Summary note of the Accounting Standards Advisory Forum

Held on 7 and 8 April 2016 at the IASB office, 30 Cannon Street, London.

This note is prepared by staff of the International Accounting Standards Board® (the Board), and is a high-level summary of the discussion that took place with the Accounting Standards Advisory Forum (ASAF).[1] A full recording of the meeting is available on the IASB website.

ASAF members attending

Andreas Barckow	Accounting Standards Committee of Germany
Alexsandro Broedel Lopes	Group of Latin American Standard-Setters
Kim Bromfield	South African Financial Reporting Standards Council
Patrick de Cambourg	Autorité des normes comptables
Alberto Giussani	Organismo Italiano di Contabilità
Jee In Jang	Asian-Oceanian Standard-Setters Group
James Kroeker	Financial Accounting Standards Board
LU Jianqiao	China Accounting Standards Committee
Roger Marshall	European Financial Reporting Advisory Group
Linda Mezon	Accounting Standards Board of Canada
Yukio Ono	Accounting Standards Board of Japan
Kris Peach	Australian Accounting Standards Board and the New Zealand Accounting Standards Board

2015 Agenda Consultation: discussion of messages received

1. The staff asked ASAF members for their views on the messages received and how they thought those messages should affect the development of the Board's future work plan on Agenda Paper 24A *Comment letter and outreach summary*, discussed by the Board at its public meeting in March 2016.

2. Some ASAF members agreed with those comment letters that said that the Board had issued too many narrow-scope amendments in the period since its last agenda consultation. One ASAF member referred to 'outreach fatigue' in their jurisdiction.

3. Another ASAF member suggested that narrow-scope amendments could be batched together, both at the Exposure Draft stage and then as final amendments. This would make it easier both to respond to proposals and to implement the final requirements. One ASAF member thought it was important to maintain the distinction between annual improvements, which are bundled together because they are editorial in nature, and significant changes made to

[1] IFRS, IAS, IFRS Foundation, IASB, IFRIC and SIC are trademarks of the IFRS Foundation in the UK and in other countries. Please contact the IFRS Foundation for details of where these trademarks are registered.

the IFRS Standards (Standards), which need to be highlighted to constituents. A Board member suggested that bundling could be carried out by topic rather than by time of publication.

4. The IASB Chairman noted the contradiction in the messages received between those respondents who request changes to Standards and those who ask for a period of calm. He accepted that there was merit in considering batching those changes with respect to both the consultation process and the effective dates of any changed requirements.

5. ASAF members also discussed the messages that had been received with respect to the Post-implementation Review (PIR) process:

   (a) Some ASAF members thought that the PIR should include an investigation of actual implementation in practice for issues that had been contentious when developing the Standard. The objective of that review would be to see whether the Board's expectations about implementation had been realised.

   (b) Other ASAF members were concerned about reopening contentious issues.

6. One ASAF member suggested that a PIR should be carried out not only 2-3 years after the effective date of a Standard, as required by the *Due Process Handbook*, but also if there is a significant change in economic circumstances. Many ASAF members thought that the Board should devote more resources to implementation activities such as PIRs, TRGs (transition resource groups) and maintenance activities, to deal with inconsistency between Standards.

7. ASAF members had mixed views about the number of projects that should be on the Board's research programme at any one time. Some members thought that the Board should focus on 5-7 projects. Other ASAF members thought that all topics should be kept on the programme; these ASAF members think that standard-setters and other constituents follow only those projects that are most likely to affect them and, consequently, are not burdened by the size of the research programme. One ASAF member thought that stakeholders generally focussed on those changes that would affect the next reporting cycle and that research was not followed by most preparers. An ASAF member noted the importance of research being relevant. This member also noted that national standard-setters should focus on those projects relevant to their jurisdictions and work to engage their stakeholders.

