Summary note of the Accounting Standards Advisory Forum

Held on 8 December and 9 December 2016 at the IASB office, 30 Cannon Street, London.

This note is prepared by staff of the International Accounting Standards Board (the Board), and summarises 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 (DRSC)
Alexsandro Broedel Lopes	Group of Latin American Standard-Setters (GLASS)
Kim Bromfield	South African Financial Reporting Standards Council (SAFRC)
Patrick de Cambourg	Autorité des normes comptables (ANC)
Alberto Giussani	Organismo Italiano di Contabilità (OIC)
Jim Kroeker	Financial Accounting Standards Board (FASB)
Sungsoo Kwon	Asian-Oceanian Standard-Setters Group (AOSSG)
Linda Mezon	Accounting Standards Board of Canada (AcSB)
Yukio Ono	Accounting Standards Board of Japan (ASBJ)
Kris Peach	Australian Accounting Standards Board/New Zealand Accounting Standards Board (AASB)/(NZASB)
Andrew Watchman	European Financial Reporting Advisory Group (EFRAG)

Conceptual Framework for Financial Reporting

1. At this meeting, ASAF members were asked for their views about:

   (a) the Board's tentative decisions at its November 2016 meeting on the liability definition and supporting concepts in the Exposure Draft *Conceptual Framework for Financial Reporting* (Exposure Draft), in particular, on the criteria of 'no practical ability to avoid' and 'as a result of past events' (ASAF Agenda Papers 1C–1E); and

   (b) staff recommendations for the approach to capital maintenance (ASAF Agenda Paper 1G).

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Liability definition and supporting concepts

2. The EFRAG, FASB and AcSB representatives expressed support for the 'no practical ability to avoid' criterion, as well as for the tentative decision to state in the revised *Conceptual Framework for Financial Reporting* (revised *Conceptual Framework*) that the factors considered in applying the criterion would depend on the type of transaction under consideration. Those ASAF members commented that:

    (a) a concept is needed to deal with constructive obligations and situations where some theoretical course of action could prevent a strict legal requirement to transfer resources;

    (b) it is useful to be clear whether liabilities ought to be limited to legal obligations; and

    (c) the general concept of 'no practical ability to avoid' provides a basis for constructive discussion of liabilities at a Standards-level.

3. The DRSC, AASB, AOSSG, GLASS and OIC representatives suggested some improvements in the concept:

    (a) it should be applied in all cases for the concept to be robust and overarching. However, the Board seemed not to have applied it in some cases, for example, for the requirements for variable lease payments in IFRS 16 *Leases*. An IASB member explained that exceptions could apply on complexity and cost/benefit grounds and an IASB staff member clarified that costs and benefits will be discussed in the revised *Conceptual Framework.*

    (b) the concept may be too broad and could lead to non-reciprocal transactions, such as grants, giving rise to liabilities.

    (c) the terminology could lead to narrower than intended interpretations of the definition of a liability. An entity often has the 'practical ability' to avoid a transfer, even in situations in which it will not do so.

    (d) the revised *Conceptual Framework* needs to give equal emphasis to and show a clear link between the 'no practical ability to avoid' criterion and the 'past events' criterion; otherwise liabilities may be recognised for future expenses.

(e) economic compulsion and the substance of a contractual agreement should be clearly linked.

(f) the interpretation of the 'no practical ability to avoid' concept still lacks clarity and that clarification should be provided in the Basis for Conclusions of the revised *Conceptual Framework* at a minimum.

(g) applying the concept may result in different requirements for levies under IFRIC 21 *Levies* and different process for identifying liabilities for restructuring costs under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Those AOSSG members who held this view asked the Board to explain in detail in the Basis for Conclusions the interaction between the new concept and existing Standards.

(h) the phrase 'economic consequences significantly more adverse' is too broad.

4. There was general support for the Board's tentative decision to clarify the meaning of the phrase 'as a result of past events' by referring to an activity of the entity 'that will or may oblige it to transfer an economic resource that it would not otherwise have had to transfer', instead of the activity 'that establishes the extent' of the entity's obligation. The SAFRC representative argued that 'the extent of obligation' is measurement in nature and therefore, the proposed change correctly avoids conflating measurement with past events.

5. Representatives of the SAFRC and the FASB noted that identifying the obligating past event would remain a challenge. In particular, the SAFRC representative stated that levies highlight the challenges in identifying the past events for non-reciprocal transactions. She suggested providing an acknowledgement of this issue in the revised *Conceptual Framework*.

