

**Minutes of the Meeting of the  
Standards Advisory Council  
held in London on 26 and 27 February 2007**

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*SAC Members:*

**Attending:**

Adir Inbar  
Alberto Giussani  
Benoit Atangana Onana  
Charles McDonough (World Bank)  
Christoph Ernst (IOSCO representative)  
(except 27 February afternoon)  
Danny Teoh  
David Lindsell  
Dipankar Ghosh (assisting World Bank  
representative)  
Eiko Tsujiyama  
Hector Estruga  
Hector Vela (except 27 February  
afternoon)  
Heinz-Joachim Neubürger (except 27  
February afternoon)  
Henning Göbel (IAIS)  
Hiroyuki Hara (assisting official FSAJ  
observer)  
Ian Ball (IFAC) (except 27 February  
afternoon)  
Ingebret Hisdal  
Jochen Pape  
John Carchrae (IOSCO representative)  
Jose Antonio Alvarez (except 27 February  
afternoon)  
Judith Downes  
Julie Erhardt (official SEC observer)  
Junichi Maruyama (Official FSAJ  
observer)  
Kenneth Sullivan (IMF)  
Kurt Tonne (assisting EC observer)

Li Xudong (translator for Mr. Wang) (26  
February afternoon only)  
Mauro Grande  
Michael Cangemi  
Nelson Carvalho, *Chairman*  
Patrice Marteau (except 27 February  
afternoon)  
Piotr Madziar (official EC observer)  
Richard Thorpe (CESR)  
Rifaat Karim  
Robert Morgan  
Sarah Deans  
Shailesh Haribhakti  
Suk-Jun Lee  
Sylvie Matherat (Basel Committee)  
Tatiana Krylova (UNCTAD) (26  
February)  
Toshihiro Horitomo (Translator for Mr.  
Yagi)  
Trevor Harris (26 February)  
Wang Jun (26 February afternoon only)  
Yoshiki Yagi

**Apologies:**

Anna di Michele  
Darrel Scott  
Frank Brod  
Hugo Schaub  
PM Kam  
Vladimir Preobrazhenskiy

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*IASCF Trustees:*

Sir Bryan Nicholson, Alicja Kornasiewicz, Kees Storm, Antonio Vegezzi (26 February)

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*IASB Members:*

Sir David Tweedie, *Chairman* (26 February)

Thomas Jones, *Vice-Chairman*

Anthony T. Cope  
Gilbert Gélard  
Hans-Georg Bruns

Jan Engström  
Jim Leisenring (except 27 February afternoon)  
John T. Smith (except 27 February afternoon)  
Patricia L. O'Malley (except 27 February afternoon)  
Philippe Danjou  
Robert Garnett

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*IASB and IASC Foundation Staff:*

Liz Hickey, Director of Technical Activities  
Tom Seidenstein, Director of Operations IASCF (26 February)  
Wayne Upton, Director of Research (except 27 February afternoon)  
IASB Technical Staff and IASC Foundation Staff (for selected topics)

## 1 Opening Remarks

### Welcome

- 1.1 The SAC Chairman, Nelson Carvalho, welcomed participants to the meeting. He congratulated former SAC member Kees Storm on his appointment as a Trustee of the IASC Foundation. Mr. Carvalho noted that some representative organisations had changed the person attending SAC on their behalf. He introduced new members: Henning Göbel from the International Association of Insurance supervisors (IAIS); Robert Morgan replacing Pat McConnell as the representative of the CFA Institute; Michael Cangemi replacing Colleen Cunningham as the representative of Financial Executives International (FEI); and Sylvie Matherat replacing Arnold Schilder as the representative of the Basel Committee. Mr. Carvalho commented that the meeting proceedings were being recorded.

