

REPORT OF THE MEETING OF NATIONAL STANDARD-SETTERS (NSS) 24-25 MARCH 2011

The NSS group met in New York on 24-25 March 2011 and considered the agenda items set out below.

Background

The NSS is a grouping of national accounting standard-setters from around the world, plus other organisations that have a close involvement in financial reporting issues. With effect from the current meeting, Tricia O'Malley, a former Chair of the Canadian Accounting Standards Board, has assumed the chairmanship from Ian Mackintosh, Vice-Chairman-elect of the International Accounting Standards Board (IASB) and former Chairman of the UK Accounting Standards Board.

The meeting was attended by representatives of standard setters from Australia, Austria, Belgium, Brazil, Canada, France, Germany, Hong Kong, India, Italy, Japan, Malaysia, Mexico, Netherlands, New Zealand, Norway, Republic of Korea, Saudi Arabia, Singapore, South Africa, Spain, Switzerland, Syria, Taiwan, the United Kingdom, and the United States. Representatives of the European Financial Reporting Advisory Group (EFRAG), the International Accounting Standards Board (IASB), and the International Public Sector Accounting Standards Board (IPSASB) also attended, as did the immediate past Chairman of the NSS. A list of participants is attached. A number of observers also attended.

1. IASB Work Plan and IFRS Foundation Developments

- 1.1 The Director, Accounting Standards of the Canadian Accounting Standards Board (AcSB) referred the group to agenda paper 1, which provided them with an update of:
 - the International Accounting Standards Board's latest Work Plan; and
 - the International Financial Reporting Standards (IFRS) Foundation activities.
- 1.2 In particular, he commented on the IASB's projected timetable set out in the Appendix to the paper on this topic (the paper included information available as of 24 February 2011). A representative of the IASB commented that an updated schedule would be published within the next few days.

Financial Instruments

- 1.3 NSS members discussed the following documents issued by the IASB and the Financial Accounting Standards Board (FASB):
 - The IASB and FASB have issued for public comment a supplementary document on impairment accounting. For the IASB the document ("Financial Instruments: Impairment") is a supplement to the Exposure Draft, "Financial Instruments: Amortised Cost and Impairment".
 - The IASB and the FASB have also published an Exposure Draft on offsetting financial assets and financial liabilities on the statement of financial position.
 - The FASB issued a Discussion Paper: Invitation to Comment—*Selected Issues about Hedge Accounting* to solicit input on the IASB's Exposure Draft, "Hedge Accounting". Responses will be used by the FASB in considering whether to adopt the IASB's hedge accounting proposals.

- 1.4 A Canadian representative said that the AcSB was urging the IASB and FASB to reconcile their differing views. As noted below, other NSS members also called for converged standards on this topic.
- 1.5 An NSS member asked the IASB to reconsider the effective date of 1 January 2013 for IFRS 9 *Financial Instruments*. An IASB representative said that the effective dates for each chapter needed to be reconsidered in the light of recent developments.
- 1.6 An IASB representative cautioned against viewing the financial instruments projects as a case of the FASB versus the IASB. He said that there were three pressures in play (to which different board members apply different weights):
- The original IASB Exposure Draft view of how to recognize bad debts.
 - The contrasting view has surfaced a little too late following the financial crisis. The FASB Exposure Draft provided for the recognition of losses earlier than most wanted.
 - From a practical point of view, in order to try and build a model that can be applied, the IASB has suggested the concept of good and bad books, and has also formed an expert group to advise on its application.
- 1.7 NSS members' comments on the supplementary document on impairment accounting included the following:
- Representatives' views on the expected loss model were mixed.
 - A representative from Japan expressed support for the concept of distinguishing between the "good book" and the "bad book", and a time-proportionate approach. However, he said that there were some concerns about always setting up the floor amount and, therefore, proposed, as an alternative, that the amount of impairment should be determined at the higher of the time-proportional expected credit losses, and the credit losses expected to occur within the near term (one-to-three years).
 - The meanings of "foreseeable future" and "expected loss" are unclear. If these terms are not properly defined, their meanings will be set by regulators, which would be an undesirable turn of events.
 - A representative from Australia said there had been little sympathy for the expected loss model in the Asia Oceania region. For banks in Australia, the expected loss model could conceivably result in a release of provisions rather than an increase.
 - A representative from the US said there is a lingering concern that certain issues are not dealt with, such as variable interest rate loans. An Australian representative noted that this is also a major concern for banks in Australia.
 - A representative from Canada preferred the purity of the FASB's impairment model, but said it is preferable to have a converged model. The needs of regulators should be uncoupled from the accounting model.
 - A representative from France agreed that a converged solution is desirable and said that field testing is important to understand the results of applying the chosen model. The solution should be carefully thought out and not hurried. A representative from Hong Kong agreed.

