

**Minutes of the Meeting of the  
Standards Advisory Council  
held in London on 23 and 24 June 2008**

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*SAC Members:*

**Attending:**

Adir Inbar  
Alberto Giussani  
Charles McDonough (World Bank)  
Christopher Ernst (IOSCO)  
Dane Mott  
David Lindsell  
Eiko Tsujiyama  
Hector Estruga  
Heinz-Joachim Neubürger  
Henning Göbel (IAIS)  
Ian Ball (IFAC)  
Jochen Pape  
John Carchrae (IOSCO)  
Judith Downes  
Kenneth Sullivan (IMF)  
Mauro Grande  
Michael Cangemi  
Nelson Carvalho, *Chairman*  
Oon Jin Yeoh (Monday only)  
Patrice Marteau  
PM Kam  
Richard Thorpe  
Rifaat Ahmed Abdel Karim  
Sarah Deans

Sylvie Matherat (Basel Committee)  
Shailesh Haribhakti  
Yoseph Asmelash (UNCTAD)  
Will Widdowson

**Apologies:**

Anna di Michele  
Benoît Atangana Onana  
Christine Ramon  
Frank Brod  
Hector Vela  
Ingrebret Hisdal  
Jose Antonio Alvarez  
Wang Jun  
Suk-Jun Lee  
Trevor Harris  
Vladimir Preobrazhenskiy  
Yoshiki Yagi

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*Observers:*

Johannes Jeroen Hooijer (European Commission)  
Julie Erhardt (USSEC)  
Toshitake Kurosawa (FSA)

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*IASCF Trustees:*

Alicja Kornasiewicz  
Bertrand Collomb  
Gerrit Zalm

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*IASB Members:*

David Tweedie  
Gilbert G elard  
Jan Engstr om  
James Leisenring  
John Smith  
Mary Barth  
Philippe Danjou  
Robert Garnett  
Tatsumi Yamada  
Tom Jones  
Warren McGregor  
Wei-Guo Zhang

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*IASB and IASC Foundation Staff:*

Alan Teixeira, Director of Technical Activities  
Christian Kusi-Yeboah, Project Manager  
Gavin Francis, Director of Capital Markets  
Kathryn McArdle, Executive Assistant  
Liz Hickey, Director of Technical Activities  
Liz Figgie, Project Manager  
Peter Clark, Senior Project Manager  
Tom Seidenstein, Director of Operations IASCF  
Victoria Blackburn, Project Administrator  
Wayne Upton, Director of Research

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*Other Guests:*

Hiroyuki Hara (Japanese FSA)  
Nayouki Suzuki (Interpreter)  
Ulf Linder (European Commission)

## **1 Welcome**

- 1.1 SAC Chairman Nelson Carvalho welcomed Standards Advisory Council members to the meeting.
- 1.2 He reported that since the last SAC meeting he had attended the public session of the Trustees' meeting on 17 March and highlighted to the members that the Trustees had raised the issue of the effectiveness of the Standards Advisory Council. He also attended the joint IASB/FASB meeting as an observer in April. He participated in a conference call with the Trustees' subgroup on the future of the SAC in May. In June he was part of the IASB delegation in an annual conference in El Salvador, held jointly by the IASB, the International Federation of Accountants, the World Bank, and the Inter-American Development Bank. In June he was an Observer at the Constitution Review Roundtable on the construction. Between the last meeting in February 2007 and the end of May he spoke at eight conferences about IFRS in Brazil and was also interviewed by business publications.

## **2 Recent market events**

- 2.1 IASB Senior Project Manager, Alan Teixeira, introduced Agenda Paper 1 *The Credit Crisis* and described the steps taken by the IASB to address the credit crisis. In summary, he stated that the key tasks undertaken were:
- Accelerating two projects to get the accounting treatment right— consolidations and derecognition;
  - Improving the disclosures for off-balance sheet activities;
  - Accelerating disclosure discussions in relation to fair value measurement; and
  - Generally reviewing IFRS 7.
- 2.2 An SAC member requested further clarification on the Financial Stability Forum's recommendation that the IASB should look at international convergence in relation to consolidations. Dr Teixeira responded that, although it is important to have general alignment with US GAAP, working with the FASB was not possible in the short term because the FASB has to deal with QSPEs and has to have a final standard out by the end of this year. However we are liaising with the FASB on the project.
- 2.3 Some SAC members asked how long the fair value measurement project will take. It was generally felt that guidance was needed urgently. Peter Clark, IASB Senior Project Manager, responded that the IASB will bear in mind the Panel's findings when developing the fair value measurement Exposure Draft. Members were also encouraged to come up with suggestions for adding guidance.
- 2.4 An SAC member asked how far the IASB would go to seek to align additional disclosures with the disclosure template in the back of the Financial Stability

