This is a summary of the meeting of the Accounting Standards Accounting Forum (ASAF) held in London on 25-26 September 2013.

It was prepared by staff of the IASB, and is a high-level summary of the discussions that took place. A full recording of the meeting is available on the IASB website.

The meeting was chaired by Hans Hoogervorst, Chairman of the IASB, with Ian Mackintosh, Vice-Chairman of the IASB.

ASAF Members attending

Kim Bromfield for the South African Financial Reporting Standards Council;
Alexsandro Broedel Lopes for the Group of Latin American Standard-Setters;
Clement Chan for the Asian-Oceanian Standard-Setters Group;
Françoise Flores for the European Financial Reporting Advisory Group;
Russell Golden for the Financial Accounting Standards Board (US);
Liu Guangzhong for the Chinese Accounting Standards Committee;
Liesel Knorr for the Accounting Standards Committee of Germany;
Roger Marshall for the UK Financial Reporting Council;
Ana Martinez-Pina for the Instituto de Contabilidad y Auditoria de Cuentas (Spain);
Linda Mezon for the Accounting Standards Board of Canada;
Ikuo Nishikawa for the Accounting Standards Board of Japan;
Kevin Stevenson for the Australian Accounting Standards Board.

Disclosure

ASAF discussed the IASB's Disclosure Initiative including proposed amendments to IAS 1 *Presentation of Financial Statements.* ASAF also considered an approach to rethinking a disclosure and presentation framework developed by the AASB.

The IASB members participating in this session were Hans Hoogervorst, Ian Mackintosh and Patricia McConnell.

Disclosure Initiative

Overall approach

IASB staff gave an overview of the IASB's Disclosure Initiative. They highlighted the research that had been done into the perceived 'disclosure problem', including the Discussion Forum and Survey on Financial Reporting Disclosure. They also highlighted the five streams, or projects, that make up the Disclosure Initiative, broken down into short-term and medium-term projects.

The IASB staff requested ASAF members' views on the Disclosure Initiative as a whole and asked if the direction and scope of the Initiative was appropriate.

ASAF members responded positively to the Disclosure Initiative, highlighting that it was an important project for the IASB to undertake.

Some ASAF members questioned the timeline of the project. They warned against being over-ambitious with the timeline for the Initiative, particularly with the medium-term project on research into IAS 1, IAS 7 *Statement of Cash Flows* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Some members also thought that some aspects of the medium-term projects, such as reviewing the disclosure requirements in existing Standards, could be accelerated and undertaken in the short term.

ASAF members also highlighted the need to work with others on these projects, particularly regulators and auditors. ASAF members noted that addressing the 'disclosure problem' the IASB's Disclosure Initiative would ultimately need to lead to a change in behaviour by all those involved in the financial reporting process.

ASAF members discussed a number of other topics, including:

- a request from some ASAF members to explore the boundary of financial reporting ;
- a request from ASAF members to identify common user needs;
- the role of technology in the disclosure and presentation of financial statements;
- the potential for including communication principles, such as those in the *Conceptual Framework Discussion Paper* or the EFRAG/ANC/FRC paper) in IAS 1; and
- guidance on materiality. ASAF members generally supported the IASB providing guidance on materiality but they noted the legal implications in some jurisdictions.

Proposed amendments to IAS 1

IASB staff also gave an overview of the proposed amendments to IAS 1 that the IASB discussed at their September 2013 meeting as well as proposals about net debt disclosures that the IASB staff plan to take to the IASB in October.

ASAF members generally supported the direction of the amendments to IAS 1 but did suggest a number of drafting changes to the proposed amendments. They also discussed 'significant accounting policies' and recommended that the IASB should investigate ways that would help make accounting policies more entity-specific and discussed whether accounting policies should be presented together with the detailed notes they support.

ASAF members had mixed views as to whether the IASB should address the issue of 'net debt'. A number of ASAF members noted that 'net debt' disclosures were not a feature of financial reporting in their jurisdictions.

Approach to rethinking a disclosure and presentation framework

Kevin Stevenson, Chair of the AASB, gave a presentation on his paper 'Rethinking the Path from an Objective of Economic Decision Making to a Disclosure and Presentation Framework'.

The paper asserted that there is a gap in the Conceptual Framework, because it does not identify the generic characteristics of an entity that need to be known by users when making economic decisions. The paper highlighted that only a limited number of 'stocks' are relevant to the common information needs of users.

