Paper topic	Meeting Summary of the GPF and the CMAC

1. The Global Preparers’ Forum and the Capital Markets Advisory Committee (formerly the Analyst Representative Group) held a joint meeting in London on 22 June 2011. The IASB had six members in attendance, as well as the Director of Technical Activities, Mr Alan Teixeira, and several senior staff members.
2. Mr Cooper welcomed the members and noted that Mr Kalavacherla would be taking over from Mr Engström as the IASB member liaison with the GPF.
3. Mr Cooper also noted that the joint meeting of the GPF and the CMAC would follow the same format as the previous meeting and would include break-out sessions to discuss specific topics, followed by an overall discussion to summarise the break-out sessions.

Work plan update

4. Mr Teixeira provided an update on the work plan, which reflected decisions from the 13 June 2011 week of Board meetings.
5. He noted the following:
    - An exposure draft (ED) *Annual Improvements* had been published for comment that day. The Board had delayed the publication of that ED from September 2010 because of the timing of other IASB documents. The package of improvements contained seven amendments affecting five IFRSs.
    - The *Consolidation—Investment Entities* exposure draft would be due in mid- to late July. The FASB would be issuing an equivalent exposure draft, as well as one for investment properties.
    - The IASB’s three-yearly agenda consultation would begin in July.

    All three IASB documents will have comment periods of 120 days.

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6. Mr Teixeira provided several updates on the major projects. These updates are listed below.

7. **Revenue Recognition—**The revenue recognition project will publish a re-exposure document with a comment period of 120 days; it is expected to ask four questions. The FASB will also have to issue draft amendments to the *FASB Accounting Standards Codification*®. Mr Cooper noted that comments on the revenue recognition re-exposure draft would be sought on the four new questions, as well as on the draft wording to allow constituents to comment on its operability.

   It was the unanimous view of both the IASB and the FASB that while there was no formal due process requirement to re-expose the proposals it was appropriate to go beyond established due process given the importance of the revenue number to all companies and the need to take all possible steps to avoid unintended consequences. However, the boards do not intend to set a precedent with this re-exposure.

8. **Leases—**The boards had yet to consider whether re-exposure of the proposed leases standard would be necessary (note: the boards subsequently decided to re-expose the proposed leases standard). The boards still had some important decisions to make in July. Even if the boards decided not to have a full re-exposure, the proposals would be subject to a full public drafting review. Mr Cooper added that the boards were running a couple of months late trying to agree upon a model for lessors. As with revenue recognition, the FASB will have to issue amendments to the *FASB Accounting Standards Codification*®.

9. **Insurance contracts—**The IASB and the FASB are in different phases of their due processes. For the IASB, the last document published was an exposure draft, whereas the FASB's last published document was a Discussion Paper. The IASB

will need to decide whether or not to re-expose; a re-exposure could put the boards at the same phase in their due processes.

10. **IFRS 9 effective date—**The staff are proposing that the effective date for IFRS 9 be moved from 1 January 2013 to 1 January 2015. This is because the Board has been proceeding on the basis that it needs to complete all the various parts of this project before IFRS 9 can become mandatory. In addition, moving the effective date to 2015 would align the date with the insurance contracts (assuming that the insurance contracts project remains on its current schedule). This will be discussed at the July meeting.

11. **Impairment—**The determination of whether the next step in this project is a re-exposure or a review draft is dependent upon which model the boards ultimately choose and how operational it is. The IASB expects to publish the next document in the third quarter of 2011 and to hold intensive round-table meetings. The IASB is liaising with the Basel Committee and the Expert Advisory Council Panel for this project.

12. **Asset and liability offsetting—**The boards have diverged on this subject. There was a unanimous vote from the IASB (15-0) to retain the proposal in the exposure draft, while the FASB was split (3-4), with the majority of members voting to retain US GAAP. The boards are investigating a disclosure option to reconcile the differences between the boards.

13. **General hedge accounting—**The next Board meeting for hedge accounting is at the end of July. The next step is to have a review draft or a final standard by the fourth quarter of 2011.