8. One ASAF member thought that the amount of available resources should determine the size of the research programme. Another ASAF member thought that the Board should try to anticipate what topics would be important in the future, or if particular circumstances changed, by taking an early warning or 'what if' approach. Another ASAF member thought the Board needs to retain sufficient flexibility to be able to react to changes in the economic environment in a timely manner.

9. A number of ASAF members noted that the burden placed on stakeholders by changes to Standards varied by jurisdiction, by type and size of stakeholder and by the resources available to stakeholders.

10. The Board will discuss at its April and May meetings how the messages received from the 2015 Agenda Consultation should affect the development of its future work plan and will consult the ASAF again on this topic in July 2016.

Conceptual Framework

11. At this meeting, ASAF members discussed the following papers:

    (a) *Strategy for the Conceptual Framework project* (Agenda Paper 2); and

    (b) *IASB Conceptual Framework Measurement* (Agenda Paper 2Q) prepared and presented by EFRAG.

Strategy Paper

12. The ASAF members were asked for their views on:

    (a) the strategy for redeliberations (including whether and how to develop the chapters of the *Conceptual Framework* dealing with measurement and the reporting of financial performance);

    (b) the proposed approach to dealing with the distinction between equity and liabilities in a separate research project;

    (c) the timetable for the project; and

    (d) the approach to updating the *Conceptual Framework*.

13. Most ASAF members supported the Board's proposal to explore the distinction between liabilities and equity in a separate research project. Many ASAF members suggested that the Board should also undertake more work on measurement and reporting financial performance, but they expressed different views on whether and how that should affect the project's timetable. Some ASAF members stated that measurement and the reporting of financial performance were closely related and should not be addressed in isolation from each other.

14. Some ASAF members recommended finalising the project, including chapters on measurement and reporting financial performance, without delay, based on the proposals in the Exposure Draft. Other ASAF members also supported issuing the *Conceptual Framework* without delay, but without the chapters on measurement and reporting financial performance. They would prefer these topics to be developed further in separate research projects, building on the ideas developed to date. However, they could accept a revised *Conceptual Framework* that includes high-level guidance on these areas that does not go further than the proposals in the Exposure Draft. They emphasised that it is important for the *Conceptual Framework* not to restrict any future work on those topics. A few ASAF members expressed the view that the publication of the *Conceptual Framework* should be delayed to allow the Board to undertake more work on measurement and reporting financial performance.

15. A few ASAF members also suggested that more work was needed on other topics, such as the proposed guidance on the meaning of the term 'present obligation' and on recognition and derecognition. One ASAF member suggested that the guidance on 'present obligation' should not be finalised until work on the distinction between liabilities and equity is finalised. Another ASAF member suggested that the guidance on present obligation could be further developed within the timetable for the *Conceptual Framework* project.

16. A few ASAF members also commented on the following:

    (a) the proposed description of prudence;

    (b) the proposed discussion of stewardship;

    (c) the need to clarify the purpose and status of the *Conceptual Framework*;

    (d) how to deal with conflicts between *Conceptual Framework* and Standards; and

    (e) the guidance on unit of account.

17. ASAF members generally agreed that the *Conceptual Framework* should be updated over time, for example, as a result of research on other projects. However, they emphasised that the *Conceptual Framework* should provide stable principles and therefore should not be updated too frequently or excessively. Some ASAF members cautioned the Board against describing the *Conceptual Framework* as a 'living document', because it was not sufficiently clear what such an expression meant and it could imply frequent revisions. A few ASAF members suggested performing a Post-implementation Review to assess whether the *Conceptual Framework* is fulfilling its purpose.

EFRAG's paper on measurement

18. The EFRAG's paper discussed particular aspects of the chapter on Measurement proposed in the Exposure Draft. It expressed broad support for those aspects but proposed additional guidance and clarifications. In particular, the paper proposed that:

    (a) the Board's proposals should be amended to clarify that historical cost does not lead to restatement of any of the inputs into historical cost;

    (b) it could be useful for the *Conceptual Framework* to describe what each of the inputs in a current value measurement represents;

    (c) the description of current value should be modified to reflect advantages and drawbacks of the use of fair value or of an entity-specific value;

    (d) the selection of the measurement basis should initially be considered from the perspective of reporting financial performance; and

    (e) that the guidance on selecting a measurement basis based on an entity's business model should be expanded.