- A representative from the FASB said that forcing the FASB and IASB proposals together would result in a “mish-mash”. It is necessary to clarify whether the focus should be on the balance sheet or the income statement. Lots of judgment is involved. Describing the concepts and the desired outcome is a challenge.
- 1.8 Concerning hedge accounting, the presenter said that, while the provisions of the IASB’s Exposure Draft are intended to simplify current requirements, they might be more practical but do not appear to be much simpler.
- 1.9 Representatives’ comments on the IASB’s Exposure Draft included the following:
- A representative from Canada thanked the IASB for doing outreach on this project. He said that the visit of the IASB’s staff to Canada had helped to explain the Exposure Draft. He also commented that many of the concepts in the Exposure Draft required clarification. Many stakeholders wanted guidance on macro-hedging which is not addressed in the Exposure Draft.
 - A representative from the IASB said that the IASB’s proposals provided for a general model that, once explained, received widespread support. The proposal provides for hedge accounting when it cannot be done under IAS 39. This project will be discussed again at the IASB’s April 2011 meeting.
 - A representative from the FASB said that the FASB is seeking modest simplifications to US GAAP for hedging. The FASB has issued an Invitation to Comment exposing the IASB’s proposals together with a series of questions addressed to FASB stakeholders. The representative said the FASB has serious concerns with just converging a few items of the hedging requirements. The FASB will await the comments from respondents to the IASB’s Exposure Draft and the FASB’s Invitation to Comment before deciding on its course of action. Accordingly, the timetables of the two boards will differ.
 - The representative from Norway said that the IASB’s Exposure Draft is good for the banking industry, and Norway is happy that the hedging requirements of IFRS 9 may be adopted early.
 - An EFRAG representative said that the IASB should not publish the final requirements on hedge accounting before the proposals for macro-hedging have been formulated. Having consultations on the hedge accounting general model in advance of the consultations on macro-hedging was a valuable step that was supported by EFRAG. It is necessary for the FASB and the IASB to agree on a converged timetable.
 - A representative from Japan said that there is a conflict between the rationale for not allowing hedge accounting to be applied to equity investments designated at fair value, for which gains and losses run through OCI, and for not allowing recycling for those investments. He called for recycling from OCI of the gain or loss on those investments to be allowed.
 - An IASB representative said that hedge accounting for equity investments was discussed at a recent IASB meeting; however IASB members have expressed differing rationales.

Strategic investments are generally held for the long term; so why would one hedge them? Some say that to allow for this type of hedging would increase complexity, whereas the objective is to decrease complexity. Some stakeholders want hedge accounting to affect net equity; however hedging is not designed to affect reported equity.

- A representative from Australia said he could not see the problem. If you have categories for OCI and income it's hard to see the complexity. He called for the IASB to scrutinize the OCI issue.
- An IASB representative said that this project is not designed to solve the problem of OCI.
- A representative from the UK said that hedge accounting must reflect risk-management activities, and that preparers and auditors should be the judges as to whether the risk-management procedures were in place. Anti-avoidance measures should not compromise the quality of principle-based standards.
- The representative from Norway said that you cannot base a hedging standard on risk management activities unless you can first define what is not included in risk management.

1.10 Concerning the importance of producing a global converged standard, NSS members commented as follows.

- The FASB Chairman said that the FASB's redeliberations on classification and measurement are well underway, with the basic decisions expected to be completed in June 2011. A final standard is likely to be issued by the end of 2011. She said that speed of completion of MOU projects will not affect the US's decision whether to adopt IFRSs. The FASB is working on the MOU projects to show its commitment to convergence, but the top priority is to produce high-quality standards. While the June 30, 2011 MOU projects completion date is a powerful motivator, the overriding objective is the production of improved standards.
- A representative from France said that the links between the financial instruments project and relevant issues on other topics should be dealt with in a consistent manner, and this might warrant slowing down the project.
- A representative from Australia wanted to hear from the FASB and the IASB about the price of slowing down the project (what would be given up). Asian countries were expending an enormous effort transitioning to IFRSs, so convergence is not necessarily the top priority.
- An IASB representative said that quality would not be sacrificed to achieve project completion by June 2011. The IASB is aware that many countries in Asia are transitioning to IFRSs and that having two transition stages is not desirable. The IASB is aware of the need for realistic standards implementation dates.
- Referring to the G20 December 2011 target date for the IASB and FASB to complete their convergence projects, a representative from the UK said that quality should take precedence over timing. The NSS should support the IASB and FASB in ensuring that

their work not be subject to the imposition of an arbitrary timetable. Representatives should advise their respective governments that both boards are working hard to produce high-quality standards.

- The immediate past Chairman of the NSS said that the existing financial instruments standards were deficient when the financial crisis struck, so, although high-quality standards are required, it is necessary to complete the current financial instruments in a timely manner.
- There was a measure of disagreement as to whether sorting out the issues and undertaking field testing could be completed in six to nine months. Also, some stakeholders would prefer to see the entire package, including macro-hedging proposals, before committing to a final standard. A representative of the IASB said that there would be a high price to pay if classification and measurement were to be reopened. The issue of bifurcation of assets could also be a problem. He said the IASB is monitoring the FASB's activities and if the two boards work together, the project's completion date could extend beyond six months. The seriousness of the G20 request regarding the December 2011 target date was also an important matter.

1.11 The NSS Chairman summed up by stating that views are mixed on several important issues. There is a need for a globally converged, high-quality standard, which should be completed as soon as possible within these two constraints.

Revenue Recognition

1.12 The FASB Chairman stated that the FASB received a record number of response letters to its Exposure Draft on this project and is working through the issues. There is broad support for a global standard, but concerns have been raised about the proposals regarding transfer of control, and the issues regarding the inclusion of credit risk and variable consideration. She said that the FASB is making progress on the essential issues. There is a need to address the issue of which costs are related to recognition. The staff will begin outreach activities for which there is a broad demand.

1.13 A representative from the IASB said that the issue of variable consideration will also occur for leases and other projects, so there is a need to examine cross-cutting issues and to ensure that standards employ a common terminology. He emphasized the precedence of high-quality over deadlines. The staff did very little outreach on IFRIC 15. This needs to be done. The idea of continuous transfer is receiving the most pressure. A representative from Malaysia requested that there should be clarity on the concept of continuous transfer. This is particularly important for certain sectors, such as the real estate industry.

