

## **REPORT ON INTERNATIONAL FORUM OF ACCOUNTING STANDARD-SETTERS (IFASS) — 17-18 April 2013**

IFASS met in São Paulo on 17-18 April 2013 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 (IASB).

The public meeting was attended by representatives of standard setters from Australia, Austria, Belgium, Brazil, Canada, France, Germany, Hong Kong, India, Italy, Japan, Mexico, the Netherlands, New Zealand, Norway, Pakistan, People's Republic of China, Republic of Korea, Saudi Arabia, Sierra Leone, Singapore, South Africa, Spain, Switzerland, Taiwan, the United Kingdom, and the United States. Representatives of the European Financial Reporting Advisory Group (EFRAG), International Accounting Standards Board, International Public Sector Accounting Standards Board (IPSASB) and the Pan African Federation of Accountants (PAFA) also attended. A list of participants is attached. A number of observers were present.

### **Welcome**

Tricia O'Malley, IFASS Chairman, welcomed participants to São Paulo and thanked the *Conselho Federal de Contabilidade* for hosting the meeting. In particular, she mentioned the outstanding efforts of Luis Octavio Mellio de Souza, Celia Schwindt and their colleagues.

## **1. Disclosures – Reports on feedback received on discussion papers**

### **Update on disclosure framework**

Tom Linsmeier, FASB member, and Filippo Poli, EFRAG Deputy Research Director, updated participants on the comments received on the FASB's *Invitation to Comment – Disclosure Framework*, and the joint ANC/EFRAG/FRC Discussion Paper "*Towards a Disclosure Framework for the Notes*". The results are detailed in the PowerPoint presentation marked Papers 1 & 2.

#### **1.1 Representatives' comments included the following:**

- A representative from France said that the gist of the discussions was heading in the right direction. He foresaw three possible next steps:
  - In the short term address issues in IAS 1 in order to induce behavioural changes.
  - In the long term, work on the conceptual framework, but that will have an impact on future standards.

- Look at what should be done with the existing disclosure requirements in the existing standards.

In addition, in France there is the question of mid-cap entities, although large caps are also interested.

- A representative from Japan said that a balanced approach was necessary. He expressed concern about expanding the notes to the financial statements to include forward-looking information. Also, the discussion of management's strategy should not be included in the notes, but in the Management Discussion and Analysis. He also commented on Appendix B of the Accounting Standards Board of Japan's comment letter to the FASB.

### **Thinking about disclosures in a broader context**

Andrew Lennard, U.K. Financial Reporting Council Director of Research, provided feedback regarding respondents' comments on the Financial Reporting Council's Discussion Paper "Thinking about disclosures in a broader context" (see Paper 1.3).

### **Disclosure in financial reporting**

Alan Teixeira, IASB Senior Director, Technical Activities, updated participants on the results of a disclosure survey issued by the IASB, and the outcome of a discussion forum held on 28 January 2013.

### **Comments on the papers**

1.2 Representatives' general comments on the papers included the following:

- The representative from Mexico was concerned that existing guidance on disclosures is rules-based rather than principle-based.
- A representative from India said that, in the long term, XBRL reporting provides the solution. However, there are inherent limitations in XBRL's taxonomy.
- A representative from South Africa said that he was concerned that the IASB will not go far enough. He expressed the view that a single disclosure standard might be the answer. He said that the IASB needs to do a better job to indicate why the required disclosures are important.
- A representative from Brazil said this is a very important topic for Brazil. Currently, a lot of information is being disclosed, much of it irrelevant. On the other hand, relevant information is sometimes omitted.
- A representative from Sierra Leone said that in addition to micro considerations, better disclosure is required regarding risks about the wider economy. A risk-management framework is needed.
- A representative from the FASB said that his jurisdiction has identified two key issues relating to the volume of information disclosed: the ability to and application

of materiality by preparers to limit disclosures while remaining in compliance with requirements, and whether standards can be written better by standard setters to permit preparers to exercise judgments about which disclosures to provide.

- A representative from the U.K. said that the key difficulty is to make information understandable. Standard setters need to do a better job to try to ensure that information is communicated properly. Better use of technology, such as XBRL, might be the answer. A short-term solution is required. The U.K. has started a project to examine user needs.

- 1.3 Mr. Teixeira said there was no short-term fix in sight. The IASB has plans to review all the disclosure requirements and, in particular, the relevant requirements in IAS 1. Regarding technological aids such as XBRL, investors need to be provided with the necessary information that the entity thinks is important. The IASB intends to take a disciplined approach to the problem. The IASB also heard from the Corporate Reporting Users Forum that more disclosures are required; however, the IASB is reluctant to merely add to the existing requirements

## **2. Relationships Between the IASB and National Standard Setters (NSS)/Regional Bodies**

### **Report on comments received and final arrangements regarding the IASB's Accounting Standards Advisory Forum, including results of its first meeting**

- 2.1 Alan Teixeira, IASB Senior Director, Technical Activities, provided background and details of the IASB's Accounting Standards Advisory Forum (ASAF) (see PowerPoint presentation marked Paper 2.1). He discussed the comment letters regarding the proposal to form ASAF, that body's role, structure and size, membership criteria, the selection of members, ASAF's relationship to other bodies, and the memorandum of understanding that appointees are required to sign.
- 2.2 Hans Hoogervorst, IASB Chairman, commented on the results of ASAF's inaugural meeting held on 8-9 April, 2013. He said he was pleased with attendees' participation and the high quality of the discussion. The main topic of discussion was the project on the conceptual framework.
- 2.3 Mr. Hoogervorst noted that it was not possible for all jurisdictions to be represented on ASAF. Limiting the membership to 12 is more likely to result in high-quality discussions. He stressed that ASAF is intended to complement existing bodies, and does not replace any. He said that the IASB will continue to work with IFASS on appropriate issues. ASAF will not be involved in field testing and outreach activities. Also, the IASB's relationships with the regional bodies will not be affected.