19. An EFRAG representative presented the paper and asked ASAF members for their views on the EFRAG's proposals on measurement.

20. Although some ASAF members expressed support for aspects of the proposals in the papers, many expressed reservations:

    (a) Some ASAF members disagreed with the proposals to give more prominence to dual measurement and business model in selecting a measurement basis.

    (b) A few Board members and ASAF members disagreed with the suggestion in the paper that the selection of a measurement basis should be linked to how the entity expects to realise the economic benefits from the asset.

(c) A few Board members disagreed with the suggestion that, when selecting a measurement basis, the Board should focus on the implications for financial performance. They expressed the view that financial position is also very important. One Board member suggested that the approach proposed in the paper could only work if there was a clear definition of the term 'financial performance'.

(d) A few ASAF members cautioned the Board against including the ideas expressed in the EFRAG's paper in the *Conceptual Framework* because that would, in their view, create the need to re-expose the *Conceptual Framework*.

Rate-regulated Activities

21. In this meeting, ASAF members considered the illustrative example set out in Appendix 1 of Agenda Paper 3:

(a) how to define 'performance' within the context of defined rate regulation;[2] and

(b) identify which activities should lead to the recognition of revenue.

22. In the illustrative example in Appendix 1, a government (through a rate regulator) requires the construction of a new water treatment plant during the year 20X2 at a cost of CU20 million. ASAF members were asked to identify what assets, liabilities, income (whether described as revenue or not) and expenses they think the rate-regulated water company should recognise under four options set out in the Agenda paper, and to explain the reasons for their responses.

23. During the discussion, ASAF members made assumptions, and raised questions, about the underlying terms of the regulatory agreement and the enforceability of those terms. Some members placed more weight on the regulatory terms than other members. Many members noted that the regulatory agreement affects the economics of the transactions and should, therefore, be reflected in the accounting.

24. For Option (a) of the illustrative example, ASAF members generally agreed that the company should account for the CU20 million received from the rate regulator in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. For Option (b), many ASAF members considered that, from Entity W's perspective, the economic substance is similar to Option (a) and, therefore, should result in similar accounting.

25. ASAF members noted that IAS 20 currently permits two methods of accounting for grants related to assets:

(a) Some ASAF members prefer to use the 'net' method in IAS 20, ie to offset the grant against the cost of the plant. This would, in this case, result in the plant having a carrying value of nil. Supporters of this view noted that this is consistent with recognising the plant at its historical cost to Entity W, which is nil in Options (a) and (b) because the cost is borne by either the government or the property developers. However, one ASAF member noted that, although the IAS 20 net method is permitted,

[2] Appendix 2 of the ASAF Agenda Paper contains a summary description of the main features of 'defined rate regulation'.

it is the worst outcome for Option (a) because it does not faithfully represent the economic substance of the transaction (ie the company incurred CU20 million costs to build the asset and has received the grant).

(b) The majority of ASAF members preferred the 'gross' method allowed by IAS 20, ie to recognise the plant at its cost of CU20 million and also recognise a 'deferred income' balance, which is released to profit or loss account on a systematic basis. Most agreed that a systematic basis would reflect the pattern of depreciation of the plant (ie reflect the grant through profit or loss over the 40-year useful economic life over which the plant will be used to provide water services to customers).

26. Some ASAF members suggested that the gross presentation method most faithfully reflects the economic substance of the transaction, because Entity W is unlikely to be granted the CU20 million or the plant itself merely to support the entity. Instead, those ASAF members suggested the purpose of the grant is more likely to reflect the entity's obligation to use the plant to provide water services to customers on an ongoing basis. Consequently, they suggested that the grant should be recognised through profit or loss over the period during which the entity is obliged to use the plant to provide those services. The regulatory agreement should be considered in making the determination of what that period is.