- Forum report. Dr Teixeira responded that although the IASB is paying a lot of attention to the recommendations they are also receiving input from other sectors. The staff are working through this input at present and it seems to indicate that the IASB may need to add more application guidance and to pay more attention to the form the disclosures take.
- 2.5 An SAC member commented that securities regulators have sought to provide further guidance on how they expect standards should be applied during this credit crisis. Several SAC members expressed their opinion that standards on disclosure do not go far enough and are not clear and comparable enough. There was a discussion of what constituted good practice for securities regulators and several SAC members said that they would welcome any examples of good practice from the IASB.
- 2.6 Several members commented that there was felt to be an urgent need for answers to these issues and that the IASB perhaps had not reacted quickly enough to the accounting issues relevant to the credit crisis. Several members felt that the IASB needed to have clear and transparent due process, but this takes time. There was a view that in times such as these there may be a need for an Urgent Issues Task Force. If there is no progress in the short term it will add fuel to the argument that regulators should impose standards rather than standard setters.
- 2.7 John Smith, IASB Board Member, commented that the Financial Stability Forum has urged the IASB to get these projects done and that the IASB have told them it can accelerate these projects if necessary.
- 2.8 Several members felt that the credit crisis was an accounting problem caused by fair value measurement. Tom Jones, the IASB Vice Chairman, and John Smith, IASB Board Member, replied that it is not a solution to say that it is an accounting issue. The question of whether to stop fair value accounting has already been addressed by the Financial Stability Forum (FSF) and the FSF have decided not to make any changes to the use of fair value.
- 2.9 In relation to disclosure, one SAC member advocated that the IASB should stay with the principles surrounding disclosure. Another SAC member warned that there is a general danger of the loss of principles based guidance and rules based guidance might be introduced instead. Dr Teixeira commented that the reaction to IFRS has been positive and that the IASB's objective was to make sure they retain principles. Disclosure requirements need to be sufficiently general to cover the key risks that businesses will face.
- 2.10 An SAC member stressed the need to review performance monitoring and performance reporting and said there should be a distinction between the operational performance and performance due to valuation of assets.

- 2.11 An SAC member, who is part of the Expert Advisory Panel, updated the SAC on their recent meetings. Several SAC members raised the issue of best practice and one SAC member asked for a summary of the discussion by the Expert Advisory Panel on best practice on valuation and guidance.
- 2.12 Board members reaffirmed that they are committed to finding solutions and working with securities regulators. They reiterated that the feedback and advice of the SAC is much appreciated. John Smith, IASB Board Member, summed up the discussion saying he understood the following to be key matters:
- there is support for fair value, and the revisions of the consolidation and derecognition standards;
  - there is support for focusing on disclosure and making the financial statements more understandable in relation to risks;
  - there are differences in views between preparers, firms and regulators on how the IASB should deal with the credit crisis.
  - there is a concern that the Board will be forced to have rules rather than principles;
  - some SAC members would like the IASB to get something out quickly on best practice; and
  - some questions were raised over the relationship between regulatory capital requirements and accounting requirements.

### **3 Off balance sheet concerns – the projects on Consolidation and Derecognition**

- 3.1 Alan Teixeira and Gavin Francis gave an overview of the progress of the Consolidations and Derecognition projects.
- 3.2 There was general support from SAC members for the two projects and the approaches being taken. Some SAC members thought that too many entities are currently being consolidated while other SAC members thought that some entities that should be consolidated are not. A project to clarify this without being rule based was welcomed. There was a consensus among SAC members that guidance around consolidations was needed.
- 3.3 An SAC member urged the Board to remain principles based, perhaps with particular emphasis on disclosures about difficult decisions. Dr Teixeira, commenting on IAS 1, said that there is already a requirement that an entity disclose information about the judgements that are made in applying accounting policies that have a material effect on the financial statements. The staff intend to for the proposed standard to make it clear that judgements made in relation to the consolidation decision are required.
- 3.4 There was a discussion on risks and rewards. Several SAC members asked how one should measure the risk associated with financial instruments. Some

- supported the risk and reward approach in relation to consolidation. Jim Leisenring, an IASB Board Member, pointed out that risks and rewards can be confusing. Dr Teixeira confirmed that risks and rewards are very important in the IASB model. The staff are assessing whether to use some of the calculation material currently in FIN 46R and use it in the IASB model, to show people how they might be able to think about risks and rewards.
- 3.5 One SAC member asked the Board to consider netting items in the derecognition project.
- 3.6 One SAC member asked for more clarification on options to get control. Dr Teixeira responded that the IASB has been reassessing its thinking and had tentatively decided that holding an option is not always sufficient in itself to establish that the option holder meets the power criteria. Dr Teixeira agreed that the IASB needs to provide sufficient guidance so people can be consistent.
- 3.7 One SAC member asked about timing for the Consolidations project and asked how confident the IASB was to publish in Q4. Dr Teixeira responded that the IASB did initially say Q3 – but now there will not be a Discussion Paper the aim is to have something out for the IFRS community to consider by September 2008.
- 3.8 One SAC member raised the question of reputational risk and how it relates to the control model. Dr Teixeira responded by indicating that the initial assessment is that reputational risk was not sufficient to give an entity control. However this is a risk that warrants disclosure.
- 3.9 Gilbert Gelard, IASB Board Member, provided the summing up. He saw the main points as follows:
- There seemed to be general support for speeding up the consolidation process and going directly to an Exposure Draft. There will still be an extensive due process;
  - On consolidation there was discussion on control versus risk and reward. Staff explained that these elements were not incompatible and elements of risk and reward will be built into the overall control model;
  - There were still a lot of issues on the Control model – we still need to be principles based, deal with the various attributes of the control model and consider voting rights and options;
  - There was a call to consider veto rights versus protective rights, acting as agents in the case of investment companies and economic dependants, whether reputational risk should bring things back on the balance sheet;
  - The IASB is aware that some items must be off balance sheet and not all can be consolidated, although there seems to be a general feeling among SAC members that that up until now there has not been enough on balance sheet; and

