Summary note of the Accounting Standards Advisory Forum

Held on 26 and 27 March 2015 at the IASB office, 30 Cannon Street, London

This note is prepared by staff of the International Accounting Standards Board (IASB), and is a high-level summary of the discussion that took place with the Accounting Standards Advisory Forum (ASAF). 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 (GLASS)
Kim Bromfield	South African Financial Reporting Standards Council, supported by the Pan African Federation of Accountants (PAFA)
Clement Chan	Asian-Oceanian Standard-Setters Group
Françoise Flores	European Financial Reporting Advisory Group
Russell Golden	Financial Accounting Standards Board (US)
Lu Jianqiao	Chinese Accounting Standards Committee
Roger Marshall	Financial Reporting Council (FRC) (UK)
Ana Martinez-Pina	Instituto de Contabilidad y Auditoria de Cuentas (Spain)
Linda Mezon	Accounting Standards Board of Canada (AcSB)
Yukio Ono	Accounting Standards Board of Japan (ASBJ)
Kris Peach	Australian Accounting Standards Board

Financial instruments with characteristics of equity

1. At this ASAF meeting the IASB staff:

   (a) provided feedback to ASAF members on the IASB's tentative decisions regarding the scope of the research project and the interaction with the *Conceptual Framework* project; and

   (b) sought ASAF members' views on the implications for the research project of the feedback that the EFRAG received on its Discussion Paper *Classification of Claims*.

2. In discussing the scope of the research project and the interaction with the *Conceptual Framework* project, ASAF members discussed:

   (a) the difficulty in communicating the interaction between the two projects, but the necessity of doing so because the forthcoming Exposure Draft on the *Conceptual Framework* will include some proposed changes to the definition of a liability.

   (b) the point that equity instruments are not economic resources of an entity. One ASAF member stated that they are economic resources of the holders and, in that sense, the holder may be indifferent between receiving economic resources or equity instruments of the entity. Another ASAF member suggested that the focus of the classification should be on the state of the claim at the reporting date, not the possible state of the claim in the future: it was possible that a claim might be a liability at the reporting date even if future settlement by the issue of equity instruments was probable.

(c) the entity versus proprietary perspectives of financial reporting. Some ASAF members suggested that the IASB should consider the implications of the perspective of financial reporting for the distinction between liabilities and equity. Other ASAF members suggested that considering the entity perspective would not provide any direction and would be more of a distraction.

(d) the additional complexity introduced when considering consolidated entities. Some ASAF members stated that considering consolidation was beyond the scope of the project, nevertheless it may be relevant when considering the context of some of the problems.

(e) the feasibility of addressing some of the problems in the project without a fundamental rethink. Some ASAF members stated that some of the issues were to do with the fundamental principles of IAS 32 *Financial Instruments: Presentation*. The IASB staff stated that the objective would be to underpin some of those principles with a more robust basis, and to see whether other presentation and disclosure requirements could help alleviate the problems without shifting the classification of many other claims that do not present problems.

3. The EFRAG staff presented a paper outlining the issues that their Discussion Paper explored and the responses they received. The EFRAG prepared the Discussion Paper to provide input into this research project. The IASB staff presented a paper outlining the implications for the research project of the EFRAG's work.

4. ASAF and IASB members commended the EFRAG for its work, with many noting that it was very informative and useful.

5. In discussing the implications of the EFRAG's work for the research project, ASAF members discussed:

(a) the competing objectives given the existing accounting outcomes of the classification. Different ASAF members placed a different priority on each of the objectives of depicting liquidity, solvency, performance and returns to holders of a particular class of instrument. Others stated that neither liquidity nor solvency could be completely depicted without a complete recognition and equivalent measurement of the assets. ASAF members suggested that the IASB should consider the objectives, but it should be aware that the financial statements as a whole need to meet those objectives. The distinction between liabilities and equity plays a role in meeting those objectives, but it cannot achieve those objectives in isolation.

(b) the objective of financial reporting and the need to meet users' information needs. One ASAF member stated that users have very diverse needs and it would not be possible to satisfy all of them. Another ASAF member stated that the overall needs of users needs to be understood, given that the objective of financial reporting is to satisfy common information needs. Some ASAF members stated that claims have many different characteristics and that a single distinction cannot communicate all of these differences. One IASB member suggested an enhanced statement of changes in equity as a possible solution. ASAF members acknowledged that the IASB will have to consider other ways of presenting information about claims, which would be relevant to users but that is not conveyed using the selected distinction. Some ASAF members stated that this was already done to depict dilution through earnings per share.

