should be the overriding principle when developing accounting policies to be applied to separate financial statements. If the objective of separate financial statements is to report the legal entity financial position and performance, she believed it could be justified that the accounting policies to be applied in consolidated and separate financial statements need not necessarily be the same. She referred to the recent amendments to IAS 27 that permit the additional option of the equity method to be used in accounting for investments in subsidiaries in the parent’s separate financial statements. She expressed concern that by applying the equity method in the parent’s separate financial statements, the parent/investor entity level profits available for distribution could include retained profits owned by another separate legal entity.
- 4.12 A representative from South Africa said that in his jurisdiction legislation refers more specifically to individual financial statements, rather than group or separate financial statements. An issue in South Africa is to what extent IFRSs should deal with the issues raised for financial statements that are neither group nor separate financial statements. It is for this reason that the jurisdiction supports guidance for business combinations under common control, as it can often apply in the case of individual as well as separate and group financial statements.
- 4.13 The representative from Malaysia responded that there is a presumption that separate financial statements prepared using IAS 27 will meet the Malaysian Companies Act 1965 requirements for company-level financial statements.

- 4.14 A representative from Indonesia said that in her jurisdiction separate financial statements cannot be issued for public purposes. When they are issued for the general public, they must be attached to the consolidated financial statements.
- 4.15 A representative from Hong Kong suggested that the decision as to when and how to issue separate financial statements should be left to individual jurisdictions to decide.
- 4.16 Mr. Poli asked participants to advise EFRAG and its partners of any additional items that should be considered.

## **5. Economic Consequences of IFRS Adoption in Korea**

- 5.1 The Chairman of the Korea Accounting Standards Board said that the adoption of IFRSs in Korea is proceeding well. He provided details of the IFRS adoption process in Korea, compared Korean GAAP with IFRSs and gave details of a relevant literature review (see PowerPoint presentation marked Paper 5).
- 5.2 The IFASS Chairman complimented Korea on its work on transition to IFRSs and asked if the Board had enlisted members of academe to assist it. The presenter said that data had been published in academic journals.
- 5.3 Replying to questions, the presenter said the following:
- Academics were motivated to participate in the process as they have a need to do research and publish papers.
  - Unlisted companies can elect to apply either full IFRSs or Korean GAAP in Korea. He was not aware of any unlisted companies that had elected to adopt full IFRSs reverting back to Korean GAAP.
- 5.4 A representative from the Netherlands commented that in an earlier study, a researcher found that the quality of governance influences the way that IFRSs are adopted. He asked whether Korea had examined the contractual use of information. The IFASS Chairman commented that this could be an interesting topic to research.

## **6. Update on Changes to Interpretations Committee Processes**

- 6.1 Michael Stewart, IASB Director of Implementation Activities, updated participants on changes as to how the IFRS Interpretations Committee (IFRIC) operates. This included responding to discussions at the March 2014 IFASS meeting (see PowerPoint presentation marked Paper 6).
- 6.2 Mr. Stewart said that the IASB is seeking better evidence of diversity in practice and asked participants to share examples of such diversity with the IASB staff. The IASB is seeking to get a local perspective on how jurisdictions gather feedback. He also asked to be advised if there is an overlap as to whom the IASB asks for feedback. He said that the IASB relies on feedback from many sources, such as the IFASS group, the larger accounting firms, IOSCO,

