

**Minutes of the Meeting of the
Standards Advisory Council
held in London on 27 and 28 February 2006**

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Attending:

SAC Members:

Adir Inbar	Piotr Madziar (official EC observer)
Alberto Giussani	PM Kam
Arne Petersen	Rifaat Karim
Arnold Schilder (1 day only)	Sarah Deans
Benoit Atangana Onana	Shailesh Haribhakti
Charles McDonough	Stefan Kirsten (1 day only)
Christoph Ernst (official IOSCO observer)	Suk Jun Lee
Danny Teoh	Takashi Matabe
David Lindsell	Tatiana Krylova (1 day only)
Eiko Tsujiyama	Tomoko Amaya
Hector Estruga	Toru Shikibu (official JFSA observer)
Hector Vela	Trevor Harris
Hugo Schaub (1 day only)	Tsuyoshi Mizutani
Ian Ball	Yoshiki Yagi
Ingebret Hisdal	
Jochen Pape	Apologies –
Jose Antonio Alvarez	Anna di Michele
Judith Downes	Colleen Cunningham
Julie Erhardt (official SEC observer)	Darrel Scott
Jun Wang (1 day only)	Frank Brod
Kenneth Sullivan	Heinz-Joachim Neubürger
Mauro Grande	John Carchrae
Nelson Carvalho, <i>Chairman</i>	Kees Storm
Pat McConnell	Vladimir Preobrazhenskiy
Patrice Marteau	
Philippe Danjou	

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IASCF Trustees:

Tommaso Padoa-Schioppa, Roberto Teixeira da Costa, Malcolm Knight and Phil Laskawy

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IASB Members:

Sir David Tweedie, <i>Chairman</i> (1 day only)	Jim Leisenring
Thomas E. Jones, <i>Vice Chairman</i>	Mary Barth
Anthony T. Cope	John T. Smith
Geoffrey Whittington	Patricia L O'Malley (1 day only)
Gilbert Gélard	Robert Garnett
Hans-Georg Bruns	Tatsumi Yamada (1 day only)
Jan Engström	Warren McGregor (1 day only)

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IASB Staff:

Liz Hickey, Director of Technical Activities

Tom Seidenstein – Director of Operations IASCF

IASB Technical Staff

1 Opening Remarks

Welcome

- 1.1 The SAC Chairman, Nelson Carvalho, welcomed participants to the meeting. He noted the apologies of members who were unable to attend and praised the initiative of an absentee SAC member who sent a delegate to observe the meeting. Mr. Carvalho highlighted that such practice is to be encouraged.
- 1.2 Speaking on his activities since assuming the SAC Chair, Mr. Carvalho indicated that he has attended all IASB Board meetings since July 2005. He also accompanied IASB members to Argentina, was invited to observe and speak at a meeting of the Financial Accounting Standards Advisory Council of the FASB and attended a Roundtable on Financial Reporting and Auditing organised by the Financial Stability Forum, IFAC and the IASB. He noted that the reason for reporting such activities was to encourage SAC members to participate in similar events as ambassadors of IFRS.

Introductory Remarks by IASCF Chairman and Trustees

- 1.3 The new Chairman of the IASCF, Mr. Tommaso Padoa-Schioppa, welcomed SAC members to the meeting. By way of background, he recounted his 37 years experience in public service including time spent at the European Central Bank where he was a founding member of the Executive Board. Mr. Padoa-Schioppa commented that the IASB is an extraordinary creation that does not resemble any other standard setting body. He added that its success is explicable by not just the need for international accounting standards but also the unique institutional design of both the Foundation and Board. The organisation is truly global with a special blend of private and public dimension. It is perhaps more private because of its funding but also public in the sense that the standards set are binding to a degree that it is not comparable with any other.
- 1.4 As a result of the success achieved to-date, Mr. Padoa-Schioppa noted that there are potential risks ahead. Changes have occurred so fast that the pace of change has caught governments and organisations by surprise and could subject the organisation to a potential backlash. He added that the SAC can mitigate that risk through dialogue and communication. Mr. Padoa-Schioppa also indicated that it would take a few meetings to set the style and chemistry of the new SAC. He, therefore, recommended that SAC members, Trustees and the Board maintain strong links with interested parties that are affected by the decisions of the Board. The IASCF Chairman has a task to listen, follow discussions and make the miracle continue.
- 1.5 Mr. Phil Laskawy, IASCF Trustee and chairman of the Trustees' Nominating Committee, elaborated on the challenges encountered in the selection of the IASCF Chair, SAC Chair and SAC members. With respect to the IASCF Chair, the Trustees were convinced that they found a strong replacement in Mr. Padoa-Schioppa as he brings integrity and extraordinary listening skills. Mr. Laskawy commented that in his opinion, the new Chairman would exceed expectations.
- 1.6 Mr. Malcolm Knight, IASCF Trustee and head of the Bank for International Settlements (BIS), stressed that the activities of the IASB, IFRIC and SAC are fundamental for global financial stability. He added that the adoption of Basel II will not have its full positive effects unless greater consistency can be achieved in the accounting systems across various jurisdictions. Mr. Knight concluded that

convergence with US GAAP is also essential for financial stability and the SEC will play a key part in the development of international accounting standards.