(c) whether a liability should be defined positively and whether equity should continue to be defined as a residual interest. Most ASAF members agreed with such an approach. Some ASAF members acknowledged that some objectives may be achieved by defining additional subclasses of liabilities or equity.

(d) whether measurement should be a consequence of classification. One ASAF member thought that how a claim should be measured is independent of the classification decisions. Other ASAF members thought that claims classified as equity could only be subject to indirect measurement as a residual; requiring direct measurement for some of these claims would be introducing a third element. Some ASAF members suggested that the more important issue was whether the subsequent changes in the measurement of a claim are income, expense or something else.

Conceptual Framework

6. An IASB member explained that the purpose of this session would be to provide comments and suggestions that would be useful to ASAF members when developing their comment letters and to the IASB in its redeliberations on the forthcoming *Conceptual Framework* Exposure Draft.

7. Tomo Sekiguchi, from the ASBJ, presented two papers discussing:

   (a) the identification, description and classification of measurement bases; and

   (b) the role of the nature of an entity's business activities in accounting standard-setting.

8. ASAF members thanked the ASBJ for providing the papers.

Identification, description and classification of measurement bases

9. Some ASAF members expressed support for the classification of measurement bases suggested in the ASBJ's paper. In particular they stated that:

    (a) classifying measurement bases based upon whether the inputs into the measurement are fully updated, partially updated or locked-in reflects the way in which many think about measurement bases; and

    (b) the distinction between market participant assumptions and entity-specific assumptions when measuring assets and liabilities is an important distinction that should be considered in the *Conceptual Framework*.

10. However, some ASAF members disagreed with the approach suggested in the paper and suggested that classifying measurement bases as current value or historical cost (as will be proposed by the IASB in the forthcoming Exposure Draft) would be more understandable to stakeholders. In addition, some ASAF members expressed concerns about the introduction of new terms to classify measurement bases. They expressed the view that those new terms could be confusing.

11. Some ASAF members agreed with the suggestion in the ASBJ paper that it is unnecessary to classify measurement bases based on the distinction between entry values and exit values. However, others expressed the view that the market (entry or exit) in which an entity transacts can have important implications for measurement, particularly where the entity is unable to exit the market in which it had acquired an asset, and that this view should be considered in the *Conceptual Framework*.

12. The ASAF discussed whether the *Conceptual Framework* should include detailed descriptions of individual measurement bases (including the advantages and disadvantages of those measurement bases). Some supported this approach. However other ASAF members recommended that the *Conceptual Framework* should include only high-level descriptions of individual measurement bases.

13. Some ASAF members expressed the view that the *Conceptual Framework* should provide guidelines for the selection of a measurement attribute that would guide the IASB at standards level. Others, however, stated that the guidance on measurement should be more conceptual.

14. The ASAF also discussed whether the *Conceptual Framework* should focus on communicating with stakeholders or providing guidance to the IASB when setting Standards. There was general agreement that the main focus should be on providing guidance to the IASB.

15. Individual ASAF members also expressed the following views:

   (a) further research is needed on:

      (i) what constitutes historical cost;

      (ii) the definition and treatment of transaction costs; and

      (iii) how information provided by different measurement bases provides information that is useful for assessing stewardship by management.

   (b) amortised cost does not fit well into either a current value or a historical cost category, so a third category of measurement bases is probably required; and

   (c) the *Conceptual Framework* should address inflation adjustments.

Role of nature of an entity's business activities in accounting standard-setting

16. There was general agreement among ASAF members that the nature of an entity's business activities has an important role to play in standard-setting and, in particular, in the selection of a measurement basis. However, there were mixed views about whether, as suggested in the ASBJ paper, it should be the main factor driving the selection of a measurement basis or only one of the factors to be considered. Some ASAF members also expressed concerns about how this approach would apply to different industries and concerns were raised about how changes in an entity's business activities would be dealt with under the suggested approach.

17. Some ASAF members expressed support for the approach suggested in the ASBJ's paper, which focuses on the information provided in the statement of financial performance instead of on the statement of financial position. However, some ASAF members suggested that, in general, there should be no difference between the measurement basis selected for the statement of financial performance and the statement of financial position.

18. Some ASAF members expressed concern about the suggestion in the ASBJ paper that the measurement of liabilities should be linked to the measurement of related assets.

