Paper topic	Meeting Summary of the Capital Markets Advisory Committee

1. The Capital Markets Advisory Committee (CMAC, formerly the Analyst Representative Group) held a meeting in London on 12 October 2011. Four IASB members and some staff were in attendance.
2. IASB member Stephen Cooper welcomed the CMAC members and noted that Rita Ogun from Thomson Reuters would be presenting on Thomson Reuters' model for taxonomy. Mr Cooper noted the importance of XBRL from a user perspective and further noted that the Trustees highlighted it in their strategy review.

XBRL and the Thomson Reuters data model

3. Olivier Servais, Director of XBRL Activities, gave a short introduction to the IFRS taxonomy. He described the taxonomy and cautioned against comparisons to the US GAAP XBRL, which has a taxonomy of around 13,000 tags, while the IFRS Taxonomy has around 3,400.
4. CMAC members questioned the use of custom tags and the integration of local and company-specific concepts. Mr Servais responded that extensions are used for such specific concepts, but acknowledged that this reduces comparability across entities and is therefore better avoided. One CMAC member said that it needs to be clear which tags are custom and which are standard.
5. Members also had concerns about the lack of a standardised model and said that a more developed and robust model was needed before XBRL would be useful for them.
6. Ms Ogun then presented on Thomson Reuters' taxonomy model, which is designed based on what matters to a wide range of users of financial statements, including non-GAAP data.

The IASB is the independent standard-setting body of the IFRS Foundation, a not-for-profit corporation promoting the adoption of IFRSs.
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7. Ms. Ogun said that IFRS accounting principles determine what should be disclosed and how these items should be measured, but the standards do not generally dictate how to present this information. Therefore, when companies present their financial statements in different ways, comparability is diminished. In addition, financial analysts are able to disaggregate financial data and adjust the as-reported data according to their view of how data elements should be defined or, alternatively, use global information vendors like Thomson Reuters.
8. Ms Ogun stated that child-parent relationships are useful because they provide the user with all relevant contextual meta data about an element. A user of the taxonomy will know the variations in calculations for each entity. In addition, it is possible to design tools which use child-parent relationships to automate the building of standardised financial data.
9. One CMAC member asked Ms Ogun if the IASB should be more prescriptive by way of defining more rigid rules on financial statement presentation. Ms Ogun responded that this would not be necessary for Thomson Reuters, as they will be using the child-parent relationships to define and map to the Thomson Reuters taxonomies, keeping financial reporting flexible. She added, however, that IFRSs could assist in this clarification of presentation by providing better disclosures of how footnote information links to line items reported within the financial statements.
10. She described the use of ‘global tags’ across jurisdictions that do not have strict definitions. These global tags are ‘as reported’ and derive from, for example, client requests and company specific data. Ms Ogun mentioned that this method results in a taxonomy comprised of what companies most often present in their financial reports and that this results in concise taxonomies that allow for a reduction in the risk of data overload. Ms Ogun also mentioned that there is in fact good overlap between IFRS common practice and the Thomson Reuters as reported taxonomy.
11. One CMAC member suggested that an IASB definition of a term, for example, operating profit, would be preferable to a Thomson Reuters-defined term.

12. Another CMAC member observed that if XBRL makes the information provided by data providers more robust and comprehensive, it is a benefit to users of financial statements who use that data.
13. Members also suggested that concepts should first be properly defined within IFRSs and the conceptual framework before being defined as tags in XBRL.

Risk free rate of return

14. Staff member Hilary Eastman discussed agenda paper 1, which was about the risk-free rate of return. She posed the question of whether companies should decide what their risk-free rate should be or if there is some other overarching principle that should be used for what the risk-free rate should be for any given company. In particular, from the IASB's perspective, should accounting standards specify what the risk-free rate is? The general view was that the determination of the risk-free rate or its use was not the Board's responsibility.
15. Members discussed whether and when it would be appropriate to use one government's debt as opposed to another's, for example within the Eurozone where the currency is the same but sovereign risk and inflation are different across countries. Some members suggested using a 'synthesised' risk-free rate and noted that the rate we call 'risk free' is really only a proxy for a risk-free interest rate.
16. There was some concern about which risk-free rate multi-nationals should use when they have business operations in multiple countries. One CMAC member said this could be remedied by using weighted average rates. One member suggested using the return the investor expects for holding the obligation—that would be the expected return to use for pricing the liability. They also said that regardless of which rate is used, they want to know the company's assumptions about the risk-free rate, which benchmark it is using and what the duration is. Furthermore, the discount rate needs to reflect the risk of the specific asset, however that rate is derived.

Financial Instruments: Impairment

17. Staff member Jeff Lark introduced agenda paper 2, describing the IASB's current plans for developing a new impairment model for financial instruments measured at amortised cost using a three-bucket expected loss approach. He described how the Board's current view is that all financial assets subject to the impairment model ('loans' as shorthand) would be classified into one of three buckets based on their credit quality as assessed by the entity (referred to as a 'Credit Quality Approach'):
    a) the highest credit quality loans would be classified in Bucket 1 with either 12 or 24 months of expected losses recognised;
    b) loans of medium credit quality would be in Bucket 2 with recognition of lifetime expected losses; and
    c) loans of the lowest credit quality would be in Bucket 3 with recognition of lifetime expected losses.