6. The EFRAG and SAFRC representatives welcomed the added clarification that the enactment of a law is not in itself sufficient to give an entity a present obligation. However, the EFRAG representative recommended a change in wording in the revised *Conceptual Framework* to make clear the intended meaning, ie that law will require a transfer that is dependent on some future state or activity.

7. ASAF members also provided some drafting suggestions.

Approach to capital maintenance

8. Agenda Paper 1G had been prepared for the December 2016 Board meeting and was discussed with ASAF prior to that meeting. The staff stated that they would provide a verbal update to the Board on the ASAF members' views.

9. In the paper, the staff recommend that the Board:

   (a) carry forward to the revised *Conceptual Framework* the existing chapter on capital and capital maintenance; and

   (b) introduce that chapter with an explanatory statement that the chapter represents the remaining text of the *Framework for the Preparation and Presentation of Financial Statements* and has not been updated in the Conceptual Framework project. (That explanatory statement would be included in the revised *Conceptual Framework* itself rather than only in the Basis for Conclusions).

10. Some ASAF members acknowledged the importance of the concepts of capital and capital maintenance. They also expressed the view that the chapter in the *Conceptual Framework* is outdated. However, members expressed different views on the way forward.

11. Representatives from both EFRAG and the DRSC disagreed with the staff recommendation to retain the existing chapter on capital and capital maintenance. They expressed the view that the chapter should be deleted until the Board develops improved concepts on capital and capital maintenance. The EFRAG and DRSC members suggested the Board could choose better ways of communicating that it considers those concepts important than carrying forward the existing chapter.

12. The DRSC representative said there was no merit in including 'outdated' discussion unrelated to the rest of the revised *Conceptual Framework*. Instead, he suggested making it explicit that those concepts have not yet been reconsidered by the Board as part of the *Conceptual Framework* project.

13. Other ASAF members expressed concerned that deleting the chapter on capital and capital maintenance would be inappropriate given the importance of those concepts in financial reporting. Those members suggested the revised *Conceptual Framework*, should acknowledge the concepts even if just as a placeholder. In this regard, a

member of the AASB expressed a view that deleting the chapter could jeopardise the chapter from being revised in the future. She expressed support for the staff recommendation to include an explanatory statement in the revised *Conceptual Framework* body, rather than in the Basis for Conclusions. The AOSSG representative supported the staff recommendation.

14. The GLASS representative suggested that inflation in general, rather than just hyperinflation, needs to be addressed by the concepts of capital and capital maintenance.

Country-by-country reporting

15. The AASB has been asked to provide guidance as part of the Australian government's work on the OECD's initiative to improve tax transparency of multinational corporations. At this meeting the AASB sought the views of ASAF members on proposals to improve the understandability of disclosures to comply with IAS 12 *Income Tax* (Agenda Paper 10).

16. In presenting Agenda Paper 10 the AASB representative asked why the Board had decided not to include IAS 12 in its 2017–2021 Work Plan. An IASB staff member explained that, in the light of feedback received in the Agenda Consultation and in the Board's own research project on income taxes, the Board had concluded that:

    (a) stakeholders had little appetite for a fundamental review of IAS 12 now.

    (b) no narrow-scope amendment to IAS 12 was worth pursuing at this stage.

    (c) although investors were dissatisfied with the quality of disclosures provided about income tax, there was not enough evidence to suggest a need to revise the disclosure requirements of IAS 12. In the staff's view achieving improvements in disclosure might be achieved more effectively through initiatives such as education and the Disclosure Initiative than through amendments to IAS 12.

17. The majority of ASAF members did not consider country-by-country reporting on income taxes is necessary to meet the objective of general purpose financial statements. ASAF members noted that the objective of general financial statements is to provide

useful information for primary users of those statements. The representative of the DRSC noted that the root cause of tax transparency is not related to financial reporting.

18. ASAF members made the following additional comments:

    (a) the representative of AOSSG noted its appreciation of the AASB's proactive initiative; however, its other members are not facing the same issue. Research would be needed to establish whether there is a case for amending disclosures in IAS 12 or whether amendments to another Standard, such as IAS 24 *Related Party Disclosures* could address concerns.