19. Individual ASAF members expressed the following views:

   (a) the ASBJ's proposals should be tested against a range of different assets and liabilities;

   (b) concern that identical assets could be measured differently in the statement of financial performance as a result of an entity's business activities;

   (c) further guidance is needed on when different measurement bases may be appropriate for reporting financial position and financial performance;

   (d) it is unclear what is meant by the term 'business activities' and that this would need to be clarified;

   (e) whether an entity has the practical ability to change its business activities should affect the selection of a measurement basis and that such an approach would provide useful information about management's stewardship of the entity's resources; and

(f) the concept of capital (or wealth) is an important consideration when selecting a measurement basis.

Leases

20. The IASB staff presented an update on the Leases project. The IASB staff noted that at the March 2015 IASB meeting, the IASB had confirmed that it had completed all of the specified mandatory due process steps (including undertaking appropriate optional due process steps) and had voted to proceed to drafting and balloting the new *Leases* Standard. The FASB representative noted that the IASB and the FASB are, in essence, at the same stage in their respective projects' timelines. The FASB completed its redeliberations in February 2015, subject to setting the effective date and its due process step of discussing at a public meeting the costs and benefits of the new Standard. The FASB has given permission to the staff to commence drafting the new Standard.

21. The IASB staff then asked for the ASAF members' comments on:

    (a) the effects to be assessed and included in the Effects Analysis of the new Standard; and

    (b) any considerations in communicating with stakeholders in advance of issuing the new Standard.

22. ASAF members commented on what the Effects Analysis should include and suggested the following:

    (a) the effects of the differences between the IASB's and the FASB's respective lessee accounting models;

    (b) the possible effects of the new Standard on:

        (i) the leasing market (for example, the effect on lease versus buy decisions or the length of leases); and

        (ii) access to finance for small and medium-sized entities.

    (c) the benefits for investors and analysts regarding:

        (i) information about the assets and liabilities relating to existing off-balance-sheet leases; and

        (ii) assessing future cash flows related to leases.

    (d) the benefit from a stewardship perspective of managing all leases in the same way for purposes of financial reporting; and

    (e) the information that a lessee would need to apply when applying the new Standard, indicating the information that the lessee would already need to have when applying IAS 17 *Leases*.

23. The EFRAG representative noted that the EFRAG is required to assess the effects of any new Standard and, thus, would like to co-operate with the IASB in developing the Effects Analysis of the new Standard.

24. Regarding communicating with stakeholders in advance of issuing the new Standard, two ASAF members suggested that the IASB should communicate more information about the scope of the new Standard (eg what is a lease) while drafting in order to enable stakeholders to better understand the effects of the new Standard on their contracts.

25. The FRC UK member commended the IASB for its diligence during the redeliberations and for responding carefully to comments received on the 2013 Exposure Draft.

26. The ASBJ representative noted that Japanese constituents are disappointed that the IASB and the FASB have not achieved fully converged decisions on the project.

27. Finally, ASAF members commented on the recent project Updates on the definition of a lease and the practical implications of the new Standard, noting that they provide useful information.

Disclosure Initiative

Materiality discussion

28. The IASB staff introduced a paper discussing the content and initial drafting of the Practice Statement on the application of materiality. The ASAF members were provided with the background to the discussions on this topic at earlier ASAF and IASB meetings, as well as with the staff's approach to drafting the Practice Statement. In addition, the ASAF members were provided with an update on the current status of the Materiality project.

29. The views expressed by the ASAF members included:

    (a) widespread, but not unanimous, support for a non-authoritative guide on the topic, but divided opinions about exactly what form it should take (educational material, guidance on implementing IAS 1 *Presentation of Financial Statements,* etc).

    (b) questions were raised as to who the targeted audience is (a few members thought that it was not helpful enough for preparers) and what the objectives of this document are (for example, educational or to assist in consistent application).

    (c) some members suggested including more details on how to apply materiality in practice with more illustrative examples included in the document (for example, applying judgement when disclosing qualitative information).

    (d) some members were concerned that, contrary to the intended purposes of the publication, by putting a list of considerations as to what information can be material, the draft paper may be seen as encouraging entities to provide more disclosures without regard to the relative importance to users.

    (e) one member suggested clarifying some of the terms used within the context of materiality judgements, such as significant, more important, sufficiently material, etc.

(f) one member asked about the effect of a disclosure on a particular transaction or on a balance disclosed outside of the financial statements (for example, a press release). Would this make it less material or relevant to the user when it is subsequently disclosed or presented within the financial statements?