- 2.4 Mr. Teixeira commented on future activities related to ASAF (see Paper 2.1), including that it will meet four times a year, the agenda for the September 2013 meeting (which will include the conceptual framework and classification and measurement (IFRS 9)), and the importance of the interaction between ASAF and the regional bodies.
- 2.5 Representatives' questions and comments included the following:
- In general, representatives congratulated the IASB on the formation of, and its plans for, ASAF.
  - A representative from Japan said that, in his opinion, a summary of discussions at the first meeting of the ASAF should include feedback from the IASB on the matters discussed. Mr. Teixeira said that the discussions at each ASAF meeting would be summarized (including providing background and context). It will also be possible to listen to recordings of the discussions. He said that each IASB project team would advise the board in more detail of the discussions regarding particular projects.
  - The representative from Mexico asked to be advised of agenda items for future ASAF meetings in sufficient time to permit the gathering of views from representatives of regional groups. Mr. Teixeira said that the agenda for the September 2013 meeting will be placed on the IASB's website by mid-July.
  - A representative from France welcomed the evolution of ASAF. He commented that EFRAG's charter was determined by the European Commission. He wanted to know if justice is being done to all matters requiring attention identified by IFASS. For example, what is happening with the *Statement of Best Practice* document? He commented on the necessity of all parties working on all stages in the standard-setting function.

**Discussion of the future of IFASS and the character/objectives of its activities**

- 2.6 The Chairman referred participants to agenda Paper 2.2, which set out questions regarding whether and how IFASS should operate in the future.

**Objectives for IFASS (duplication of ASAF activities, breakout sessions and meetings)**

- 2.7 Representatives' comments regarding the existence of IFASS (paragraph 12-17 of Paper 2.2) included the following:
- A representative from Germany said that, irrespective of ASAF's activities (ASAF has only 12 members), there are so many projects on the IASB's agenda that there will always be activities to which IFASS will be able to contribute.
  - A representative from Germany commented that World Standard Setters (WSS) meetings are not that productive and may require a change in structure (its gatherings tend to be informational and educational, rather than technical in nature). The Chairman suggested that participants forward their views on the WSS to Mike Wells, the IASB Director of IFRS Education Initiative.

- The IASB Chairman said that it is essential that the WSS continue to meet. Mike Wells should be consulted to ascertain the best way the WSS can be used to complement the activities of the IASB and IFASS.
- A representative from the FASB said the FASB was very pleased to attend IFASS meetings so that common issues (distinct from issues dealt with by ASAF) could be discussed. It might also be helpful to discuss some technical issues at IFASS meetings (such as post-implementation reviews and cost/benefit matters). The representative suggested that thought be given to setting up a committee to consider potential matters for discussion at future IFASS meetings.
- A representative from South Africa favoured the suggestion to set up a committee to identify future agenda topics.
- A representative from Italy said that IFASS should continue to meet. It was fine for technical issues to be discussed at these meetings. He said there was an overlap between the activities of IFASS and the WSS and there was a need to make the meetings more efficient. Also, break-out sessions may help national standard setters to discuss implementation issue on items of common interest, and this may lead to joint papers on items on which the IASB cannot find a solution in a reasonable period of time.
- The Chairman commented that IFASS could assist in ensuring a consistent application of IFRSs.
- A representative from the FASB said that, in contrast to ASAF and the WSS, which are driven by the IASB, IFASS was driven by the national standard setters. Therefore, IFASS is able discuss issues presented by individual countries. Also, many items on the IASB's agenda originate from the national standard setters and IFASS. The representative urged that IFASS continue to meet twice a year (although he acknowledged concerns about the time and cost involved in attending these meetings).
- A representative from EFRAG said that discussions at IFASS were useful. Whereas ASAF is meant to discuss more active projects of the IASB, in comparison, IFASS deals more with proactive projects of its members or implementation issues and, accordingly, there is little overlap. The representative commented that the first ASAF meeting had been quite positive, because most participants were acquainted with each other from their participation in IFASS meetings. Also, IFASS meetings are collectively managed independently of the IASB.
- A representative from Brazil supported the continuation of IFASS. He said it is helpful to discuss implementation matters at these meetings.
- A representative from South Africa said that ASAF is a work in progress. It is uncertain how this body will play out. It's therefore premature to say that IFASS is duplicating ASAF's activities. IFASS is an important forum to jurisdictions' buy-in to use IFRSs. IFASS can also help in the growth and development of the regional bodies.

- A representative from Sierra Leone said there was tremendous value in IFASS. The meetings assist the less-developed jurisdictions to lever off the knowledge and skills of the more mature jurisdictions. It should be borne in mind that smaller jurisdictions have budget constraints. Accordingly, consideration should be given to holding only one meeting a year (with a duration of three/four days).
- A representative from Japan was in favour of continuing with IFASS. He said that one meeting per year in conjunction with the WSS meeting was a possibility. This could be augmented by conference calls. He favoured the practice of holding breakout sessions, which could also possibly be conducted via conference calls.
- The representative from the Netherlands favoured the continuation of IFASS.
- A representative from Korea said that the future of IFASS might depend on who was elected as the new Chairman.
- A representative from the U.K. favoured the continuation of IFASS. In particular, he found value in the discussions on research projects. It was also valuable to interact with individuals on a face-to-face basis.
- A representative from India said that his jurisdiction benefited greatly from discussions at IFASS. He cited IASB developments, such as those that followed IFASS discussions (which included support from Canada) in considering a standard for rate-regulated activities, as a particular benefit.