## 2 Discussion of IASB Work Plan

- 2.1 Sir David Tweedie, IASB Chairman, outlined the three strategic objectives of the IASB:
- (a) development of a standard for SMEs;
  - (b) encouraging more countries to switch to IFRS rather than use national standards; and
  - (c) convergence of IFRS and US GAAP.
- 2.2 In reference to the first objective, Sir David noted that the ED on SMEs was issued in mid February. He noted that details of the ED would be discussed at a session scheduled for later in the meeting.
- 2.3 Sir David provided members with an update of convergence activities in selected countries around the world. He noted that a delegation from the IASB had recently visited India to discuss its convergence programme. He added that regulators were interested in convergence because India needed to attract foreign investment. A SAC member noted that the Institute of Chartered Accountants of India had formed a special committee to examine convergence. This member added that India's finance ministry was supportive of the convergence initiative. Sir David also commented about the convergence programme with Japan noting that a meeting is scheduled to be held in Tokyo in March.
- 2.4 In speaking about recent publications, Sir David noted the issuance of IFRS 8 *Operating Segments*, the Discussion Paper on *Fair Value Measurement* and IFRIC 12 *Service Concessions*. Sir David observed that as part of the deliberations leading to the publication of IFRS 8, the IASB considered comments by a coalition of over 300 non-governmental organisations (NGOs) known as the Publish What You Pay campaign who requested that the scope of the IFRS be extended to require additional disclosure on a country-by-country basis. Because the IFRS was developed as a short-term convergence project, Sir David explained that the IASB decided that country-by-country disclosure should not be addressed in the IFRS. The IASB was of the view that such issues merit further discussion with international bodies that are currently engaged with similar issues.
- 2.5 Wang Jun, SAC member as well as Secretary General of the Chinese Accounting Standards Committee and Vice Minister of the Chinese Ministry of Finance, described China's convergence programme. He noted that implementation of

international standards took place this year and the transition was smooth with stability reflected in the market. He added that the Ministry promoted the adoption of IFRS and was supporting training programmes for those pursuing a career in accounting. He praised the IASB for its role in developing principles-based accounting, establishing a working mechanism for convergence and promoting use of its standards in both developed and emerging economies.

- 2.6 Julie Erhardt, official observer from the SEC, updated members on IFRS and US GAAP convergence. She noted that an SEC sponsored roundtable was scheduled in March that would address the existence of the two GAAPs for companies listed in US financial markets. She described the roundtable as an opportunity to identify the issues before such a two GAAP system took effect and the implications that it would have in financial reporting.
- 2.7 Elizabeth Hickey, IASB Director of Technical Activities, provided members with an update of current projects. In Business Combinations, she noted that deliberations on the ED issued in 2005 were expected to be completed in May. Describing the amendment to IAS 1 *Presentation of Financial Statements* in the Financial Statement Presentation project Ms. Hickey noted the Board's decision to keep "other comprehensive income" separate with no required "sub-totals". She observed that four phases of the Conceptual Framework project were active. She noted some of the views expressed during the roundtables held on IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and added that the Board was considering how to distinguish a liability from business risk. Ms. Hickey concluded by describing the Annual Improvements process which was a new mechanism for making minor amendments to IFRSs.
- 2.8 Wayne Upton, IASB Director of Research, continued the discussion on current projects. He encouraged members to visit the IASB website as updates were made to it regularly. One such improvement included a web summary of each project based on the IASB due process. He added that individual project web pages included access to observer notes and audio recordings of recent Board meetings. Mr. Upton noted that convergence was more about principles as compared to details. An example was Income Taxes where new issues were found regularly. However, in the case of Revenue Recognition he noted that both boards were divided but they were optimistic that progress would be made. He stated that an agenda proposal on Intangibles would be brought to the SAC in November.
- 2.9 Robert Garnett, IASB member and Chairman of the International Financial Reporting Interpretations Committee (IFRIC), noted the publication of the IFRIC Due Process Handbook and commented that a major change was to make IFRIC's agenda meetings part of the IFRIC meeting held in public. He confirmed that this new policy would be implemented shortly. In a similar development, Mr. Garnett added that it was proposed that IFRIC membership would increase from 12 to 14 members.

#### Open Forum

- 2.10 A member commented that NGOs had been active in addressing issues of transparency and acknowledged that such a request was an issue to consider from a disclosure point of view. Another member noted that while more transparency in financial reports was better, the requirements of all stakeholders cannot be accommodated in financial reports. Thus, members observed that the question of the users of financial reports was a fundamental issue for SAC to consider.