- ESMA and others. He noted that the charter between the IASB and other standard setters called for evidence seeking and stakeholder engagement.
- 6.3 Replying to a question, the IASB Vice-Chairman emphasized that the IASB's transition resource groups are not decision-making bodies.
- 6.4 The Chairman noted that Canada and India have a filtering process to examine issues before they are submitted to IFRIC and asked whether other jurisdictions have similar screening mechanisms.
- 6.5 A representative from Canada commented that her jurisdiction has formed an IFRS Discussion Group that meets in public three or four times a year to discuss practice issues. No conclusions are recorded. The Canadian Accounting Standards Board (AcSB) decides if issues should be submitted to IFRIC. To date very few such issues have been submitted to IFRIC. The discussion is recorded and is available on the AcSB's website.
- 6.6 Commenting on a remark by a representative from Australia referring to a recent decision by IFRIC not to deal with an issue involving diversity between industries and not within a particular industry, Mr. Stewart said that the IASB's objective is to achieve consistency across industries. The IASB would be troubled if differences arose in the way similar transactions are treated by different industries.
- 6.7 Representatives' comments included the following:
- A representative from France said that her jurisdiction does not employ a screening process. She said that in her jurisdiction input is solicited by the French member of any transition group. France uses both top-down and bottom-up approaches.
  - Referring to "diversity in practice" a representative from the U.K. said that there is a difference between comparability and consistency. Sometimes issues are raised to try and arrive at consistency. This should not be equated with comparability. If the test for IFRIC's consideration of issues is comparability, the Committee will be inundated with requests. Mr. Stewart said that comparability and not uniformity is important.
  - A representative from Germany commented that so-called NIFRICs are seen by some as being equivalent to authoritative literature. Mr. Stewart said that in some instances, NIFRICs could be regarded as educational material in nature.
  - Referring to recent IFRIC discussions regarding IFRS 11 and IFRS 12 issues, a representative from Canada said that her jurisdiction would have preferred an authoritative response, given the challenges that NIFRICs can create in practice. A representative from EFRAG agreed with this comment.
  - A representative from Hong Kong said that there is an expectation gap. IFRIC decisions are used as a basis for regulatory decisions in Hong Kong and Singapore.

- 6.8 The Chairman commented that sometimes the educational aspect of a decision is more important than the final answer. Sometimes IFRIC notes a number of things that preparers should not do.
- 6.9 The IASB Vice-Chairman reiterated that the IASB wants to achieve consistent application. There is a difference between education and rules. Sometimes information needs to be provided without it being authoritative. He asked whether participants wanted rules or whether they preferred to let transition groups, whose discussions are not authoritative, deal with application issues.
- 6.10 A representative from the U.K. said that the discussion is in danger of undermining the concept of principle-based standards. In the U.K. it is necessary to be sure what is authoritative and what is educational. Both the standard setter and the regulator require clarity. In the U.K. the notion of “true and fair” requires the application of judgement. The overall objective is to have principle-based standards that assist in the production of financial statements that are true and fair.
- 6.11 The Chairman commented that, in the case of NIFRICs, and when appropriate, maybe IFRIC could indicate that the Committee’s comments should be viewed as being educational in nature but they are not authoritative. She suggested that the words “it is clear” should not be used; it would be better to indicate that in IFRIC’s view the relevant standard provides sufficient guidance (if that is so).
- 6.12 The Chairman asked participants to advise Mr. Stewart of ideas on how IFRIC should communicate the results of its deliberations when an issue is not placed on the IFRIC agenda, but IFRIC members’ views have a clear educational value.

## 7. Topical Issues

### Issue 1 — Retirement benefit plans

- 7.1 Angus Thomson from the Australian Accounting Standards Board delivered a presentation comparing the requirements of IAS 26 *Accounting and Reporting by Retirement Benefit Plans* with those of the Australian Accounting Standards Board’s recently issued AASB 1056 *Superannuation Entities*. He asked whether the IASB should consider revising or replacing IAS 26 and, if so, whether aspects of AASB 1056 would be a good basis for such a project (see PowerPoint presentation and paper both marked Paper 7.1).
- 7.2 Representatives’ comments included the following:
- A representative from the Netherlands said that retirement benefit plans are highly regulated in his jurisdiction (and likely in the rest of Europe). He said that he was not in favour of a new mandatory standard.
  - A representative from New Zealand said that her jurisdiction has adopted IAS 26 and that New Zealand has added additional disclosure requirements. She would like to see IAS 26 either improved or withdrawn.

- A representative from Hong Kong said that his jurisdiction has adopted IAS 26. Hong Kong does not have a very developed retirement fund industry. He indicated that IAS 26 is serving Hong Kong well and did not see a need for it to be updated.
- A representative from the UK suggested that if the IASB does not have the resources or willingness to review IAS 26, it would be better to withdraw the standard, rather than maintain it in place, as it can be held out to justify, for example, the omission of liabilities to pay benefits from the statement of financial position.
- A representative from South Africa said that while the IASB looks at revising existing IFRSs and issuing new IFRSs, it should also consider deleting IFRSs that are not being used such as IAS 26. He said that IAS 26 is not used in his jurisdiction. Instead the requirements for retirement funds are specified by a regulator whose requirements for financial statements are similar to those of IFRSs, but with some exceptions, such as not requiring a cash flow statement.