2.8 The Chairman summed up by saying there was a consensus that IFASS should continue to meet twice a year (conference call meetings should be considered). Thought should be given to including break-out sessions during meetings, to forming a steering committee to formulate future agendas, and to travel and timing issues relating to meetings to improve efficiencies. There was also agreement that the “matters of common interest” detailed in paragraph 12 of agenda Paper 2.2 should feature on all meeting agendas.

#### Membership issues

2.9 Representatives’ comments regarding IFASS membership issues (see paragraphs 18-23 of Paper 2.2) included the following:

- A representative from EFRAG supported the proposals and would restrict participation in IFASS meetings to organisations active in standard-setting matters.
- A representative from the FASB said that, in order to assist less developed jurisdictions, few restrictions should be placed on those wishing to attend IFASS meetings. However, membership should not be open to organisations with non-standard-setting mandates.
- A representative from Australia said that the AOSSG regional group was quite generous in allowing non-standard setters to join that group. The AOSSG has a due

diligence body that reviews membership applications. Not all applications are successful.

- A representative from the U.K. said that, while the ability and responsibility to set accounting standards (see paragraph 22 of Paper 2.2) was a good requirement, the group should not be too detailed and restrictive in its membership requirements. A number of representatives supported the requirements in paragraph 22. Referring to sub-paragraph 22(a), a representative from Italy said that an organisation should have the “ability” rather than the “responsibility/authority” to set accounting standards at a national level. He also said that IFASS should be open to all national standard setters.
- A number of representatives were indifferent to the suggestion in paragraph 23 of Paper 2.2 that prospective members should aspire to the fundamental qualitative characteristics stated in that paragraph. A representative from Italy said that the requirement in paragraph 23 was not really necessary.
- A representative from France considered that matters were being unnecessarily complicated. IFASS is a global association that is independent from the IASB. He felt the qualities mentioned in paragraph 23 of paper 2.2 were impossible to assess. He also thought that the rationale for keeping the WSS was not clear.
- A number of representatives said that permitting observers would allow non-standard setters to attend meetings.

2.10 The Chairman summarized the discussion by stating that there was a consensus to retain the requirements in paragraph 22 of Paper 2.2, which clarifies IFASS’s existing practice.

#### Documentation required

2.11 The Chairman commented on the plethora of documents setting out the relationships between, and among, National Standard Setters and the IASB and asked whether an overarching document should be produced.

2.12 Representatives’ comments regarding IFASS membership issues (see paragraphs 24-28 of Paper 2.2) included the following:

- A representative from the U.K. said that flexible documentation was required to encompass matters as IFASS evolves.
- A representative from EFRAG supported the content of the “Model for National Standard Setters” (Model). The document should apply to all standard setters, whether or not they are members of IFASS. It is important to have a level of agreement among members regarding their activities.
- A representative from the FASB said that the articulation of the Model should be finalized. The representative was in favour of paragraph 22 of Paper 2.2. It is

unnecessary to include all the IASB relationships. The representative was not in favour of producing a new document regarding relationships.

- A representative from Australia said that the Model was not conceived to detail the IFASS membership criteria. It was intended to assist the aspirational development of standard setters.
- A representative from Italy said that it is important to incorporate in the final documentation the specific part related to the circumstances in which local interpretations are allowed.
- A representative from France said that it was unnecessary to draw up a document, such as a constitution or articles of agreement. He was in favour of the “Statement of Best Practice” and the criteria contained therein, which are aspirational. The important issue is to remain independent from the IASB. He said that there are more things to be said regarding how national standard-setters organise themselves with the IASB on a practical basis.
- A representative from India suggested that the IASB should be more explicit as to their requirements from the different groups.
- A representative from the Netherlands favoured a basic document to assist new IFASS members.

2.13 The Chairman summarized the discussion by stating that representatives were in favour of producing a simple document that describes the IFASS’s activities, the criteria for selecting the IFASS Chairman, and incorporating by reference existing background material into the document (including the updated Statement of Best Practice discussed at the March 2012 meeting). Details of the relationships between the IASB and the regional groups should be added to that Statement of Best Practice. This document and a final Model for National Standard Setters should be presented to IFASS at its next meeting in September 2013 in Brussels. Efforts should be made to encourage those who attend the annual WSS meeting to also attend the IFASS meeting held around the same time. She said she would consult Mike Wells to try and co-ordinate the content of IFASS and WSS meetings to avoid duplicating agenda topics.

2.14 The IASB Chairman commented that the IASB will try to streamline its meetings in London and consider having fewer than four ASAF meetings each year. He said that the Statement of Best Practice was created in close co-operation with France. The paper will be updated and presented at the next IFASS meeting.

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

3.1 Ron Salole, IPSASB Deputy Chair, provided an overview of IPSASB, including its goals and strategic objectives. He also discussed IPSASB’s framework project (see PowerPoint presentation marked Paper 3). He provided the following two key messages:



- There are huge challenges involved in encouraging decision-useful information for accountability by governments.
- Can a global public standard setter be more effective if it reflects cultural diversity?

3.2 Representatives' comments included the following:

- A representative from Australia was perturbed about the proposed definitions of elements in the framework. He expressed concern with the notion of recognizing deferred inflows and deferred outflows in the balance sheet. This is analogous to recycling OCI items.
- In reply to a question from the representative from Mexico, Mr. Salole said that governments are not compelled to pick up IPSASB's standards. It is hard to convince some governments that it is to their advantage to use IPSASB's standards. There are no significant differences with IFRSs; however, sector-specific guidance has been added for transactions that do not exist in the private sector.
- In reply to a question from the representative from India regarding the proposed new elements, Mr. Salole said that IPSASB would like to extend the deferral of assets to include other matters and it is important to have a tight definition of assets and liabilities. Standard setters need to find a way of recording deferrals. IPSASB does not wish to follow the OCI route.
- In reply to a question from a representative from New Zealand, Mr. Salole said that there is no silver bullet to converging IFRSs and IPSASs. Differences in standards should reflect real economic differences.
- A representative from Australia expressed concern that the IASB and IPSASB have differing standards on some topics, such as leases. He claimed that there is insufficient evidence that IPSASB has covered the core projects (leases, insurance contracts, revenue recognition and financial instruments).

