

## **REPORT OF THE MEETING OF NATIONAL STANDARD-SETTERS (NSS) 8-9 APRIL 2009**

The NSS group met in Johannesburg on 8-9 April 2009 and considered the agenda items set out below.

### **Background**

The NSS is a grouping of national accounting standard-setters from around the world, plus other organisations that have a close involvement in financial reporting issues. The group is chaired currently by Ian Mackintosh, Chairman of the UK Accounting Standards Board (ASB).

The meeting was attended by representatives of standard setters from Australia, Canada, France, Germany, Hong Kong, India, Italy, Japan, Malaysia, New Zealand, Republic of Korea, South Africa, Sweden, 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. There were also 16 registered observers from the Eastern, Central and Southern African Federation of Accountants (ECSAFA) and 43 registered observers from South African organisations.

### **1 Conceptual Framework**

1.1 Staff from the Canadian Accounting Standards Board (AcSB) reported on the activities undertaken since the NSS meeting in September 2008 on the active phases of the joint IASB-US Financial Accounting Standards Board (FASB) Conceptual Framework project.

1.2 NSS members noted and discussed:

- The IASB and FASB's plan to finalise Phase A (objectives and qualitative characteristics) and issue a final chapter in Q3 2009. The group noted the confirmation by the IASB that it would finalise the revised framework chapter by chapter, although a number expressed that their preference would still be for the framework to be finalised as a whole;
- The implications for financial reporting of the reports and recommendations that were being issued by bodies such as the G20 and the Financial Stability Forum (FSF). It was suggested that, in finalising Phase A, the IASB might discuss the view emerging from the G20 and others that the objectives should include taking account of financial system stability, but without necessarily changing the objectives as stated in the Framework;
- The fact that there had been little progress on Phase B (elements) in recent months, but the importance of the link to the liabilities/equity project was stressed. There was some discussion of the proposed revised definition of an asset;
- Phase C (measurement) was becoming more active and would probably not end up proposing only one measurement attribute. The two Boards (IASB and FASB) were examining the factors that might be considered in selecting from among alternative measurement bases;

- Phase D (reporting entity) was moving towards the Exposure Draft (ED) stage, but the staff had been instructed to consider at the same time the implications of the comments in response to ED 10 'Consolidated Financial Statements', although the intention was to keep the Phase D ED at a high level. It was noted that many jurisdictions had legal requirements for the preparation of parent-only financial statements and a plea was made for the IASB to avoid stating that these were not general purpose financial statements;
- The other phases were essentially inactive. The two Boards had confirmed that they would not consider the implications for Public Benefit Entities (PBEs) until Phase G. The Chair of the New Zealand Financial Reporting Standards Board (NZ-FRSB) reported that a small group of NSS members (referred to as the NSS-4, comprising the standard-setters of Australia, Canada, New Zealand and the UK, plus IPSASB) had been monitoring the implications for PBEs of the IASB Conceptual Framework and had agreed at a meeting on 7 April to continue that monitoring work.

## **2. Global Financial Crisis: Accounting Developments and Implications**

2.1 Representatives of the UK ASB updated NSS members on developments related to the global financial crisis and their implications for financial reporting. The latest most significant developments included:

- The G20 leaders' communiqué issued after their economic summit held in London on 2 April and its call on the accounting standard setters to work urgently with supervisors and regulators to improve standards on valuation and provisioning and achieve a single set of high-quality global accounting standards;
- The G20 leaders' accompanying 'Declaration on Strengthening the Financial System', which included a section on accounting standards and in particular a call on the accounting standard setters to take action to reduce the complexity of accounting for financial instruments;
- The report of the G20 Working Group 1 on 'Enhancing Sound Regulation and strengthening transparency', which contained recommendations for changes to accounting standards;
- The report of the G20 Working Group 2 on 'Reinforcing International Cooperation and Promoting Integrity in Financial Markets' (which contained recommendations on the governance of the IASB);
- The announcement by the Financial Stability Forum (FSF) on its recommendations and principles to strengthen financial systems and accompanying report on 'Addressing procyclicality in the financial system'.

