Topic

Summary of cross-cutting issue discussions at the November 2010 Advisory Council meeting

Overview

1. During the November 2010 meeting of the Advisory Council, a presentation was given on cross-cutting issues, or issues that affect more than one project or topic and can produce inconsistencies within IFRSs. The main message in the presentation was as follows:

   (a) The Board and staff need to address both the appropriate response to current cross-cutting issues and the general implications of cross-cutting issues in terms of the Board's future agenda.

   (b) The Board is addressing multiple cross-cutting issues in its current deliberations, including, for example, discounting for the time value of money and accounting for acquisition costs.

   (c) The Board has also engaged in broad projects dealing with general topics present across multiple IFRSs, such as fair value measurement and own credit risk in liability measurement.

   (d) The Board has tried to increase communication and outreach explaining inconsistencies surrounding cross-cutting issues. Many people also believe that improvements in the Conceptual Framework will minimise the inconsistencies associated with cross-cutting issues, as the Framework gives the Board a common platform on which to base their decisions.

2. IASB staff asked the Council for their advice to the Board on how to appropriately deal with cross-cutting issues.

3. The Council was split into four small groups, each led by a Board member. The Council later reconvened and all four Board members reported back on their group's discussions. The agenda paper for this discussions identified examples of cross-cutting issues. It asked questions to the Council:

   1. Do Council members see other significant inconsistencies in IFRSs?

      a. What are those inconsistencies?

      b. Are any of the inconsistencies identified appropriate (ie the inconsistencies should be retained), and if yes, why?

      c. Do you think the IASB should address any of the cross-cutting issues you have identified? If yes, how? If no, why not?

   2. What advice do Council members have for the IASB on striking the balance between undertaking broad projects that can address cross-cutting issues, and narrower, in-depth projects that tackle focused financial reporting issues?

   3. What advice do Council members have for the IASB on how the IASB could improve the way it communicates to and consults with constituents on cross-cutting issues?

Report back

4. The results of the break-out groups were reported back in a full Council session. The main messages from the break-out groups were as follows.

Group 1

5. Stephen Cooper led the first small group. He reported that the group did discuss the Conceptual Framework at length; there was a general consensus that the Board needs to move forward on improving the Conceptual Framework. Members thought that an improved Conceptual Framework would provide a strong basis on which the Board would be able to make consistent decisions. However, some members did caution that even an improved Conceptual

Framework would not solve all inconsistencies arising from cross-cutting issues; the Board should still move forward with deliberations on other projects as the Conceptual Framework is being improved.

6. Mr Cooper also reported that most members in the group felt that inconsistencies within IFRSs are acceptable if there is a need to improve existing frameworks and standards, but that the Board needs to clearly articulate the reasons for such inconsistencies and include that explanation in the Basis for Conclusions for each standard. The group emphasised that the Board has not always communicated its reasoning well to constituents and needs to improve their communication related to inconsistencies and cross-cutting issues and could possibly develop a mechanism for communication of these matters.

7. The group also discussed whether the Board should address cross-cutting issues with broad projects focusing on one issue that affects multiple standards or projects. There were mixed views on this approach; members cautioned that this is a more theoretical approach and it is difficult to directly see the impact of such projects or see how the feedback related to such projects was used by the Board. Members of the group suggested that dealing with cross-cutting issues as they arise in specific projects or dealing with them through internal work by the staff and Board could be more beneficial.

Group 2

8. Jan Engstrom reported the results of the second group's discussion. Mr Engstrom stated that the group discussed the different reasons for inconsistencies within IFRS. The group stressed that the Board needs to adopt a conceptual approach to address inconsistencies, relying on a solid conceptual base on which to make decisions. The group thought that the Board should avoid inconsistencies that represent a departure from this conceptual approach but should be flexible to allow inconsistencies that would better represent economic reality in special situations. Members stressed that sound judgment was the most important tool to use to address these issues.

9. The group proposed a three-step process for addressing cross-cutting issues and related inconsistencies:

   (a) identify cross-cutting issues at the inception of a project;

   (b) analyse the cross-cutting issue and minimise or avoid inconsistencies; and

   (c) if inconsistency cannot be avoided, the Board should expose inconsistency for public comment and should explain the reasons for the inconsistency.

10. This group felt that it is difficult to approach cross-cutting issues and inconsistencies in the context of specific projects being deliberated by the Board. The group also noted that IFRIC did reject a number of cross-cutting issues and wondered if the Committee could be more open to addressing these problems. Finally, Mr Engstrom reported that the group did agree that inconsistencies related to geographic or cultural differences should be avoided.

Group 3

11. Dr Wei-Guo Zhang presented the third group's discussion. This group spent time discussing specific cross-cutting issues that present problems in practice. These issues included the notion of control, OCI and recycling, acquisition costs, expected value, and the definition of significance or materiality. Members stated that these issues did represent significant inconsistencies and that they understood that the Board would sometimes need to move forward with answers that may not have been used in the past.

12. Members of this group also believed that many inconsistencies can be solved by improving the Conceptual Framework but acknowledged that some inconsistencies would arise even with an improved framework. This group also felt that it is very important for the Board to explain the justification for such inconsistencies in the Basis for Conclusions. Members felt that such explanations would be very important for users and would help to avoid abuse. Members also discussed performance reporting and the differences between a

balance sheet and income statement focus, specifically in the context of OCI and recycling.

Group 4

13. Philippe Danjou reported on the fourth group's discussions. This group agreed that inconsistencies are particularly dangerous in principles-based accounting, because in this environment, it is very important to have a solid, consistent base of principles on which all standards are based. It would be difficult to implement, teach, or audit standards if they were based on inconsistencies. The group did acknowledge that certain inconsistencies would happen based on improvements to past standards, but emphasised that these inconsistencies need to be temporary and clearly explained and justified.

14. The group felt that the Board had two problems regarding cross-cutting issues and inconsistencies; how to deal with those that have already arisen and how to avoid creating new inconsistencies.

15. Regarding existing inconsistencies, the group did not come to a formal consensus regarding the best way to approach these, but said that broad projects addressing cross-cutting issues, like the fair value measurement project, were very valuable. The group also recommended identifying existing inconsistencies, solving the easy ones immediately, and solving the others over time with proper explanation. Regarding avoiding new inconsistencies, the group stressed that accidental inconsistencies were not acceptable and the Board would have to carefully consider any potential inconsistencies when it deliberates a new standard. The group also felt that communication regarding cross-cutting issues and inconsistencies is very important; for example, the Board needs to make it clear that, when two standards contain inconsistencies, newer standards take precedence over older ones.

16. The group also discussed the Conceptual Framework and Mr Danjou reported that members felt that this would help to solve inconsistencies but recognised that this would not be completed for some time. Finally, the group also identified specific existing cross-cutting issues and inconsistencies, such as

contingent liabilities, recognition threshold, and the place for risk margin in liability measurement.