- On derecognition it was noted that IAS 39 gives an approach that is complex and greater clarity is needed. There will be some crossover issues between consolidation and derecognition, with a trade-off between derecognition and disclosure.

3.10 Shailesh Haribhakti, SAC member, provided a summary on behalf the SAC members. They saw only one point to add to the IASB sum up, which was that everyone saw what happened with the recent rescue of SIVs, therefore underlying the risk and rewards question was should we consider who induced people to participate in SIVs, because that might set the responsibility as to who should pick up the loss on the restructuring.

#### **4 The Memorandum of Understanding (MoU)**

4.1 Sir David Tweedie, Chairman of the IASB, provided some background to the updating of the Memorandum of Understanding (MoU). 112 countries are now committed to using IFRS and we hope to hear the plans of the Securities and Exchange Commission regarding US convergence soon. Many countries are switching in 2011 so the IASB wanted to get changes done by then and before up to five new IASB Board Member join the board in 2011.

4.2 Many of the short term goals on the MoU have been completed or are moving towards completion. On the long term program there are nine areas that will be completed between 2011 and 2013. Along with the FASB, the IASB is changing some of its working standards to accelerate the process.

4.3 The areas that are aimed to be completed between 2011 and 2013 are:

- Fair Value Measurement;
- Consolidations;
- Derecognition;
- Revenue Recognition;
- Financial Statement Presentation;
- Financial Instruments;
- Liabilities & Equity;
- Leases; and
- Pensions

4.4 Sir David stressed that the IASB has not abandoned the rest of the Work Program, just prioritised it so that some standards can be completed by 2011. Wayne Upton, IASB Director of Research, told SAC members that at the joint FASB/IASB meeting the MoU was presented as an agenda paper and participants were asked if they supported it. This made it clear that decisions are taking place transparently. He noted that the IASB is aware that it is seen to be too slow. It is therefore accelerating the process.

- 4.5 One SAC Member asked if the credit crisis, coupled with the fact that Board Members are leaving, will mean that these projects have a realistic chance of completion. Sir David replied that he thinks there was a reasonable chance of achieving completion and that consideration has been given to which projects are realistically possible in this timeframe.
- 4.6 Several SAC members pointed out that the agenda was extremely large and contained competing priorities. They asked for time to be taken to allow for consultation with stakeholders and constituents. John Smith acknowledged that the agenda is enormous, but pointed out it has always been enormous – the Board are deliberately being more efficient and disciplined about the agenda and the deadlines will help.
- 4.7 One SAC Member asked about a support system for newly converged countries and whether the IASB will have the time to devote to them considering the agenda. Some SAC members also raised questions about who is setting the agenda and said that the SAC needs to be consulted on these matters. IASB Vice Chairman Tom Jones pointed out that the agenda is the same and that it has been drawn up in full consultation with others. Nothing has been dropped from the agenda.
- 4.8 Another SAC member questioned paragraph 12 and doubted the necessity of some projects in which the IASB plans to make significant changes to the existing Standards. They said that in some instances IFRS and GAAP are almost identical, ie – Financial Statement Presentation, so questioned why a Standard would be changed.
- 4.9 One SAC Member stated that if a country wanted to adopt before 2011, they would get two waves of changes. They asked whether this put countries off adopting early. Sir David replied that adopting in 2011 is not mandatory and that countries could choose to adopt later. Liz Hickey, IASB Director of Technical Activities, pointed out that if a country hasn't yet made a decision to adopt, then it is unlikely they will want to adopt before 2011.
- 4.10 One SAC member questioned why the Financial Instruments Discussion Paper has a number of proposals which could extend the use of fair value, while the FASB has published an Exposure Draft which proposes some changes to hedging which, if adopted, would considerably affect the use of financial instruments in financial statements. They questioned whether IASB and FASB are moving in the same direction with regards to convergence. Sir David replied that no decisions will be made on this matter until comments are received on the Discussion Paper although they are in discussion with FASB. Jim Leisenring added that no one at present knows what the SEC will decide and there has to be extensive due process.