#### 4. Topical Issues

##### **Issue 1 — Accounting for investment tax credits**

4.1 Garth Coppin, from the Financial Reporting Standards Council of South Africa, made a presentation that asked if IFASS should recommend to the IASB that it take on a project to improve the accounting for investment tax credits (ITC). These credits appeared to be wide spread among jurisdictions and there is considerable diversity in practice as to how ITCs are recorded. (See Paper 4.1)

4.2 Representatives' comments included the following:

- A representative from the U.K. said there was a move in the U.K. to account for ITCs above the line by analogy to IAS 20.

- A representative from India said that ITCs represent a definitional issue. India has issued guidance on the accounting for ITCs, essentially following its Accounting Standard on Taxes on Income.
- A representative from Norway was not convinced that having a definition of an ITC would rectify matters. Having a definition could result in inconsistent treatment in financial reporting.
- The representative from the Netherlands said that this is not an urgent issue requiring attention.
- A representative from the FASB said that while the U.S. has a standard on ITC, there are many other ways that the government provides incentives to businesses; for example, grants. At least four accounting methods have been observed in practice for arrangements that could be described as “government assistance”. The FASB is currently performing research on the issue.

4.3 Mr. Coppin said that he sensed a lack of urgency to ask the IASB to examine the accounting for ITCs. The Chairman commented that common accounting based on elements of IAS 12 and IAS 20 would help matters.

#### **Issue 2 — Discount rate in IAS 19**

4.4 Liesel Knorr from the German standard setter provided a report back on matters following the last IFASS meeting in October 2012 (see PowerPoint presentation marked Paper 4.2).

4.5 The Chairman suggested that the rate to discount at least some deferred benefit obligations will be covered in the insurance contracts project and asked if this was a good approach to take, at least on the short term. The representative from the Netherlands supported this notion.

4.6 No decisions were taken. Representatives suggested that this topic be placed on the agenda for the next IFASS meeting.

#### **Issue 3 — Accounting issues where controlling and controlled entities prepare financial statements under different frameworks**

4.7 Dr. Avinash Chander, from the Institute of Chartered Accountants of India, made a presentation on this topic (see PowerPoint presentation and Paper marked 4.3).

4.8 Representatives’ comments regarding the accounting treatment of company ‘A’ in the example posed in the PowerPoint presentation included the following:

- Suggestions that might clarify the issue included deciding who owns the final product, and to decide if the construction project is really a business, or just work performed by an agent of the government.
- A representative from South Africa said that similar problems were prevalent in South Africa. The solution adopted in that jurisdiction is to modify the audit report appropriately.
- A representative from Brazil said that the arrangements in the example also occurred in Brazil and that the usual procedure is for company 'A' to account for the construction asset.
- The Chairman expressed the concern that assets and liabilities related to the example might not appear on any entity's financial statements.

**Reports on IFASS member new project - Draft Comment Paper on "Emissions Trading Schemes" preliminary views**

4.9 Filippo Poli, EFRAG Deputy Research Director, made a presentation on EFRAG's comment Paper: "Emissions Trading Schemes" (see PowerPoint presentation marked Paper 10.4). He posed the question whether the IASB should address the accounting for these schemes, or whether the solution lies in existing IFRSs.

4.10 Representatives' comments included the following:

- A representative from Italy said that his jurisdiction has a standard on the topic.
- A representative from Australia said that this is an issue in Australia. Regarding using an expected weighted cost to measure liabilities, he queried whether the presenter wanted IAS 37 to be amended.
- The representative from the People's Republic of China expressed concerns, stating it is not easy to make a clear distinction between an emitter and a trader according to the business model.
- A representative from the FASB was attracted to the recognition of rights, but was disturbed to use OCI without knowing the nature of the credit. He also suggested something was awry on the debit side regarding the recording of obligations.
- A representative from India pointed out that the business models explained in the paper did not cover the generators of emission rights, the treatment of which would be different from traders and emitters.

## **5. Administrative Matters**

**IFASS Meeting Assessment – Zurich, 22-23 October 2012**

5.1 The Chairman referred representatives to agenda Paper 6.1, which provided an analysis of the views of participants who attended the above meeting. She thanked Hyejung Lee and

Dae-Hyun Kim (Korea Accounting Standards Board), Felipe Perez-Cervantes (Mexican Financial Reporting Standards Board) and Didrik Thrane-Nielsen (Norwegian Accounting Standards Board) who analysed and summarized participants' responses and made a number of recommendations.

- 5.2 The Chairman said that the secretariat has tried to implement respondents' recommendations. A big issue remaining is the timing of issuing material to meeting participants. She asked respondents commenting on the current meeting to address this issue and whether they are satisfied with the tablet-friendly electronic file presented to participants.
- 5.3 The representative from Mexico said that only 39 participants responded to the previous questionnaire and urged representatives to respond to future assessment requests.
- 5.4 Participants discussed the merits of having breakout sessions. The Chairman said that in future breakout sessions would be considered for agenda topics that lend themselves to this type of meeting format.

#### **Date and location of Q1 2014 IFASS Meeting**

- 5.5 The Chairman said that India had kindly agreed to host the above meeting in New Delhi. The ASAF will be meeting in London in early March 2014 and IFASS will likely meet shortly thereafter. The exact date will be confirmed as soon as possible.