- 1.7 Mr. Roberto Teixeira da Costa, IASCF Trustee, recounted his capital markets experience in his native Brazil and stressed the benefits of IFRS to global capital markets. He felt privileged to be the only IASCF Trustee representing Latin America. Mr. Teixeira da Costa expressed his gratitude to SAC members for the input provided in the context of the Constitutional Review. He noted that the next five years would be as important as the first.

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- 1.8 One SAC member expressed concern about speed of changes and quality of annual results under IFRSs. Another member commented that in the UK 15 interim statements were not in compliance with IFRSs. A member added that the Committee of European Securities Regulators (CESR) was preparing a report on the first year experience of IFRS emphasising that such a document will not be ready until annual financial statements are available. A Trustee replied that it would take time before capital markets see the full benefits, but from his professional experience the process went smoothly. An IASB member added that public companies will benefit from a common accounting platform.

2 Discussion of Operations and Consultation Procedures

The Agenda Setting Process and Consultation

- 2.1 As a prelude to Agenda Paper 1A, Mr. Carvalho raised several key points of the paper for SAC members to consider.
- (a) The relevance of the SAC June meeting since this is when members are consulted on the IASB's agenda items and priorities.
 - (b) An invitation for SAC members to submit their own views regarding the proposals of an exposure draft (ED) such as the one published on Business Combinations.
 - (c) The difficulty in conducting field tests (as opposed to field visits) due to time pressures and resource constraints.
 - (d) SAC members are encouraged to suggest members for the IASB's working groups.
 - (e) The impracticality of conducting cost/benefit analysis in a conventional and standardized way.
 - (f) The confidentiality of Agenda Paper 1B as it has yet to be presented to the Trustees.
- 2.2 Liz Hickey, IASB Director of Technical Activities, presented Agenda Paper 1A. Four topics were covered in the paper: (1) the agenda setting process; (2) consultation procedures; (3) cost/benefit analysis and (4) accountability.
- 2.3 Ms. Hickey noted that agenda setting was a difficult task as the IASB is constrained by time, resources and expertise. Since agenda decisions are made in July, the input from the SAC June meeting is particularly valuable. She explained that the consultation process involves standard setters, analysts and regulators as well as working groups. She added that there is a formal consultation process with the publication of Discussion Papers (DP) and EDs where comments are invited and

subsequently analysed by the staff. Despite the difficulty of assessing costs and benefits, she commented that the assessment will be reported more formally in the future. IASB members are accountable to the Trustees with regard to appropriate due process. Certain steps of the IASB due process are mandatory such as the publication of an ED.

Implementation and Interpretations

- 2.4 Bob Garnett, IASB member and chairman of the IFRIC, presented Agenda Paper 1B covering the IFRIC review of operations and implementation of IFRSs. As outlined in the draft Handbook, Mr. Garnett stated that IFRIC operates on a principle basis to provide guidance in the interpretation and clarification of accounting principles. He recognised the concern expressed by some constituents about the IFRIC agenda setting process. Mr. Garnett clarified that the full IFRIC decide whether to add an issue to its agenda. He also commented that it is not possible for IFRIC to endorse pronouncements issued by national interpretative groups (NIG).