- 2.11 Some members commented that carbon finance was growing with large numbers of funds being created in India and China. These members noted that such a growth was contributing to divergence in practice. Thus, they encouraged the Board to develop guidelines.
- 2.12 Several members expressed concern on issues related to the Annual Improvements process. In reference to the proposed amendment to IAS 1 concerning the IFRS brand where the Board proposed that non-compliance with IFRS in the preparation of financial reports be disclosed, a member noted that it would be a mistake to impose such a requirement. Another member commented on the need for the Board to take action, but not as proposed in the ED. To that end, a member suggested that a reconciliation to IFRS be required. A member added that an issue could arise if Europe does not endorse the proposed amendment but other jurisdictions decide to do so.
- 2.13 In speaking about the IAS 37 project, a member asked whether the project was diverging from the equivalent US standard. Other members requested details of the FASB agenda, embedded value accounting, an exemption from reporting the effect of a new standard that has yet to be effective as required in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and whether the Discussion Paper on Phase B of the Presentation of Financial Statement project would be issued in 2007.
- 2.14 Addressing the above comments from members, Ms. Hickey responded that the Board's proposed solution to IFRS brand was made in collaboration with international auditors and regulators who had brought the issue to the Board's attention. She noted that the proposed solution was designed to distinguish financial reports that are not fully compliant with IFRS. She commented that the ED only requires disclosure and not a reconciliation. However, she stated that the Board would wait for comments on this topic from constituents. Finally, she noted that a Discussion Paper on Phase B of the Financial Statement Presentation project was expected in the second half of 2007.
- 2.15 Mr. Upton observed that IAS 37 was not designed to converge with SFAS 5 *Accounting for Contingencies*. In fact he noted that SFAS 5 was written to prohibit the recognition of certain items that are currently recognised under IAS 37. Mr. Upton added that relief from the requirement in IAS 8 to report the effect of new standards would be counter intuitive as such a relief could not be achieved in terms of due process requirements before 2009, the effective date for application of the new standards. He noted the FASB's issuance of the Fair Value Option and commented that the US standard setter added Leases into its agenda as a joint project with the IASB. Mr. Upton confirmed that embedded value accounting was part of the IASB insurance project.

### **3 XBRL: IASC Foundation Plans and Possible Implications for Financial Reporting**

- 3.1 Kurt Ramin and Josef Macdonald, IASC Foundation staff, together with Tom Seidenstein, provided an overview of Extensible Business Reporting Language (XBRL) and its implications for financial reporting. Mr. Ramin described XBRL as an information technology tool that allowed the disaggregation of line items reported in financial statements. He noted that XBRL is governed by a not-for-profit

international consortium or more than 450 organisations, including regulators, government agencies, infomediaries and software vendors.

- 3.2 Mr. Seidenstein stated that XBRL complemented the objectives of the IASC Foundation because it was a common electronic data sharing standard that enhanced comparability of IFRS data and encouraged the use of that data. He noted that the Foundation retained ownership and key responsibility in the development of the IFRS XBRL taxonomy in order to maintain control and quality, avoid the development of diverging IFRS taxonomies and address a demand created by regulatory organisations.
- 3.3 Mr. Seidenstein added that the IASC Foundation had established an appropriate collaborative structure, with both professional XBRL staff and volunteers to ensure quality. He noted that XBRL was a Foundation activity and as such it was not intended to divert resources from standard setting. Mr. Seidenstein noted that the Trustees would be making strategic decisions on intellectual property issues; resources, processes and structure, scope of taxonomy content; and convergence of content and framework of US/IFRS taxonomies.

#### Open Forum

- 3.4 Several members expressed support for XBRL. A member, for example, noted that it would change financial reporting more than the Financial Statement Presentation project. Another member observed that from 2008 Japanese companies would be required to submit their financial reports in XBRL format. Referring to potential user demand for XBRL, a member anticipated rapid adoption but encouraged the Foundation's involvement to ensure that quality was maintained particularly on classification and description issues related to defined terms.
- 3.5 Some members expressed concern with aspects of XBRL. For instance, a member noted that those likely to benefit were not providing funding for development. Members noted that XBRL's reliance on quantitative data could curtail management's ability to communicate qualitative information. Other members questioned the relevance of XBRL in standard setting and whether different taxonomies would emerge.
- 3.6 Mr. Seidenstein noted that it was important for the IASC Foundation to maintain leadership in the development of XBRL in order to prevent the emergence of competing taxonomies. Addressing members concerns on XBRL's reliance on quantitative data, Mr. Ramin noted that XBRL was extensible for other purposes given that the taxonomy was based on IFRS. He added that XBRL would facilitate convergence by making the standards and information more comparable.

#### **4 Conceptual Framework**

- 4.1 Thomas Jones, IASB Vice-Chairman, reminded members that the SAC is the IASB working group on the conceptual framework project. Thus, he encouraged members to assist the staff in addressing issues affecting the project.
- 4.2 Ian Hague, a member of the staff of the Canadian standard setter, updated members on the status of each phase of the conceptual framework project. He noted that four phases were active comprising objectives and qualitative characteristics; elements and recognition; measurement; and reporting entity.
- 4.3 In speaking about objectives and qualitative characteristics, Mr. Hague noted that a Discussion Paper had been issued. Constituents had expressed particular concern

about two matters: the role of stewardship and faithful representation. In elements and recognition, he observed that the staff had yet to deal with issues such as unit of account and recognition/derecognition. He noted the roundtables held on measurement in Hong Kong, London and Norwalk. A summary of the views expressed was expected to be presented to the Board in the first quarter of 2007. In reporting entity, he reported that a document on the boundaries of an individual entity and a group entity was expected in the second quarter of 2007.