#### **Process/timing of selection of new chairman for IFASS**

- 5.6 The Chairman referred participants to the timeline for the election process detailed in page 3 of Paper 6.2. She also said that the criteria and process set out in the Paper were agreed to by representatives at the March 2012 IFASS meeting in Kuala Lumpur.
- 5.7 Following discussion, participants agreed with the recommendations in the Paper regarding the proposed nomination and election process, voting papers and eligible voters.

## **6. IASB Work Plan and IFRS Foundation Developments**

- 6.1 Peter Martin, Director, Accounting Standards, Canadian Accounting Standards Board, Alan Teixeira, IASB Senior Director of Technical Activities, and Sue Lloyd, IASB Senior Director of Technical Activities, provided information on the strategies and governance of the work of the International Financial Reporting Standards Foundation Trustees (Foundation), the IASB's efforts in developing and improving IFRSs and other noteworthy matters (see agenda Paper 7 and PowerPoint presentation marked agenda Paper 7).

- 6.2 Mr. Teixeira said that the Foundation met on April 11. Sub-committees related to due process oversight, XBRL and research activities also met. Matters discussed at the Foundation meeting included the new Due Process Oversight Handbook, IASB projects such as insurance contracts, post-implementation reviews (specifically IFRS 8), and a new research forum. The Foundation also met jointly with the Monitoring Board, with financing matters being the main topic of discussion. The Foundation's revenues were stable in the last operating year and a slight surplus was generated. Attempts are being made to increasing the minimum funding contributions from jurisdictions (positive signals on this issue are being received from the U.S. Securities and Exchange Commission).
- 6.3 Mr. Teixeira commented that a number of narrow-scope amendment projects were added to the IASB's Work Plan recently. Ms. Lloyd said the criteria for annual improvement projects as opposed to narrow scope projects have not changed. The narrow-scope projects are a result of the IASB trying to be more responsive to stakeholders' concerns.
- 6.4 Representatives' comments included the following:
- A representative from Italy expressed some concern that a narrow-scope project could lead to a need to begin from fundamental concepts and evolve into a major project, which could take more time to complete.
  - A representative from EFRAG concurred with the representative from Italy saying that a narrow-scope project could also result in problems with other standards.
- 6.5 Comments by Ms. Lloyd and Mr. Teixeira on the IASB's Work Plan included the following:
- The revenue recognition project is on target and close to completion. There will be a fatal-flaw review, which will be provided to a handful of parties for technical review purposes only. The intention is that this process should not grow into an additional exposure draft. The Chairman commented that access to a review draft (via the IASB's SharePoint system) is a privilege and not a right and confidentiality should always be maintained.
  - The IASB is experiencing a push-back from the industry on the leases proposals. The IASB was working with the FASB on outreach activities. The IASB is very pleased that it and the FASB will have a common exposure draft. The exposure draft will include an effects analysis, including how users will be provided with better information.
  - It is essential that the insurance contracts project be completed as soon as possible. An exposure draft is targeted for mid-2013. Ms. Lloyd said that although the IASB's proposals are aligned with those of the FASB in key areas, some major differences exist. Extensive field work will be conducted with a few key organisations (the IASB is open to requests from IFASS participants to participate in the field work).
  - The proposals for macro hedging were discussed with the Due Process Oversight Committee on April 11 and a discussion paper is expected to be issued in September 2013.
  - The IASB and FASB are involved in each other's outreach activities regarding classification and measurement (IFRS 9). There are mixed views on fair value and OCI. The way forward is unclear.

- The financial asset impairment Exposure Draft is out for comment. The FASB and IASB will read the comment letters relating to each other's Exposure Drafts. Both boards desire a common standard. The initial feedback from the perspective of preparers and accounting firms has been generally positive. Initial reaction from banks is that the proposals are operational. Prudential regulators are more sympathetic towards the FASB perspective, rather than that of the IASB. The IASB is doing some limited fieldwork. Because of all the changes related to financial instruments, the effective date for IFRS 9 will likely be extended.
- An exposure draft for bearer biological assets is expected in mid-2013.
- Work is proceeding on an exposure draft for an interim standard regarding rate-regulated activities; although some board members have reservations about issuing a standard. Only first-time adopters of IFRSs will be able to use the proposed standard. The standard will include extensive disclosure requirements.
- The IASB is trying to be more responsive to requests for interpretations from stakeholders.
- A report on the post-implementation review of IFRS 8 will be published soon.
- The scope of the post-implementation review of IFRS 3 will be very important. Many stakeholders will be consulted.
- The initial ASAF meeting in April was devoted largely to discussions on the conceptual framework project. The discussion paper is likely to be published in July 2013, following which ASAF and IFASS can become further involved. The discussion paper will not deal with all aspects of the project. This will be done at the exposure draft stage.

6.6 Representatives' comments included the following:

- A representative from Japan expressed concerns about the exact wording to be used in the final standard on revenue recognition to reflect the tentative decisions. He said it would not be sufficient to just perform a fatal-flaw review; it was also necessary to issue a review draft.
- A representative from Italy commented that a review draft on revenue recognition may be useful in order to allow jurisdictions to understand potential problems before the publication of the final version. He mentioned that the review draft on hedge accounting was really useful to enable the identification of major issues to be solved before the publication of the final standard.
- A representative from the FASB commented that she was very pleased that the FASB and IASB were converged on revenue recognition. She said that the FASB was setting up a Transition Resource Group so that stakeholders can discuss issues to head off differences in views between users, preparers, regulators and others.
- A representative from EFRAG said that her organisation would likely support the interim standard on rate-regulated activities as an option. A representative from Italy disagreed with this position because such a new standard may undermine comparability among entities within a jurisdiction and among jurisdictions.