2.2 The UK ASB also noted that a major theme in recent months had been the argument that accounting standards and prudential regulatory requirements were procyclical and had helped to exacerbate the credit crisis. This argument was accompanied by calls to mitigate this effect, which would require banks to build up additional capital buffers in 'good' times, which could be released during downturns in the economy. NSS members considered two of the options that might achieve this:

- the adoption of so-called 'dynamic provisioning' (a loan-loss methodology that attempted to anticipate the economic cycle and provide for losses in accordance with it); or
- requiring an additional non-distributable capital reserve (often referred to as an Economic Cycle Reserve, ECR).

2.3 In discussion:

- There was general agreement that there was a need to differentiate between accounting standards and prudential regulation and to acknowledge their different objectives. The IASB reported that it and FASB were already discussing such issues with the Basel Committee of Banking Supervisors;
- A majority of NSS members did not support dynamic provisioning, in particular if the provisions went through the income statement;
- There was some support for an ECR, but an acknowledgement that this proposal would need further research and field-testing;
- NSS members agreed that there was a need to look at the current incurred loss models for provisioning under IFRS and US GAAP and to investigate why losses appeared to be provided for earlier under the latter framework. It was noted that the IASB and FASB were already looking at loan loss provisioning.

2.4 The latest activities on financial crisis issues by the IASB and FASB were also noted. There was a discussion on the publication by FASB on 18 March of two proposed Staff Positions (FSPs): one proposing additional guidance on determining whether a market for a financial asset was not active and a transaction was not distressed for fair value measurements; and the second proposing amendments to the impairment approach for financial assets in the form of debt securities. The proposals had been issued with a 15-day comment period and final versions were approved by the FASB the day after the comment period closed (the final versions were published on 9 April).

2.5 Discussion focussed on whether IASB should do the same as FASB. Members noted the reference in the IASC Foundation Trustees' press release of 2 April to the IASB's desire to prioritise the comprehensive project to replace IAS 39. In summary:

- There was strong support from the NSS representatives present for the IASB's desired approach as referred to in the 2 April press release;
- A number of NSS members stressed the downsides of adopting piecemeal changes in a very short timescale;
- The importance was stressed of the IASB following an appropriate due process, although it was acknowledged that there might be occasions when the due process period had to be shortened (which reaffirmed the view expressed in the communiqué issued by NSS members in November 2008);
- NSS members were conscious of the challenges facing the IASB in developing a replacement for IAS 39 during the course of 2009. It was suggested that NSS could become actively involved in this project and this suggestion was received enthusiastically by those present.

### **3 IASB Work Plan and (International Accounting Standards Committee (IASC) Foundation Constitution Review**

3.1 NSS members noted the latest version of the IASB's published work plan and noted that it both (a) contained a large number of projects (38, taking each Phase of the Conceptual Framework project as a separate item), and (b) an ambitious timetable.

3.2 The UK ASB presented the results of a survey it had conducted prior to the meeting seeking the views of NSS members on how they would rank the projects listed in the IASB work plan in order of priority. The main results demonstrated:

- A high level of support among NSS for the Conceptual Framework project; and
- Some consistency of views for the top 5 projects (fair value measurement guidance; consolidation; derecognition; revenue recognition; and replacing the existing standards on financial instruments).

3.3 During the session on the IASB's work plan:

- The IASB Chairman confirmed that the priority projects were those in the Memorandum of Understanding (MoU) with FASB for 2011 completion. The challenge of achieving this was noted, with some calling for a breathing space in the pace of change;
- A fair level of support was noted for the forthcoming International Financial Reporting Standard (IFRS) on Non-Publicly Accountable Entities (NPAEs). In a discussion on the proposed name, the most votes from NSS members were given to revert the title to the IFRS for Small and Medium-sized Entities (SMEs), which would be put back to the IASB.