27. One ASAF member questioned whether either of the IAS 20 methods faithfully represented the economic substance of the transaction. She was not convinced that Entity W has an obligation beyond constructing the water treatment plant and/ or connecting that plant to the network infrastructure needed to deliver water services to customers. This ASAF member would prefer to recognise the grant of cash or the plant in 20X2, when the plant is constructed or received from the property developers, rather than deferring recognition in the income statement over the period that the plant is used. A few other members considered that this could be appropriate for Option (b).

28. The same ASAF member that questioned both IAS 20 approaches also suggested that, for the government grant, it may be reasonable to recognise the grant in profit or loss earlier, ie when received in 20X1. This is because at that time, in her view, the obligation attaching to the grant is exchanging one asset (cash) for another asset (the water treatment plant). This exchange does not result in the outflow of an economic resource from the entity. Until the water treatment plant is constructed, it may be better to present this obligation by noting that the use of the CU20 million cash is restricted, instead of representing the obligation as a liability.

29. Overall, ASAF members agreed that the economic substance of Options (a) and (b) could be reflected in the statements of income and financial position without the need to recognise any 'regulatory assets' or 'regulatory liabilities'.

30. For Options (c) and (d), ASAF members expressed mixed views about whether regulatory assets or liabilities should be recognised. A few ASAF members did not find any difference in economic substance between these options and the situation faced by other businesses that are not subject to defined rate regulation. They suggested that the entity should not recognise any regulatory assets or regulatory liabilities. Instead, the entity should:

(a) depreciate the plant over its 40-year useful economic life; and

(b) recognise revenue using the regulated rate charged to customers for the water services delivered during the 10-year recovery period set by the rate regulator.

31. Some ASAF members emphasised that the existence of enforceable rights or obligations is key to recognising regulatory assets or regulatory liabilities. One ASAF member expanded on the fact pattern presented, based on real-life examples of regulatory agreements. He noted that a regulatory agreement could require a 'claw-back' of amounts that had been recovered from customers but do not pass through the profit or loss account as an expense. This could occur if the entity does not continue to use the water treatment plant and depreciates the full cost through profit or loss; for example, if the entity sold the plant part way through its useful economic life. In this situation, a regulatory liability could be recognised for the obligation to either continue to use the plant to provide the rate-regulated water services or provide the 'claw-back' through future rates of amounts previously collected from customers.

32. Another ASAF member commented that the entity is providing essential services in a monopoly environment so it is unlikely that, having recovered the cost of the plant from customers, it would be free to choose to sell the asset or stop providing the water services.

33. Another ASAF member noted that in her jurisdiction, many rate-regulated entities use accounting policies that are based on, or similar to, those used in US GAAP for recognising and measuring regulatory balances. However, in discussing the illustrative examples with her Board they started from first principles. As a result, the ASAF member supported recognition of both a regulatory asset and a regulatory liability when the plant is brought into use. The regulatory asset would represent the entity's regulatory right to recover the cost of the water treatment plant from customers. This reverses over the 10-year recovery period when the regulated rate is higher. The regulatory liability would represent the entity's obligation to provide the rate-regulated water services over the useful economic lie of the asset (assuming that this is the period covered by the regulatory agreement). Some concern was expressed that this 'grossed up' the statement of financial position. The ASAF member noted that the accounting described helped to identify the financial effect of the regulatory agreement but there could be further discussion about whether a gross or net presentation would be appropriate.

34. A Board member noted that, in his view, there are similarities in the economics of each of the four options and so the accounting should be similar in each case, with government grant accounting being the key. He suggested that the government provides assistance to Entity W through all four options: directly in cash (Option (a)); indirectly through the property developers (Option (b)); and indirectly though customers in Options (c) and (d). The support is provided up-front in Options (a) and (b). The support is provided over time in Options (c) and (d) but, if the rate regulation is sufficiently strong, it would support the ASAF member's view in paragraph 33 that a regulatory asset and regulatory liability is created. The asset would be recovered over the 10-year recovery period. The liability would be the same in all four options and is settled by providing water services to customers over the 40-year service period.