Leases

1.14 A representative from the IASB said that this is a challenging project. It is well accepted that the right of use of a leased asset should be reflected in the lessee's balance sheet. There is a concern whether the definition of a lease contract deals adequately with the need to capture service elements. Users have expressed support for the proposals for accounting by lessees. They are in favour of a straight line charge to the income statement for leases that provide operating flexibility. For other types of leases, users prefer an accretion process. The IASB has received push-

back on the lack of accounting symmetry on lease contracts that provide benefits over a time period. The IASB will begin to address accounting by lessors in April 2011.

1.15 Representatives' comments included the following:

- A representative from the US said that the FASB would accelerate the discussions on issues related to lessor accounting.
- A representative from France called for extensive field testing for the eventual proposals for lessor accounting, rather than mere outreach activities. He said there is a lot of ambiguity regarding lessor accounting.
- An IASB member said that the meaning of expected value needs to be resolved. He said there is a perception by some that lessor accounting is less important than lessee accounting. The IASB has made no decision that this is so.

Insurance

1.16 The FASB Chairman said that joint deliberations with the IASB on this topic are proceeding. However, because the IASB has issued an Exposure Draft and the FASB has issued a Discussion Paper, the boards are on different timetables. The FASB staff has been requested to develop a plan to try and ensure that discussions leading to the issuance of an exposure draft are concluded in June.

1.17 A representative from the IASB said that there were three main issues: the discount rate, risk margin and volatility.

Implementation date and early adoption

1.18 A representative from the IASB said that discussions on the main issues related to the projects for revenue recognition, leases and insurance would be completed around June 2011. Balloting could take one to two months, and another one to two months could elapse before publication. January 1, 2015 is being considered as the implementation date for all three projects, but more research is needed on this issue. He noted that the disclosure requirements for all the standards would be written in a common manner.

1.19 A representative from Australia commented that some are saying that an implementation date of January 1, 2015 could even provide too much lead time from the viewpoint of comparability. However, most countries in the region favoured a 2015 or 2016 implementation date for the major projects.

1.20 A representative from the IASB said that the IASB would consider the matter of early adoption and whether such adoption should be limited to existing preparers, or whether preparers should be able to adopt all or some of the new standards. He commented that, generally, users do not like early adoption as it makes entity comparisons difficult. On the other hand, if a new standard delivers a better answer, why prevent stakeholders from using it?

2. IAS 41 Agriculture

- 2.1 The Technical Director of the Malaysian Accounting Standards Board (MASB) made a presentation calling for limited amendments to IAS 41 regarding certain aspects of accounting for agriculture (see agenda paper 2). She hoped that the MASB's proposals would be included in the IASB's post 2011 agenda.
- 2.2 The MASB is requesting the IASB to reconsider the accounting treatment for bearer biological assets (BBA) by adding a definition of BBA and including BBA within the scope of IAS 16 *Property, Plant and Equipment*. The MASB proposes that no change be made to the accounting treatment for consumable biological assets (CBA), for which the most appropriate measurement basis is fair value as prescribed in IAS 41.
- 2.3 However, there are biological assets with both CBA and BBA attributes (referred to as CBBA) depending on the stage of their life, for example agricultural livestock, such as sheep. The MASB does not recommend any changes to the accounting for CBBA. Similar to CBA, the biological transformation of CBBA directly enhances or diminishes the economic benefits. The useful life of CBBA will likely be much shorter than that of BBA and unlike BBA, the residual value of CBBA is likely to be significant.
- 2.4 Therefore, in most cases, even if the CBBA are used to produce agricultural produce to be harvested for sale in a given period, in view of their significant residual value, the MASB takes the view that the CBBA will ultimately be realised through sale or harvested at an appropriate stage when the residual value is at their prime.
- 2.5 In this regard, the biological transformation is an important element in the CBBA and therefore, the MASB takes the view that the most appropriate measurement basis would be fair value as prescribed in IAS 41.
- 2.6 NSS members' comments on the MASB's Issues Paper on IAS 41 *Agriculture* included the following:
 - The NSS Chairman commented that many jurisdictions have the same concerns as those held by Malaysia. She said that Canada is of the view that a post-implementation review of IAS 41 would be timely.
 - In response to a question from the presenter, a representative from the IASB said that the issue will definitely be considered as part of the IASB's post-2011 agenda review. The IASB understands the issues, which have been very well developed by the MASB. In commenting on the post-2011 agenda review, the representative stated that topics that affect a narrow constituency, such as specific industry issues, are unlikely to be placed on the IASB's post-2011 agenda. Nevertheless, the agenda needs to accommodate topics of different sizes and scope.
 - A representative from the United Kingdom complimented the MASB on its work and said that the issue did not affect only developing countries.
 - A representative from Australia said that IAS 41 was one of the first fair value measurement standards. The standard is deficient in relation to modern thinking on fair value. The MASB

- has surfaced the key issues and Australia fully supports action by the IASB. Those with bearer assets in Australia would agree with the MASB's concerns.
- The representative from Germany commented that the proposal to apply IAS 16 to BBA, which is a cost and cost allocation standard, is not obvious, and therefore also requires attention. Another representative agreed with this suggestion, and said there were other important issues to be considered, such as the question of impairment. The representative called for a paragraph to be inserted in IAS 41 to deal with the alternative views presented in the MASB's paper.
 - Representatives from New Zealand, India and other Asian countries fully supported the MASB's position that the IASB should review aspects of IAS 41. Representatives from Brazil and Mexico said this topic was very important for Latin America and fully supported Malaysia. The representative from Norway said that IAS 41 is important to the fishing industry, and that the issue of presentation is of special importance. A representative from France said the stakes are high and the topic should be on the IASB's agenda. He and other representatives called for the development of criteria to support the inclusion of topics on the IASB's post-2011 agenda. A representative from the IASB said that criteria are, in fact, included in the appendix to the post-2011 agenda consultation paper. In response to a comment that the consultation paper should be released early with a longer consultation period, an IASB representative said that the paper is not yet ready for release. The NSS Chairman suggested that representatives could begin to consider the issues pending the release of the consultation paper. The immediate past NSS Chairman reminded representatives that stakeholders had asked for a period of calm.
 - A representative from France suggested that many are looking at the alternative views posed in the MASB's paper; that is, that CBBA be provided with an option to use either IAS 16 or IAS 41, depending on "predominant use" or the "business model" test.
 - A representative from the IASB said that the fair value measurement standard will supersede and correct the fair value guidance currently in IAS 41. The MASB's proposals are clearly drafted to minimize problems and could be completed within a reasonable time frame.
- 2.7 The NSS Chairman stated that the issues relating to IAS 41, which are clearly identified, pose a persuasive case for the IASB's attention. Individual countries should respond to the IASB's post-2011 agenda consultation paper as they see fit.