3.4 The representatives of the Canadian AcSB presented the results of its survey of the group before the meeting on aspects of the IASC Foundation Trustees' review of the Constitution. The results revealed:

- A unanimous view from respondents that improvements to the IASB's agenda-setting process were necessary;
- A majority of respondents agreeing that the Constitution should make a reference to the objective of principles-based accounting. But there was also general agreement that the Constitution was not the place to describe what that meant;
- A majority of respondents also favoured a fast-track procedure for accelerating due process, but that this should only occur in rare circumstances and should always include some external consultation with NSS and other constituents in advance. There was also some concern expressed about enshrining this in the Constitution. NSS members considered ways in which they might help the IASB (following up the earlier discussion in the session on the global financial crisis).

### **4 Aspects of Accounting Relating to Real Estate**

4.1 The South African Accounting Practices Committee (SA-APC) presented a paper setting out various options on how to account for timeshares by property developers. This issue had been discussed for some 6 years in SA and there was

diversity in practice. In particular, the paper considered the accounting for property developments in the separate financial statements of subsidiaries. Was the entity acting as an agent for its shareholders, or should an agreement giving a shareholder a right to use one or more assets of the company be regarded as meeting the definition of a lease? Views in SA varied.

4.2 In discussion, it was noted that no other NSS had encountered similar issues, but it was agreed that SA would follow up with others to see if they had faced similar experiences. A number of NSS acknowledged that there was a need to understand the detailed facts and circumstances of any particular arrangements, which might justify or require different treatments.

## 5 IFRS 2 'Share-based payment' review project

5.1 The French *Autorité des Normes Comptables* (ANC) gave a presentation of its proposed project to review IFRS 2 and to develop a draft revised standard without changing the basic principles underlying the existing standard, in accordance with the IASB's objectives. The basic principles put forward by the ANC were that:

- Where under a share-based payment an entity received an asset or a service in exchange for that payment, an asset or an expense was recognised by the entity;
- In an equity-settled share-based payment transaction, the reference date for measuring the asset or the expense when the entity could not estimate reliably the fair value of the goods or service received was the grant date for the related equity instruments;
- The asset or expense was measured based on a fair value model.

5.2 The ANC had already identified some issues that the redrafting of IFRS 2 should encompass, including:

- The recognition of the expense over the vesting period;
- The accounting treatment of vesting conditions and changes to the plan;
- The accounting treatment of intra-group share-based payments in the statutory (individual, separate) accounts of group entities;
- The disclosure in the notes, which was considered difficult for users to understand;
- Issues arising for unlisted entities if these issues were material.

5.3 On the organisation of the project, the ANC had already established a working group in France and was looking to work in conjunction with the IASB, other European stakeholders (through EFRAG) and NSS more widely.

5.4 During the session:

- NSS members expressed support for the project. There was some discussion of what might be the basic principles and agreement that there was a need to clarify what was the starting point (ie what was and what was not open to challenge: for example, was grant date to be regarded as a given?) and what the desired outcome was;

- It was noted that the ANC developed a Memorandum of Understanding (MoU) summarising the agreement reached with the IASB for the project, but after some discussion, the MoU was considered not to be necessary.
- The SA-APC presented three specific implementation issues arising from the current IFRS 2. The French noted that it was useful to have such detailed input and asked for input from other NSS on application issues, as well as user views and expressions of interest to participate in the project.

## **6 Retirement Benefit Plans: Implications of Withdrawing IAS 26**

6.1 The NZ-FRSB presented a paper that set out the results of the research it had undertaken on the use around the world of IAS 26 'Accounting and Reporting by Retirement Benefit Plans'. This followed discussions at earlier meetings of the NSS group on whether a recommendation should be made to the IASB to withdraw IAS 26 on the basis that it was (a) out-of-date (and the IASB did not want to have industry-specific standards), (b) did not provide adequate accounting guidance, and (c) had not been adopted by many jurisdictions (either directly or in the form of an equivalent national standard).

6.2 The research indicated that some 21 jurisdictions (including New Zealand, Korea, Malaysia and Singapore) had adopted IAS 26 or an equivalent national standard. However, it was unclear how many entities in those jurisdictions were using the standard. It was noted that a number of other jurisdictions (notably Australia and Canada) were retaining, or planning to retain, their own separate standards for accounting for pension plans, given their concerns with IAS 26.