35. An ASAF member suggested that looking at performance from the customer perspective could help identify what amount should be recognised as revenue. In the example being discussed, the customers do not get more service in the years that they pay the higher rate—this

suggests that during the early years they are paying in advance for services to be received over the remaining period that the plant is in use.

36. Another ASAF member cautioned against focussing only on performance and using an assumption that the regulated rate represents the fair value of the services delivered to customers during the period. This member suggested looking at the assets and liabilities recognised by the acquirer of an entity that is subject to defined rate regulation.

37. Some ASAF members made some general comments about the project:

    (a) Setting the scope for any accounting model will need to be defined carefully to ensure regulatory balances are recognised only when the economic substance is different from an environment in which defined rate regulation does not apply.

    (b) Most of the examples discussed so far relate to utilities, such as electricity, gas and water and it is important to consider some examples of rate-regulated activities in other sectors.

    (c) The representative from the Accounting Standards Board of Canada noted that her board had started to take a fresh look at this topic. The board plans to review academic research on whether the market assigns a value to regulatory assets, the rights and obligations created by the rate-regulation in force in the jurisdiction, perspectives of users of financial statements, credit rating analysts, etc.

    (d) It is an important goal of this project to prevent the overstatement of profit, and any Standard developed needs to be clear and principle-based.

Accounting for Inflation—GLASS

38. Alexsandro Broedel Lopes presented, on behalf of the Group of Latin American Standard-Setters (GLASS), Agenda Paper 4 'Accounting for the Effects of Inflation'. GLASS encouraged the Board to add to its technical programme a project addressing the effects of inflation, considering that some entities in a certain jurisdiction are required to pay dividends based on retained earnings. GLASS stated that if dividends are paid on the basis of profits that are not adjusted for the effects of inflation, those dividends are paid from 'paper money' and, in effect, reduce the entity's capital.

39. The recommendation of GLASS is to reduce the level set for one of the indicators that an economy is hyperinflationary. In IAS 29 *Financial Reporting in Hyperinflationary Economies,* that indicator currently states that the cumulative inflation rate over three years is approaching, or exceeds, 100%. GLASS suggest two options:

    (a) reduce that indicator to, for example, a cumulative inflation rate of 26% over three years. This corresponds to an annual rate of around 8%. At the ASAF meeting, a representative of GLASS stated that this suggestion was based on the following factors:

        (i) by the time inflation reaches around 8%, effects of general inflation are often material; and, experience shows that countries generally struggle to keep or bring inflation under control once it stays above 8% for more than a short period; and

(ii) Central Banks generally do not set target inflation levels any higher than 8; or

(b) require application of IAS 29 when the effects of inflation are material to the entity.

40. ASAF members comments include:

(a) Since the development of IAS 29, there have been many economic changes and the levels of inflation that existed globally at the time it was developed are no longer prevalent. Consequently, members understood the call to reduce the threshold in IAS 29 but acknowledged that currently the issue affects limited jurisdictions. However, it was acknowledged that the issue also arises on consolidation in other jurisdictions for entities that have some operations in jurisdictions with high inflation.

(b) The Board was encouraged to use indicators to determine whether hyperinflation (or high inflation) exists and so allow management to exercise judgement in deciding when to apply IAS 29. However, members held the view that if indicators are applied, then the inflationary index needs to be specified. It was noted if option (b) were to be proposed (ie require application when the effects are material) all entities would be required to consider whether to apply IAS 29.

(c) IAS 29 was developed some time ago. If it were to be applied more widely application issues may arise and require the support of the IFRS Interpretations Committee.

(d) Rather than merely changing the scope of IAS 29, one member suggested an alternative would be to complete Chapter 8 of the *Conceptual Framework* (on capital maintenance)—ie do not address the problem in the short term, but consider a more fundamental review.

