



International Accounting  
Standards Board

## Standards Advisory Council

February 2009

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This document is an IASB staff summary of the matters discussed at the public sessions of the meeting of the Standards Advisory Council (SAC) that took place in London on 23 and 24 February 2009.

The meeting comprised eight sessions, of which seven were held in public. The closed session was an administrative session in which the SAC discussed operating procedures.

All of the papers discussed by the SAC in the public sessions are available on the SAC meeting page on the IASB website. A full recording of each of the public sessions is also available on the SAC meeting page.

### **MONDAY, 23 FEBRUARY 2009**

#### **Opening Remarks**

The Chairman, Paul Cherry, opened the session with welcoming remarks to new and returning members. He gave a brief overview of his view of the goals of the Standards Advisory Council (SAC), its role within the IASCF and the changes that the Trustees had made to the structure and operations of the Council. He also set out the objectives for next two days, which included ensuring that SAC members agreed on their mandate and identifying ways to ensure that the SAC operates effectively.

#### **Orientation**

Alan Teixeira, Director of Technical Activities, gave an overview of the IASC Foundation to help SAC members understand the context in which they will operate. He discussed with the SAC the structure of the Foundation, giving a synopsis of each of its components, including their demographics and objectives. The IASC Foundation has a very international staff, across all of its divisions. The technical team are drawn from 19 different countries. [See Agenda paper 1]

In the discussion that followed some SAC members highlighted the importance of the relationships the IASB has with national standards setters. Several SAC members asked about the role of the IASB in ensuring consistency of enforcement of IFRSs. David Tweedie, Chairman of the IASB, explained that the IASB has no role in enforcing IFRSs—that is for the auditors and regulators. However, the IASB is monitoring how entities describe their use of IFRSs. The Board has been particularly concerned that entities in some jurisdictions assert compliance with IFRS ‘as adopted by (a specified

jurisdiction)’. Such an assertion makes it difficult to determine whether an entity is complying with IFRSs as published by the IASB or some diluted form of IFRSs.

### **SAC Mandate**

Paul Cherry introduced the session for the SAC Mandate and highlighted the primary objectives of the SAC. He believes the SAC should provide consultation on the IASB’s agenda, liaise with stakeholder organisations and promote the adoption and use of IFRSs. Mr. Cherry reminded the members that the Council has a broad and large membership and that the meeting time is limited. Members should be conscious of this when delivering messages to the group. A majority of the members that spoke commented that papers prepared for the SAC should be appropriate to the goals of the group and, likewise, the message the SAC delivers to the IASB needs to be appropriate—direct and clear in their delivery.

Later, Patrice Marteau, co-Vice Chairman, gave his reflections on the previous SAC. The minutes from the November 2008 meeting were provided to members for additional insights into the activities of the previous SAC. [See Agenda paper 2C].

Mr. Cherry then led a discussion with members to reach a mutual understanding of the role of the SAC. Members that spoke said that there should be a clear understanding between the group and the IASB Board (the Board) of the major issues being discussed and that feedback from the Board on these issues is necessary for the group to be effective. Some SAC members thought that having a SAC member collaborate with an IASB Board member’s summary after each of the meeting sessions would be helpful to make sure the group’s messages are clear.

The operating procedures of the SAC were also reviewed and some members questioned the adequacy of only three meetings per year, especially in light of all the IASB has on its agenda between now and 2011.

Some members questioned the role of the group between meetings. Several members said that they would welcome optional education sessions and discussions in the periods between meetings so that the discussions within the face-to-face meetings would be optimised. Several members encourage the use of technology, such as bulletin boards and webcasts to help keep members informed. There was general support for these suggestions.

Some members asked whether offering unsolicited advice to the Board would be appropriate. One member observed that he assumed that the agenda papers and the accompanying questions are direct solicitation on particular topics. This being so, several members thought that the group should adhere mostly to the items on the agenda (since

those are items on which the Board is specifically seeking advice). However, one of the roles of the SAC is to bring matters to the attention of the Board that members identify as being important. SAC members will be provided with opportunities to raise matters with the Board both at the SAC meetings and in the period between meetings.

### **Work Plan**

Alan Teixeira and Peter Clark, Director of Research, delivered an overview of the IASB's work plan, providing an explanation of the process and timing of developing the work plan, and how the SAC fits into that timing. Then, Dr. Teixeira provided a brief summary of the major projects on the IASB's agenda. This session was an opportunity for the members to give feedback to the Board on the work plan and if the current priorities of the Board adequately address what the SAC views as the key strategic issues. [See Agenda papers 3, 3A and 3B]

Members who spoke gave strong support for the Board's activities in addressing the financial crisis. Those members indicated that it is important to respond to matters raised by organisations such as the G20 and the Financial Stability Forum. Several members commended the progress made on the fair value measurement, consolidations and derecognition projects. The general consensus of the members that spoke was that they see these projects as having a high priority and the Board should continue on their progress to final standards, while continuing to keep in mind the long-term goals.

The fair value measurement project in respect to financial instruments was specifically addressed in light of current times. Members expressed high support for re-examining the accounting requirements both for current and possible future situations.

Members that spoke also expressed a high level of support for the projects that are listed in the Memorandum of Understanding (MoU) as a part of convergence with US GAAP, as long as convergence continues to remain a priority. The priority of the convergence objective should, however, be reassessed in light of current circumstances. The IASB staff emphasised that completing the projects on the MoU would help make it easier for the US to adopt IFRS. However, the financial crisis has highlighted that any differences between IFRS and US GAAP create accounting arbitrage opportunities that undermine the confidence in financial reports.