Macro hedge accounting—The next step for this project would be an exposure draft of a macro hedge accounting model

14. Questions raised by GPF and CMAC members included:

- **Why are disclosures used as a 'dumping ground' each time the boards disagree?** Mr Cooper agreed that this approach did trouble the boards but that in the case of offsetting, users of financial statements have said that they want to see gross credit risk and mitigation of that risk. Given that this was disclosed anyway, if the boards could align disclosures they could explain the relationship between the approaches taken by the IASB and the FASB. A CMAC member suggested the use of linked presentation but Mr Cooper noted that this could give rise to a number of knock-on effects.
- **What motivated the staff to suggest the change in effective date for IFRS 9?** Mr Kalavacherla noted that although the plan had been for the IFRS 9 effective date to be 1 January 2013, this plan had been dependent upon the completion of the project to replace IAS 39. Because two phases of the project, impairment and hedge accounting, are yet to be completed, the effective date should be reviewed. The IASB acknowledged the G20's interest in IFRS 9, especially the impairment model; the effective date for IFRS 9 is in part dependent on the complexity of system changes required.
- **Where is the stopping point for re-exposures?** Mr Cooper noted that the IASB does not want to keep endlessly re-exposing, but that with such pervasive projects as revenue recognition that affect most entities, the Board wants to make sure that it considers all comments in order to get it right before publication. Mr Cooper added that the IASB will not re-expose matters on which what has been previously exposed has been debated and the treatment confirmed. A CMAC member stated that the discussion paper phase was the place for the boards to be adventurous and the exposure draft should reflect far more closely the final standard.
- **Will the Financial Statement Presentation project go back on the agenda?** Mr Teixeira confirmed that the future agenda was an open consultation. In relation to the agenda in general, Mr Teixeira noted that where the Board had already carried out a substantial amount of work and

only marginal incremental effort was required for improvement would be taken into consideration. As an example, for emissions trading, the IASB has documented how schemes work and the major accounting issues that arise, so the incremental effort to produce a standard would be much less.

15. Mr Teixeira noted that the IASB would welcome feedback on effective dates. It appeared that the effective date would be no earlier than the financial period starting on or after 1 January 2015 for Revenue recognition and for Leases. Mr Teixeira added that the effective date would depend on whether a standard was being applied prospectively or retrospectively and on the complexity of change required.

Feedback session by break-out groups on disclosure

16. The purpose of this session was to get input from GPF and CMAC members on the relative costs and benefits of:

    a. the draft disclosure requirements relating to revenue from contracts with customers;

    b. possible disclosure requirements for leases; and

    c. existent disclosure requirements in general.

    Each break-out group discussed one of the three topics above.

Leases

17. Another group was tasked with looking at possible disclosure requirements for lessees. Their points of discussion were as follows.

18. Some CMAC members think that there should be fair value disclosures related to the value of all leases including options within contracts.

19. The group generally thought that the roll-forward from the beginning to the end of the period is easily achievable for the lease liability and that providing it would give investors confidence in individual disclosure numbers.

20. There was a split opinion for the roll-forward of the right-of-use asset:

   a. GPF members thought that it was costly and difficult and were not sure about the overall value that it added for investors. Some would not provide it at all, while others thought it could be provided but as a part of a roll-forward of owned assets, because they manage these assets in the same way, irrespective of their financing.

   b. Some CMAC members thought that the right-of-use asset roll-forward would provide useful information, because it could give more information about future use of those assets. Some did not think that the right-of-use asset disclosures were particularly useful for their decision-making. In their mind, the leases are all about liability; detailed information on the right-of-use asset was not helpful as it was not the focus of attention.

21. There seemed to be wider support for liability disclosure.

22. It was suggested that a lease liability should not be disaggregated based on the underlying assets leased.

23. A GPF member asked for the reason behind the disclosure for commitments related to lease agreements that are not on the balance sheet yet (ie leases between inception and commencement). Mr Finnegan responded that a reporting entity should disclose an estimate of its commitments to show the future obligations (for the estimate of the future cash flows). Similar requirements exist today for commitments for capital expenditure.

Revenue

24. One group was tasked with looking at possible disclosure requirements for revenue. Their points of discussion were as follows.

25. There was a general consensus that the presentation of credit losses should be allowed to be shown either in the notes or parenthetically on the face of the income statement. It was noted that the boards have decided not to require

showing credit loss disaggregated between amounts for day 1 impairment and day 2 bad debts allowance. A GPF member noted that there should not be a separate line for credit losses at all because often it is a cost of the goods sold and should be shown as a deduction against turnover or as a post-sale cost.