Insurance Contracts

The IASB members participating in this session were Hans Hoogervorst, Ian Mackintosh, Stephen Cooper, Darrel Scott and Patrick Finnegan. Hans Schoen was the EFRAG representative for this session.

The ASAF discussed the proposals in the IASB's Exposure *Draft Insurance Contracts*. There was support from many ASAF members for the general direction the IASB has taken in unlocking, insurance contract revenue and transition. However, there remain significant concerns about the accounting mismatches that would arise as a result of applying the proposals relating to contracts with cash flows that vary with underlying items, and those relating to the use of other comprehensive income. For some these concerns would be substantially addressed if the IASB were to permit an option to present changes in the insurance contract liability in profit or loss. For others the IASB should look into extending measuring assets at fair value through OCI when assets are managed in order to match insurance liabilities.

Leases

The IASB members participating in this session were Hans Hoogervorst, Ian Mackintosh, Stephen Cooper, Jan Engström, Darrel Scott and Wei-Guo Zhang.

The ASAF discussed the IASB’s Exposure Draft *Leases* (ED), the comment period for which ended on 13 September 2013. In particular ASAF members were asked to comment on the following topics:

- The lessee and lessor accounting models
- The measurement of the lease assets and liabilities (including the determination of the lease term)
- The definition of a lease
- Disclosure and transition.

ASAF members broadly supported the direction of the proposals in the ED, in particular the proposal that lessees should recognise assets and liabilities arising from leases on the balance sheet. However, ASAF members had mixed views about the proposed dual approach to recognising lease expenses. Some members were concerned about the complexity that results from having a dual approach. Some members noted that, although they have conceptual concerns about the proposed dual approach, they understand the IASB’s and FASB’s reasoning for developing it and, accordingly, could accept it in order to achieve the recognition of assets and liabilities arising from leases on a lessee’s balance sheet. Nonetheless, some members encouraged the boards to develop a single lessee accounting model, with amortisation and interest recognised separately for all leases. They thought there could be more support for such a model if the boards narrowed the scope, such as by broadening the application of the proposed short-term lease exemption. One member, however, cautioned the boards about any such broadening of the short-term lease exemption Many ASAF members recommended the IASB to reduce complexity and cost further to ensure a much better cost/benefit trade-off. With respect to lessor accounting, ASAF members also had mixed views. Some members suggested not changing the existing lessor model, some supported a single model and others thought the extent of the risks associated with the residual should be considered in determining the appropriate lessor model.

ASAF members also raised specific points for the boards’ consideration about measurement of lease assets and liabilities, the definition of a lease, disclosure and transition. In particular, suggestions were made about clarifying and simplifying the determination of the lease term.

At the beginning of the meeting the staff provided a short oral report on their outreach activities with investors and analysts as well as the ongoing fieldwork with preparers. The staff noted the broad support from investors and analysts for the lessee accounting proposals with respect to the balance sheet.

Accounting for Macro Hedging

The IASB members participating in this session were Hans Hoogervorst, Ian Mackintosh, Martin Edelmann, Stephen Cooper and Takatsugu Ochi. Mike Ashley was the EFRAG representative for this part of the meeting and Sue Lightfoot was the representative for the AASB.

The IASB staff presented a summary of the model under the portfolio revaluation approach. The staff clarified that no decisions had been made by the IASB and that the objective was to publish a Discussion Paper on the accounting for macro hedging in 2013.

The aim of the session was to get feedback from the ASAF on the model. The IASB also asked ASAF members about the questions that they thought should be included in the forthcoming Discussion Paper. In addition the staff clarified that while the model had been developed focusing on interest rate risk, the aim of the project was not to restrict the application of the model only to interest rate risk but to cover other risks as well.

In general ASAF members expressed their interest and support for the project. They also made the observation that the model should be extended to risks other than interest rate risk (for example commodity price risks) that are managed dynamically.

The ASAF members asked for clarifications regarding the manner in which the model deals with financial products that are managed, for the purposes of risk management, on the basis of expected rather than contractual maturity (for example core demand deposits).

The ASAF agreed with the staff that one of the areas that would need careful consideration was the scope of the model (ie determining which exposures would be revalued for the managed risk). Some members expressed scepticism about the feasibility of applying the model to all assets and liabilities in the banking book. In addition ASAF members raised questions about what would be considered as ‘dynamic risk management’ and emphasised the importance of its being clearly defined in the model.