7.3 The Chairman closed the discussion by stating that Canada, Australia and the U.K. would be happy to share what they have done regarding retirement benefit plans.

### **Issue 2 — Presentation of reversals of acquisition step-ups**

7.4 Filippo Poli from EFRAG discussed why this matter is an issue and how to address it (see PowerPoint presentation and paper both marked Paper 7.2).

7.5 Representatives' comments included the following:

- A representative from New Zealand supported the proposed disclosures if there is sufficient demand from users. She indicated that she was not aware that this matter is a significant issue.
- A representative from the Netherlands said that analysts would like to see an enterprise's results excluding these items. Many enterprises present non-GAAP measures to deal with this matter.
- A representative from Hong Kong cautioned against presenting these items in OCI. The presenter noted that this was in the Paper for completeness and was clearly rejected. This was the only issue on which a definite position was expressed.
- A representative from Italy noted that users always ask for more information and a line needs to be drawn at some point. In the case of a major acquisition, the reversal of acquisition step-ups over time is only one of a number of factors. One also needs to take into account the effect of synergies, and the possible adoption of different strategies by the changed group.
- A representative from Austria said that information about step-ups usually appears in the notes to the financial statements because they are subject to deferred tax.
- A representative from the U.K. likened the potential solution as "putting a sticking plaster" on the underlying conceptual problem that was caused by valuing assets that were input to an entity's business at an exit value, such as fair value.

7.6 The Chairman commented that the suggested solution provided useful information that could be provided in the financial statements or the Management Commentary. She noted that participants did not support making the disclosure of this information mandatory.

**Issue 3 — Income recognition during the construction phase in the case of service concession arrangements**

- 7.7 Sanjeev Maheshwari, Chairman, Indian Accounting Standards Board, presented three possible views regarding the way to account for the above issue and asked which of these views was in accordance with IFRS (see PowerPoint presentation and paper both marked Paper 7.3).
- 7.8 Representatives' comments included the following:
- A representative from Malaysia stated that she had asked a number of companies in her jurisdiction about the accounting treatment regarding this matter. She noted that, generally, the practice was to recognize the toll collected as revenue/income because the operator was granted two services, namely construction service and operation service (i.e. View 2). In addition, she noted that Deloitte's iGAAP 2013 provides guidance on how to account for an upgrade of existing infrastructure or new infrastructure, using the example of a motorway (page 2447-2448).
  - A representative from Australia said that there is no easy answer and that the terms of the contract will determine the answer.
  - A representative from the U.K. said that an intangible asset does not exist on day one. He said there are four distinct phases, operating the toll road, construction, maintenance and operations. An intangible would arise as the construction work proceeds.
- 7.9 A representative from IPSASB said that his Board does not have a discrete standard dealing with this issue.
- 7.10 The Chairman noted that IFRIC 12 deals with an issue that is similar to the issue under discussion. She asked participants to contact the presenter if they are able to offer any help.

**Issue 4 — EU Expert Group on IAS regulation**

- 7.11 Liesel Knorr, President of the German standard setter, advised that the European Commission is undertaking an evaluation of Regulation 1606/2002. As part of its evaluation, the Commission is holding a public consultation to seek views from all interested parties on their experience of the Regulation (see Papers marked Paper 7.4A and 7.4B).
- 7.12 The presenter said that an informal expert group has been set up to assist the Commission throughout the process. This group will be meeting towards the end of October 2014 and Ms. Knorr said that she might be able to provide participants with an update at the next IFASS meeting in March 2015.
- 7.13 Ms. Knorr noted that the Commission is also seeking the views of interested parties on the endorsement process by which IFRSs are adopted on a standard-by-standard basis for use in

the EU. She noted that this was an issue examined by Philippe Maystadt, Special Advisor to European Union Commissioner Barnier.