30. IASB members stressed that this document was not meant to be an exhaustive guide on applying materiality and that it was mainly targeted towards narrowing the diverse practices in applying materiality and to prompt behavioural changes. The staff also noted that it is intended to raise awareness and to clarify the role of materiality to disclosures in general.

The role of financial statements excluding the notes

31. The IASB staff introduced a paper on the role of financial statements excluding the notes. The ASAF members were provided with the background on the discussions on this topic at earlier ASAF and IASB meetings.

32. The views expressed by the ASAF members included:

(a) consideration should be given to the determining what information should be presented on the financial statements compared to it being disclosed in the notes. That is, financial statements excluding the notes and the notes have different roles in meeting the objective of financial statements.

(b) there were mixed views regarding the use of the term ‘primary’ to describe the financial statements using the notes. Some disagreed with the use of the term because it implies that those statements are more important than the notes. Others considered that it was a well understood and commonly used term and therefore it made sense to use it in IFRS. Some others thought that a definition of ‘primary financial statement’ is unnecessary, considering that the term is not used in IFRS.

(c) members agreed that the set of financial statements excluding the notes should be those currently specified in paragraph 10 of IAS 1. One member indicated that there was no issue with the current set of primary financial statements, except for the views of some that the statement of cash flows does not provide useful information about financial institutions.

(d) IAS 1 *Presentation of Financial Statements* (or its equivalent) should include a rebuttable presumption that entities can provide additional or alternative primary financial statements (for example, non-profit organisations).

(e) the term ‘present’ should be used in respect of displaying information in the primary financial statements and the term ‘disclose’ should be used within the context of notes to the financial statements. Some members thought that the IASB should not provide any flexibility in using the terms, as had been suggested by the staff.

(f) the role of financial statements excluding the notes should include a reference to 'cash flows' in relation to providing essential information.

Equity method of accounting

33. The IASB staff sought the views of ASAF members on whether to divide the Equity Method of Accounting project into two steps: a short-term project that would focus on application issues with the current equity method of accounting and a long-term project that would review the accounting for investments in non-controlling interests. The equity method of accounting as applied to subsidiaries in separate financial statements would be addressed separately.

34. On the question regarding separating the project into two steps, there were mixed views. ASAF members that did not support the two-step approach noted:

(a) a short-term project focusing on the simplification of the equity method and including the clarification of the term 'significant influence' could resolve the application issues that exist in practice and thus there would be no need for the longer-term project.

(b) there is a risk that the outcome from the short-term project might later conflict with a conceptual underpinning in the long-term project. However, with the exception of the clarification of the term 'significant influence' the matters that need to be addressed can be dealt with in the short-term project.

(c) simplification of the equity method of accounting is not a good objective in itself, because application issues may not be easily resolved without a longer-term conceptual fundamental rethink.

(d) the first question should be, what is the usefulness of information produced by the equity method of accounting to users of financial statements. This question should be considered before splitting the project into two.

35. In contrast, ASAF members who support the two-step approach noted:

(a) there are numerous issues in applying the equity method of accounting, which need to be addressed urgently;

(b) simplification of the equity method is justified by the difficulties that preparers highlight in obtaining the information to apply;

(c) the long-term project might last a very long time, and because of the pressing problems a two-step approach is necessary; and

(d) in the previous Agenda Consultation, practical issues were raised instead of calls for a fundamental revision of the equity method. Practical issues could be addressed in the first step of a two-step project.

36. In addition, some ASAF members provided further points to be considered in undertaking the Equity Method of Accounting project:

(a) whether the group concept in IFRS 10 *Consolidated Financial Statements* should be maintained.

(b) whether the equity method of accounting is a measurement basis or a one-line consolidation method.

(c) whether profits or losses recognised as a result of the equity method of accounting are consistent with profits or losses under the *Conceptual Framework*.

(d) whether the equity method of accounting could be applied to investments in equity instruments in general.

(e) proceeding with the project on the basis of the existing control notion will require the IASB to consider the unit of account.

(f) what happens when the equity that is accounted for as investment does not apply IFRS—does this really mean that the equity method of accounting is a measurement basis? If the equity method is a measurement basis then what are its merits over fair value?

(g) how significant influence applies when investors cannot obtain the information that is required in applying the equity method—is the equity method appropriate in these circumstances?

(h) the distinction between significant influence and joint control.

37. There was a discussion about what would need to be included in the Discussion Paper—it was noted that if the IASB decided to proceed with the two-steps there would need to be enough analysis of the longer-term issues to appropriately analyse the short-term solutions.