- 4.11 There was a feeling among SAC members that the many newly converged countries will need extra support from the IASB
- 4.12 There was a general discussion involving the Board members rotating in 2011, and it was felt that this adds firmness to the deadline. Some SAC members said they expected that projects that don't make it will be deferred rather than taken off the agenda. They therefore called for transparency about project deadlines and accountability to the SAC. They asked how the SAC will be involved in helping to avoid scope creep and what the SAC's mandate is in this regard. Sir David answered that the IASB does not consult on the basis of scope creep, but we have an open due process. He reminded SAC members that this issue was discussed with them three years ago and that the IASB now needs to be more disciplined to get things done. He urged SAC members to let the IASB know their views during the consultation process.
- 4.13 Mary Barth, IASB Board Member, reassured SAC members that nothing would be deleted in order to meet the deadlines. Warren McGregor, IASB Board Member, added that the IASB still needs to make a great deal of progress improving the quality of financial reporting from the standards they inherited. This is their chance to do that and make progress and the SAC's support is very much needed.
- 4.14 An SAC member commented that the progress by the Board is very impressive and has happened at great speed. In his opinion, convergence would be facilitated by a coordinated IASB/FASB study of how the standards are going to be explained to the companies who are not well versed in IFRS.
- 4.15 Tatsumi Yamada, IASB Board Member, said that the IASB will achieve its goal by being efficient in their discussions and in this regard are holding extra Board Meetings. He sees it as a challenging but exciting task and believes it is sensible to set a date to work towards, as it makes people work more efficiently. He agreed with a comment made by an SAC member that insurance projects shouldn't be a second class project, and acknowledged that there were two big issues to be faced, both with participating contracts and the behaviour of policy holders.
- 4.16 After discussion, there was general SAC support for the nine projects and the timetable and it was agreed that these nine projects had all been approved. It was agreed that strong discipline was needed for working towards the deadline.
- 4.17 There was a question from an SAC member about whether staffing levels were adequate to deal with this challenge. Liz Hickey responded by saying that five people were starting employment later this year and in 2009 another 10 people are expected to start. She urged SAC members to spread the word and encourage any talented people they know to apply. Jim Leisenring pointed out that virtually none of these staff have experience in standard setting. He said that the FASB has

previously been very generous with its experienced staff, but now they are losing staff and this affects the IASB.

- 4.18 One SAC member recommended that a more comprehensive approach to the Conceptual Framework should be adopted rather than the current piecemeal approach.
- 4.19 Sir David summed up the discussion. The main points as he saw it were:
- Concern that the IASB will just take on US methods. This is not the case;
  - Concern that FASB is too involved in the MoU. Sir David reiterated that this was always the agreement;
  - Questions over what would happen if the FASB puts out something in the meantime? The FASB has to deal with US situations and has to act in the meantime; and
  - Concern over the due process, particularly in relation to matters of scope. The IASB has already issued Discussion Papers on four of these nine subjects, three other Discussion Papers are coming on Pensions, Leases and Financial Statement Presentation and then all nine will have Exposure Drafts so SAC members will be able to comment on the scope.

Sir David finished his summing up by saying that if the IASB consults on the MoU, it won't get done – and they need to finalise it to assist the countries changing in 2011. We need to make this progress by 2011 to help the US's change, as it is this is pulling the two sets of standards together.

- 4.20 SAC member Judith Downes summed up on behalf of the SAC members:
- Some of the SAC are worried that priorities for other projects would slip;
  - They are concerned about the size of the work programme but accepted that the Board is trying to be helpful by concentrating on particular projects with a fixed timeline;
  - There are concerns about whether the IASB can provide adequate support to jurisdictions adopting IFRSs;
  - No SAC member objected to an item on the current work plan, but there was confusion as to whether the MoU influence has been extending beyond people's original expectations; and
  - There was general support for the timetable but questions had been raised about what will happen if the timetable is not achieved.

## **5 Work Programme**

- 5.1 Sir David Tweedie, IASB Chairman, began the session by telling SAC members that Liz Hickey, IASB Director of Technical Activities, was returning to her native New Zealand. He talked of how he and the Board very much appreciated all her hard work and achievements and wished her all the best for the future.

- 5.2 He told the SAC of the recent changes in senior management - Wayne Upton, IASB Director of Research, will become IASB Director of International Activities - a vital role that better reflects both his current responsibilities and extensive experience in assisting major economies in making the transition to IFRSs and in meeting the growing volume of requests from around the world for assistance in implementing IFRSs. He will also be available for special projects.
- 5.3 Reflecting both the relevance of interpretations to ensuring the consistent application of IFRSs and the organisation's commitment to post-implementation reviews of major new standards, the position of IFRIC Co-ordinator is upgraded to Director of Implementation Activities. Tricia O'Malley, a former IASB Board Member, will take on the enhanced role, combining her existing responsibilities for IFRIC activities with the management of post implementation reviews and annual improvements projects.
- 5.4 Paul Pacter will retain his existing responsibilities as IASB Director of Standards for SMEs. Paul has shown tremendous energy and leadership in driving the SME project forward, which is all the more remarkable given the part-time nature of the role.
- 5.5 Peter Clark will be promoted to IASB Director of Research responsible for identifying and managing issues that affect a range of IASB projects and for overseeing technical quality.
- 5.6 Gavin Francis will be promoted to IASB Director of Capital Markets and will be responsible for the development of IFRSs, with particular emphasis on financial instruments and related areas.
- 5.7 Alan Teixeira will become IASB Director of Technical Activities and will be responsible for the development of IFRSs.
- 5.8 Alan Teixeira told the SAC that he planned to talk through the Work Plan project by project. He said the IASB is bringing more transparency and organisation to the Work Plan and looking to work in the most effective way possible. The new Directors have sat down with every staff member to find out where they are with their projects and what their resource needs they have to complete the projects.
- 5.9 **Common control transactions** – Dr Teixeira has had to take a staff member from this project and move them to the Consolidations project. A lot of scoping work has already been done so by early January the staff expect to develop a scoping document.
- 5.10 **Consolidations** – this subject had already been discussed in a previous session.
- 5.11 **Emissions trading** – the IASB is currently doing research and plans to start bringing this item to the Board in September. An SAC member questioned the