(e) A question raised was whether it was really necessary to amend IAS 29 or whether the Board could instead provide guidance on how to apply the requirements of IAS 29. This option was not supported, as many considered there is consistent application of the current Standard.

(f) Before a project could be undertaken information would be required about information needs of users of financial statements and about whether IAS 29 produces information that would be acceptable to those users who do not currently use financial statements in which IAS 29 is applied. It was also agreed that greater understanding of global inflation rates was required.

Business combinations under common control (BCUCC)

41. The IASB staff provided an overview of the research and outreach performed on BCUCC after the Board made the tentative decision on the scope of the project. The IASB staff also provided an update on the staff's preliminary view on how BCUCC should be accounted for and invited comments from the ASAF members.

42. Some ASAF members supported Approach 2 set out in the Agenda Paper; that is, that the predecessor method should be the default, but not the only, method applied in a BCUCC. They stated that the acquisition method could be more appropriate in specific circumstances, for example where a non-controlling interest (NCI) is involved or where the financial statements will be provided to parties external to the group.

43. A few ASAF members reported mixed views in their jurisdictions. Some ASAF members did not express a view on how BCUCC should be accounted for and encouraged the Board to develop a conceptual basis for whether and why some or all BCUCC should be accounted for differently compared to business combinations that are not under common control. They suggested that in developing such a conceptual basis, the Board should consider the qualitative characteristics of useful financial information, the level at which the financial statements are issued and the users of that information.

44. A few ASAF members commented on how the predecessor method should be applied and expressed mixed views. A few ASAF members expressed a view that it would be conceptually inconsistent to argue that BCUCC warrant a special accounting treatment because they are under common control but to use carrying amounts other than those reported at the level of common control.

45. A few ASAF members requested clarifications, for example about the scope of the project.

Amendment to IFRS 4: *Applying IFRS 9* Financial Instruments *with IFRS 4* Insurance Contracts

46. The staff provided an update on the decisions from the March 2016 Board meeting. Specifically, the staff highlighted the Board's tentative decisions to:

    (a) confirm the temporary exemption, noting that:

        (i) accounting mismatches and volatility are the primary concerns the Board is seeking to address; and

        (ii) the Board placed less weight on the argument of applying IFRS 9 *Financial Instruments* (IFRS 9) twice, because all entities will eventually be required to apply the Standard;

    (b) confirm that the optional temporary exemption will be available for some, but not all entities issuing contracts within the scope of IFRS 4 *Insurance Contracts* (IFRS 4), with a fixed expiry date; and

    (c) confirm that the eligibility assessment for the temporary exemption will be at the reporting entity level (ie the assessment should be done considering all of the activities of the reporting entity, and the reporting entity applies only one Standard, either IFRS 9 or IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39), to all of its financial instruments in its financial statements).

47. The staff also provided an overview of the qualifying criteria for determining the entities eligible for the temporary exemption, which will be discussed by the Board in April 2016.

48. Some ASAF members had the following questions and provided the following feedback on the temporary exemption as follows:

(a) Two ASAF members commended the Board for being timely and responsive.

(b) One member asked whether the Board had considered the issue of reassessment in the light of assessment dates being brought forward, ie whether a reassessment would be necessary.

(c) One member emphasised that IFRS 9 and the new Insurance Contracts Standard should be applied simultaneously.

(d) Two members supported making the assessment at a level below the reporting entity (eg that parts of a group would apply IFRS 9 and other parts of the same group would apply IAS 39 in the group's consolidated financial statements). One member thought that there is a need to create a level playing field between a group of entities, eg a conglomerate, that would qualify for temporary exemption as a whole. Entities within the group would qualify on a stand-alone basis but not at the reporting entity level; and there was a need to improve comparability between those entities.

(e) Two ASAF members acknowledged the willingness of constituents in their respective jurisdictions to adopt IFRS 9 in 2018. In particular, one ASAF member provided feedback that early adoption of IFRS 9 is mandated for banks by the regulator in her jurisdiction and therefore, the insurance subsidiaries of banks are intending to apply IFRS 9 in 2018.