    (b) the representative of AcSB suggested that prior to launching standard-setting activities, research should be undertaken on what requirements have already been put in place by regulatory bodies. For example, in certain filings, the US Securities and Exchange Commission requires additional information about taxes paid in jurisdictions where significant operating subsidiaries are located. It was important for companies to report to investors information that would indicate whether they are taking excessive tax risks.

    (c) the representatives from EFRAG and AASB questioned whether now is the right time to revise disclosure requirements in IAS 12 ahead of other Standards and ahead of the forthcoming Discussion Paper *Principles of Disclosure*.

    (d) the representative from SAFRC said that the scope of IAS 12 does not include indirect taxes, and thus the disclosure required by the Standard does not provide a full picture of all taxes paid by entities.

    (e) the FASB representative supported the view that country-by-country reporting on income taxes is not necessary to meet the objective of general purpose financial statements and questioned whether investors would really understand the information by country-by-country reporting. The FASB representative suggested the disclosures were associated with public policy.

    (f) the representative of the ANC stated that it would be important to decide whether the disclosures proposed in the paper were intended for all users, or only for the tax authorities. He commented that there was strong and increasing political pressure to improve disclosure in this area.

(g) the representative of the OIC commented that IAS 12 is old and that it needs rethinking in its entirety, not just in the disclosure requirements.

19. The IASB members present at the meeting shared the views of the majority of ASAF members that country-by-country reporting on income taxes is not necessary to meet the objective of general purpose financial statements. They also acknowledged that it might be useful to consider in due course whether more can be done to improve the quality of disclosures about income taxes, perhaps through the Disclosure Initiative or through education.

IFRS 13 *Fair Value Measurement*—Post -implementation Review (PIR)

20. The purpose of this session was to share and discuss the feedback from Phase 1 of the PIR of IFRS 13 and ask ASAF members for advice on next steps.

21. The IASB staff summarised the outreach completed during Phase 1 of the PIR, noting that the overall messages received were consistent and that stakeholders said the Standard is working well and meets its objectives. The IASB staff noted the following matters raised by stakeholders:

(a) disclosure effectiveness is a concern for all stakeholders. Preparers questioned the usefulness of disclosures for users, especially when aggregated. Users said they found that the disclosures were often boilerplate and needed to include more useful detail.

(b) measurement of quoted investments (the 'PxQ' issue). Some preparers said the current approach produces little meaningful information. Others are asking for clarification on the accounting for these types of investments.

(c) judgements requirements applying IFRS 13; for example, determining when a market is 'active' and establishing when unobservable inputs are 'significant'.

(d) application of 'highest and best use' (HBU) concept for non-financial assets. Stakeholders are concerned about the concept resulting in zero measurement for a working asset, in some situations when assets are valued as a part of a group.

22. Most ASAF members agreed with the feedback regarding the effectiveness of disclosures and the PxQ issue and suggested these areas be investigated further. Some ASAF members also said the use of judgement (in particular for determining when a market is active) and HBU for non-financial assets should be investigated further.

23. Several ASAF members said that IFRS 13 generally works well.

24. Individual ASAF members commented on further matters including:

    (a) the AcSB representative noted issues relating to the valuation of restricted assets and government loans;

    (b) the DRSC representative queried the use of discount rates in a low- and negative-interest rate environment, a query the ANC representative shared;

    (c) the AOSSG representative pointed to a lack of credible and experienced valuers, especially for the measurement of liabilities, saying that such valuers need more education and guidance. Some assets were reported to be particularly hard to measure including intangible assets, biological assets, restricted assets and some financial instruments. This view was shared by other ASAF members.

    (d) the ANC representative mentioned index-based products, which have fewer subsequent transactions and thus less opportunity to be measured at Level 1 of the fair value hierarchy. The ANC representative also commented that the Standard offers no recourse should markets stop functioning.

    (e) the AASB/NZASB representative noted issues with restrictions on assets and entity-specific assets. The AASB/NZASB representative also noted that there are questions about accounting for economic obsolescence in depreciated replacement cost valuations.

25. With regards to next steps, most of the ASAF members expressed support for a public consultation in the form of the Request for Information (RFI) in Phase 2 of the PIR. Most of the ASAF members agreed with the staff that the RFI should target the most significant matters raised during Phase 1, and give respondents an opportunity to comment on other issues.

26. Further advice in relation to next steps and activities during Phase 2 of the PIR included:

(a) The AcSB representative suggested that the IASB staff hold disclosure workshops with users to identify which disclosures in IFRS 13 provide the most useful information and affect their decision to lend or invest capital. The AcSB representative also expressed the importance of IFRS 13 retaining the same level of convergence with US GAAP. Several other ASAF members supported these ideas.