Some questions were raised about whether the model could properly reflect the variety of interest rate risk strategies undertaken by banks in different jurisdictions.

It was suggested that an extended consultation period was necessary for the Discussion Paper, because of the complexity of the model. A six month period was suggested.

Financial Instruments: Impairment

The IASB members participating in this session were Hans Hoogervorst, Ian Mackintosh, Stephen Cooper, Martin Edelmann and Darrel Scott. Mike Ashley was the EFRAG representative in this session.

Overview

The ASAF discussed the IASB's current proposals on accounting for expected credit losses, as put forth in the Exposure Draft *Financial Instruments: Expected Credit Losses*. The IASB staff presented to the ASAF the following clarifications and enhancements to the proposed model:

- The responsiveness of the general model:
  - In its September meeting the IASB tentatively decided to clarify that the objective of the model is to recognise lifetime expected credit losses on *all* financial instruments for which there has been a significant increase in credit risk—whether on an individual or portfolio basis—and that all reasonable and supportable information, including forward-looking information that is available without undue cost or effort, needs to be considered. In addition, the IASB tentatively decided to include Illustrative Examples to reflect the intention of the proposals.
- The measurement objective for Stage 1 of the model:
  - In its September meeting the IASB tentatively decided to confirm 12-month expected credit losses as the measurement objective for instruments in Stage 1.
- The definition of 'default'
  - In its September meeting the IASB tentatively decided to require a definition of default to be applied that is consistent with credit risk management practices and to emphasise that qualitative indicators of default should be considered when appropriate (such as for financial instruments that contain covenants). The IASB also tentatively decided to include a rebuttable presumption that default does not occur later than 90 days past due unless an entity has reasonable and supportable information to support a more lagging default criterion.

The IASB staff also reported on the fieldwork performed during the exposure period.

Expected Credit Losses

ASAF members made the following comments on the proposals in the Exposure Draft *Financial Instruments: Expected Credit Losses* and the proposed clarifications and enhancements:

- Some stated that their constituents agreed with the proposals in the Exposure Draft and the tentative decisions taken in the September Board meeting. They felt the proposals should be finalised.
- Some observed that it would remain important that the objectives and principles of the proposals are clear and that the proposals (or any amendments and clarifications to them) do not become too prescriptive.
- Some think that the definition of 12 months' expected credit losses needs clarification, ie the lifetime expected credit losses adjusted for the probability of default occurring in the next 12 months.
- Some observed that it is important for the IASB to consider divergence that exists today in IFRS in measuring impairment losses. These inconsistencies include the discount rates used to calculate impairment losses.

Conceptual Framework—Prudence

The IASB members participating in this session were Hans Hoogervorst, Ian Mackintosh, Stephen Cooper, Mary Tokar and Wei-Guo Zhang.

In April 2013, the European Financial Reporting Advisory Group (EFRAG) and the French, German, Italian and UK standard-setters published a bulletin on Prudence. At this meeting, ASAF members discussed that bulletin and whether the IASB should consider reintroducing in the Conceptual Framework the concept of prudence, or related notions such as caution or conservatism.

Most ASAF members stated that the IASB should at least debate reintroducing the concept of prudence in the Conceptual Framework. However, they noted that the term 'prudence' can mean different things to different people, so it would be important to define clearly what the term means. It was also agreed that the exercise of prudence should not be allowed to lead to systematic bias in the financial statements. Instead, many ASAF members stated that prudence should be described as the exercise of caution under conditions of uncertainty. It was also noted that prudence should only be reintroduced if the exercise of prudence could be shown to provide better information to users of financial statements.

Many ASAF members expressed their preference for reintroducing the concept of prudence into the Conceptual Framework. However, other ASAF members noted that if prudence were reintroduced, steps would need to be taken to ensure that the exercise of prudence would not create opportunities for earnings management. In addition, some ASAF members questioned whether the reintroduction of prudence would have any practical effect on the IASB's decisions. These ASAF members suggested that the same standard-setting outcome could be achieved by focusing on the needs of users rather than reintroducing prudence.

Forward planning

The IASB and ASAF reviewed the dates for the 2014 meetings and agreed to move the September 2014 meeting dates from 8 and 9 September to Thursday 25 September and Friday 26 September.

The IASB is also reviewing the December 2014 dates with a view to moving these to 4 and 5 December because of a likely clash with a major conference normally attended by the Chairman of the IASB.

Next meeting

The next meeting is in London on Thursday 5 December and Friday 6 December 2013.