38. ASAF members agreed with the proposal that the equity method of accounting for controlled entities in separate financial statements should be reviewed separately. It was noted that the objectives for the equity method of accounting are different when applied to controlled entities' separate financial statements compared with non-controlled investments.

Insurance contracts

39. ASAF members discussed two topics related to the IASB's Insurance Contracts project:

(a) an ASBJ paper that proposes that the contractual service margin should be presented in other comprehensive income (OCI). In contrast, the IASB had proposed in its 2013 Exposure Draft *Insurance Contracts* that the contractual service margin is a part of the insurance contract liability.

(b) transition to the forthcoming replacement of IFRS 4 *Insurance Contracts* (the 'new Insurance Contracts Standard').

Presentation of the contractual service margin

40. Tomo Sekiguchi, from the ASBJ, presented the ASBJ's views that the contractual service margin should be presented in OCI. In particular, he highlighted that:

(a) the ASBJ does not believe that the contractual service margin should be a part of the insurance contract liability, because it believes that the contractual service margin does not meet the definition of liability according to the *Conceptual Framework*.

(b) the ASBJ's proposal is consistent with the ASBJ's view that OCI should represent the linkage factor between the measurement basis for the purpose of reporting an entity's financial position and the measurement basis for the purpose of reporting an entity's financial performance.

(c) the ASBJ proposal would apply to *all* insurance contracts, both participating and non-participating.

41. One member noted that the outcome of the ASBJ proposals would be appealing to those in jurisdictions that currently measure insurance contracts at cost, because it would reduce the impact of a current value model at transition. However, most of the ASAF members did not support the ASBJ proposals, for reasons consistent with those described in Agenda Paper 6B *IASB staff response to the ASBJ paper on the Use of OCI for Presentation of Unearned Profits*. Some members noted that any further exploration of the ASBJ approach could significantly delay the finalisation of the new Insurance Contracts Standard, which would also be undesirable.

Transition to the new Insurance Contracts Standard

Interaction of the effective dates for IFRS 9 and the new Insurance Contracts Standard

42. The IASB staff asked ASAF members what minimum period of time should be allowed between the mandatory effective dates of IFRS 9 *Financial Instruments* and the new Insurance Contracts Standard:

(a) one member noted that the new Insurance Contracts Standard is needed as soon as possible. Consequently, the IASB should not extend the implementation period for the new Insurance Contracts Standard beyond the three years already indicated, even if the effective date is one year after that for IFRS 9. That member believed that three years was a sufficient amount of time for implementation.

(b) other members indicated that entities should be given two or three years after implementing IFRS 9 before being required to implement the new Insurance Contracts Standard.

(c) one member stated that the insurance industry in his jurisdiction believed that five years would be needed for implementation.

43. EFRAG urged the IASB to reconsider its position of not deferring IFRS 9 for entities that issue insurance contracts. The mandatory effective date set for IFRS 9 would mean that entities significantly affected by the new Insurance Contracts Standard would need to implement IFRS 9 in 2018 and then need to revisit this when IFRS 4 is implemented. This could give rise to two major changes in accounting within a short period of time. In EFRAG's view,

implementation of IFRS 9 in isolation would create disruption for users of financial statements and make their understanding of the financial position and performance of insurance business more difficult without commensurate benefit. Two other European ASAF members supported EFRAG's view. In addition, the different implementation dates could create challenges for preparers; for example, if an entity applying IFRS 9 planned to account for financial assets at fair value through profit or loss when the new Insurance Contracts Standard is implemented, but were to account for those financial assets at the amortised cost or fair value through OCI in conjunction with the existing IFRS 4. Measuring those financial assets in the period before the new insurance contract standard is implemented would result in the need to develop a system for the impairment of those financial assets in conjunction with the existing IFRS 4. That system would no longer be needed when the new Insurance Contracts Standard is later implemented.

44. The ASAF discussed whether the IASB could defer some parts of IFRS 9 for insurance entities. However, the ASAF noted that such an approach would create the need to develop requirements on how to do so and generally agreed that deferring parts of IFRS 9 would not be appropriate. The IASB Chairman noted that the consensus appeared to be that ASAF would not support the *partial* deferral of IFRS 9. The ASAF confirmed its view that, if there were to be any deferral of IFRS 9 it would need to apply to the whole of IFRS 9.

