

Analyst Representative Group and Global Preparers Forum meeting

25 June 2010

This document is an IASB staff summary of the matters discussed at the public sessions of the joint meeting of the Analyst Representative Group and Global Preparers' Forum that took place in London on 25 June 2010.

All of the papers discussed by the Analyst Representative Group and Global Preparers' Forum in the public sessions are available on [the Analyst Representative Group meeting page](#) on the IASB website. A full recording of each of the public sessions is also available on the pages of the projects discussed.

Work plan update

1. Stephen Cooper, IASB member, welcomed a new ARG member, Dennis Jullens, and two new GPF members, Gerard Gil and Gregg Nelson.
2. Sir David Tweedie, Chairman of the IASB, provided an update regarding the IASB work plan with respect to the deadline of 30 June 2011 for the completion of major MoU projects.
3. Sir David reminded the members that this deadline forms part of a request by the G20 for the IASB and FASB to enhance their convergence efforts, for several reasons:
 - (a) Accounting convergence is an important element in the efforts to reform global financial markets;
 - (b) This deadline will help those jurisdictions that will soon apply IFRSs, such as Canada and Mexico and some Asian economies, such as South Korea, India, Japan, Malaysia, Indonesia and Singapore, in their efforts to adopt IFRS; and
 - (c) The US will make a decision on adoption of IFRSs in 2011 in the light of the results of the convergence project.
4. An update was then provided on the following projects:
 - (a) Consolidation;
 - (b) Derecognition;
 - (c) Financial Statement Presentation (FSP);
 - (d) Liabilities with characteristics of equity;
 - (e) Fair Value Measurement.

5. Contrary to the press reports, no delays to the work plan have occurred, but instead, in order to make it possible for constituents to provide good responses, the IASB and the FASB have agreed to space the Exposure Drafts and to focus on four most important joint projects: Revenue Recognition, Leases, Insurance Contracts and Financial Instruments.
6. Sir David emphasised that although a converged outcome for financial instruments was ideal, if a converged position was not achievable it was important that the financial statements be presented in a way that makes it easy for users to reconcile IFRS compliant financial statements with those prepared in accordance with US GAAP.
7. Sir David was asked to describe what conditions the IASB would see as justifying focusing on reconciling the financial statements. Sir David re-emphasised that a single converged standard would be most desirable solution for investors and regulators but that the FASB's preference for a full fair value balance sheet is not consistent with the preference of the IASB. The IASB was committed to a mixed attribute model. Patricia McConnell, IASB member, commented that it is not clear that there is an appetite in the US for a full fair value approach and that analysts would need both amortised cost and fair value information anyway.
8. A GPF member asked about the status of the IAS 37 project. Sir David noted that this project will be considered and discussed with the new board members and that no decisions were taken about its future developments. Sir David needed to leave the meeting at this point.
9. Alan Teixeira, Director of technical activities, discussed other projects on the work plan. He noted that, although the IASB will focus on the four main projects: Financial Instruments, Leases, Revenue Recognition and Insurance Contracts, other projects were also important. These include a proposal to exempt investment companies from consolidation, as is already the case in the US. An Exposure Draft for the Investment Company proposal will be issued in the third quarter this year. The Board is also looking at asset and liability offsetting, for which an Exposure Draft is planned for the fourth quarter of this year.
10. Stephen Cooper and Alan Teixeira clarified that the FSP project is still very active and soon a staff draft will be published. Jan Engström, IASB member, added that one

of the considerations about the FSP project was also timing because it would be appropriate to deal with the major outstanding projects and then deal with presentation issues.

11. A GPF member asked for an update on projects on Joint Arrangements and on Income Taxes. Alan Teixeira said that the IFRS on joint arrangements is due for publication in the third quarter of 2010. Peter Clark, Director of Research, responded that the scope of the project on Income Taxes has been cut back significantly from what was exposed last year. The IASB intends to deal with deferred tax on property revaluations, uncertain tax positions and some other proposals, mainly on less significant issues, that were proposed in the 2009 exposure draft and had attracted general support.
12. A GPF member asked for more details on the current status of the IAS 37 project. Peter Clark replied that the IASB is aware its proposals are not widely supported. The staff plan to ask the IASB to discuss the comment letter analysis in September and at that meeting define the strategic direction of the project.
13. A GPF member asked whether the IASB's proposals on hedge accounting will also cover portfolio hedging. Stephen Cooper noted that the board has not discussed portfolio hedging.
14. An ARG member, regarding the FSP project, asked whether there already exist a precedent at the IASB for a staff draft and what the purpose of this document is. Alan Teixeira replied that a recent precedent is the Discussion Paper for the Extractive Activities project. The board did not want a nine months exposure period so decided to make available the research team's work to provide people in the extractive industry with an initial view of the research team's thinking. It is also a document that provides a basis for outreach activities. Another precedent is consolidation for which early drafts of the proposals were circulated widely.
15. An ARG member asked whether the proposals in the FSP staff draft are open for re-debate and may be subject to substantial change or even refusal by new board members. Patricia McConnell stated that she sees this staff draft as a "first" Exposure Draft, or as a sort of "dress rehearsal" for the actual Exposure Draft. One of the GPF members welcomed the fact that the board is taking more time for gathering inputs from the investor community on the FSP project, but had the impression that in some

instances the board had not taken into account the feedback received and carried on with its decisions. He therefore invited the IASB to explain more the proposals for the FSP project, especially the choice of a direct cash flow statement.