3. The Business Model in Financial Reporting

- 3.1 The Research Director of the European Financial Reporting Advisory Group (EFRAG) presented a paper on this topic, the scope of which is very broad (see agenda paper 3). He said that:
- there are increasing calls for the accounting model to reflect the "business model";
 - it is not clear what is meant by the term "business model";
 - there seems to be an important issue to address, if the usefulness of financial reporting is to be improved; and

- two recent academic studies have been published, but not much academic thought has been given to the matter.

3.2 The presenter detailed some of the issues in the EFRAG project, which are to:

- develop a definition;
- identify a taxonomy of business models; and
- assess the implications on financial reporting: recognition, measurement, presentation and disclosure. This point is the critical issue.

3.3 EFRAG is preparing an issues paper in conjunction with the French and UK standard setters. In addition, an Expert Advisory Panel has been established.

NSS members' comments included the following:

- A representative from the UK said that the case is well-made, although some say the business model is not useful in determining financial reporting issues. If the business model is found to be relevant, its use could be implemented by providing an injunction to preparers, or it could be written into the Framework. An alternative way to assess the business model is to enquire whether it permits users to look at the financial statements and discern the type of business being undertaken and how it's progressing.
- The representative from Norway said this is a worthwhile exercise and that it might have implications for disclosure. He also commented that very few entities have a single pure business model. Most have several models.
- A representative from Singapore stated that this is a timely and relevant topic. He suggested also examining the topic from the perspectives of what does not constitute a business model and what constitutes a change in the business model.
- An IPSASB representative said that IPSASB does not use the term, "business model". This term is too broad and diverse. Many governments have very different models. He favoured a focus on "transactions". A representative from EFRAG said the issues paper needs to draw out the different understandings of a business model. This is not just an IFRS 9 issue; it's much more.
- A representative from the IASB favoured pursuing the concept. He said that some say that accounting should be able to help identify when the business model is a stupid idea. This needs to be understood, so a definition is required.
- A representative said that financial reporting does not describe the business model; however, he did not consider this to be a big problem.

3.4 The presenter said that the comments on the IASB's Discussion Paper on Performance Reporting appeared to indicate that the business model concept is at the heart of financial reporting. The term should be removed from the lexicon if the study finds the concept not to be useful.

- 3.5 The NSS Chairman summed up the discussion by stating that there is a clear indication that the study should be pursued. She asked those who wished to be involved in the study to contact Mario Abela (EFRAG) or Andrew Lennard (UK Accounting Standards Board).

4. Post-Implementation Reviews

- 4.1 The IASB's Director of Implementation Activities presented a draft general work plan for post-implementation reviews, as set out in agenda paper 4A, and asked representatives for their views on the plan. He detailed the requirements for post-implementation reviews (PIRs), which are set out in the IASB Due Process Handbook. In summary, a post-implementation review, as currently described:

- focuses on:
 - (i) a review of the important issues that had been identified as contentious at the time of developing the pronouncement; and
 - (ii) consideration of any unexpected costs or implementation problems that have been encountered;
- is performed for new IFRSs and major amendments;
- is normally performed after two years of implementation unless circumstances arise that indicate that an earlier review should be conducted; and
- is conducted by the IASB.

- 4.2 The presenter said that the draft general work plan provided suggestions for information gathering and outreach, such as:

- primary information sources;
- interaction with local organisations; and
- analysis of information.

- 4.3 The reviews for IFRS 8 and Business Combinations: Phase II will commence in 2011 and 2012, respectively.

- 4.4 NSS members' comments on the expected outcome from post-implementation reviews included the following:

- A representative from the UK said that the objectives of the plan are too narrow. A wider view is necessary. Matters to be considered should include issues such as application practices, costs, benefits, and whether the standard is useful to users.
- The representative from Germany said that the outcome could be that all is in order, or that interpretations or revisions are required. However, practice could turn out to be different from what was originally intended.
- The NSS Chairman said that the standard setter should ask whether the standard achieved an improvement in financial reporting. If the intention was to give timely and better information, did the standard achieve that?
- The presenter said that the IASB had heard that it takes time for users to get familiar with a particular standard and then build it into their analyses. He asked whether a post-implementation review within two years was too soon, or whether four to five years is

- required. A representative from Japan suggested that a pilot review be carried out after, say, one year.
- A representative from Japan noted that the IASB's new liaison office, to be opened in Tokyo in 2012, would be helpful in conducting post-implementation reviews in that region.
 - A representative from the UK said that if users are not using the information provided by the standard after two years, would they use it at all? Post implementation reviews were an important part of learning from mistakes and therefore needed to be as broad as possible.
 - A representative from the IASB said that the suggested process is one of continual improvement. It is a catalyst for review.
 - The FASB Chairman said that in the US this process had two objectives: to monitor implementation issues (on which there is no expiration date) and to look broadly at the effect of the relevant standard. The latter function will be performed at the Financial Accounting Foundation level.