- 4.4 Mr. Hague described the proposed definition of an asset as a fundamental building block of the conceptual framework project. He summarised the Oxford English dictionary definition of an asset as being “a good thing” that someone “has”. He contrasted that with the IASC’s Framework definition as well as the asset definitions of other standard setters. Mr. Hague observed that the staff proposed definition was that “an asset is a present economic resource to which the entity has a present right or other privileged access.” Mr. Hague invited members to comment on the staff proposed definition, in particular on whether the proposed definition resolved the shortcomings of the existing definition, the need for the notion of “other privileged access”, references to legal enforcement and whether the definition was clear.

#### Open Forum

- 4.5 Several members requested more details about the outcome of the measurement roundtables. One member inquired about the benefits of having a roundtable before a document was published. Another member supported the approach by stating that the process was justified. A member inquired whether the minutes of the roundtable would be posted on the IASB website. A member who attended the London roundtable noted that participants favoured a mixed attribute cost model which was not fully based on historical cost or fair value. Another member who attended the Norwalk roundtable suggested that changes in assets and liabilities be included as part of measurements.
- 4.6 The IASB directors noted that formal minutes of the measurement roundtable were not taken but added that a summary of views would be posted on the IASB website when that topic was discussed at the March Board meeting. Audio files are also available. Directors commented that mixed views were expressed at the roundtable but that many participants favoured a mixed attribute model.
- 4.7 Members noted issues related to stewardship, in particular whether it took into consideration differences in governance models. Another member commented that since the concept of stewardship was defined in the UK, they should assist in developing a definition. Members noted that there were differences in views as to what stewardship meant in different jurisdictions.
- 4.8 Several members commented on aspects of the staff proposed definition of an asset. One member, for example, noted that the proposed definition was limited in scope as it excluded the notion of a store of value. Another member inquired about the likely consequence of a change in the definition from that presently in place and whether that change was just in wording or something more fundamental. In response, the staff noted that it was difficult to evaluate the extent of change that might occur because it depended on how the existing definition was interpreted.
- 4.9 A member commented that input from users was needed. One member noted that the proposed definition was heavily condensed and omitted a distinction between an asset and expense. Another member expressed a lack of understanding of the term

“other privileged access” in the proposed definition. A member added that most constituents understood the meaning of a right but the proposed definition made the wording confusing.

- 4.10 Another member noted that the proposed definition was discussed in isolation but the wider context was required to improve the understanding and operation of the proposed definition. Several members observed that definitions and recognition should be considered together; one noting that otherwise the balance sheet would include internally generated intangibles.
- 4.11 A member stated that the proposed definition was clear and helpful. Another member supported the notion of a legal right but recommended that more focus be given to the enforcement of those rights.

## **5 Educational Initiatives and Communications Strategy**

- 5.1 Mike Wells, IASC Foundation Manager – Education Projects, updated members on the Foundation’s education initiatives. He recounted its development from the publications inherited from the IASC in 2000 to the current state and described its plans for the future. He noted that at present the education staff have focused on developing IFRS material, conferences, presentations and supporting the work of others. Mr. Wells added that as a result of changes made to the IASC Foundation Constitution, a new mandate was created for education initiatives to take into account the special needs of SMEs and emerging economies. To that end, he noted the details of a five year working plan to 2011 for full IFRS, IFRS for SMEs and emerging economies. In speaking about access to materials, he observed that it was planned that electronic formats as well as hard copies of IFRSs would be made available in many languages. He added that some materials and services were free and where charges were levied a discount policy took into account the income levels of each country. Mr. Wells noted that education was an initiative of the IASC Foundation and as such education materials were not endorsed by the IASB.
- 5.2 Mark Byatt, newly appointed IASB Corporate Communications Director, introduced himself to members and presented the IASB’s communications plan for 2007. He noted that the plan was designed to enhance stakeholder engagement through the delivery of an effective corporate communications programme. He added that the brand would be updated to foster clear and consistent messages around the IASB corporate identity.