26. A GPF member noted that disaggregation should be done by contract and not by customer, because disaggregation by customer would be too difficult. Another GPF member stated that the standard should not be too prescriptive about disaggregation of disclosures because the type of disclosure would vary based on industry.

27. It was acknowledged that there was a link with segment reporting and that in certain cases, some disaggregation of bad debts would be useful, for example, by regions, to reflect the current problems with Greece, but not necessarily by products and services.

28. One GPF member said that in relation to the segment information, it would be difficult to establish which dimension of disaggregation should be presented—because companies use different disaggregation in different segments. Mr Cooper asked how the IASB should define this and noted that usefulness seems to be the most appropriate criterion; one should disclose two dimensions if one thinks that it could be useful. Mr Kalavacherla suggested that there should probably be some wording in the Basis for Conclusions that there should not be too many dimensions unless those dimensions were useful. One GPF member stated that the reconciliation of contract assets and liabilities might not provide additional information for some businesses, eg businesses where there is only one product so there is nothing to disaggregate.

29. One CMAC member asked about the objective of the maturity analysis for performance obligations and suggested that there should be more analysis of deferred income. Mr Finnegan responded that deferred income usually represents payments received but not yet earned and that a maturity analysis is broader because it looks at all payments that will be due.

Disclosures in general

30. The third group was tasked with looking at disclosure requirements in general and finding three specific examples of disclosures which they did not think was useful. Their points of discussion were as follows.

31. The group did not agree on three specific examples of disclosures required today that were considered not to be useful but instead discussed the disclosure objectives in general. They believed that the objective was to provide information about the business rather than just to satisfy a compliance requirement. A GPF member suggested that the purpose of disclosures should not just be for preparers to show how they derived the reported numbers. Another GPF member suggested that there was a need to integrate the disclosure with management commentary.

32. There is also a question of what is considered to be ‘useful information.’ The answer depends on the user, because different users find different information to be useful. The group believed that disclosures should provide forward-looking information and that there should be a package of connected disclosures.

33. Of the examples discussed and considered—impairment, pensions, share-based payment and purchase price allocation decisions—it seems that CMAC members wanted more disclosures than is currently required.

34. Mr Cooper noted that the disclosure framework project is now being considered for the future agenda.

Post-2011 agenda discussions feedback session

35. The incoming IASB Chair, Hans Hoogervorst, and Vice-Chair, Ian Mackintosh, joined the meeting for the discussion of the future agenda. The purpose of this session was to get input from GPF and CMAC members on projects to be added to the IASB agenda.

36. Based on responses to an online survey completed by GPF and CMAC members in preparation for this meeting, six potential projects were chosen to be focused on in discussions at the meeting. These potential projects were:

    a. post-employment benefits;

b. equity method of accounting;

c. income taxes;

d. impairment of non-financial assets;

e. intangible assets; and

f. interim reporting.

37. Each group comprised members of both the GPF and the CMAC, as well as an IASB member and a staff member. Each group discussed two of the six topics listed above and were asked the following questions:

a. Is this project needed; why or why not?

b. If this project is needed, what should its scope be?

c. If this project is needed, how time-critical is it?

Equity method of accounting and income taxes—break-out group 1

38. On the equity method of accounting, the following matters were discussed:

a. Not viewed as a top priority.

b. One possible topic is to investigate whether current IAS 28 *Investments in Associates* is consistent with the *Conceptual Framework for Financial Reporting*.

c. Another possible topic is to investigate whether to use fair value instead of equity accounting.

d. One GPF member suggested that the Board should look at how to reflect performance under the new standard on joint ventures in countries where foreign entities would not be allowed to control the assets or liabilities.

e. Another GPF member said that the IASB should monitor the possible development of non-GAAP disclosures for the income statement when moving from proportionate consolidation to equity accounting.

39. On income taxes, the following matters were discussed:

a. A possible focus on deferred taxes and the lack of linkage between cash outflows for taxes paid and income tax charges to profit or loss.

b. A suggestion to limit improvements to selected topics (eg disclosures about deferred taxes and the tax reconciliation).

c. One GPF member suggested that the Board should consider issues associated with deferred tax on intercompany transactions.

d. Mr Cooper noted that reconsidering the conceptual basis of deferred tax accounting would imply a significant and time-consuming effort. It was also noted that the UK and German standard-setters, along with EFRAG, had started a project on this, though it may take a long time to complete.

e. An IASB member also noted that different jurisdictions have different agenda priorities for income tax accounting.