- A representative from Germany said she was disturbed about receiving multiple requests from a number of bodies for input regarding the same issue. The Chairman commented that requests regarding the same issue often come from the IASB organization and domestic standard setters.
- A representative from the FASB said that the scope of post-implementation reviews is very challenging. Regarding business combinations, the representative said that respondents to the U.S. review on that topic did not limit their comments to matters within the scope of the review.
- A representative from Japan expressed a due process concern regarding the short comment period (30 days) for the exposure draft for novation of derivatives. Ms. Lloyd said that the IASB was trying to be helpful. Many stakeholders advised the IASB that this was an issue requiring urgent attention to permit stakeholders to perform hedge accounting activities. The IFRS Foundation Trustees agreed to the 30-day comment period.

6.7 A representative from Canada expressed the view that the so called educational material proposed by the IASB on IFRS 11 *Joint Arrangements* goes well beyond educational content and is more in the nature of interpretive material. Mr. Teixeira said that the IASB had received similar comments from other stakeholders and the proposed material will not be issued. A representative from EFRAG commented that if, without guidance, IFRS 11 could lead to divergence in practice, the educational material should be issued as an interpretation. Mr. Teixeira responded that no request for an interpretation had been received.

## 7. Update reports on IFASS member projects

### **Feedback statements on surveys regarding goodwill amortisation and impairment**

7.1 Tommaso Fabi and Marco Mattei from the Italian Standard Setter, and Atsu Kato from the Accounting Standards Board of Japan provided feedback on an international survey performed by EFRAG and the Italian Standard Setter, and a survey from the Accounting Standards Board of Japan directed to interested parties in Japan (see agenda Paper 8.1 and PowerPoint presentation marked agenda Paper 8.1).

7.2 Representatives' comments included the following:

- A representative from Australia was not convinced that the amortisation route was the correct way to go. He suggested that the survey of academic literature conducted was not as extensive as it could have been and suggested further avenues to explore.
- A representative from India said that the problem in India is that goodwill created on consolidation is tested for impairment only but that most of the companies had not impaired their goodwill, whereas the common thinking was that it should have been impaired. The Government of India has, therefore, asked the Institute of

Chartered Accountants of India to look at this topic and India would like to be involved with the project.

- A representative from Sierra Leone was confused by the debate in the academic literature. He said that there was much evidence that many acquisitions were fueled by excessive exuberance, resulting in overpayments.
- The Chairman commented that not providing the disclosures required by IAS 36 was a compliance problem and not a standards problem. The amortisation route still requires testing for impairment. She said it is necessary to look at the economic environment prevailing when the academic studies were performed.
- A representative from France supported the project. He said that supporters of the present system say that it does not improve the understanding of the firm's financial position. They say that testing for impairment requires judgment, which is difficult because the future is unknown.
- A representative from South Africa questioned whether goodwill is an asset in the first place, particularly as it is sometimes difficult to ascertain if an overpayment has occurred. The question of overpayment is sometimes ignored when assessing management's performance.
- A representative from the FASB said that the cost of complying with the requirements has reached a breaking point in the U.S. She said all parties such as preparers, auditors and experts hired by the latter are behaving in a dysfunctional manner.
- A representative from the U.K. said that the comment that impairment losses are sometimes not recorded on a timely basis merited careful analysis. One possibility is that although the reporting of such losses does not provide new information, it had significant confirmatory value.
- A representative from Sierra Leone said that the efficient market hypothesis has collapsed.
- A representative from the FASB said that immediate write-off of goodwill should be looked at. It is difficult to see goodwill as an asset.
- A representative from Brazil said that a group of experts in Brazil is supporting this project.
- A representative from the IASB commented that stewardship is an important aspect of goodwill. He said that expected cash flows is also an important aspect when considering impairment. Reduced cash flows should result in goodwill impairment.
- The Chairman suggested that cost issues are driving the call for amortisation, rather than intellectual considerations.

7.3 Mr. Fabi commented that those performing the surveys were only investigating the issue. They are not making any proposals. He said that further updates would be forthcoming.

**"Toward a Measurement Framework" – key issues identified in the analysis of comments on the paper**

7.4 Peter Martin, Director, Accounting Standards, Canadian Accounting Standards Board, provided a follow-up report on this topic, which was discussed at the last IFASS meeting in



Zurich in October 2012. He referred participants to Paper 8.2 and provided an overview of the “big questions” emerging from Dr. Milburn’s Paper (see pages 8 to 11).

7.5 Mr. Martin thanked those who participated in Dr. Milburn’s outreach activities. He said that the advice to the IASB is that more work needs to be done and it is too soon for the IASB to commence work on new measurement principles. Mr. Martin advised that Dr. Milburn is now retiring after 40 years of dedicated work to the accounting profession.

7.6 Representatives’ comments included the following:

- A representative from Australia said that, on behalf of the Australian Accounting Standards Board, he wished to express his appreciation to Dr. Milburn for his work on the measurement framework and other topics.
- A representative from the FASB said that Dr. Milburn has done outstanding work on the measurement framework. In some ways the work is ahead of its time. Deep and thoughtful analysis is required on this topic.
- The Chairman commented that there is academic interest in examining the issue of measurement from a business model perspective. Dr. Milburn’s paper has been passed on to the appropriate parties.

## **8. Reports from Regional Groups**

### **Update on activities of the Asian-Oceanian Standard-Setters Group (AOSSG)**

8.1 The AOSSG Chairman, Kevin Stevenson, provided an update on the group’s activities. In particular, he discussed the AOSSG initiative to develop an IFRS Centre of Excellence for a Developing Country (see PowerPoint presentation marked Paper 9.1).

### **Update on EFRAG activities**

8.2 Françoise Flores, Chairman of EFRAG, provided an overview of EFRAG’s recent activities. She commented on EFRAG’s participation in the IASB consultation process, its participation in work initiated by others, field work in Europe, proactive projects and work related to ASAF.