(b) The FASB representative shared their experience of the Post-implementation review of the US GAAP fair value measurement guidance, noting that the investor views on disclosures develop and change over time and that this is an area worth reviewing.

(c) The AOSSG representative suggested that the IASB staff reach out to the jurisdictions which have difficulties with HBU in order to understand the issue from their perspective.

(d) Some of the ASAF members suggested that the Board considers providing more education material on application of the Standard.

(e) Some of the ASAF members indicated that it might be too early for an academic literature review on fair value measurement.

(f) The DRSC representative suggested that the IASB staff expand their literature review to include non-English literature and offered help, and other ASAF members also offered similar help with literature in their own languages.

27. The IASB staff explained that the next step in the project is to report to the Board at its January 2017 meeting.

Rate-regulated Activities

28. At this meeting, ASAF members considered whether the staff's preliminary proposals for a new accounting model for rate-regulated activities (the model), outlined in Agenda Paper 3, addressed their previously expressed concerns about:

(a) scope of the model;

(b) interactions with other IFRS Standards and the *Conceptual Framework*; and

(c) segregating identifiable rate adjustments from the overall changes in value of the regulatory licence/agreement.

Scope of the model

29. The model focuses on the specified regulatory adjustments that arise through the rate-setting mechanism to ensure that the scope of the accounting model is tightly drawn. The AASB member noted the importance of the regulatory agreement to identify adjustments that are within scope of the model, to avoid the model being applied by analogy to other situations.

30. ASAF members generally supported the scope of the model, although, representatives of the ASBJ and AASB expressed a concern that there could be a 'cliff' effect between entities in the scope of the model and entities outside its scope. Others, including representatives of EFRAG, DRSC, and AOSSG noted that focusing the scope on the regulatory adjustment and its enforceability could reduce possible conceptual controversies and to enable a more principle-based outcome for the project.

Interactions with other IFRS Standards and the *Conceptual Framework*

31. ASAF members generally supported the model's:

(a) focus on the 'customer-base', instead of individual customers; and

(b) supplementary approach; ie an entity applies other IFRS Standards, including IFRS 15 *Revenue from Contracts with Customers*, before applying the model.

32. The AOSSG representative stated that the rate regulator's use of the customer-base when establishing the rate is the main feature of rate regulation that distinguishes it from the non-rate regulation environment.

33. Many ASAF members supported the model's supplementary approach because:

(a) it is more transparent and will probably be less complex to both develop and apply the model; and

(b) the separation helps to distinguish between the rights and obligations established between the entity and individual customers (which is reflected by applying IFRS 15) and the different rights and obligations established between the entity and the customer-base (reflected through the model).

34. Representatives of the DRSC and SAFRC acknowledged that there are benefits to the supplementary approach but suggested that, conceptually, it could be easier to understand the effects of the regulatory agreement if the model adjusted the revenue line item in profit or loss, instead of the regulatory adjustments being presented separately.

35. The representative of the AASB acknowledged that recognising regulatory assets and regulatory liabilities using the model would provide valuable information to users of IFRS financial statements. However she is yet to be convinced that they clearly meet the definitions of assets and liabilities in the *Conceptual Framework*.

36. Representatives of the AASB, GLASS, OIC, DRSC, EFRAG and SAFRC raised the following points for further consideration as the model is developed:

(a) measurement, especially around the measure of progress, time value of money and impairment;

(b) the interaction with IFRIC 12 *Service Concession Arrangements*, especially the intangible asset model; and

(c) accounting for regulatory obligations related to the entity's own assets.

Segregating identifiable rate adjustments from the overall changes in value of the regulatory licence/agreement

37. The model recognises regulatory adjustments that:

(a) relate to past transactions and events;

(b) can be identified and measured with a reasonable level of certainty; and

(c) are included, or expected to be included, in the future rate charged to customers.

38. ASAF members generally supported this approach. The AASB representative noted that she thinks the combination of rights and obligations created by the regulatory agreement/licence form a single intangible asset and developing a model to reflect the broader effects of rate regulation could provide more relevant information. However, she also acknowledged that users of IFRS financial statements are more interested in

the regulatory adjustments and, taking into consideration the costs / benefits she is willing to support further development of the model.

Next steps

39. The staff explained that the Board would receive an oral update on the ASAF discussion at its December 2016 meeting when it was due to discuss the model.