- timetable on Emissions Trading, saying it should cover emissions trading schemes not just in the European Union but also other countries because it is a joint project. He said that he thought this was overambitious. Peter Clark said they needed to get further into the project to assess how realistic the timeline is. He said the big issue is what happens to the bottom line of the performance statement when the standard is applied.
- 5.12 **Fair value measurement guidance** – some SAC members raised concerns that the Board might adopt large parts of FAS 157 without sufficient debate. What is proposed appears to be consistent with what is already in the current IFRS. Dr Teixeira informed the SAC that there would be a roundtable at the end of the year at which the project team will present large parts of the Exposure Draft. This project hasn't been in front of the Board recently as it is planned to bring a more complete package to the Board in due course.
- 5.13 Another SAC member had a question regarding fair value measurement and asked whether the IASB had got any further in solving the issue of whether the Board is going to be comfortable with adopting large parts of FAS 157. Mr Clark replied that the issue of exit and entry price had come up in comment letters and these issues would be brought to the Board soon – it would depend on what the Board thought. He said that the IASB don't yet know if the FASB would entertain changes to FAS 157.
- 5.14 An SAC member asked for more clarification of details of the Fair Value Exposure Draft. Mr Clark replied that the discussion with the Board will just be principles and that they will give the Roundtable participants a complete or partial Exposure Draft. He hoped to have the Exposure Draft out before the middle of 2009.
- 5.15 One SAC member suggested looking again at fair value issued liabilities, noting that there are different methods out there. Mr Clark confirmed that liabilities is due to be looked at in more detail. John Smith pointed out that there isn't a huge amount of difference between the IASB and FASB Fair Value Standards, any difference is in the communication.
- 5.16 **Financial Statement Presentation** – a lot of the points had already been covered in a previous session. The Discussion Paper should be out in next couple of months. It will try to line up the statements better and some of the scope creep has been cut back.
- 5.17 **Government Grants** – this used to be a sub-project under Short Term Convergence, which has been suspended for the moment. There is a possible link to Emission Trading at some point.
- 5.18 **IFRS for Private Entities** – There has been a name change from 'IFRS for SMEs'. This change reflects comments on the Exposure Draft. The Board has

- been discussing the Exposure Draft comments and the aim is to have a standard out at the end of the year. An SAC member commented that it seemed there could be some significant changes from the exposure draft and asked whether re-exposing had been considered. Liz Hickey replied that re-exposure was only considered at the end of deliberations.
- 5.19 There was a discussion on the name of the standard and what constituted a private company. One SAC member asked if a change in name is mirrored by a change in which companies are affected by the standard. Another SAC member said that the title “Entities of Significant Public Interest” has been used by IFAC and that IFAC and IASB should try to find common terms. Ms Hickey replied that the name of the standard has changed but the definition of the types of entity that this IFRS will apply to has not changed. It is still intended for entities that are not publically accountable. Mary Barth said that this project name has been problematic as there is no size test.
- 5.20 One SAC member asked if the project could be accelerated. Philippe Danjou replied that the time constraint is available board discussion time. All projects get a fair allocation of time and the IASB also wants it to remain consistent with full IFRS.
- 5.21 **Income taxes** – The IASB is currently working towards putting out the Exposure Draft. An SAC member asked if there will there be public consultation and scrutiny on income tax and if they would be following US guidance on uncertain tax issues. Mr Clark replied that the Boards have reached different positions on uncertain tax position but are taking the same basic model and trying to eliminate the difference between them. Jim Leisenring said that some FASB members believe that uncertain tax position was a major area of practice abuse in the US, while other FASB members believe that nothing should be done to taxes. The answer is therefore unclear. The FASB will probably ask for comments saying that it is an IASB proposal.
- 5.22 **Insurance contracts** – this had already been discussed. The IASB is optimistic about the timetable for this. Mr Leisenring pointed out that the IASB needs agreement on what a ‘field test’ is as they can be timely and costly. Mr Clark added that they plan to make use of the testing already done by other people, ie the testing being done for Solvency 2.
- 5.23 An SAC member asked if this Standard could be coordinated with other related Standards. Mr Clark confirmed that it could, but they would need to resolve policy-holder behaviour and policy holder participation. Day 1 profit and margins are cross cutting issues.
- 5.24 Several SAC members expressed their support for this project as there is currently large divergence between jurisdictions