### **Update on the activities of the Group of Latin American Accounting Standard Setters (GLASS)**

8.3 Felipe Perez-Cervantes, Chairman of the Mexican Financial Reporting Standards Board and member of the board of GLASS, discussed aspects of GLASS’s activities detailed on the PowerPoint presentation marked Paper 9.3. In particular, he commented on the challenge to try to incorporate more than the current 14 standard setters from Latin America into GLASS. An additional challenge is to provide feedback from the IASB to members on GLASS’s contributions to the IASB’s work.

**Update on the activities of the Pan African Federation of Accountants (PAFA)**

- 8.4 Vickson Ncube, PAFA Chief Executive Officer, commented on PAFA and its activities (see agenda Paper 9.4). In particular, he said it is necessary to build up Africa's standard-setting capability and much work requires to be done.
- 8.5 The Chairman welcomed the PAFA representatives to their first IFASS meeting and said that Mr. Vickson should call for help from IFASS if he considers it would be beneficial.

**9. Issues Related to the IFRS for SMEs**

- 9.1 Dr. Omodele Jones, Chair, Council for Standards of Accounting, Auditing, Corporate & Institutional Governance, Sierra Leone, commented mainly on governance issues that threaten the future of the IFRS for SMEs standard. He discussed the concerns that are detailed in the PowerPoint presentation marked Paper 5.
- 9.2 He said a number of jurisdictions have not adopted the IFRS for SMEs standard and this undermines the long-term symbolic capital of that standard and its long-term viability. Non-adoption goes against the objective of having a single set of global standards.
- 9.3 Representatives' comments included the following:
- A representative from the U.K. said that there is a very broad population in the U.K. and suitable standards need to be developed for the needs of the U.K. economy.
  - A representative from South Africa said there is nothing to stop a standard setter from adapting the IFRS for SMEs standard to suit its constituents.
  - A representative from Australia commented that the IASB's objective of a single set of global standards is directed at the adoption of IFRSs. The IFRS for SMEs standard is an accommodation by the IASB for those who want to use it. In Australia all reporting entities have to use IFRSs.
  - A representative from Hong Kong said that his jurisdiction had adopted and renamed the IFRS for SMEs standard.
  - A representative from Mexico said that Mexico does not allow the use of the IFRS for SMEs standard.
  - Representatives from the U.K. and Hong Kong said they did not feel excluded from the IASB family.
  - A representative from New Zealand said that her jurisdiction formerly used a differential reporting system for private entities. There is not a lot of support in New Zealand for the IFRS for SMEs standard.
  - A representative from Canada said his jurisdiction conducted exhaustive outreach regarding the reporting requirements for private entities. These entities favoured then existing Canadian GAAP with differential reporting. There was no support for the IFRS for SMEs standard.
  - A representative from the FASB said that the situation in that jurisdiction is basically similar to that in Canada. After a thorough investigation it transpired that private companies favoured the retention of U.S. GAAP, adjusted for different user needs.

The Financial Accounting Foundation Board of Trustees is seeking public comment, on the establishment of a new body to improve the process of setting accounting standards for private companies in the U.S. The FASB welcomes input from the IFASS group.

## 10. Reports on new IFASS member projects

### **Conceptual Framework – project to stimulate discussion and debate on IASB’s project to revise the Framework**

10.1 Andrew Lennard from the U.K.’s Financial Reporting Council updated the group on the European contribution to the conceptual framework project. The partners are EFRAG, and standard setters from France, Germany, Italy and the U.K. He said that the Framework is important, but is abstract and theoretical. The partners are publishing short single-issue bulletins to start the debate, which might be more effective than lengthy research papers. To date, three bulletins have been issued, the aim being to produce the best framework in a collaborative, collegial spirit. Work is also proceeding on other aspects of the project. The partners are also producing newsletters and conducting round tables and workshops.

10.2 Representatives’ comments included the following:

- A representative from Germany said that this project complements the IASB project and is intended to stimulate debate. She said that the partners in the European conceptual framework project are trying to give the IASB a firm platform from which to start work.
- The Chairman commented that this initiative makes it easier for constituents in Europe to participate in the debate.
- A representative from Australia said that his jurisdiction is publishing essays and monographs on the conceptual framework.
- In reply to a question from a representative from South Africa as to whether the partners were trying to influence the IASB, Mr. Lennard said the idea behind the project is to influence the partners’ constituents. The bulletins are posted on the partners’ websites.
- A representative from Brazil said this is a very worthwhile project.
- A representative from EFRAG suggested that IFASS participants provide their input on this project to the partners.

10.3 The Chairman concluded the discussion on this topic by stating that the conceptual framework will be a standing item on the agendas for future IFASS meetings for as long as the IASB project continues to run.

### **Discussion paper on “The role of the Business Model in Financial Reporting”**

10.4 Françoise Flores, Chairman of EFRAG, updated participants on a joint project between EFRAG and the French and U.K. standard setters to explore the implications of the business model for financial statements. A discussion paper is expected to be issued in the second half of 2013 with a six-month comment period (see PowerPoint presentation marked Paper

10.1). Ms. Flores said that, although not yet decided, it is likely that the role of the business model will be dealt with in one of the conceptual framework bulletins.

10.5 Representatives' comments included the following:

- Representatives from Australia and the U.K. said that they saw a parallel with the concept of capital.
- A representative from the FASB said he struggled to understand what the business model is and the level of aggregation. He suggested the name: value realisation, because that was its purpose in regard to measurement.
- A representative from Japan questioned who will decide what the business model is. There is not a clear distinction between management intent and the business model and their relationship is analogous to heads and tails on a coin. Is the business model a sign of management's intent?
- A representative from Canada said that debate on this topic is necessary and it should be discussed in conjunction with the conceptual framework project. There are many issues related to the framework project that the IASB does not wish to open up, such as the matter of stewardship. He asked how one gets the IASB to slow down on the framework project?
- A representative from the FASB said that input was needed from the IASB on participants' comments, to ascertain if the group's input will be considered on a timely basis. This should be a standing item for future IFASS meetings. It is necessary to track issues raised and follow-up matters.