7.14 Ms. Knorr said that non-EU enterprises listed in the EU will be affected by the outcome of the process, so this project will be of interest to jurisdictions outside of Europe. In reply to a question, Ms. Knorr said that the criteria to be used in evaluating the responses to the Consultation Paper were not currently in the public domain.

7.15 Representatives' comments included the following:

- A representative from the U.K. said that his jurisdiction will be issuing a report based on academic research on the costs/benefits of adopting IFRSs that might provide useful input.
- A representative from Australia said that his jurisdiction had adopted IFRSs in 2005 and that any changes would affect Australia. He said a large number of jurisdictions were now interdependent.
- The representative from Denmark said that the exercise is a serious policy evaluation. Some in Europe are very supportive of the Regulation and others less so.
- A representative from the U.K. said that one of the original objectives of the IASB was to obtain global harmonisation of accounting standards, so it makes sense for countries outside of Europe to participate in the exercise.
- A representative from EFRAG suggested that jurisdictions that feel they have limited input might want to just send a letter to the Commission.

7.16 Ms. Knorr said that a future update on the discussions would be appreciated.

## **8. New IFASS member projects**

### **The Financial Reporting Lab**

8.1 Sue Harding, Lab Director, provided members with information on the Lab's purpose, structure and current projects (see PowerPoint presentation and paper both marked Paper 8.1).

8.2 Ms. Harding stated that the Lab does not have a standing group of investors. She said that the Lab generally works on very narrow topics that are of interest to investors. Depending on the subject matter, topics are dealt with singly or in groups with investors.

8.3 Representatives' comments included the following:

- A representative from the FASB said that he might recommend the creation of a similar group in his jurisdiction.
- A representative from Japan commended the Lab for improving communications between enterprises and investors. He suggested that the Lab appears to focus its efforts on disclosure matters so as to promote better communications, and questioned if recognition and measurement might also be matters for consideration. Ms. Harding said that if the Lab becomes aware of recognition and

measurement matters requiring attention, it advises the U.K. Financial Reporting Council of this. The presenter commented that as an analyst she is of the opinion that recognition and measurement matters can best be understood through accounting policy disclosures.

- 8.4 The Chairman thanked Ms. Harding and said that she might be asked to update participants at a future IFASS meeting.

**Not-for-profit reporting in the private and public sectors**

- 8.5 Rebecca Villmann, Director, Canadian Accounting Standards Board provided information on the Canadian approach to accounting standards for not-for-profit organisations (NFPO) and sought information from other jurisdictions on their current approaches to NFPO accounting, including related challenges (see PowerPoint presentation and paper both marked Paper 8.2). She asked participants to share their successes, challenges and actions so that the group could benefit from these.

- 8.6 Representatives' comments included the following:

- A representative from the Netherlands said that his jurisdiction has sector-specific standards for NFPOs and uses general standards as their foundation. Dutch stakeholders are content with the current situation. He stated that there has been much discussion in his jurisdiction about expense ratios and the definition thereof. Pension funds have also discussed expense ratios, special reserves and special funds. Some of these issues are complex.
- A representative from Australia said that his jurisdiction applies IFRSs and only departs from them when necessary (there are currently only two or three areas of departure).
- A representative from New Zealand said that until recently, her jurisdiction's situation was similar to that of Australia. However, there was an element of dissatisfaction, so New Zealand has moved to separate standards for for-profit entities and public benefit entities, based on IFRSs and IPSASs respectively. Further, there is a multi-tiered approach. Small public benefit entities are able to use a simplified standard with an optional template. The representative said that these changes have only just begun to be implemented, and that she would be able to report back on developments at a future date.
- A representative from the U.K. said that in his jurisdiction charities are public benefit entities and they use IFRSs with adjustments. Each key sector has a body authorized to produce Statements of Recommended Practice. The U.K. Financial Reporting Council oversees due process. The main challenge is to ensure consistency among the different sectors. Many NFPOs in the U.K. are dissatisfied with the treatment of grants.
- A representative from the FASB said that in the U.S. the Government Accounting Standards Board sets standards for state and local governments, including certain hospitals, colleges and state universities. Non-government NFPOs follow FASB standards, which include industry-specific standards for NFPOs. These include private sector hospitals and universities. Most tensions arise with the accounting requirements applicable to hospitals, colleges and state universities.