- 5.25 **Leases** – this had also already been discussed and the Board will discuss a number of issues in July 2008. It is planned to have the Discussion Paper out towards end of this year, with an Exposure Draft out in early 2010.
- 5.26 **Liabilities** – the Exposure Draft was issued in 2005, but was delayed because the same issues have been coming up in other projects. The IASB needs to address the issues across all projects, not just this one.
- 5.27 Several SAC members questioned whether the IASB intended to go straight from ED to IFRS and whether they would re-expose. Mr Clark answered that the Board hasn't discussed the matter yet or made a decision but it will.
- 5.28 **Pensions** – the Discussion Paper is out and the IASB is looking for comment by the end of September 2008. The Discussion Paper addresses recognition measurement and accounting for contribution-based promises. There is a Working Group meeting in the near future and an Exposure Draft due in 2009.
- 5.29 **Revenue Recognition** – the Discussion Paper will compare the customer consideration and measurement model. In May 2008 the Board indicated that the customer consideration model was preferred and the IASB is reconsidering the Discussion Paper in light of this.
- 5.30 There were comments from several SAC members that the Discussion Papers put out by the Board are more like Position Papers than Discussion Papers and tend to narrow the debate. Some SAC members stated that there should be a discussion of concepts rather than just one approach. Mr Clark responded that the Board have a strong preference in one direction but also considers the response from constituents. Ms Hickey added that constituents want to know the Board's view so that they can react to it. In the Due Process Handbook it states that Discussion Papers "include the preliminary views of the IASB".
- 5.31 **Amendments to standards** – several of these Standards were highlighted:
- (a) Joint Ventures was first, which has already been out as an Exposure Draft. Comment letter analysis has been sent to the Board who said to proceed with the project. However we have also gone back to 20 comment letter respondents to follow up. The IASB expects a move to final Standard in Q2 2009;
  - (b) First time adoption of IFRS – the IASB is working towards an Exposure Draft at present;
  - (c) Non-current assets held for sale – this is a spin off from Financial Statements Presentation and is a very small project. The Exposure Draft should be out in next couple of months;
  - (d) Related party disclosures – there are two issues to consider; exemptions for some state-controlled entities and trying to improve the definition of related parties. The comment letters supported the Exposure Draft so the

IASB are discussing whether they should re-think the approach. There might be a final standard out at end of this year;

- (e) Concepts –there are Exposure Drafts issued on Phase A and Phase D and the Board is working towards Discussion Papers on Phases B and C. Other phases are currently inactive; and
  - (f) Extractive activities – a Discussion Paper is expected to be published at the end of 2008.
- 5.32 An SAC member asked if it was correct that when an IFRS is published, preparers have a one year window before they would be required to adopt the standard. Ms Hickey replied that the application date is set as the Board issues the standard. The Board will consider the application dates for the standards coming out in 2011 taking into account the different jurisdictions adopting in this time frame.
- 5.33 Philippe Danjou, IASB Board Member, summed up the discussion:

- SAC members gave their views on which projects they thought were controversial. These were fair value measurement guidance, financial statement presentation, income taxes, insurance contracts, liabilities and pensions;
- It is important to meet due process;
- There was a discussion on the nature of Discussion Papers and the viewpoint laid out in them;
- There was a debate over the title of IFRS for Private Entities and it was felt that clarification is needed from IASB so users were aware that there was no change in scope alongside this name change;
- Income tax project – questions were raised on the issue of how the US will proceed with this joint project. Mr Danjou said that the IASB would need to reply to the SAC on this at the next meeting; and
- Insurance contracts – some SAC members saw a need to move quickly but others stressed the need to use field testing and this takes time. This is potentially problematic.

- 5.34 SAC Member Dane Mott summed up the discussion on behalf of SAC;

- There were concerns over not making the timetable deadline on Emissions Trading;
- There were concern over exit and entry price in fair value; and
- There are issues about trying to link the government contracts issue to commission trading

## **6 Agenda Proposals – Liabilities and Equity/Derecognition**

- 6.1 IASB Staff member, Liz Figgie, introduced a proposal to add the **Liabilities and Equity** project to the Board’s active agenda. The aim of the project is to develop a better distinction between equity instruments and all other financial instruments.