45. ASAF members supporting the request that the IASB should defer IFRS 9 for entities significantly affected by the new Insurance Contracts Standard indicated that limiting the option for a deferral to insurance activities was a challenge that could be overcome, including in conglomerates. The EFRAG representative indicated that EFRAG was ready to provide proposals to the IASB.

46. One ASAF member suggested that any form of deferral for IFRS 9 that the IASB may consider should be optional, so as not to penalise entities that have already begun to implement IFRS 9. The ASAF generally supported this suggestion.

Transition relief on the reassessment of the business model for financial assets

47. The IASB staff reminded the ASAF that the IASB is considering a transition relief that would permit or require an entity applying the new Insurance Contracts Standard for the first time to reassess the business model for financial assets based on the facts and circumstances that exist at the date of initial application of the new Insurance Contracts Standard. The IASB staff asked which assets should be eligible for this transition relief.

48. Most members believed that applying such a relief to all financial assets of the entity would be too wide. Most also believed that applying such a relief only to financial assets that are contractually linked to insurance contracts would be too narrow. Many members preferred that an entity should identify the financial assets related to its insurance business and apply the transition relief to the identified assets. However, members also noted the difficulties both in identifying the entities that may be eligible to apply the relief and in identifying the

financial assets related to insurance business. In addition, there was no consensus on whether this approach should be mandatory or optional.

49. Some members noted that that they found it difficult to understand how an entity could justify a change in the business model between the date of implementing IFRS 9 and the date of implementing the new Insurance Contracts Standard. One member was also unclear about how the transition relief for the reassessment of a business model differs from the reclassification requirements within IFRS 9. One ASAF member suggested that the IFRS 9 guidance on reclassification of financial assets should be relaxed by removing the reference to 'very' infrequent changes in a business model.

50. The IASB staff explained that IFRS 9 requires reclassification of financial assets because of a change in the business model in specific, very infrequent circumstances. The transition relief proposed would enable entities to apply the business model assessment in IFRS 9 based on facts and circumstances that exist at the date of transition to the new Insurance Contracts Standard

51. There was insufficient time to discuss Questions 3 and 4 set out in the Agenda Paper on transition reliefs. The IASB staff invited ASAF members to provide their views on these questions via email.

Post-implementation Review of IFRS 3 *Business Combinations*

52. Tomo Sekiguchi, from the ASBJ, provided ASAF members with an overview of the ASBJ/EFRAG/OIC Feedback Statement on the responses received on the Discussion Paper *Should Goodwill still not be Amortised?*

53. He noted that the ASBJ has reviewed the academic literature on the accounting for goodwill and, according to this review, it would be difficult to conclude on whether the impairment-only approach is superior to the amortisation and impairment approach. The working group is planning to publish the findings of this review in April or May 2015.

54. One ASAF member noted two important limitations to be considered when reviewing academic papers on the accounting for goodwill. Firstly, academic papers usually review stock price reactions to information (ie value relevance methodology) and stock prices usually anticipate impairment losses (ie the loss is already included in the price). Secondly, it is difficult to separate general economic impairment from entity-specific impairment.

55. The IASB staff updated ASAF members on the findings from the Post-implementation Review (PIR) of IFRS 3 *Business Combinations* and the IASB's next steps. ASAF members were asked for their views on the IASB's next steps, which include:

    (a) Topic 1—how to improve the impairment test in IAS 36 *Impairment of Assets*;

    (b) Topic 2—the relative merits of an impairment-only approach and an amortisation and impairment approach to the subsequent accounting for goodwill;

(c) Topic 3—the identification and measurement of intangible assets such as customer relationships and brand names; and

(d) Topic 4—how to clarify the definition of a business.

56. Russell Golden, from the FASB, noted that the Financial Accounting Foundation had observed very similar issues in its PIR on the converged Standard on Business Combinations to those identified by the IASB. The FASB is waiting for the outcome of the IASB's PIR before considering how to proceed.

57. Many ASAF members were in agreement with the topics identified by the IASB and with its proposed next steps. ASAF members made a number of suggestions, including:

(a) considering whether goodwill is an asset.

(b) the topics should be considered from a practical prospective, because participants in the review are asking for standard-setting efforts; they are not asking for research.

(c) there is no need for the IASB to issue a Discussion Paper, because the PIR acts as a Discussion Paper. A Discussion Paper is therefore unlikely to produce additional information.

(d) in considering the impairment test, the boundaries of the cash-generating units and the distinction between value in use and fair value less costs of disposal should be considered.

(e) the four topics are quite fundamental and the IASB could spend years trying to solve these issues. There are, however, other important topics that can be addressed more easily (for example, step acquisitions).