A majority of members who spoke also listed the completion of the conceptual framework as a priority, though individual parts of the conceptual framework were not specifically discussed. No opinions were expressed to the contrary.

The two projects that drew the most concern from members were financial statement presentation and leasing. Several members who spoke questioned whether these projects should be considered a priority at this time.

### **Technical Topic: Financial Statement Presentation**

IASB staff member Aida Vatrenjak provided an overview of the Financial Statement Presentation project to the SAC. [The presentation is available on the SAC meeting page of the IASB website.]

Members that spoke expressed some concerns about the project. Specifically, concern was raised about the disclosures being based on management intent and the possibility of inconsistencies in preparation of financial statements and decreasing comparability. A majority of speaking members also addressed mandating the preparation of a direct cash flow statement. Those members thought that, although the direct method of presenting operating cash flows is very useful for analysis, the method is costly. There was also some confusion expressed about identifying items to be classified as either investing or financing activities. Some members do see the value in the project and praised the linkage of financial information across the financial statements, but questioned whether it should be given priority. Several members noted that they perceive that the project has not been well received and will require some selling to convince constituents.

## **TUESDAY, 24 FEBRUARY 2009**

### **Global Financial Crisis**

David Tweedie, Chairman of the IASB, was joined by Gavin Francis, Director of Capital Markets, to provide an overview of the activities the IASB has undertaken in response to the global financial crisis. They noted that they welcomed input from the SAC on the appropriateness of those actions and the actions the IASB proposes to take. The SAC was provided with the report delivered to the Trustees about the IASB's response to the financial crisis as well as a letter from Gerrit Zalm outlining the steps taken to meet the expectations of the G20 [See Agenda papers 5, 5A and 5B]. Sir David discussed the expedited amendment to IAS 39 in October 2008; a response to regulatory arbitrage that the IASB hopes will never happen again. He believes that this situation showed perfectly the danger of having multiple sets of standards in the world.

Comments from the SAC were generally supportive of the IASB working with the FASB through these times, but encouraged the IASB not to lose sight of its long term goals in

times of crisis. A majority of the members that spoke raised the issue of the IASB's role in market stability. Sir David had commented that stability is considered an objective of the regulators, but SAC members commented that the IASB must remember the importance of confidence and perception of their role in global markets. Transparency was advocated as a large part of financial stability, important to investor confidence and as the main objective of accounting standards—to present the economic situation as true as possible.

Fair value measurement and impairment were identified as two important items to be addressed, though some members questioned the value of not providing guidance on 'when' to measure fair value—the project only addresses 'how' to measure in fair value. The issue of 'when' will be dealt with in a broader project of replacing IAS 39 *Financial Instruments: Recognition and Measurement*.

Sir David outlined some possible approaches to developing the project to replace IAS 39. Sir David invited the SAC to provide their initial and informal reactions to proposals to simplify the accounting for financial instruments. He indicated that the simplest approach would be to require all financial instruments to be measured at fair value. However, the Board recognises that such a proposal is untenable in the current financial climate. Instead, Sir David asked for feedback on the possibility of reducing the number of financial instrument classifications to two and for having a mixed-measurement model of fair value and an amortised cost approach with an impairment test. For such a model to work it would be necessary to have agreement on how instruments should be classified. Should classification be based on management intent or the economic characteristics of the instruments? And if the latter approach was preferred, what would be the best basis for classifying the instruments?

An informal vote was taken, by a show of hands, to gauge SAC members' initial reaction to the alternatives. This vote was not planned and members were asked to express their personal view in light of the fact that members were not given the opportunity to consult with the organisations they represent. Only two members supported moving to a full fair value model. The majority of members that voted supported a mixed-model approach (32 votes). Of those that voted for the mixed-model, 18 preferred a management intent model and 14 preferred a model based on the characteristics of the instruments.

SAC members were then asked to indicate, if an objective model was used, whether they would prefer to measure at fair value instruments that are 'traded' with other instruments measured at amortised cost or whether to measure at amortised cost instruments with 'contractual payments' with all other instruments measured at fair value. Twenty-six

members supported classification using ‘traded’ with eight members supporting a ‘contractual payment’ basis.

Sir David thanked the SAC for their input and emphasised that such informal polls were helpful to the Board in assessing the feasibility of possible approaches before extensive work was undertaken.

### **Constitutional Review**

Tom Seidenstein, Director of Operations, lead the discussion on the second part of the constitutional review [See Agenda papers 6 and 6A]. His objective was to develop a SAC view on the items the members deem to be most relevant to the Council. The Trustees want to give greater accountability to the organisation and protect the IASB’s independence. The majority of members that spoke supported the establishment and efforts of the monitoring group to further continue the independence of the IASB.

Funding of the IASCF was a concern raised by several members, although so was the cost of accessing IFRSs. The IASB is working on reaching a stable funding level, and ideally access to IFRSs would be free for everyone. However, this can only happen after an acceptable and stable funding base has been achieved.

In response to the four questions laid out in agenda paper 6, members that spoke tended towards the following views:

1. The IASB does not have the resources at this time to address the accounting for not-for-profit and public sector entities.
2. The constitution should enshrine the notion of “principles-based standards”, but it could be difficult finding the appropriate wording.
3. Concern was expressed for having a formal policy for “fast-track” issues, but should an occasion arise again it would be better to have a policy in place to allow for an acceptable due process, at a minimum.
4. The IASB could have a stronger role in monitoring the translation of IFRSs, but it should not be a primary responsibility of the IASB to perform the translations. Some members remarked that this is a good opportunity to use national and regional resources.