4.5 NSS members' comments on the involvement of the NSS included the following:

- Representatives from Germany and Hong Kong expressed the view that the NSS should be involved.
- A representative from Hong Kong said that the IASB should be the moving force. He stated that two years was too long to wait for a review. Also, existing standards have many issues that require attention; e.g. IAS 36 *Impairment of Assets*.
- A representative from the IASB said that, because of the global use of IFRSs, individual countries are closer to emerging issues; so the NSS is best placed to advise the IASB of these issues.

4.6 NSS members' comments on the draft general work program included the following:

- The presenter commented that the draft program might be posted on the IASB's website for public comment. He said that this process is one of many channels to discern issues. However, post-implementation reviews are a proactive method of ascertaining issues about a particular standard.
- The NSS Chairman suggested that when stakeholders identify issues they should be asked to specify a level of priority.
- The FASB Chairman stated that IASB agenda presented many challenges. Her concern is that both the FASB and IASB have limited time and resources, and too many resources might be devoted to post-implementation reviews.
- A representative from France said that it is important to see if unintended consequences have surfaced following the implementation of a standard. Criteria are required to ensure that intended products are properly delivered.

- In response to a question from a representative from South Africa, the presenter said that a review of annual reports will form a part of the post-implementation review process, although this will have a secondary role. The NSS Chairman said that IOSCO might be a good source to assist with providing information on the results of reviews of annual reports.
- A representative from EFRAG said that it might be possible to get the academic community involved in Europe.
- The presenter commented that the major accounting firms have good resources. He asked whether protocols could be developed to access their results on the effects of implementing standards.
- A representative from India said that the NSS is a good listening post for that country. He expressed a concern about reviewing annual reports, which seem to impinge on the role of securities regulators.

5. Developing a Disclosure Framework for the Notes to the Financial Statements

5.1 The Research Director of the European Financial Reporting Advisory Group (EFRAG) said that the objective of his presentation was to present the purpose and the current status of EFRAG's Pro-active project on the Disclosure Framework. The project is a partnership between EFRAG and the French and UK standard setters and is supported by an Expert Panel. The project also takes into account earlier projects carried out by various organisations. The purpose of the project, which is more fully described in agenda paper 5, is to:

- stimulate debate about how to improve the quality of disclosures in the notes to the financial statements;
- influence the IASB's development of the conceptual framework; and
- affect practice: preparers, auditors and regulators.

5.2 NSS members' comments included the following:

- A representative from the UK said that the UK's Financial Reporting Council examined boiler plate reporting (to which little thought is generally given). He suggested including a new section at the back of annual reports that would contain standing data. The EFRAG representative said this is being considered.
- A representative from the IASB said that some countries' securities regulators require certain disclosures and others rely on their standard setters to specify disclosures. Some standard setters have issued requirements specifying the split between presentation and note disclosure. The representative suggested that all disclosures should be gathered in a single area, but this has many implications. A representative from the UK responded that presentation is not part of this project. It is necessary to clarify what should be included in the notes. The idea is to avoid duplication of disclosed items.
- A representative from South Africa said that all items of disclosure are important to various stakeholders. She said that South Africa has issued a Discussion Paper, "Framework for Integrated Reporting and the Integrated Report" to enable stakeholders to assess the ability of an organisation to create and sustain value over the short-, medium- and long-term. For

- listed companies the integrated report may, depending on the volume of material information and the complexity of the organisation, be separate from the more detailed annual financial statements. The integrated report will probably not include all of the detailed disclosures required by IFRS. The disclosures are driven by the qualitative characteristics of the Conceptual Framework. The idea is to advise users of the factors driving profits.
- The FASB Chairman stated that this is an important project and that the FASB is working on similar issues. The FASB is meeting with stakeholders to discern what is useful and what is missing from existing disclosure requirements. The purpose is to develop a framework for disclosures. The FASB would like to work with EFRAG on this project.
 - A representative said that, generally, the quality of the disclosed information in annual reports is inadequate. Disincentives are required for inadequate disclosure.
 - Referring to paragraph 28 in agenda paper 5, a representative from Japan did not agree with the proposal to change the characteristic of “understandability” from an enhancing characteristic to a fundamental characteristic because this would be inconsistent with the Conceptual Framework.
 - Referring to the same paragraph, a representative from the UK said that principles of disclosure should be developed to fill out the Conceptual Framework. The meaning of “understandability” should also be developed.
 - A representative from Korea said that Korea is considering a reduction in required disclosures. This project should be part of the post-implementation review process.
 - The presenter commented that the Scottish and New Zealand institutes are examining disclosures in existing standards on behalf of the IASB. A representative from New Zealand said that existing standards are being examined on the basis that, if the standard was new, what disclosures would be required today. They are trying to come up with objectives to reduce disclosures and are examining the presentation to form an overall view if any big gaps exist. This is a research project of the professional bodies and not a standard-setting project.

6. Rethinking Disclosure and Presentation

6.1 The Chairman of the Australian Accounting Standards Board said that his paper is currently only of workshop quality, and incorporates his own thoughts only (see agenda paper 6). The purpose is to rethink the concepts of disclosure and presentation, for which the conceptual framework is underdeveloped. He said that current accounting devices can service information needs if those needs can be discerned. The paper is attempting to find the principles that govern the way information is presented. The challenge is to decrease the volume and complexity of disclosures, while increasing its relevance to all categories of users. He stated that:

- the quantity and complexity of disclosures are growing problems;

- the “amount, timing and uncertainty of cash flows” are not sufficiently precise to drive decisions in standard setting;
- principles, possibly supported by “application principles”, are needed; and
- disclosure and presentation should be “objectives driven”, answering the question, “what are we really trying to tell users?”.