- A representative from Hong Kong said that his jurisdiction had simplified reporting for smaller organisations. These organisations still have to produce financial statements that are “true and fair”. Standard-setting activity for NFPOs is concentrated more on assurance than accounting.
- A representative from Indonesia said that her jurisdiction has two Handbooks covering “small” and “big” GAAP. The latter incorporates IFRSs. Presentation issues for NFPOs are covered by “small” GAAP, while measurement is dealt with in “big” GAAP. Indonesia is examining whether a separate Handbook should be issued for NFPOs, or whether they should be allowed to opt for “small” GAAP.

8.7 The Chairman asked participants to advise Ms. Villmann of the key problems in their jurisdictions related to financial reporting for NFPOs and how they are treated. Ms. Villmann undertook to prepare an inventory of topic areas for discussion at a future IFASS meeting.

### **Classification of claims**

- 8.8 Benjamin Reilly from EFRAG provided participants with details of the EFRAG Discussion Paper *Classification of Claims* (see PowerPoint presentation and paper both marked Paper 8.3). His presentation included a discussion on the meaning of “claims” and the choices to be made.
- 8.9 A representative from the FASB complimented EFRAG on its Discussion Paper for its recognition that a driving issue affecting stakeholders’ perspectives on claims’ classification is the effect it has on reported income. He also was complimentary regarding the flow chart (slides 9 and 10 of the PowerPoint presentation) describing the choices that need to be made in determining and defining the elements to be presented on the claims side of the statement of financial position. In discussing the four potential differing objectives that could drive differences in classification of claims, the representative noted that he did not understand how the liquidity and solvency objectives would result in different classifications of claims on the balance sheet. He also asked whether the objective “returns to the holder of a particular class of instruments” is the same as dilution. Lastly, he asked that given the objective of financial reporting is to provide decision-useful information to resource providers in assessing the cash flow prospects from their investments in the entity, why did it not make most sense to define liabilities as present obligations to deliver economic resources from the perspective of the resource providers not from the perspective of the entity? If that perspective were taken all present obligations to deliver shares of the entity to its claimants would be liabilities of the entity because the claimant would view both cash and shares of the entity as valuable economic resources received in settlement of the liability.
- 8.10 A representative from Japan stated that the Discussion Paper is very well written, especially because it identifies four different objectives to be achieved by distinguishing between liabilities and equity. However, he suggested that the Paper could be improved by subdividing the third objective (to represent an entity’s financial performance) to take into account the proprietary perspective, so that the effect on an entity’s financial performance from the perspective of a parent company’s shareholders should also be considered in determining the distinction between liabilities and equity.

- 8.11 A representative from New Zealand said that the Discussion Paper was very helpful in dealing with an age-old problem.
- 8.12 The Chairman asked participants to provide comments on the Discussion Paper to EFRAG and the IASB. She said this is an important topic to assist in finalizing the conceptual framework project.

## **9. Conclusion**

- 9.1 The Chairman concluded the meeting by thanking the International Accounting Standards Board and all the individuals involved for their efforts in making this a very successful meeting.
- 9.2 She reminded members that the next IFASS meeting will take place in Dubai on 23-24 March 2015. She asked members to advise the Secretary of potential agenda items so that they can be included in the first draft of the agenda for the Dubai meeting.