(f) the IASB should first consider the initial recognition of intangible assets and goodwill and then the subsequent accounting for goodwill.

58. Some ASAF members highlighted that, currently, the IASB's and the FASB's Standards are converged—maintaining convergence is highly desirable. One ASAF member asked what the scope of the PIR should be; should it be broad (ie addressing fundamental issues) or narrow (ie it should not reopen the debate on fundamental issues and should consider only application issues)?

IFRS 15 *Revenue from Contracts with Customers*

59. The IASB staff presented an update, and sought views of the ASAF, on the activities of the Revenue Transition Resource Group (the 'TRG'); the IASB's strategy for addressing issues emerging from the TRG meetings, including a summary of the recent tentative decisions of the IASB and the FASB on some of those issues; and requests received by the IASB on the deferral of the mandatory effective date of IFRS 15 *Revenue from Contracts with Customers*.

60. There were mixed views about the desirability of amending IFRS 15 to maintain the near-identical wording with the US equivalent, Topic 606. Some saw no need, if the effect of

applying the different wording would be the same; some felt that if the words differ, then preparers and users will infer that the meanings diverge. One member suggested that if one Board does not make a corresponding amendment, then that Board could usefully comment on whether there remains agreement in substance between the two standards. Two members commented that preparers will look to US guidance in the absence of IFRS guidance on a topic and that if the IASB did not think that would be appropriate, it should specify that. One member commented that if the words differed it would be desirable to monitor enforcement of the different versions.

61. There was broad support for the IASB's plan to develop a single Exposure Draft of clarifications and for the proposed timing. One member noted that there are implications for preserving convergence if one Board finalises amendments earlier than the other Board.

62. Members made the following suggestions about how best to disseminate information from the TRG and IASB discussions—incorporating the material in the 'Green Book'; an IFRIC-type agenda decision process on a selective basis; or indicating on the submissions tracker if an issue is not referred further to the Boards. One member highlighted the need to clarify that TRG materials are not authoritative. Two members explained that they have set up an IFRS 15 education forum in their jurisdiction for auditors and preparers to share experience.

63. Members have experienced mixed messages between jurisdictions and sectors about the feasibility of the current effective date of 1 January 2017. In some jurisdictions, pressure for deferral has increased recently as more preparers commence implementation activities. However some preparers prefer to maintain the existing effective date. There was general agreement on the desirability of the IASB and the FASB maintaining a converged effective date and if not, then the ability to effectively achieve convergence by early adoption.

64. An ASAF member noted that if the IASB and FASB maintain a converged date, NSS should support the effective date as determined by the Boards, so that entities around the world are interpreting and adopting the Standard at the same time.

Business combinations under common control

65. Linda Mezon, from the AcSB, presented a paper that discussed the Canadian experience in accounting for business combinations under common control (BCUCC). Linda welcomed the IASB's work on BCUCC. However, she noted that most BCUCC in Canada are internally driven and do not involve non-controlling interests (NCIs), nor are they undertaken in preparation for an initial public offering (IPO) of securities. She encouraged the IASB to consider such internally driven BCUCC that do not involve third parties as well as BCUCC undertaken in preparation for an IPO. She also noted that guidance for BCUCC is needed both for consolidated and separate financial statements.

66. Linda explained that under the Canadian related party accounting Standard (CPA Canada Handbook – Accounting, Section 3840, *Related Party Transactions*), different types of BCUCC

were accounted for differently and encouraged the IASB to consider using more than one measurement method to account for BCUCC; for example, by assessing the commercial substance of the transaction.

67. Linda noted that the AcSB had received mixed feedback from users of financial statements about what information about BCUCC is most useful to users. Some users advocate the use of the predecessor carrying values because they need information about trends. Others need information about the current values. Some users make a distinction based on whether third parties are involved in the transaction.

68. The IASB staff presented a paper that discussed their preliminary views on accounting for BCUCC that affect third-party equity investors in consolidated financial statements of the acquirer. Specifically, the paper discussed BCUCC that involve NCIs and those undertaken in preparation for an IPO. They also expressed a preliminary view that the predecessor value method should be used for both types of transactions in the consolidated financial statements of the acquirer. The IASB staff sought feedback from ASAF members on that preliminary view.