    Another approach to the three-bucket model was also described (referred to as a 'Bucket 1 Approach') where all loans would be classified in Bucket 1 on origination or acquisition (other than those acquired at a deep discount) and would move downward into Buckets 2 and 3 as the credit quality of the loan subsequently deteriorated. Loans would also be able to transfer upward if credit quality later improved.
18. One member noted that the model should amortise losses according to the expected loss pattern.
19. CMAC members were strongly opposed to any method that would recognise a day 1 loss, which is the case in either of the approaches described. Loans are recognised at fair value on acquisition or origination, so in their view any method that would recognise a day 1 loss would move away from this principle and reduce the value of information provided to users of financial statements. Members stated that in their view the driving force of this project should not be the adequacy of the allowance balance.

20. Members stated that knowing lifetime expected losses at origination/purchase is valuable. However, they would prefer that this information be presented via note disclosure, not on the face of the financial statements.

21. Members want information about:
    a) loss expectations, as well as what is happening with the loan before it is actually impaired, presented in the note disclosures.
    b) changes in loss expectations.
    c) when a loan performs worse than expected. For this reason, they think the Credit Quality Approach provides less information than the Bucket 1 Approach. This is because the Bucket 1 Approach is based on loan deterioration, so loans in Bucket 2 would be those that have deteriorated since origination, which may provide some information about actual performance compared to expected performance.

22. One member also expressed concern about recognising lifetime losses (or any losses) on loans in Bucket 2 because, although the likelihood of loss is increased, it is still not certain that a loss will be incurred. Otherwise, it would have been moved to Bucket 3.

23. Mr Cooper explained that the measurement would be on a probability-weighted (expected value) basis, which would resolve this concern[1].

24. Members also expressed concerns over buckets and ‘cliffs,’ noting that they appear to be overly complex and that a principle is needed.

25. The Credit Quality Approach was developed because preparers find it operationally plausible using current systems and available information. Members expressed frustration that banks claim not to be able to handle tracking the movements and changes in credit quality. In their view, it seems that banks should be tracking such information. In addition, they wondered whether the incremental costs associated with choosing one approach over another would be material

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[1] In March 2011 the boards tentatively decided that expected losses should be estimated with the objective of an expected value. Performing a probability-weighted possible outcome analysis would be the purest form of an expected value, but the boards acknowledged that other appropriate methods could be used as a reasonable way to achieve the objective of an expected value.

given the systems changes that would need to be made to implement a new accounting model for impairment generally.

26. One member noted that the presence of three buckets reflects the reality of the lending business and that 'expected loss' is the reserve for possible mistakes.

27. Members also expressed a desire for disclosure of the fair value of the loans held at amortised cost. Such disclosure is required in IFRS 7 *Financial Instruments: Disclosures*.

Transition disclosures

28. Staff member Li Li Lian introduced agenda paper 3, which described the disclosures that users of financial statements need when an IFRS is issued but is not yet mandatory. In particular, the paper focused on three topics: (a) the types of disclosures a company should provide the year an IFRS is mandatory, (b) the types of disclosures a company should provide the year it applied a new IFRS and (c) the types of disclosures a company should provide in the first interim financial statements when it first applied the new IFRS.

Disclosures when a new IFRS has been published but is not yet mandatory

29. Members reviewed different disclosures that were based on existing requirements and other possible disclosures.

30. While one CMAC member thought it may be more acceptable for preparers to provide a description of the change in the notes, some strongly advocated for entities to prepare pro-forma information, or some form of quantitative information, in the year before a standard becomes mandatory. Members noted that such a disclosure would highlight to users of financial statements which entities have started to consider the effects of new IFRSs and would provide a warning of the potential impact arising from new IFRSs.

31. However, other CMAC members did not encourage requiring such information because they think it seems to be a way of forcing entities to apply new IFRSs early.

Disclosures of the impact of a new IFRS in the first applied annual report

32. Many CMAC members were strongly supportive of requiring a reconciliation of equity and total comprehensive income (similar to the requirement in IFRS 1) that would show the changes that arise from applying a new standard only when there are major changes to the financial statements. This requirement would not be limited to the four major standards that the Board is currently working on, but would be applicable to any new IFRS.

33. Ms Lian asked CMAC members if they would prefer that this information be audited in the financial statements or that it be presented in the management commentary. One member said that he would prefer that this information be presented in the notes, with a range of numbers provided along with the entity's estimate. Another member suggested that best estimates with a disclaimer would be more useful. The general view was that they prefer it to be in the notes rather than in management commentary.

Case studies

34. CMAC member Dane Mott introduced agenda paper 4, asking the other CMAC members for their views on whether project-specific case studies could be used to:
    a) increase investor and analyst understanding of accounting proposals and to improve the effectiveness of their input in the standard-setting process; and
    b) increase the Board's understanding of how investors and analysts use financial statements and the limitations on the availability of information

35. CMAC members thought case studies in theory were a good idea to better inform the Board of on-going practical implementation issues. However, some members noted that the objective of a case study would need to be clear to allow Board members to understand what users do with financial statements and the challenges they face.

Agenda consultation

36. After a short presentation by staff member April Pitman, CMAC members discussed the agenda consultation document that was published in July 2011 and the staff's plans to get input from users of financial statements in part through an online survey.

37. One CMAC member noted that users of financial statements need to know more about the standard-setting process in order to be able to provide input. Another member suggested that it would be useful for the Board to have provided a preliminary ranking of projects that users of financial statements could comment on. They cautioned that an online survey might need to be supplemented with conversations with users of financial statements to make sure the Board understands *why* they answered the way they did.

38. One member observed that the document would be much easier to respond to than other IASB technical documents (eg exposure drafts).