16. Stephen Cooper clarified that the staff draft includes a basis for conclusions that provide the reasoning behind the choices made by the board and that the conclusions the IASB has reached are different from the ones in the Discussion Paper. Jan Engström added that the staff draft will provide useful inputs for a future Exposure Draft so that the board will have a better basis either for confirming the conclusions the board has already reached or for changing its position.

17. An ARG member commented that it would be useful to know what the time expectations are for the FSP project. Alan Teixeira observed that the current timetable plan is for an exposure draft to be published in the first quarter of 2011.

18. A GPF member asked about the effective dates for the forthcoming IFRSs because this is a critical aspect for companies that are moving towards the adoption of IFRSs. Alan Teixeira replied that the boards will discuss a separate paper on effective dates and clarified that none of the major projects will have an effective date before 1 January 2013, but possibly for some projects a later date will be needed.

19. A GPF member asked whether it will be possible in the future to have a quantitative overview of the comments as this would help in explaining the different positions to CFOs. Alan Teixeira replied that the IASB's policy is not to provide quantitative indications on the comments received because this can be misleading. Jan Engström noted that the comment letter summary presents high-level demographic information. Alan Teixeira also said that the IASB is planning to publish a summary of comment letters on the web site. A similar summary is usually provided by staff to IASB members within 5-6 weeks after the comment deadline. This comment letter summary would be useful also to support or to explain certain proposals.

20. A GPF member asked whether the IASB will coordinate its outreach activities, including field testing and roundtables with the FASB. Alan Teixeira replied that there is coordination for outreach with the US. Jan Engström added that the IASB is involved in both formal and informal outreach activities, and informal outreach is usually a very useful complement to the formal outreach.

Financial Statement Presentation

21. The preparers and analysts were split into three separate groups to discuss one topic each including disaggregation, classification/format and cash flow statement.
22. After each group discussed its respective topic for 45 minutes, the groups returned for a collective discussion.
23. One member reported the following from the disaggregation session:
 - (a) Consensus that more relevant disaggregation is useful
 - (b) Disagreement regarding the level of disaggregation
 - (c) Preparers would like the choice to display by-nature or by-function on the face of the statement
 - (d) Consensus that it is only possible to disaggregate by one attribute on the statement
 - (e) Must be an understanding for how much consistency and comparability can be achieved
24. One member reported the following from the classification/format session:
 - (a) Consensus that the balance sheet as it is today is not broken therefore some resistance to changing it
 - (b) Support for changes to format and sections/categories
25. One member reported the following from the cash flow information session:
 - (a) Consensus that the indirect method should be maintained on the face of the statement of cash flows and the starting point should be operating profit
 - (b) Some support for the direct method among users
 - (c) Consensus that analysts are looking for better cash flow information

Leases

26. The preparers and analysts were split into three separate groups to discuss one topic each.
27. Group 1 discussed the right-of-use model for lessee accounting and lessee accounting for options. The group generally supported one model for lessees. However, it raised the following issues:

- (a) symmetry between lessee and lessor accounting
- (b) materiality should govern accounting for short-term leases. The proposed exemption for such leases is inappropriate because companies have capitalisation thresholds and following the threshold is a better way to account for short-term leases
- (c) some disagreed with the income statement effect of applying the model, resulting in up front recognition of expenses
- (d) some disagreed with lessee's accounting for an arrangement with lease and service components as leases.

28. The majority of the group agreed with the proposed accounting for options to extend or terminate. They reasoned that the proposal is a practical solution and could not find a better alternative (not accounting for options at all versus including all).

29. One member commented that an option to extend or terminate should not be recognised until its exercise and should be valued separately.

30. Another member noted that the proposed 'more likely than not' approach is better than the minimum contractual approach because it clearly takes account of the fact that an entity is a going concern of and it provides useful information.

31. A member commented that the issue is whether the option meets the definition of a liability.

32. Members agreed with the proposed disclosure requirement on maturity analysis, but one member questioned whether the disclosure would provide any insights if the obligations are accumulated on a company level.

33. Members also agreed with the proposed accounting for purchase options, but noted that it is inconsistent with accounting for term options.

34. Group 2 discussed the lessee's accounting for contingent rentals. The group strongly supported the proposal that the lessee's liability should include amounts which are more than the minimum contractual amounts, and thought that the proposed disclosure requirement of maturity analysis is helpful. However, they raised the following issues:

- (a) measurement approach – some disagreed with the proposed expected outcome technique

- (b) consistency with IAS 37
- (c) for a usage-based contingent rentals, likely usage rate (continuing distribution of usage) is more useful than the probability-weighted rate
- (d) in practice, it will be difficult to audit and estimate
- (e) one preparer member noted that determining an estimate is onerous and the result does not provide comparable information.

35. Group 3 discussed the hybrid model for lessor accounting. The group strongly disagreed with the model and questioned why there are two models for lessors in contrast to one model for lessees, and it preferred the derecognition model to the performance obligation model for lessor accounting.

36. The group reasoned that the performance obligation model does not reflect economics and is not symmetrical to lessee accounting. It raised the following additional issues:

- (a) boundary between service and lease is very important
- (b) concern over the P/L effect of applying the lessor accounting models, including short-term leases
- (c) B/S presentation between lessees and lessors should be the same, but the P/L presentation could be different
- (d) lessor accounting for options and contingent rentals – any indicators?
- (e) lessor accounting should depend on business model, eg investment property, car rentals.