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- 2.5 A member expressed concern about projects that are undertaken without the support of SAC members such as the Business Combinations. In their view, the IASB decided to proceed without addressing the reservations identified in the comment letters. The Board replied that the Business Combination project did not arise from a separate decision. It was clarified that the decision was made in 2001 to remove differences with the US standard. Stage II is merely a continuation of the project.
- 2.6 Some members acknowledged that improvements in the IASB's consultation procedures have been made. At the same time, they voiced a concern that IFRIC decision making remains slow and its agenda setting process lacks sufficient transparency in their mind. These members advocated that greater explanation is needed for rejecting agenda items. A second point identified was the emergence of different interpretations in various jurisdictions which was considered inappropriate. Mr. Garnett replied that a better effort will be made to explain why an issue is rejected. He emphasised that the time taken is associated with the complexity of the issue. However, since the beginning of the year more resources have been allocated to the IFRIC which will allow it to better progress its work on interpretations.
- 2.7 A member inquired whether the IASB has a policy that allows NIG to publish interpretations that are binding within their national jurisdictions. The Board noted that the IASB cannot prevent other parties from providing interpretations nor does it have the enthusiasm to monitor their activities.
- 2.8 Several members suggested that field tests and cost/benefit analysis be an integral part of the agenda setting process. This group argued that notwithstanding the time constraint, field testing would address implementation issues that would help avoid other costs. The IASB staff responded that field testing is already conducted albeit only on significant standards such as Business Combinations.
- 2.9 Mr. Carvalho noted that since IFRSs are complex and require more timely resolutions across geographical regions, he would consider proposing the following to the Trustees: (1) the possibility of the creation of a dispute mechanism to supplement the work of IFRIC; (2) educational programmes on IFRSs aimed at minimising the divergence of practice and interpretations; and (3) more application of field visits as part of a formal standard setting process.

3 Discussion of IASB Work Programme and Convergence

- 3.1 Sir David Tweedie, IASB Chairman, introduced the discussion on convergence by stating that the objective is the creation of a single set of global standards. He described that the best standard would be selected if it is available, otherwise a new standard would be written. With the adoption of IFRSs in 2005 across multiple jurisdictions, Sir David commented that the IASB has tried to maintain a stable platform by keeping amendments to a minimum. However, some amendments were made to deal with implementation issues. It was confirmed that no new major standard would be issued this year and only two new standards are scheduled for 2007.
- 3.2 Describing the relationship with SEC and FASB as a window of opportunity, Sir David noted that some changes would be inevitable. As a result of the Norwalk Agreement signed in 2002, the IASB and FASB have been working towards achieving convergence and the removal of the reconciliation requirements imposed on overseas registrants by the SEC. Because of the time it would take to settle the major accounting differences between US GAAP and IFRSs, the SEC recently endorsed an alternative approach whereby the reconciliation requirement could be removed based on the pace of change rather than the level of convergence. Sir David noted that he envisages that the reconciliation requirement could be removed in 2008.
- 3.3 Wang Jun, SAC member as well as Secretary General of the Chinese Accounting Standards Committee (CASC) and Vice Minister of the Chinese Ministry of Finance (MOF), commented that both CASC and MOF support and actively promote international convergence of accounting. He added that a significant milestone was achieved when China released 39 accounting standards based on IFRSs earlier this year. Mr. Wang made four recommendations: (1) It is important to recognise the role of standards advisory bodies in the quality of standards and their acceptance by constituents; (2) The IASB should pay attention to different countries' experience in achieving convergence – for example, the need to improve the standard on related party disclosure; (3) The convergence between IFRSs and US GAAP should be accelerated. At the same time there should also be a timetable for convergence of IFRSs and national standards of emergent markets and transition economies; and (4) SAC members should promote international convergence.
- 3.4 Other international developments cited by IASB members included:
- (a) Phase I of the Japanese convergence project is almost complete with discussions of future plans underway.
 - (b) Canadian GAAP is scheduled to converge to IFRS in 2011.
 - (c) Many countries in South America have adopted IFRS. Multilateral lending agencies have provided support with implementation, training and translation. Chile will be adopting IFRSs in 2009, but Mexico will be adapting IFRSs to create its own standards. Argentina recently completed an internal convergence project with the intent of adopting IFRSs in one or two year's time. A major development in Brazil relates to legislation to remove accounting standards from company law and establish a standards-setting body to facilitate quick adaptations of standards when new needs or solutions become known.

- (d) Many Asian countries have adopted IFRSs, others adapting and some are moving towards convergence. India, in particular, is experiencing impediments with its local law which is generating some transitional issues.

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- 3.5 SAC members expressed concern about the risk that local variations of IFRSs could undermine the brand. The Board agreed that there is a risk and noted it will raise the issue with the Trustees.
- 3.6 Several points were highlighted by participants on the scope of convergence. Some suggested that IFRSs for SMEs be included in the convergence programme. A few sought more details on the timing of short term projects. Several requested more information on equity and liability distinctions. Others commented on the absence of fair value in the convergence programme. The Board responded that the SME standard is important as many companies are affected. The Board highlighted that the project represents a formidable challenge as the right balance needs to be achieved for the standard to be approved by the Board. The staff is developing an ED likely to be published in June 2006. The Board also noted that fair value measurement guidance is part of the convergence programme.