6.3 The paper considered a number of implications of withdrawing IAS 26, as well as a number of possible alternatives, but concluded that withdrawal would be the best approach.

6.4 The proposal to withdraw IAS 26 was supported by NSS members, but acknowledged that further work needed to be carried out on the detailed implications of withdrawal and what might replace IAS 26. The NZ-FRSB would be leading further work to investigate in more detail the ramifications of withdrawing IAS 26 and the options as to what might replace it, with input from other NSS members.

## **7 Intangible Assets**

7.1 The Accounting Standards Board of Japan (ASBJ) presented a case study analysis of the accounting treatment of internally generated intangible assets under IAS 38 'Intangible Assets' (based on the 2007 accounts of 50 large European corporations). The survey found diversity in practice, with expensing the norm in some industries (such as pharmaceutical), capitalisation in others (such as automotive vehicles), and a mixed picture in others (such as pulp and paper).

7.2 It was noted that the ASBJ planned to do an updated case study on a sample of 2008 accounts and had also launched a medium-term intangibles project, as part of its consideration of the remaining differences between Japanese GAAP and IFRS, the goal of which was to develop a comprehensive accounting standard on the lines of IAS 38 (with a proposed Discussion Paper in 2010).

7.3 The Australian Accounting Standards Board (AASB) reminded NSS members of the AASB Discussion Paper 'Initial Accounting for Internally Generated Intangible Assets' (on which comments had been requested by 15 May 2009) and set out a number of suggestions on possible next steps for ongoing research in this area, including a possible post-implementation review of the relevant requirements of IFRS 3 'Business Combinations' (ie those relating to the initial identification, recognition and measurement of intangible assets acquired in a business combination). Australia would investigate a possible questionnaire on the issues.

7.4 At the meeting, the AASB and ASBJ agreed to consider how their relative work strands should interface, if at all, and when to bring further reports on progress back to the NSS group.

## **8 Performance Reporting**

8.1 EFRAG gave a presentation summarising the main features of the recently issued Pro-active Accounting Activities in Europe (PAAinE) Discussion Paper on performance reporting. It was noted that, while the IASB and FASB had an active project on Financial Statement Presentation and had issued a DP on the subject in October 2008, there were a number of fundamental issues about the presentation of financial performance information that the IASB-FASB DP did not address. Those issues included:

- What was 'performance' and did net income capture it?
- Should the net income line be retained?
- (If it should be retained), what should the basis be for determining whether something was within net income or outside net income?
- What role should recycling have in performance reporting?

8.2 The UK ASB presented a paper it had prepared addressing a number of issues that arose in the context of reporting financial performance.

8.3 Discussion focussed on issues such as:

- the cohesiveness principle – some NSS members noted that while the principle of cohesiveness was itself welcome, there were concerns with the implication that information that was cohesive at a line item level was always more decision-useful than information that was not;
- the management approach – there were different interpretations of what this meant: did it mean complete flexibility, or not? It was also noted that there was a tension between the provision of information that was useful to users and some form of standardisation; and
- whether there should be recycling or not – views varied.

8.4 NSS declined to comment on the issue of whether 'other comprehensive income' (OCI) should be retained and, if so, whether a principle could be identified that would determine which items were to be required or permitted to be reported in OCI.

## **9 Foreign Currency Transaction Accounting for Open Economies**

9.1 The Korean Accounting Standards Board (KASB) gave a presentation of the impact of the reporting requirements of IAS 21 'The Effect of Changes in Foreign Exchange Rates' on entities in Korea and other emerging market countries arising from significant devaluations of their currencies.

9.2 The KASB put forward a number of suggestions to amend IAS 21 (for example, either measuring long term foreign currency monetary items in terms of historical cost in a foreign currency, or recognising exchange differences from long term foreign currency monetary items in OCI).

9.3 The proposals did not attract support from NSS. It was noted that the issues raised were not confined to emerging market countries. One of the IASB Board members present noted that the IASC Foundation was holding an upcoming event in Seoul in July 2009 and offered to discuss the issues further with the Koreans at that time.