(f) One ASAF member relayed the insurers' views from her jurisdiction that the temporary exemption should *not* be allowed in the absence of an eligibility assessment being available below the reporting entity level.

(g) Some members supported the revised qualifying criteria. One member expressed caution on the examples of connected liabilities; they should not be too prescriptive (for example, derivatives connected to the insurance activities could also apply to financial assets and some of the funding liabilities could be held by the parent).

(h) One member supported the removal of the prohibition imposed on first-time adopters from applying the temporary exemption and overlay approach when those first-time adopters would meet the qualifying criteria to do so. Insurance companies in the member's jurisdiction are obliged to use Standards only for consolidated accounts, but in due course it is expected that Standards will be mandated for the individual financial statements of insurers. However, it is unclear when this change will be made. In response to whether it would be difficult for first-time adopters to assess whether they qualify because they would not have information that is prepared in accordance with Standards, one member noted that such difficulties do not arise when the entity is part of a group that prepared consolidated financial statements in accordance with Standards.

49. Board members noted that:

(a) in response to the question noted in paragraph 48(b), reassessment will be discussed at the May 2016 meeting.

(b) there were differing views as to the appropriate level of assessment between different constituent groups, for example, preparers' preference for assessment at a level below the reporting entity, versus prudential and security regulators' preference for assessment at the reporting entity level. In addition, one Board member highlighted a lack of support for temporary exemption from users; however, those who support the exemption would only do so if it was at the reporting entity level.

(c) a subsidiary qualifying for the temporary exemption could apply IAS 39 in its individual financial statements, when the group did not, and that in the consolidated financial statements, the insurance operating segmental disclosure could reflect information applying IAS 39 when that information is reported to the chief operating decision maker.

(d) allowing a first-time adopter to apply the temporary exemption and the overlay approach could be difficult, because most adopters would not have prepared IFRS-compliant financial statements in periods prior to its first IFRS financial statements.

50. ASAF members received and noted the staff recommendations on the overlay approach for the April 2016 Board meeting.

51. One ASAF member supported an exemption being provided from requiring the entity's financial statements to be prepared using uniform accounting policies for financial instruments on application of the equity method when accounting for investments in associates and joint ventures under IAS 28 *Investments in Associates and Joint Ventures*.

52. One ASAF member suggested that guidance on the assessment for the temporary exemption at the reporting level would be helpful for Takaful (ie Islamic insurance) companies, by clarifying the definition of the reporting entity.

IFRS 2 *Share-based Payment*—Next steps

53. The objectives of the research project on IFRS 2 *Share-based Payment* are:

(a) to identify whether it is IFRS 2 that is causing the perceived complexity, and if it is, to identify the most common areas of complexity; and

(b) to analyse why IFRS 2 has attracted many interpretation requests.

54. Overall, ASAF members supported the findings of the research project. More specifically, some ASAF members agreed that the variety and complexity of share-based payment arrangements contribute significantly to the overall perception of complexity that is 'caused' by IFRS 2.

55. In relation to equity-settled share-based payment arrangements, some ASAF members pointed out that, if the Board were to decide to replace the grant date fair value measurement model, there is a risk of replacing that complexity with another complexity (ie a current date fair value measurement model). This is because the current date fair value measurement model requires more frequent remeasurements.

56. One ASAF member said that—if the grant date fair value measurement model were to be reopened—it could be possible to make some changes within this measurement model without replacing it completely. In this connection, the ASAF member mentioned a research paper produced by the French standard-setter (ANC) on this topic in 2010.

57. Some ASAF members stressed that it was important to consider classification and measurement of share-based payment arrangements together with the research project on *Financial instruments with Characteristics of Equity*. A Board member confirmed that the Board was considering the interaction between these projects during its discussions, but this did not necessarily mean that all conclusions would be aligned at the end.