Disclosure Initiative

Working with national standard-setters

40. The IASB staff provided an update on the progress of a report that will provide examples of entities that have improved the way they communicate in their financial statements. At their meeting in September 2016, ASAF members were asked to identify entities in their jurisdictions that could be used as examples in this report. The IASB staff thanked the ASAF members for the suggestions received. The IASB staff informed ASAF members that they had received approximately 30 suggestions from 6 different jurisdictions and that they were currently analysing the financial statements of these entities.

41. When the IASB staff have selected the entities they will conduct interviews with management with the aim of publishing the report during the second quarter of 2017. The IASB staff noted that ASAF members could still send additional suggestions for entities to be included in the report.

Discussion about the Disclosure Initiative at the AOSSG meeting

42. The AOSSG representative provided an update on a session of the Disclosure Initiative that took place at the AOSSG annual meeting in New Zealand in November 2016. In that session two topics included in the forthcoming Discussion Paper *Principles of Disclosure* were discussed:

    (a) the principles of effective communication; and

    (b) the use of performance measures in the financial statements.

43. The AOSSG representative noted that attendees at the AOSSG meeting generally agreed with the principles of effective communication. However, they raised some observations and suggestions:

(a) the focus on entity-specific information should not lead to reduced comparability;

(b) the principle that information should be described as simply and directly as possible could be combined with the principle that information should be provided in a format that is appropriate for that type of information. Combining these two principles would help better reflect the interrelationship between these two principles;

(c) the principle that information should be organised in a way that highlights *important* matters was found to be obvious. To make the principle more substantial it was suggested that it should refer to 'relevant matters related to the understanding of an entity's performance and risk' (ie the resulting principle could be 'information should be organised in a way that highlights important and relevant matters related to the understanding of an entity's performance and risk').

(d) The seven principles of effective communication could be streamlined into three broader principles. Namely, information should be:

(i) entity-specific;

(ii) organised in a way that highlights important matters which are relevant to the understanding of an entity's performance and risk; and

(iii) disclosed in a way that optimises comparability.

44. The AOSSG representative also noted that attendees at the AOSSG meeting stated that the application of these principles will ultimately depend on the way entities apply the concept of materiality and management's attitude towards the application of these principles. To help implement these principles in practice, the attendees suggested that the Board work closely with regulators to make the principles more concrete and enforceable whilst reducing, at the same time, the overlap between accounting and regulatory requirements.

45. The attendees agreed that the Board should explore requiring an operating profit sub-total. They suggested that the Board consider:

    (a) a principle based approach that considers operating profit from a management's point of view; and

    (b) developing industry-specific guidance.

46. The attendees agreed that a separate presentation of non-recurring, irregular and unusual items was useful. However they were sceptical about the level of consistency that could be achieved in the presentation of such items.

47. The attendees also suggested that the definition of operating profit and the definition of operating cash flows should be aligned and that the Board should, at a minimum, attempt to define Earnings Before Interest and Tax (EBIT).

48. However, the attendees acknowledged that even if the Board defined EBIT, investors may still adjust the IFRS reported amounts to satisfy their own specific information needs. They believe that if the line items in the income statement are adequately disaggregated, investors will not require guidance to arrive at their preferred performance measure.

Digital currency

49. Kris Peach, of the Australian Accounting Standards Board (AASB), introduced an AASB paper asking members for their views on whether and how the Board should address digital currency issues. She noted that this matter had been raised by some respondents to the Board's 2015 Agenda Consultation.

50. Paul Ferris of the UK Digital Currency Association provided an overview of digital currencies and the technology which underlies digital currencies. He noted that some of the main differences between cryptocurrencies and fiat currencies are that cryptocurrencies are entirely digital and there is no central government issuing authority.

51. Kris Peach noted that cryptocurrencies would generally qualify as assets. The challenge was to identify the type of asset it represents. Henri Venter, AASB representative presented the AASB paper.

Type of asset

Cash

52. Henri Venter noted that IFRS Standards do not define cash. Paragraph AG3 of IAS 32 refers to cash as a 'medium of exchange'. However, it is not clear as to how widely accepted a payment method has to be in order to qualify as a medium of exchange, and therefore as cash. In the AASB's view, cryptocurrencies are not currently at a stage where they would be considered as cash. This is because:

    (a) such currencies are not 'legal tender' and therefore are not mandatorily exchangeable.