- 6.2 Some SAC members questioned whether this project was really a priority. One SAC member stated that they would rank Consolidation and Derecognition as more critical, but clarified that their point was a question of order rather than whether it should be on the agenda. There was a feeling of being in danger of overcomplicating things rather than simplifying them. It was said that IAS 32 isn't necessarily too complex, it is just that some people don't like the answers it gives.
- 6.3 One SAC member said that the paper talks about consultation with users who supported enhanced guidance. He questioned if the paper actually caused them difficulties in their analysis of investment opportunities or merely that it was their perception that it was complex. He asked if elements of IAS 32 just be patched instead of replacing everything. Ms Figgie answered that users strongly supported a clear distinction between liabilities and equity. Gavin Francis added that patching IAS 32 is a possibility but experience shows that if this happens then clarity starts to disappear.
- 6.4 An SAC member asked if users were looking for an opportunity to structure more instruments, because that is what would happen if IAS 32 is patched. Several SAC members were not sure if there was yet a conceptual basis for making decisions on liabilities and equity and stressed the need for more conceptual framework before proceeding. Ms Figgie answered that the Board wants to develop a standard that is consistent with conceptual framework.
- 6.5 An SAC member recommended that decision usefulness for users of financial statements should be a consideration and asked if the IASB can really isolate the legal framework from the debate in the jurisdictions. This may demonstrate the limits of a global standard and this issue may be raised in other projects. John Smith replied that IAS 32 is already the result of a lot of patching and that more patching will lead to more complexity.
- 6.6 There was general support from SAC members for adding the project to the agenda, with many citing that there are many problems with IAS 32. It was considered that FASB has an uncertain future and that the IASB can leverage FASB resources while they are still there. It will also make other projects run more smoothly.
- 6.7 Several SAC members highlighted paragraph 11 in the paper. They said that it was not necessarily right to use the FASB discussion paper as a starting point and that other approaches should be considered. Mary Barth said that all along the arrangement was for the FASB to start the Discussion Paper, issue it, then join with the IASB. This is not a new approach. Ms Figgie added that the project proposal does not pre-judge which approach the Board will take.

- 6.8 Some SAC members saw a potential conflict of objectives. The IASB is looking for convergence with FASB, but there are urgent problems with IAS 32. One SAC member thought that comment letters in the UK and Europe will support the ownership settlement approach or amendment of IAS 32, so the IASB will need to reconcile this with their preliminary view of the basic ownership model. This may push out the timeline for Standards. Ms Figgie replied that the decision on which approach to pursue will have to be answered by the end of 2008, assuming the Boards can agree.
- 6.9 Several SAC members wanted a clearer distinction between what equity is and what liability is. It was pointed out that how these are distinguished might have great effect in some jurisdictions and this needed to be considered. Tom Jones accepted that this was always an issue and although a jurisdiction can always overrule, this rarely happens. However he noted that it would be impossible for the IASB to look at every legal jurisdiction in the world.

### **Derecognition**

- 6.10 IASB staff member, Christian Kusi-Yeboah, introduced the proposal to add **Derecognition of Financial Instruments** to the Board's active agenda.
- 6.11 There was general agreement among SAC members that this project should be on the agenda as a high priority as it is current easy to misinterpret. There was also agreement that the paper was well drafted.
- 6.12 One SAC member raised the question of whether it was the Standard or its application that was wrong. Another SAC member told the meeting that they currently used qualitative and quantitative approaches for derecognition making it very complex. Another SAC member was of the opinion that this project should go in tandem with the Consolidation project.
- 6.13 Wei-Guo Zhang, IASB Board Member, summed up the discussion:

#### Liabilities and equity

- Some SAC members agreed to add this item to the agenda, but some expressed concerns over the workload of the Board;
- A few SAC members expressed the idea of having a piecemeal approach, others preferred more clarification and an overall reshuffling of the projects;
- There was general support for the direction of the Board;
- There were mixed views regarding the conceptual framework basis;
- Some asked whether simplification was the only overall goal for the IASB;
- One concern is whether the Board can finish the related phase of the Conceptual Framework before this project;

- Some SAC members asked if the IASB should follow the basic ownership approach already chosen by FASB, while others suggested finding a middle way; and
- Some had concerns over whether the Board should consider legal requirements in different jurisdictions

#### Derecognition

- There was unanimous support among the SAC for this project;
  - Only one concern was raised: enforcement.
- 6.14 SAC Member, Joseph Yasmelash, provided the sum up on behalf of the SAC. He said he felt it was good to hear the opinions of regulators in this discussion. He said that the SAC might think that they have the solutions but need to bear in mind that this is an ongoing process.
- 6.15 One SAC member made the point that it was still not clear whether it had been decided to add the liabilities and equities onto the active agenda. A vote was held with the results of: Yes: 10 and No: 6.
- 6.16 One SAC member asked if this project would involve a review of FIN 46R. Jim Leisenring responded that he didn't think that the IASB could do one of these projects and not the other.
- 6.17 Just before the session ended SAC member Hector Estruga gave an update of IFRS implementation in Argentina.

#### **7 Constitution review**

- 7.1 Gerrit Zalm, Chairman of the Trustees, introduced the session and raised the two main issues to be addressed.
- 7.2 The first issue is public accountability. Under the proposals the Trustees will report to the Monitoring Group so that they can check that the Trustees follow the Constitution. The proposed composition of this Monitoring Group is to have four representatives from IOSCO and one from the European Commission, in addition to the President of the World Bank and the Managing Director of the IMF.
- 7.3 The second issue to be addressed is the size and composition of the IASB Board. It is proposed to raise the number of Board members to 16 and to have a wide geographical spread with four from Asia/Oceania, four from Europe, four from North America and four others still to be allocated. Mr Zalm stressed that this is still flexible.
- 7.4 There was general support among SAC members for the Constitution Review and the notion of a Monitoring Group.