### Open Forum

- 5.3 Members expressed strong support for the IASC Foundation’s education initiative and provided feedback on certain aspects of those activities. For example, a member noted that materials were not always visible. Another cautioned on the risk of duplicating materials already in the market. One member suggested that an effort be made to produce materials for non-accountants and to include illustrative examples based on a company’s actual financial reports.
- 5.4 Some members expressed concern about the IASB’s lack of endorsement of education materials. A member noted that the absence of such endorsement could affect the credibility of those materials.
- 5.5 Mr. Wells noted that the IASC Foundation co-brands material and events with other organisations. He explained that interpretation risk increases when materials are not developed in-house. He commented that some materials have been created for non-

accountants. He noted concerns in providing an actual financial report as part of illustrative examples.

- 5.6 A Board member acknowledged the endorsement issues raised by SAC members. This Board member explained that individual Board members and technical staff review the Foundation's educational material before publication.
- 5.7 Members encouraged Mr. Byatt to engage the wider audience and in particular senior executives, preparers and users. A member noted the challenge of engaging the user community and suggested that deliverables needed to be identified to ensure messages were clear. In reference to the distribution of press releases, a member recommended that other standard setters be approached to assist in dissemination. A member suggested that exclusive relationships with the certain parts of the media not be pursued because it would reduce the exposure and coverage of the IASB.
- 5.8 Mr. Byatt noted that he would welcome collaboration with other standard setters including IFAC. He added that convergence created an opportunity to develop messages that were easier to understand. He acknowledged the challenge of developing those messages because, unlike public companies that had the power to control their public relations, the IASB was undertaking its work in the public domain.

## **6 SMEs**

- 6.1 Paul Pacter, IASB Director of Standards for SMEs, presented a high level summary of the ED for SMEs. Stating that the ED was issued in February 2007, Mr. Pacter noted that it was organised by topic and contained illustrative financial statements, a disclosure checklist and basis for conclusions. He noted the comment deadline was 1 October 2007.
- 6.2 Mr. Pacter explained that the proposed IFRS for SMEs was appropriate for an entity with no public accountability with about 50 employees. He added that the ED was designed for entities that produce general purpose financial statements for external users including owners that are not managers, existing and potential lenders and creditors, and credit rating agencies. Despite simplifications based on user needs, cost-benefit considerations and relevance to SMEs, Mr. Pacter noted that the ED was a stand-alone document with no mandatory fallback to full IFRSs. He observed that the simpler options in full IFRS were included in the ED.
- 6.3 In speaking about the due process leading to the ED, Mr. Pacter noted the publication of a Discussion Paper in 2004, roundtables in 2005 and deliberations at more than 30 Board meetings. He stated it was proposed the IFRS be updated every two years. He added that translations of the ED would be available in French, Spanish and German. He noted that the final standard could be expected during the first half of 2008 and explained that individual jurisdictions would decide whether to adopt the IFRS for SMEs.

### Open Forum

- 6.4 Members were divided into groups to consider 11 questions included in the invitation to comment of the ED. Members asked that the topic be discussed again at the SAC June meeting to give members more time to collect feedback from their constituents.
- 6.5 On individual questions, a member suggested that a three-year update was more appropriate than every two years as proposed in the ED. Another member inquired whether changes in IFRSs would lead to retrospective or prospective application in

the IFRS for SMEs. A member noted that the German accounting standard setter would conduct a survey to assess its members' understanding of the ED and in particular the cost-benefit implications of adopting the IFRS for SMEs. This member indicated that German companies expected more simplification. On deferred taxes, a member suggested that a modified version of the timing approach be permitted with enhanced disclosure. Another member recommended that goodwill be amortised for a shorter period. A member suggested that insurance contracts be included in the ED because these contracts were also issued by smaller firms. In reference to IFAC's draft new code of ethics to be followed by entities with significant public interest, a member inquired whether IFAC's reference to the notion of public interest was aligned with public accountability used in the IFRS for SMEs.

- 6.6 Mr. Pacter noted that constituents have advocated further simplification but specific proposals had yet to be made. He explained that the 2004 Discussion Paper on SMEs proposed a notion of economic significance but such a proposal was not included in the ED. He confirmed that contact would be made with IFAC to conform the notion of public accountability and public interest. Mr. Pacter noted the ED's proposal to include the simpler options and commented that such options would not affect the quality of financial reporting. He expressed interest in conducting field tests and noted that accounting changes would have to be applied retrospectively. He stated that the Board would consider whether the IFRS should be updated every two or three years.

**END**