6.2 He said that his paper borrowed the term “stocks and flows” used by economists. Stocks can be described as the accumulated positions, attributes or standings of a reporting entity at any one time, while flows are the changes in stocks. He stated that, at a high level of elevation, information about stocks and flows can be said to relate to the following five business issues:

- Solvency (i)
- Financial flexibility (ii)
- Operational adaptability (iii)
- Sustainability of business (iv)
- Operational capability (v)

6.3 NSS members’ comments included the following:

- A representative from the FASB said that the five issues were not independent of each other. He would group the principles into two categories, as follows: items (i), (iv) and (v) into the first category, and items (ii) and (iii) into the second. The first category helps in understanding current activities, and the second whether the business’ capability can be sustained. The presenter commented that the first four items are constraints on where the business is at present, while the fifth is a critical issue that indicates where the business is now and where it is going.
- A representative from IPSASB said that items (i) and (iv) have a significant effect on the boundaries of financial reporting – in relation to, for example, fiscal sustainability.
- A representative from Singapore said there is very little in the paper about risk. The presenter said that risk is covered in the information on sustainability and is implicit in the changes.
- A representative from Hong Kong said that during the recent financial crisis, much off-balance sheet financing, hedging and foreign exchange risk was not disclosed. The presenter said these were aspects of each of the five items.

6.4 The Chairman closed this session by asking representatives to advise the presenter of any further principles at the same level in addition to those that he had described, or other comments.

7. Topical Issues

Agenda Paper 7 incorporated discussions pertaining to the following issues:

Issue 1 — Proposed amendments to IAS 12 Income Taxes (New Zealand)

- 7.1 A representative from the UK said that the UK had similar issues, but they were not as grave. A representative from Australia suggested that the New Zealand representative talk to her peers in Australia who look at the treatment differently.

Issue 2 — Preparation of separate financial statements for business combination of entities under common control (Korea)

- 7.2 The NSS Chairman said that business combinations without a change in control are a worldwide problem. When does one change the basis of measurement – only when a change of control occurs or in other circumstances as well? There is no clear-cut answer in IFRS. This should be examined when the post-2011 agenda is considered (as a revision to IFRS 3).
- 7.3 NSS members' comments included the following:
- The representative from Brazil said this problem is prevalent in Brazil, and entities use the equity method in current practice.
 - A representative from EFRAG said this is a big issue in Europe, particularly in Italy. IFRSs generally do not address the reporting entity's separate financial statements. They only look at consolidated financial statements. It does not follow that the requirements for separate financial statements are the same as those for consolidated financial statements. This is not a straight-forward issue.
 - A representative from the IASB said that the use of the equity method in the separate company financial statements is a pervasive issue. Attribution, as applied in Brazil and Italy, is a common view. He said that there should be consistent accounting at both financial statement levels. The IASB ought to deal with this situation under the "common control" concept.
 - A representative from Australia said that in Australia, up to the advent of IFRS 3, business combination accounting was required whenever one entity acquired another one (related or otherwise).

- 7.4 The Chairman said this is a big problem that needs to be monitored in the post-2011 agenda consultation program.

Issues 3 and 4 — A principles-based approach to the separation of embedded derivatives, and IFRS 9 criteria for classification of financial assets at amortised cost (EFRAG)

- 7.5 The Chairman commented that countries that have adopted IFRS 9 might have an answer to this problem.
- 7.6 NSS members' comments included the following:

- A representative from Hong Kong said that the large banks have not yet made the decision to adopt IFRS 9 early, as they would like to see the completion of all the phases of IFRS 9 before making that decision.

- Representatives from Australia and South Africa said that the large banks in their countries are also not adopting IFRS 9 early (South Africa issued IFRS 9 with a “health warning”).
- The Chairman said that Canadian banks will be adopting IFRS 9 in due course, but are currently in transition to IFRSs.
- In response to a request from Germany to consider placing the issue on the NSS September 2011 agenda, the Chairman proposed that representatives should send relevant information to the Hong Kong standard setter for distribution to the NSS. The Hong Kong representative could then report back to the NSS at its September meeting.

Issue 5 — NSS Contribution to the IASB/FASB Conceptual Framework: The Unit of Account (Canada)

- 7.7 A representative from Canada said that Canada had not yet done much work on this issue, but hoped to report progress at the next NSS meeting in September. He called for volunteers to participate in this project (Hong Kong volunteered to participate).
- 7.8 The group also discussed the following issues.

Issue 6 — Intangible Assets (no meeting paper)

- 7.9 A representative from Australia provided an update on the progress Australia is making on its research into the initial accounting for intangible assets acquired in a business combination. The NSS noted that a survey instrument (seeking input from preparers, auditors and regulators with experience with relevant aspects of the principles in IFRS 3 or similar GAAP) has been issued, and sent to all NSSs, with a request that they include a link to the survey on their websites. It was noted that some NSSs have already posted a link and promoted the survey to their constituents. NSSs that had not received the survey were asked to email rkeys@iasb.org for a copy of a link to the survey. Responses to the survey are being sought by 17 June 2011. NSSs were encouraged to remind their constituents of the survey closer to the closing date, to help ensure that the survey is not overlooked owing to some constituents currently being in the midst of a busy period.
- 7.10 The NSS noted Australia is also developing a user version of the survey, and is aiming for it to be available for distribution to NSSs to include a link on their websites in April 2011.
- 7.11 NSS members’ comments included the following:
- The representative from Syria said there is a need to reach a solution on various aspects of intangible assets related to the need for transparent disclosure, the problem of obtaining reliable data, the role of the auditor in the revaluation process, and whether revaluations might be subject to income taxes in some jurisdictions.
 - A representative from India advised that India would be preparing a paper on accounting for rate-regulated activities for presentation to the NSS in September. The Chairman suggested that the representative talk to the IASB’s Michael Stewart.
 - A representative from the IASB said that the IASB is forming an emerging economies working group. The sole topic for the first meeting (in a few months) will be fair value, and

insights thereon, in emerging economies. Representatives were asked to send potential future topics to the IASB's Wayne Upton. A report-back on the initial meeting will be presented to the NSS at its September 2011 meeting.