    (b) economists would generally consider cash to have a stable value. However, the value of cryptocurrencies has generally been volatile to date.

53. The IASB staff noted that economists also say that cash is a 'unit of account'. However, they had not identified instances of goods being priced in any cryptocurrency. The Chair noted that several currencies are volatile, and questioned whether cash needs to have a stable value. Staff research also identified that most companies that currently accept cryptocurrencies as payment in exchange for goods or services do not hold any Bitcoin.

54. Members exchanged views on whether cryptocurrencies should be accounted for as cash, and thought that it was unclear whether they could be. Some points raised in the discussion included the following:

    (a) the ASBJ representative stated that even if cryptocurrencies cannot be considered cash at present, they are evolving and might be considered cash in the future.

    (b) the AcSC and GLASS representatives said that in their view, cash should have legal status.

    (c) the GLASS representative also noted that, in his view, cash should be generally accepted. He also noted that a currency does not need to be stable to be considered cash.

Other type of asset

55. Henri Venter then discussed whether cryptocurrencies would qualify as other types of assets if they are not cash. He thought that cryptocurrencies would not meet the definition of a financial asset (other than cash) because there is no contract which provides the holder with a contractual right. Cryptocurrencies might meet the definition of an intangible asset in IAS 38 *Intangible Assets* or if held for sale in the ordinary course of business would be inventory in IAS 2 *Inventories*.

Should the Board address the accounting for cryptocurrencies?

56. Henri Venter questioned whether the measurement outcomes applying either IAS 38 or IAS 2 were appropriate and noted that the issues encountered are similar to those encountered for other intangible assets (eg emission trading rights) and commodities (eg gold). He also noted that, in his opinion, an entity should generally measure cryptocurrencies at fair value through profit or loss. However, there is currently no IFRS Standard which permits measurement at fair value through profit or loss for intangible assets. The AASB suggested, in their paper, that standard setting activity would be required to address this issue.

57. ASAF members expressed the following views:

    (a) a large number of members thought that cryptocurrencies was in its infancy and was evolving. Accordingly, they did not think this is the appropriate time to address the accounting for cryptocurrencies. However, many of these members recommended that the Board continue to monitor developments in this area.

    (b) some members noted that if the Board were to take on any project, it should be narrow scope.

    (c) some members stated they would support a wider project to address the broader issue of measuring some intangible assets and commodities at fair value through profit or loss. The EFRAG representative suggested that the Board could consider this upon the completion of the *Conceptual Framework*, including the new measurement chapter. However, he noted that the Board had recently completed its Agenda Consultation project and should not add this project to its agenda at this stage.

Conclusion

58. Based on the feedback, Kris Peach, the AASB representative, agreed that having just recently completed the Agenda Consultation, this might not be the appropriate time to add this project to the Board's agenda. However, she suggested that the Board continue to monitor developments in this area. The Chair agreed with this suggestion.

Financial Instruments with Characteristics of Equity

59. The IASB staff updated the ASAF members and asked for input on the Financial Instruments with Characteristics of Equity research project and its outreach.

60. ASAF members provided the following input:

    (a) many ASAF members suggested that prudential and securities regulators are consulted to ensure they are aware of any possible changes to classification outcomes from those in IAS 32 *Financial Instruments: Presentation*.

    (b) some ASAF members identified entities the Board may want to consider in its outreach plan:

        (i) several ASAF members suggested that the Board target regulated financial institutions because of the potential effects of any changes in classification.

        (ii) the EFRAG representative observed that smaller start-up entities typically have complex financial arrangements in place that present challenges from a classification perspective.

        (iii) the AOSSG representative suggested a focus on growing economies because such economies often have complex funding arrangements including multiple currencies to attract investment.

    (c) the AASB representative suggested separate workshops for investors and preparers to obtain feedback on presentation and disclosure.

61. Some ASAF members suggested the Board consult widely because it may be too early to know the extent of potential classification changes.

Insurance Contracts project

62. The session updated ASAF members on IFRS 17 *Insurance Contracts*, including the Board's tentative decisions at its November 2016 meeting and the next steps for the publication of the new Standard, which is expected in March 2017. These decisions are reflected in an updated draft of the new Standard circulated for external review by selected parties, including the members of the International Forum of Accounting Standard Setters (IFASS).