Appendix A

**IFASS – 30 September – 1 October 2014, London – LIST OF PARTICIPANTS**

	<b>Name</b>	<b>Organization</b>
1	Sue Lightfoot	Australian Accounting Standards Board
2	Angus Thomson	Australian Accounting Standards Board
3	Alfred Wagenhofer	Austrian Financial Reporting and Auditing Committee
4	Gerhard Prachner	Austrian Financial Reporting and Auditing Committee
5	Sadi Podevijn	Belgian Accounting Standards Board
6	Jan Verhoeve	Belgian Accounting Standards Board
7	Linda Mezon	Canadian Accounting Standards Board
8	Rebecca Villmann	Canadian Accounting Standards Board
9	Stig Enevoldsen	Danish Accounting Standards Committee
10	Hans de Munnik	Dutch Accounting Standards Board
11	Peter Sampers	Dutch Accounting Standards Board
12	Françoise Flores	EFRAG
13	Filippo Poli	EFRAG
14	Patricia McBride	EFRAG
15	Isabelle Grauer-Gaynor	French Accounting Standards Authority
16	Gerard GIL	French Accounting Standards Authority
17	Valérie Viard	French Accounting Standards Authority
18	Liesel Knorr	Accounting Standards Committee of Germany
19	Peter Missler	Accounting Standards Committee of Germany
20	Clement Chan	Hong Kong Institute of Certified Public Accountants
21	Catherine Morley	Hong Kong Institute of Certified Public Accountants
22	Ian Mackintosh	IASB
23	Alan Teixeira	IASB
24	Harry Klompas	IFASS
25	Tricia O'Malley	IFASS
26	Grace Leung	IFRS Foundation Asia-Oceania Office
27	Mitsuhiro Takemura	IFRS Foundation Asia-Oceania Office
28	Bambang Eko	The Indonesian Financial Accounting Standards Board
29	Djohan Pinnarwan Jusuf	The Indonesian Financial Accounting Standards Board
30	Ersa Tri Wahyuni	The Indonesian Institute of Accountants
31	Etty Retno Wulandari	The Indonesian Institute of Accountants
32	Sanjeev Maheshwari	The Institute of Chartered Accountants of India
33	Devaraja Reddy Mosali	The Institute of Chartered Accountants of India
34	Oussama Tabbara	International Arab Society of Certified Accountants
35	John Stanford	IPSASB
36	Tomasso Fabi	Italian Standard Setter
37	Alberto Giussani	Italian Standard Setter
38	Atsushi Kogasaka	Accounting Standards Board of Japan
39	Yukio Ono	Accounting Standards Board of Japan
40	Tomo Sekiguchi	Accounting Standards Board of Japan
41	Jee In Jang	Korea Accounting Standards Board

42	Jae-Ho Kim	Korea Accounting Standards Board
43	Jeong-Hyeok Park	Korea Accounting Standards Board
44	Georges Chartouni	Lebanese Association of Certified Public Accountants
45	Mosbah Majzoub	Lebanese Association of Certified Public Accountants
46	Tan Bee Leng	Malaysian Accounting Standards Board
47	Dato Mohammad Faiz Azmi	Malaysian Accounting Standards Board
48	Felipe Pérez Cervantes	Mexican Financial Reporting Standards Board
49	William Biese	Mexican Financial Reporting Standards Board
50	Narayan Bajaj	Nepal Accounting Standards Board
51	Jagannath Upadyay	Nepal Accounting Standards Board
52	Todd Beardsworth	New Zealand External Reporting Board
53	Kimberley Crook	New Zealand External Reporting Board
54	Didrik Thrane-Nielsen	Norwegian Accounting Standards Board
55	Mohammad Maqbool	Institute of Chartered Accountants of Pakistan
56	Hafiz M Yousaf	Institute of Chartered Accountants of Pakistan
57	Vickson Ncube	Pan African Federation of Accountants
58	Kim Chiu Chua	Singapore Accounting Standards Council
59	Suat Cheng Goh	Singapore Accounting Standards Council
60	Siok Mun Leong	Singapore Accounting Standards Council
61	Garth Coppin	Financial Reporting Standards Council (South Africa)
62	Sue Ludolph	The South African Institute of Chartered Accountants
63	María D Urrea Sandoval	Accounting and Auditing Institute (Spain)
64	Zein El Abdin El Borai Ahmed	Sudanese Association of Professional Accountants
65	Claes Janzon	The Swedish Financial Reporting Board
66	Maazza Al Achhab	Association of Syrian Certified Accountants
67	Abdulkader Husrieh	Association of Syrian Certified Accountants
68	Chi-Chun Liu	Taiwan Financial Reporting Standards Committee
69	Anthony Appleton	Financial Reporting Council (U.K.)
70	Andrew Lennard	Financial Reporting Council (U.K.)
71	Daryl Buck	Financial Accounting Standards Board (U.S.)
72	Tom Linsmeier	Financial Accounting Standards Board (U.S.)
73	Admire Ndurunduru	Public Accountants and Auditors Board (Zimbabwe)
74	Brian Njikizana	Public Accountants and Auditors Board (Zimbabwe)