Issue 7 — IFRS Interpretations Committee Work in Progress (see IFRS Interpretations Committee agenda paper 11)

- 7.12 Referring to the issue related to IFRIC 6-1 in agenda paper 11, a representative from Japan pointed out that this topic might be a cross-cutting issue covering revenue recognition, lease income in lease accounting and IAS 37.
- 7.13 A representative from the IASB (Michael Stewart) asked representatives to advise him if issues similar to those in agenda paper 11 (including potential solutions) had occurred in their home countries. The Chairman commented that it would be helpful to the IFRS Interpretations Committee if representatives would examine the list of the Committee's outstanding issues presented at each meeting and advise Mr. Stewart if they had similar issues and solutions.

8. Reports from Regional Groups

Update on the Asian-Oceanian Standard Setters Group (AOSSG)

- 8.1 The AOSSG Chairman and Vice-Chairman provided an update on the group's history, membership, organization, current and potential future activities and major outcomes (see slide presentation in the meeting papers). They noted in particular that the AOSSG was the principal vehicle for discussing issues related to Islamic finance arrangements.
- 8.2 At the request by the AOSSG Chairman, a representative from Singapore commented on the survey on the business practice of off-plan sales of uncompleted multi-unit and multi-level private residential properties.
- 8.3 In response to questions, the AOSSG Vice-chairman commented on the contents of comment letters sent to the IASB on matters such as hedge accounting and impairment of financial assets.
- 8.4 The AOSSG Vice-chairman said that the third annual meeting of the AOSSG would be held in November 2011 in Melbourne, Australia.

The Contribution of EFRAG to the IASB Consultation Process

- 8.5 The Chairman of EFRAG provided an overview of EFRAG's agenda, strategy and governance as set out in her slide presentation in the meeting papers.
- 8.6 In response to a question, she said that EFRAG issues direct comment letters to the IASB in addition to the response letters of individual countries in Europe. Over the last six months there has been much commonality in issues, but some diversity in suggested solutions.
- 8.7 She indicated that as soon as an IFRS is adopted, EFRAG attempts to ensure that the final standard is as close as possible to the preferred route. EFRAG attempts to ensure that no significant concerns remain unaddressed from all the comment letters sent to the IASB.

- 8.8 The EFRAG Chairman commented briefly on her organization's funding. EFRAG has a three-tier structure. EFRAG is funded by the member body organizations, which pay subscriptions on a half-yearly basis and by voluntary contributions. Funding is also received from the European Commission, which matches private sector funding on a Euro-by-Euro basis.
- 8.9 The Chairman asked all NSS countries to respond to the IFRS Foundation Monitoring Board Consultative Report on the Review of the IFRS Foundation's Governance, and the EFRAG Discussion Paper, "Considering the Effects of Accounting Standards". She commented that some are of the view that the "Effects" paper states that standard setters must identify and respond to all possible macro-economic effects. This was not the intention when the paper was discussed at previous NSS meetings and NSSs should so indicate in their responses; and also state that the document should be written clearly.

9. Business Combinations under Common Control

- 9.1 The Research Director of the European Financial Reporting Advisory Group (EFRAG) said that this is a joint project with the Italian standard setter and that the French standard setter is also involved. The objective of this project is to consider how business combinations under common control should be accounted for under IFRSs (see agenda paper 9); the problem being that there is no clear view as to how such business combinations should be accounted for under IFRSs. The project is looking at users' needs (even though they do not appear to be very concerned about the problem) as well as the accounting hierarchy. The presenter said this is not an interpretation issue, the solution requires an amendment to IFRS 3 or a new standard. He stated that there are three prevalent views:
- View One: The transaction is always a business combination under IFRS 3.
 - View Two: The transaction is never a business combination under IFRS 3.
 - View Three: An analysis of the substance of the business combination under common control is required to reach a conclusion.
- 9.2 NSS members' comments included the following:
- A representative from India said he supported view three.
 - A representative from Canada said that country looks to view three because of its domestic pre-IFRS standard on measuring related party transactions.
 - Referring to view two, the NSS Chairman said it is necessary to specify whose carry-over basis is being carried over.
- 9.3 The presenter said that further discussions would be held in April at a meeting of EFRAG's Technical Experts Group. A discussion paper is being drafted and is expected to be issued later this year.

10. Latin American Group Activities (unplanned agenda item)

- 10.1 The representative from Brazil advised the meeting that a group of Latin American countries met in Brazil in February. The group meets again next week to finalize arrangements for liaising with the IASB. He also said that December 2010 is the first IFRS year-end for companies in Brazil. He

said that listed companies in Brazil are obliged to publish their financial statements and extensive ancillary information in newspapers, and that he had copies of newspapers that included such reports, should representatives be interested in viewing them.

10.2 The Chairman said that an update on the Latin American Group's activities should be a standing item for future NSS meetings.

11. A Framework for National Standard-Setters

11.1 The Technical Director of the Australian Accounting Standards Board (AASB) gave a presentation on suggestions for the broad content of a common Framework for NSSs. The paper that formed the basis of the presentation was developed from earlier work done by Australia for the April 2010 NSS meeting on possible qualitative characteristics to which NSS could aspire (see agenda paper 10).