63. Many ASAF members provided comments in the light of this updated draft of the new Standard. Representatives of the AcSB and the OIC noted that the draft of the Standard circulated for external review did not include the draft Basis for Conclusions to accompany the Standard; this did not facilitate the review. The IASB staff commented that the Standards should be authoritative on a standalone basis.

64. Representatives of the ASBJ, the AcSB and the AASB stated that, on balance, insurance entities in their own jurisdictions are satisfied with the Board's recent decisions. In addition, the AcSB representative acknowledged that the biggest insurance entities in Canada viewed the most recent field testing conducted by the Board as worthwhile and transparent.

65. Representatives of the ANC, the AOSSG, the ASBJ and the OIC suggested that the Board clarify the interaction between the requirements of aggregating only contracts issued in the same year and the effect of mutualisation between policyholders. The ANC representative expressed the view that the concept of mutualisation includes the risk transfer between policyholders when a new policyholder joins a population of existing policyholders. The OIC representative was concerned that some insurance contracts—those priced for commercial and/or regulatory reasons at a portfolio level, rather than on a contract-by-contract basis—might not be adequately portrayed by the Board's tentative decisions on the level of aggregation.

66. A Board member said the new Standard is expected to change practice and the concept of mutualisation will be an inherent part of the cash flow measurement in applying the new requirements. The Standard does not use the word 'mutualisation' because the term has multiple meanings. Another Board member explained that mutualisation is inherent in the entire Standard because it takes into account probability-weighted calculations and the law of large numbers.

67. The GLASS representative noted that the new requirements might present an operational challenge. He stated that the determination of the level of aggregation based on risk, rather than on a similar expected profitability, is consistent with a managerial perspective. However, he was concerned about how to distinguish changes in estimates recorded on profit or loss from changes in estimates requiring an adjustment to the contractual service margin.

68. A Board member said the Board's tentative decisions aimed to clarify the distinction between these two types of changes in estimates and the reasons for the distinction. In particular, he noted that the contractual service margin will be adjusted only if the change refers to the future expected cash flows.

69. The ANC representative also raised the following points for consideration:

(a) the release of the contractual service margin based on time passing, including the notion of coverage units and the implications when first applying the new Standard;

(b) the scope of the variable fee approach that, in addition to the contractual obligations, should consider constructive obligations and the economic substance of the transactions;

(c) the relationship between IFRS 9 *Financial Instruments* and the new accounting requirements for insurance contracts needs to be consistent and not create mismatches beyond those that management has not eliminated through appropriate asset management; and

(d) the accounting for hedging and experience adjustments.

70. The IASB staff commented that most of these concerns also emerged from the external testing process and were addressed by the Board at its November 2016 meeting.

Update by ASAF members on activities

71. ASAF members gave an update on their activities. Appendix A provides a table of ASAF members' activities.

Project updates and agenda planning

72. The IASB staff updated the ASAF on IASB technical projects and provided a summary of how the Board had used the ASAF advice from the previous meeting. The ASAF members also agreed to the proposed agenda topics for the March 2017 meeting.

Appendix A: Update by ASAF members on activities

Update by ASAF members on activities	
ASAF Member	**Planned activity**
European Financial Reporting Advisory Group (EFRAG)	• Activities to support endorsement advice on IFRS 16 *Leases* and *Applying IFRS 9* Financial Instruments *with IFRS 4* Insurance Contracts (Amendments to IFRS 4 *Insurance Contracts)***.** A comprehensive impact study is being undertaken as part of the process for the endorsement advice on IFRS 16. EFRAG is willing to share the results of the study with the ASAF at a future date. • Dynamic risk management—in support of the Board's project, outreach is being undertaken on structured balances. • Goodwill and Impairment—this project is considering possible improvements to the impairment model in IAS 36 *Impairment of Assets.* • Discount rates—researching the effects of the low or negative interest rate environment**.** • Pension (hybrid) plans—investigating the prevalence of these plans. • Statement of cash flows—a discussion paper, published by the UK Financial Reporting Council (FRC), is out for comment. • The FRC has published a consultation document: *The Financial Reporting Council's Corporate Reporting Research Activities.*