69. There was support from ASAF members on the IASB staff's preliminary view as the default method of accounting for BCUCC. However, some ASAF members proposed considering exceptions to using the predecessor method; for example, for transactions that involve state-controlled entities. Additional points raised by ASAF members include:

    (a) questions regarding the staff's analysis of the IPO scenario and encouragement to the staff to consider the economics of a broader range of IPO scenarios; for example, group restructurings that are conditional on a successful IPO.

    (b) mixed views in their jurisdictions. Some jurisdictions supported the use of the predecessor method for all types of BCUCC that affect third parties. Others supported the use of the acquisition method for BCUCC undertaken in preparation for an IPO. One jurisdiction advocated the use of fresh-start accounting for all entities undertaking an IPO.

    (c) a personal view that BCUCC that involve NCIs should be accounted for under the acquisition method, because the risk and reward profile of NCIs changes as a result of BCUCC. ASAF members discussed whether, in practice, BCUCC could be transacted at other than fair value.

70. One ASAF member commented on the scope of the project and encouraged the IASB to consider accounting for BCUCC in separate financial statements.

71. Some ASAF members suggested it is important to consider why a set of financial statements is prepared and what information is most useful to users of financial statements.

ASAF review

72. The aim of this session was to ensure that, prior to discussing the review of ASAF with the IFRS Foundation Trustees, (a) the key points raised by ASAF members are appropriately highlighted to the Trustees and (b) ASAF members are provided with an opportunity to discuss the findings from the review.

73. One member enquired about IASB members' expectations from the ASAF and whether there is an expectation gap between the ASAF and IASB members. The member outlined that, in their view, the debate at the ASAF is most useful when the topics being discussed are in the earlier stages of the projects—the closer the IASB becomes to a due process document, in which the IASB has made tentative decisions, the less opportunity there is for debate. This is in part because ASAF members are serving in a dual capacity; as a technical advisers and as ambassadors in their jurisdictions for the IASB statements. The ambassador role tends to take greater prominence as the IASB becomes closer to a due process document, making debate more difficult.

74. Other ASAF members noted that the ASAF has evolved over time and the group is learning how to work with one another. This development is helping the spontaneity of debates at the meetings.

75. It was considered that improvement in the debates at the meetings is a response to an improvement in the ASAF Agenda Papers; this improvement suggests that perhaps the expectation gap is reducing. It was noted that this meeting was very good and showed that some of the lessons from the review of the ASAF have already been implemented and have contributed to the success of this meeting.

76. Other member comments included:

    (a) the ASAF should consider topics in advance of discussions by the IASB, particularly when the IASB plans to make tentative decisions.

    (b) the ASAF should be responsible for providing advice on the IASB's agenda priorities. Supplementing the Agenda Consultation process to receive timely advice on the agenda priorities should help the IASB to ensure that the agenda remains relevant.

    (c) when the IASB is seeking advice on very detailed or industry-specific topics, the ASAF meetings could be supplemented by offline group meetings of specialists from ASAF members' organisations.

    (d) the IASB needs to be clear what input is required by ASAF members. In this regard, it would be helpful if the agenda focused on the key questions that the ASAF members will be asked. It would be helpful to divide the topics into those that the IASB is seeking input from the ASAF members and those on which the IASB is updating the ASAF.

    (e) the ASAF should consider jurisdiction issues; focusing solely on global issues could result in the ASAF losing its advantage of bringing forward local views.

77. In relation to the agenda topics for discussion at ASAF meetings, one member noted that the key point was that ASAF members needed to feel that they are part of the debate. If topics are discussed after the IASB has made tentative decisions, ASAF members do not feel part of the debate. It was suggested that perhaps there are times when multiple topics should be brought to the ASAF; this could be achieved by reviewing project plans and thinking holistically about when to bring the topic to the ASAF.

78. One member noted that papers from ASAF members are a very helpful part of the meeting and should be encouraged, because they tend to represent out-of-the-box thinking.

IASB project update and agenda planning

79. The IASB staff presented an overview of the IASB's current projects, a summary of the actions taken on the advice provided by the ASAF in previous meetings and the suggested agenda topics for the July and September 2015 meetings.

80. In relation to the suggested agenda topics, one member put forward three issues that he would like to discuss at a future ASAF meeting:

    (a) Insurance Contracts—it would be useful to keep this project on the watch list, because the closer the IFRS gets to finalisation, the more imperative it is to maintain a dialogue with ASAF members.

    (b) Measuring Quoted Investments at Fair Value—this could be a topic on which the ASAF might provide advice on the next steps for the project.

    (c) Dynamic Risk Management—the ASAF may also provide advice on the next steps for the project.