Post-employment benefits and impairment of non-financial assets—break-out group 2

40. On post-employment benefits:

  a. The recent amendments to IAS 19 constitute a step in the right direction, but efforts should still be made, especially from a user's perspective, to add more transparency to the measurement of liabilities for post-employment benefits.

  b. If the measurement issues could not be addressed in a single project, the group suggested that the Board should undertake projects with a scope that would be limited to measurement aspects such as:

    i. salary increases (and future salary increases);

    ii. compensation increases; and

    iii. discount rates.

  c. In addition, the Board should consider adding a disclosure project to provide information on post-employment benefits as determined on a funding basis.

41. On impairment of non-financial assets:

  - The group expressed general support for a project on impairment of non-financial assets. One GPF member questioned how relevant it is to look at the market participant's perspective for impairment and asked whether it would be more relevant to look at value in use.

42. On financial statement presentation and the *Conceptual Framework*:

- The group suggested that these projects should be added to the agenda with the highest priority because they are the 'building blocks' for the other standards.

43. Mr Finnegan said that it will be necessary to find a balance between research items and items for the agenda.

44. Mr Kalavacherla noted that it will be important to involve national standard-setters in the different projects and to build on their knowledge.

Interim reporting and intangible assets—break-out group 2

45. On interim reporting:

 a. CMAC members in the group classified this item as low-priority, but GPF members set it as a high-priority project; at present, measurement and disclosures are required at the same level as regular reporting, which is costly.

 b. One GPF member said this project is important because existing IFRSs result in diversity in practice.

 c. Another GPF member noted that different results are reported depending on the frequency of the reporting and that this should not be the case.

46. On intangible assets:

 a. This was an important issue for some GPF members in the group. These members noted that entities invest significant amounts of capital to create internally generated intangible assets and that the treatment of these varies depending on the industry.

 b. There is also diversity in practice at present; for example, entities in the pharmaceutical industry generally recognise their R&D activities as an expense, while entities in the automotive industry capitalise them.

47. On convergence with the FASB:

  a. One member asked whether one or more standard-setters should exist and whether or not competition would ensure better standards.

  b. Mr Cooper said that there would be no reason for then restricting the number of standard-setters to only two.

  c. One GPF member believed that convergence would be a lower priority than dealing with major projects (such as intangible assets) and implementation issues.

  d. Another GPF member stated that convergence is an objective for the long run, but that the first objective is to get high quality standards for both preparers and internal and external users of financial statements.

  e. One CMAC member said that the primary objective should be to minimise major differences between IFRSs and US GAAP.

  f. Another CMAC member stated that convergence was important but convergence should not be the sole reason for changes to IFRSs. For example, this CMAC member believed that there was not much call for changes to IFRS requirements on offsetting. Another CMAC member agreed that convergence should not be placed as an objective above all others.

  g. The incoming Chair of the IASB, Hans Hoogervorst, said that high quality should not be sacrificed for convergence and cited offsetting as a good example of this.

‘High quality’ standards

48. GPF and CMAC members also briefly discussed the concept of ‘high quality’ standards.

49. A GPF member suggested that the Trustees should take part in assessing whether IFRSs are high quality standards. The member also suggested that the Board should focus on writing IFRSs in plain English.

50. Another GPF member countered that the job of the Trustees is to protect the independence of the Board and that they should not focus on assessing the quality

of the standards. This member stated that the number one job of the Trustees should be to protect the Board's independence.

51. A GPF member stated that due process alone does not guarantee high quality standards. Mr Hoogervorst agreed and said that high quality is ultimately proved in practice, as demonstrated by the financial crisis.

52. Mr Teixeira noted that the concept of high quality remains subjective and that the IASB undertakes a number of activities to ensure that standards are of high quality in practice, using methods such as: post-implementation reviews, effect analyses, extensive outreach and the fatal flaw process. In addition, in most countries, the standards have to undergo an endorsement process.

53. It was noted that the IASB would appreciate feedback on how it should improve its outreach activities.