## **10 Effects Analysis of Accounting Standards: Proposals for a Model Framework**

10.1 The UK ASB presented a paper that suggested a model framework to provide a more systematic approach for considering the effects of accounting standards as those standards are developed. Under the proposed approach, evidence requirements of the potential likely effects of accounting standards would be embedded in the due process. Assumptions about the potential likely effects of accounting standards would be tested subsequently in the post-implementation phase.

10.2 There was a lively discussion, with two broad views emerging:

- A majority of NSS were strongly in favour of the proposed approach as a means of enhancing transparency, accountability and strengthening the standard setting process by anchoring decisions in a broader evidence base. Some felt this was particularly important in the current political environment of the global financial crisis.
- Others were far more cautious, expressing concerns as to how far standard-setters should take into account wider effects and whether they should impact on the decisions taken, and whether this could lead to a 'tick-box' compliance exercise that merely slowed down the process of developing standards.
- All acknowledged that this was difficult territory.

10.3 The UK ASB said that it would continue work on developing a model framework and would seek participation from other NSS that were interested. Australia, Canada, France, India, EFRAG and IPSASB volunteered to assist the UK ASB staff in developing these proposals further for presentation at the next NSS group meeting.

## **11 Accounting for Corporate Income Tax**

11.1 The UK ASB presented a paper setting out the progress to date on the project being led jointly by the UK ASB and the German Accounting Standards Board (GASB), including some issues relating to the information needs of users, how the Framework

might apply to different approaches for determining whether the difference between book and tax income is a liability, and measurement.

11.2 NSS members expressed general support for the project. It was acknowledged that the scope was limited to taxes that behaved like income taxes, but some NSS would welcome the issues being tested against a wider range for taxes (such as tonnage tax).

## **12 Flow-Through Shares and Other Equity Instruments with Future Tax Consequences**

12.1 The Canadian AcSB presented a paper on “flow-through shares”, where the purchaser of such a share acquired a normal equity instrument plus the right to claim the tax deductions for resource expenditures made by the company with the proceeds of the sale of the shares. This was common practice for many mining and oil and gas companies engaged primarily in exploration.

12.2 The issue faced by Canada was whether IAS 12 (or its proposed revision) should address issues of temporary differences on equity items. Current IAS 12 defined temporary differences in terms of differences between the carrying amount of an asset or liability in the balance sheet and its tax base. This seemed to exclude the possibility of a temporary difference being associated with equity.

12.3 In discussion, other NSS were not aware of other equity instruments that had similar future income tax consequences. The UK ASB wondered whether it might have had similar instruments related to encouraging investments in high-technology start-ups, and agreed to investigate.

## **13 Operations and Procedures of the Group**

13.1 The UK ASB presented a paper which considered whether a dedicated NSS website should be set up. There was general support for the proposal, subject to investigating costs and options on how it might be hosted and updated.

13.2 NSS members also considered whether the group should increase the number of meetings held annually. There was general agreement to stick to the current cycle of 2 meetings a year (one in March/April, and the other around the IASB’s meeting with World Standard Setters in September), but with the possibility of having 2 meetings of 2 days each.

13.3 It was noted that the GASB would host the next meeting of NSS in Frankfurt on 8-9 September (a 1.5 day meeting). Suggestions for the agenda would be sought from NSS, but potential items identified at the meeting included:

- Standing items:
  - IASB Work Plan (UK ASB);
  - Conceptual Framework (to be determined);
  - Operations and Procedures of the Group (UK ASB).
- Further reports:
  - Effects Analysis (UK ASB);

- Intangibles (as a possibility) (AASB and ASBJ);
  - IFRS 2 review (ANC);
  - Potential withdrawal of IAS 26 next steps (NZ-FRSB);
  - Global financial crisis (UK ASB);
  - Foreign currency further report (subject to the outcome of any IASB-Korean discussions) (KASB).
- Other items:
    - Pensions (report from the redeliberations of the PAAinE Discussion Paper issued in January 2008) (UK ASB);
    - Complexity in corporate reporting (UK ASB) and a possible project on developing a framework for disclosures (Canadian AcSB);
    - Progress and issues on the project to replace the current standards on financial instruments (IASB).