Appendix A: Update by ASAF members on activities

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<tr><th colspan="2">Update by ASAF members on activities</th></tr>
<tr><th>ASAF Member</th><th>Planned activity</th></tr>
<tr><td>Australian Accounting Standards Board (AASB)/New Zealand Accounting Standards Board (NZASB)</td><td>Both the NZASB and the AASB are reviewing their Reduced Disclosure Frameworks.
The AASB is also reviewing who should lodge general purpose financial statements.
AASB is following the post-implementation review of IFRS 13 Fair Value Measurement, and extending the review to include the not-for-profit sector.
AASB is researching:
the discount rate to be applied to public sector pension funds;
tax disclosures; and
service performance reporting in the not-for-profit sector.
AASB is researching guidance on remuneration reporting.
NZASB is continuing its work on users’ information needs for the not-for-profit sector.</td></tr>
<tr><td>Accounting Standards Board of Japan (ASBJ)</td><td>Performance reporting—this project will consider the concepts for reporting performance in addition to presentation.
Goodwill—the staff are conducting interviews with users of financial statements.
Discount rates –the negative interest rate environment and discounting is being researched.</td></tr>
<tr><td>Accounting Standards Committee of Germany (DRSC)</td><td>Pensions—the aim of this project is to prepare a paper to be submitted to the IASB on pension plans where the risks are shared.
Pensions—the accounting requirements for reclassification of a defined contribution plan to a defined benefit plan in accordance with IAS 19 paragraph 46.
IFRIC agenda decisions—a review of open issues where entities have no guidance and there is some regulatory risk is being undertaken.
Earnings per share—reviewing issues discussed with regulators.
IFRS 2 Share-based Payment—implementation guidance may be developed; and
Disclosure Initiative—a research symposium will be held to evaluate how the different strands of financial reporting can be interrelated and lead to better communication in financial reports.</td></tr>
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ASAF Member	**Planned activity**
United States Financial Accounting Standards Board (FASB)	• The active agenda includes: ▪ implementation of the revenue standard—including guidance for customers and non-customers; ▪ definition of a business; ▪ simplification to goodwill assessment testing—eliminating the step two approach which is likely to move US GAAP requirements closer to IFRS requirements; and ▪ improvements to hedge accounting and insurance accounting. • Projects from the Agenda Consultation: ▪ liabilities and equity; ▪ financial statement performance reporting; ▪ intangibles; and ▪ pensions.
Accounting Standards Board of Canada (AcSB)	• Establishing implementation group to support the forthcoming Insurance Contracts Standard. • Continuing to support implementation of IFRS 9, IFRS 15 and IFRS 16. • Researching the needs of users for private entity and not-for-profit entity financial statements. • Pensions—researching hybrid pensions schemes in the public sector. • Rate-regulation—it is anticipated a discussion research paper on the Decision Usefulness of Financial Information that reflects the Economics of Rate-regulated Activities will be published in early mid-2017.
Group of Latin American Standard Setters (GLASS)	• Disclosure project—the regulation to release immaterial information has had an important effect. A significant number of footnotes have been removed from the financial statements. • Standard-setting is currently a voluntary activity and there is no research group, funding is being sought to support research activities.

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ASAF Member	**Planned activity**
South African Financial Reporting Standards Council (SAFRC)	• Guidance is being developed on the legal aspects of offsetting financial assets/liabilities to address a concern that entities are not applying principles correctly. • Country-by-country reporting—to address a question on whether IAS 12 disclosures are adequate. • Reduced disclosure framework for subsidiaries—researching disclosures for small and medium-sized entities' financial statements.
Autorité des normes comptables (ANC)	• Forming groups to support the IASB's projects on Rate-regulation and Insurance. • Holding annual symposium of financial statements performance reporting. • Projects related to discount rates, performance reporting, goodwill and pollutant pricing mechanisms. • Evaluating the *Conceptual Framework for Financial Reporting* and how it contrasts with the EU Accounting Directive (ie on prudence). • Working on modernisation of French standards, including not-for-profit entities.
Asian-Oceanian Standard Setters Group (AOSSG)	• Korea and Hong Kong have formed a task force for technical support of new IFRS Standards (IFRS 9 and IFRS 15). • Supporting small/medium auditors/practitioners. • Hong Kong is researching Business Combinations under Common Control. • To support the Financial Instruments with Characteristics of Equity project, Hong Kong is reviewing types of claims and evaluating them alongside the Gamma approach being considered by the IASB.
Organismo Italiano di Contabilità (OIC)	• Modifications to the EU Accounting Directive requires a focus on local GAAP. The revisions being made to local GAAP aim to reduce differences between IFRS Standards and local GAAP (leases being an exception). • Post-implementation reviews of the new local GAAP will be conducted. • The new local GAAP will be translated into English.