- 7.5 An SAC member questioned whether it would cause an imbalance having four out of seven representatives on the Monitoring Group from Stock Exchanges and the regulatory world. Mr Zalm responded that these four are the main public authorities who have a link with IFRS so they are key figures. However for a broader perspective the Trustees have added two global organisations – the World Bank and IMF. They will have a formal consultation procedure until the end of the year and will take views into account.
- 7.6 One SAC member questioned the proposed geographical spread of Monitoring Group members, saying that there would be a majority with an ‘Anglo-Saxon’ culture so their legal environment will be similar. The Trustees pointed out that North America is not just the US, it also included Canada and Mexico, for example, and that the Trustees are aware that they need to keep a balance in both the culture and background of Board Members. They do not want Board Members to act like representative of a region but as members of a global body.
- 7.7 There were several questions from SAC members regarding the appointment process of the Monitoring Group. One SAC member asked who would appoint the Monitoring Group members. An SAC member commented that the IASB and IASCF can’t have members from every country but needs a group of people who have legitimacy bestowed upon them from an area that uses IFRSs. They argued that if not everyone was properly represented that the Monitoring Group may not be able to claim true legitimacy.
- 7.8 One SAC member queried whether the Monitoring Group should accommodate a purely private sector user group representative as well. Another asked whether Monitoring Group members could be rotated in anyway. Mr Zalm replied that while they want to have users on the Board and in the SAC (although not many people come forward from the user community), the Monitoring Group is supposed to be a public accountability group. He said that although the Trustees can’t rotate the Monitoring Group members there will be a natural turnover.
- 7.9 One SAC member wondered if there is too much focus on the composition of the Monitoring Group and thought it was more important to concentrate on what it does.
- 7.10 One SAC member expressed an opinion that the Trustees should be more ambitious in expanding their global public accountability. The standard setting process should be more democratic and transparent. The Trustees are very busy, so maybe there should be some permanent staff.
- 7.11 One SAC member requested more clarity on what ‘reviewing public accountability’ means, since according to the Constitution the Trustees are accountable to international stakeholders, not to a group.

- 7.12 One SAC member drew attention to paragraphs 18 and 20 of the Constitution Review, which said that the meetings of the Monitoring Group will not be public and a Memorandum of Understanding will be prepared which will then be made available to the public. They questioned whether this would be public enough. Mr Zalm replied that there are seven functionaries in the Monitoring Group appointed by function. This may be added to in the future but the Trustees want to keep the group limited and workable. They see this Monitoring Group as being separate to the IFRS Organisation. Mr Zalm also commented that the Trustees have struggled with the issue of public accountability. It needs to have democratic legitimacy but the Trustees don't want to risk the independence of the standard setting process. They think their proposal strikes a balance.
- 7.13 One SAC member stated that this review process needs to be seen to be transparent but the statement about the Roundtables in IAS Plus implies that it is a 'done deal'. They questioned whether the Trustees were just going through the motions. Mr Zalm replied that the composition of the Monitoring Group is not a 'done deal' at all. Monitoring Group activities should include talking to the Chairman of the Board, for example, in order to evaluate the work of the Trustees. They want to see the Monitoring Group as representing public authorities rather than part of the IASCF.
- 7.14 One SAC member questioned whether something had gone wrong in the past to warrant a Monitoring Group and questioned whether the IASCF had learnt from past mistakes. Another SAC member saw the situation in a different light and said that a Monitoring Group should be viewed as a result of success rather than failure. Mr Zalm replied that nothing went wrong in the past but there had been criticism of the self appointed leadership.
- 7.15 SAC members questioned how the Board of Trustees is going to be funded and if the creation of the Monitoring Group was going to affect this. The Trustees replied that they felt the best way is to seek a broad financing mechanism in each country.
- 7.16 Several SAC members advocated first considering whether a full time Board was needed before making decisions about size and geographical spread. Bertrand Collomb responded that most of the Board Members should be full-time but part-time members were also very valuable and that is was an issue of pragmatism rather than of principle.
- 7.17 One SAC member advocated professional background diversification through the whole organisation. They were also against part-time Board Members as there was a danger of conflicts of interest and Board Members should be able to fully dedicate themselves to the IASCF. Some SAC members felt the issue of having part-time Board Members wasn't sufficiently dealt with in the proposals.

- 7.18 One SAC member expressed the opinion that it was unhelpful not to specify more regions of the world when targeting areas for Board Members and that there should be six areas from which to recruit Board Members.
- 7.19 One SAC member pointed out that expanding the size of the Board could be a reflection of the success of the system. However, they wondered if this expansion would affect the teamwork dynamic of the Board and questioned whether the Board will work as effectively with 16 members. Some SAC members felt that the wording regarding the composition of the Board is very prescriptive and the Trustees should allow themselves more flexibility.
- 7.20 There was uncertainty from some SAC members over the proposed changes to voting numbers in a future enlarged Board. Tom Seidenstein told SAC members that the proposals around voting numbers would be made more explicit in a future draft.

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