58. One ASAF member pointed out that the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting* had included some interesting ideas on remeasuring equity instruments. This ASAF member suggested that the staff's *Report on research so far* did not address the possibility of introducing such remeasurements.

59. Two ASAF members commented on a specific paragraph in the staff's *Report on research so far* that said that there should be a high hurdle for adding IFRS 2 issues to the agenda of the IFRS Interpretation Committee. They believed that IFRS 2 issues should not be treated differently from other issues and should be subject to the normal agenda criteria.

60. One ASAF member believed that the disclosure requirements of IFRS 2 needed improvement because the language was too prescriptive.

61. One ASAF member suggested that small and medium-size entities should be exempted from applying IFRS 2, in order to reduce complexity.

62. In regard to the way forward with this research project, in general, ASAF members seemed to have little appetite for reopening the grant date fair value measurement model in IFRS 2.

63. Two ASAF members believed that the Board should perform a Post-implementation Review of IFRS 2 because of concerns about the number of interpretations of, and amendments to, IFRS 2. Another ASAF member and a Board member both pointed out—consistently with the staff's *Report on research so far*—that IFRS 2 was a new and controversial Standard when it was issued in 2004; it went through a period of implementation and interpretative activity. Amendments to it have recently slowed down because the IFRS Interpretation Committee has addressed most of the issues in IFRS 2.

64. The IASB staff asked those ASAF members who supported a PIR whether a full PIR would provide the Board with much more information than it would obtain by seeking feedback on the staff recommendations in the staff's *Report on research so far*. Those ASAF members said that a full PIR would not necessarily provide much more information, but that there needed to be a structured process for making amendments to IFRS 2 instead of doing this piecemeal.

65. Next step: in May 2016 staff will present to the Board feedback collected on this project in the *Agenda Consultation 2015*.

Project updates and agenda planning

Disclosure Initiative—Project update

66. The objective of the session was to provide ASAF members with an update on the overall Disclosure Initiative, including feedback received on the Exposure Draft IFRS Practice Statement *Application of Materiality to Financial Statements*.

Financial Instruments with Characteristics of Equity—Project update

67. The IASB staff updated the ASAF members on the Financial Instruments with Characteristics of Equity research project. ASAF members suggested some topics for discussion at future ASAF meetings, including:
    (a) the application of the 'present obligation' requirements proposed in the Exposure Draft *Conceptual Framework for Financial Reporting* to the classification of liabilities and equity.
    (b) the settlement of obligations of a specified amount using a variable number of the entity's own shares.
    (c) put options written on the entity's own equity.
    (d) rights exercised by holders of equity instruments that effect the entity's economic resources and claims (eg voting rights of a majority shareholder).
68. The Board will next discuss the Financial Instruments with Characteristics of Equity research project at its April 2016 meeting.

Accounting for Dynamic Risk Management—Project update

69. The IASB staff updated the ASAF members on the progress of the project on Accounting for Dynamic Risk Management. The IASB staff explained that the main activities carried out during the last few months aimed to gain a better understanding of how banks use core demand deposits (CDDs) in their interest rate risk management activities. This includes a better understanding of the key drivers that banks include in their modelling of CDDs and how the latter could potentially be included in an accounting approach. As part of the work in this area, the IASB staff explained that they would participate as observers in an outreach exercise that the EFRAG Secretariat will be undertaking with European banks.
70. One ASAF member asked whether the IASB staff thought the second Discussion Paper was going to propose a more concise solution. The IASB staff answered that it was too early to comment on the forthcoming accounting solution, but that the learning point from the first Discussion Paper was that presenting narrower accounting proposals could probably help focus the work on this area in a more effective manner.

Research projects update

71. The IASB staff provided an overview of the Board's recent discussions on the research projects.

Agenda planning

72. The IASB staff presented an update on the IASB technical projects, together with a summary of how the Board had used the advice received from the ASAF from the previous meeting. The IASB staff also presented topics for inclusion on the agenda of the July 2016 ASAF meeting. ASAF members made no comments.