## INTERNATIONAL FORUM OF ACCOUNTING STANDARD-SETTERS

### ACTION LIST – Ex 30 September-1 October 2014 MEETING

<b>Action</b>
<b>IASB Research Programme</b>
<ul style="list-style-type: none"> <li>• Participants to advise Alan Teixeira of potential research topics not on the IASB’s list.</li> <li>• Participants to advise Alan or Harry K. if they would like to co-operate in working on any projects.</li> </ul>
<b>IPSASB – International Financial Reporting (NFPOs)</b>
<ul style="list-style-type: none"> <li>• Participants interested in the concept of international standards for NFPOs, or collaborating on a potential project, should contact the IPSASB’s Ian Carruthers.</li> </ul>
<b>WSS/IFASS Meetings</b>
<ul style="list-style-type: none"> <li>• Consider the merits of running these meetings consecutively (participants who spoke favoured the practice).</li> <li>• Consider whether the agendas for these meetings are properly integrated.</li> <li>• Consider if consecutive meetings allow enough time for IFASS matters.</li> <li>• Are participants OK with having five (or more) consecutive days of meetings? (There did not seem to be a negative reaction.)</li> </ul>
<b>The Equity Method</b>
<ul style="list-style-type: none"> <li>• IFRS 11 has introduced another category of investment to be accounted for by the equity method. Participants to advise EFRAG of their views on this matter.</li> </ul>
<b>Cash Flow Statement Issues</b>
<ul style="list-style-type: none"> <li>• Participants to email Andrew Lennard with additional views they might have on the issues raised in Paper 4.3.</li> </ul>
<b>Separate Financial Statements</b>
<ul style="list-style-type: none"> <li>• Participants to advise the preparers of the Discussion Paper of any additional items to be considered.</li> </ul>
<b>IFRIC – Continuous Improvement</b>
<ul style="list-style-type: none"> <li>• Participants to advise Michael Stewart of ideas on how IFRIC should communicate the results of its deliberations when an issue is not placed on the IFRIC agenda, but members’ views have a clear educational value.</li> <li>• Participants to share examples of diversity in practice with the IASB staff.</li> <li>• Participants to advise the IASB staff if there is an overlap in whom the IASB asks for feedback (IASB wishes to get a local perspective on how jurisdictions gather feedback).</li> </ul>

<b>Income Recognition During the Construction Phase in the Case of Service Concession Arrangements</b>
<ul style="list-style-type: none"> <li>• Participants to contact the Indian Accounting Standards Board if they are able to offer any help with the issue under discussion.</li> </ul>
<b>EU Expert Group on IAS Regulation</b>
<ul style="list-style-type: none"> <li>• Liesel Knorr to provide an update at the next IFASS meeting (maybe).</li> </ul>
<b>The Financial Reporting Lab</b>
<ul style="list-style-type: none"> <li>• Consider asking the Lab Director to report at a future IFASS meeting.</li> </ul>
<b>NFPO Reporting</b>
<ul style="list-style-type: none"> <li>• Participants to advise Canada of the key problems in their jurisdictions related to financial reporting for NFPOs, and how they are treated.</li> <li>• Canada to prepare an inventory of topic areas for discussion at a future IFASS meeting.</li> </ul>
<b>Classification of Claims</b>
<ul style="list-style-type: none"> <li>• Participants to provide comments on the Discussion Paper to EFRAG and the IASB (important to assist in finalizing the conceptual framework project).</li> </ul>
<b>Assessment of London Meeting</b>
<ul style="list-style-type: none"> <li>• Mexico, Norway and one other jurisdiction to prepare the summary evaluation.</li> <li>• Meeting participants to include agenda suggestions for the next IFASS meeting in their meeting evaluation forms.</li> </ul>
<b>Agenda – Dubai – March 2015</b>
<ul style="list-style-type: none"> <li>• Participants to advise the Secretary of potential agenda items for the above meeting so that they can be included in the first draft of the agenda.</li> </ul>