11.2 After acknowledging that one model might not suit all NSSs, given their different mandates and levels of resources, the presentation put forward the following six possible, not necessarily mutually exclusive, features (or sections) of a Framework for discussion:

- area of interest/objective
- subject entities
- qualitative characteristics
- disclosure and accountabilities
- due process
- relationship with other regulators.

11.3 NSS members agreed that the ideas in the paper are worth developing further.

11.4 NSS members' suggestions for improving the paper included the following:

- As currently drafted, the paper focuses on practical issues. It could also acknowledge underlying conceptual matters and articulate a vision of a NSS that is expressed in a more positive manner. For example, the public interest might be a better fundamental driver for a Framework than independence.
- The paper could take into account the work done by the International Federation of Accountants in its Exposure Draft (issued November 2010 for comment by 25 March 2011) *A Public Interest Framework for the Accountancy Profession*.
- The paper could acknowledge the link between public interest and the quality of financial reporting, which protects the interests of investors through transparency. High-quality standards reduce the information risk premium otherwise charged to companies that provide less reliable information to investors. This could help avoid the seemingly never-ending debate on what the public interest is. However, it was noted that a shift in emphasis to high-quality standards might merely shift the debate to what high-quality standards are.
- The paper could explicitly acknowledge the relationship between independence and accountability; and the role an impeccable due process plays in enabling a NSS to "earn" the right to independence so that accountability does not become a mechanism of control by a NSS's oversight body.

- The paper could be written with a view to it being provided to parties with a NSS oversight function, as a basis for any decisions such parties might make on reforming a NSS.
- The paper could include more acknowledgement of the possible risks faced by NSSs from government policy (such as a policy which promotes both economic growth through deregulation and constraint by increasing regulation on a sector, such as banks, following a credit squeeze).
- The paper could more explicitly acknowledge that NSSs are a broad group at different stages of development (and adoption of IFRSs). Accordingly, it could be written to acknowledge that the Framework might be achieved over time, and therefore describe what might be desirable minimal features of a NSS and also describe later stages as aspirational developments; and
- The paper could address the trade-off between costs and benefits more fully, and attempt to describe a process of cost/benefit analysis that would be acceptable to constituents of NSSs. The relationship of this issue to EFRAG's paper on effects of standards should also be acknowledged.

11.5 Other comments included the following:

- The consensus view was that it would be premature to decide whether the Framework that might be developed should be published.
- Canada, France and the UK agreed to assist Australia in developing the paper further, ready for discussion at a future NSS meeting. Other NSSs who wished to participate were asked to contact the presenter.
- In due course, consideration should be given to the interrelationship between any Framework that might be developed and the IASB's Statement of Best Practice: *Working Relationships between the IASB and other Accounting Standard-Setters*.

11.6 The Chairman asked that this topic be placed on the agenda for the next NSS meeting.

12. Operational matters for the Group

12.1 The group decided that the next NSS meeting would be held on 12-13 September 2011 in either Zurich or Vienna.

12.2 The balance of this agenda item was held *in camera*. A separate report on these proceedings is provided.

Appendix A

NSS MEETING – 24-25 MARCH 2011 NEW YORK – LIST OF PARTICIPANTS

Surname	First name	Organization
Keys	Robert	Australia
Stevenson	Kevin	Australia
Prachner	Gerhard	Austria
Podevijn	Sadi	Belgium
Gelbcke	Ernesto Rubens	Brazil
Martin	Peter	Canada
Fowler	Gord	Canada
Abela	Mario	EFRAG
Flores	Francoise	EFRAG
Cosper	Sue	FASB
Linsmeier	Tom	FASB
Seidman	Leslie	FASB
Gil	Gérard	France
Grauer-Gaynor	Isabelle	France
Haas	Jérôme	France
Knorr	Liesel	Germany
Chan	Clement	Hong Kong
Ong	Steve	Hong Kong
Gomez	Amaro	IASB
Stewart	Michael	IASB
Texeira	Alan	IASB
Upton	Wayne	IASB
Zhang	Wei-Guo	IASB
Kalavacherla	Prabhakar (“PK”)	IASB
Chander	Avinash	India
Fadnis	Manoj	India
Fox	Stephenie	IPSASB
Bergmann	Andreas	IPSASB
Stanford	John	IPSASB
Fabi	Tommaso	Italy
Giussani	Alberto	Italy
Kato	Atsu	Japan
Yoshioka	Toru	Japan
Hong	Hee Jin	Korea
Han	Won-Hee	Korea
Lim	Suk-Sig	Korea
Yoon	Soon-Suk	Korea
Kim	Chan-Hong	Korea
Tan	Bee Leng	Malaysia
Yeo	How	Malaysia

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Perez-Cervantes	Felipe	Mexico
De Munnik	Hans	Netherlands
Hodgkins	Denise	New Zealand
McBride	Patricia	New Zealand
Thrane-Nielsen	Didrik	Norway
Klompas	Harry	NSS
Mackintosh	Ian	NSS
O'Malley	Tricia	NSS Chair
Tabbara	Oussama Ali	Saudi Arabia
Goh	Suat Cheng	Singapore
Lee	Andrew	Singapore
Soh	Siew Luie	Singapore
Ludolph	Sue	South Africa
Watson	Alex	South Africa
Martínez-Pina	Ana	Spain
Leu	Philipp	Switzerland
Al-Ashhab	Mouazza	Syria
Chang	Conrad	Taiwan
Tsui	Margaret	Taiwan
Lennard	Andrew	UK
Loweth	David	UK
Marshall	Roger	UK