**Research on the use of Other Comprehensive Income – A survey of annual reports of 370 corporations between 2010 and 2011 (IFRS 178, U.S. GAAP 148, J GAAP 44 corporations)**

10.6 Atsu Kato and Takao Kamiya from the Accounting Standards Board of Japan provided information on a survey of 370 corporations between 2010 and 2011 (see Paper marked 10.2A and a PowerPoint presentation marked Paper 10.2B). Mr. Kato commented that the results of the surveys did not reveal any surprises.

10.7 The Chairman said that the results will be used by the IASB to inform the discussion on OCI in the conceptual framework project. She commented that this would be Mr. Kato's last meeting as he was retiring from the Accounting Standards Board of Japan and thanked him for his participation in this and past IFASS meetings.

## **11. Wrap Up**

11.1 The Chairman asked members to complete and hand in their assessments of the success or otherwise of the current meeting (representatives from Korea, Mexico and Norway have again kindly agreed to analyse and summarize participants' responses).

11.2 Based on the discussion at this and previous meetings, the Chairman listed the following expected agenda items for the next IFASS meeting in Brussels:

- Standing Items
  - Update on the IASB Work Plan
  - Updates on regional group activities
  - Conceptual framework
- Topical Issues
  - Report-back regarding discount rate issues
- Other
  - Final document on updating the Statement of Best Practice and a charter for IFASS
  - The role of the Business Model in Financial Reporting

## **12. Conclusion**

12.1 The Chairman thanked Gord Fowler, Chair of the Canadian Accounting Standards Board, and Leslie Seidman, FASB Chair, who are both retiring from their respective positions on 30 June 2013. She concluded the meeting by reminding participants that the next IFASS meeting would be held in Brussels, Belgium on 19-20 September 2013.

**IFASS – 17-18 April 2013, SÃO PAULO – LIST OF PARTICIPANTS**

	<b>Name</b>	<b>Organisation</b>
1	Dr. Oussama Tabbara	Arab Society of Certified Accountants
2	Kevin Stevenson	Australian Accounting Standards Board
3	Sue Lightfoot	Australian Accounting Standards Board
4	Gerhard Prachner	Austrian Financial Reporting and Auditing Committee
5	Sadi Podevijn	Belgian Accounting Standards Board
6	Edison Arisa	Brazilian Accounting Pronouncements Committee
7	Ernesto Gelbcke	Brazilian Accounting Pronouncements Committee
8	Gord Fowler	Canadian Accounting Standards Board
9	Peter Martin	Canadian Accounting Standards Board
10	Linda Mezon	Canadian Accounting Standards Board
11	Xu Huaxin	Ministry of Finance China
12	Hans de Munnik	Dutch Accounting Standards Board
13	Françoise Flores	European Financial Reporting Advisory Group
14	Filippo Poli	European Financial Reporting Advisory Group
15	Isabelle Grauer-Gaynor	French Accounting Standard Authority
16	Jérôme Haas	French Accounting Standard Authority
17	Liesel Knorr	Accounting Standards Committee of Germany
18	Rolf Ulrich	Accounting Standards Committee of Germany
19	Clement Chan	Hong Kong Institute of Certified Public Accountants
20	Simon Riley	Hong Kong Institute of Certified Public Accountants
21	Stephen Cooper	IASB
22	Amaro Gomes	IASB
23	Hans Hoogervorst	IASB
24	Sue Lloyd	IASB
25	Alan Teixeira	IASB
26	Harry Klompas	IFASS
27	Tricia O'Malley	IFASS
28	Ron Salole	IPSASB
29	Avinash Chander	The Institute of Chartered Accountants of India
30	Sanjeev Maheshwari	The Institute of Chartered Accountants of India
31	Tommaso Fabi	Italian Standard Setter
32	Marco Mattei	Italian Standard Setter
33	Takao Kamiya	Accounting Standards Board of Japan
34	Atsu Kato	Accounting Standards Board of Japan
35	Jae-Ho Kim	Korea Accounting Standards Board
36	Suk-Sig (Steve) Lim	Korea Accounting Standards Board
37	Felipe Perez Cervantes	Mexican Financial Reporting Standards Board (CINIF)
38	Michele Embling	New Zealand Accounting Standards Board
39	Patricia McBride	New Zealand External Reporting Board
40	Erlend Kvaal	Norwegian Accounting Standards Board
41	Rashid Rahman Mir	Institute of Chartered Accountants of Pakistan

42	Hafiz Mohammad Yousaf	Institute of Chartered Accountants of Pakistan
43	Vickson Ncube	Pan African Federation of Accountants
44	Blanche Gooding	Council for Standards of Accounting, Auditing, Corporate & Institutional Governance (CSAAG – Sierra Leone)
45	Dr. Omodele R. N. Jones	Council for Standards of Accounting, Auditing, Corporate & Institutional Governance (CSAAG – Sierra Leone)
46	Suat Cheng Goh	Accounting Standards Council (Singapore)
47	Siok Mun Leong	Accounting Standards Council (Singapore)
48	Garth Coppin	Financial Reporting Standards Council (South Africa)
49	Sue Ludolph	South Africa Institute of Chartered Accountants
50	Isabel Serantes	Spanish Institute of Accounting and Accounts Auditing
51	Philipp Leu	Swiss GAAP FER
52	Dr. Chi-Chun Liu	Accounting Research and Development Foundation (Taiwan)
53	Andrew Lennard	Financial Reporting Council (U.K.)
54	Melanie McLaren	Financial Reporting Council (U.K.)
55	Thomas Linsmeier	FASB (U.S.)
56	Leslie Seidman	FASB (U.S.)