4 Business Combinations

- 4.1 Alan Teixeira, IASB Senior Project Manager, gave an update on the Business Combinations project. Following publication of the ED in the second half of 2005, redeliberations are taking place focusing on the areas where comment letters expressed significant concern. Mr. Teixeira added that redeliberations are expected to take approximately one year and that the Boards had not yet revisited the core principles or any substantial topics.
- 4.2 At the end of the presentation, SAC members were divided into three groups each to discuss three separate topics that the staff had identified in the comment letter analysis as being of particular importance to respondents:
 - (a) Topic 1: The parent perspective versus the economic entity perspective
 - (b) Topic 2: Full goodwill and estimation uncertainty
 - (c) Topic 3: Asset acquisitions, acquisition costs and consistency
- 4.3 The session Chairs reported back on the discussions each group had held. The group covering Topic 1 had been asked to describe what they believed the parent perspective and the economic entity perspective to represent, and what they thought the implications were of adopting one method over the other. The question was posed because comment letters on the proposals suggested that respondents held varying, and conflicting, views about what these perspectives actually meant. The staff was asking the SAC members to contribute to that debate by conveying their understanding of the perspectives. Unfortunately the group did not feel it was in position to provide clear and robust views, citing that more time would have to be spent on this extremely complex issue, that expertise of subgroup members was not deep enough to reach conclusions at that point in time, and that more guidance on the topic was needed than that provided on the paper.
- 4.4 The group covering Topic 2 took the view that assets should be measured at fair value. They disagreed with the proposal to recognise all of the goodwill on the grounds that it would be difficult to calculate the control premium. One member of

this group, however, adopted a different view in favour of IFRS 3 on the grounds that it provides useful information for analysts as users of financial statements.

- 4.5 The group covering Topic 3 concluded that there should be consistency amongst standards. To that effect this group supported retaining the principle of keeping transaction costs as part of the acquisition price of an asset.

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- 4.6 Some SAC members expressed disappointment with the content of the Business Combination presentation as well as the information disclosed in the topics covered at the breakout sessions. Those members were expecting the presentation and exercise to portray the concerns raised in the comment letters. Because they found the content highly technical, members recommended that more background be given on the paper. The staff had provided the SAC members with links to additional background papers and comment letter analysis, but some SAC members thought that those papers were too detailed. The staff and the SAC Chairman noted the concerns and agreed to factor them into the development of future agenda papers.

5 Conceptual Framework

- 5.1 The presentation on the joint Conceptual Framework project between the IASB and FASB was divided into two parts.
- 5.2 Jim Leisenring, IASB member, delivered the first part of the presentation. He provided a historical background – including describing that, at present, each Board has their own conceptual framework for accounting standard-setting. He also identified several of the differences and contrasted their application under IFRSs and US GAAP.
- 5.3 The staff led the second part of the presentation where they observed that the project’s main objective is to develop a common conceptual framework. The staff indicated that a common framework would provide a sound foundation for the development of accounting standards. The project will be divided into eight phases (A through H) and the entire project is expected to take approximately five years to complete. The staff stated that an ED on Phase A (which deals with the objectives and qualitative characteristics of financial reporting) is expected to be published in the second quarter of this year. The staff further commented that the Boards of the IASB and FASB recently commenced discussion of Phase B, which includes consideration of the elements of financial reporting. Both Boards have commenced consideration of a definition of an asset. The key part of the staff proposed working definition of an asset being discussed by the Boards at their February meetings is “an asset of an entity is a present right, or other present privilege, of the entity to a resource that is capable of generating economic benefits to the entity, either directly or indirectly.”
- 5.4 SAC members were divided into three groups to consider the following questions:
- (a) Does the notion of “present right or other present privilege” work better than “control”?
 - (b) Do SAC members agree that it is unnecessary to refer to probability of economic benefit in the asset definition?
 - (c) Do SAC members agree that it is unnecessary to specify the need for a past event if we focus on the need for “present” rights and other privileges?

- (d) Is the staff proposed working definition an improvement (clearer, more appropriate, captures the right items, etc.) on existing definitions?
 - (e) Does the proposed working definition appear to: (i) include items that members would not consider to be included in the definition of an asset; or (ii) exclude items that members would consider to be included in the definition of an asset?
- 5.5 The session Chairs reported on the discussions each group had held. For question (a), members noted that present privilege seems to be a very broad notion and they cautioned that it was not clear to them what the meaning of the word privilege is. For question (b), each group agreed that it was unnecessary to have a reference to probability in the definition of an asset. Most members agreed with question (c) that inclusion of a past event is redundant if one focuses on “present rights and other privileges”, although some suggested that amplification of the reason why this is so would be beneficial. For question (d), groups reported a mixed reaction from members - some claimed that the definition was an improvement, but others were less certain. Some of the uncertainty may stem from lack of familiarity with the new words proposed and some questioned whether the introduction of the new terminology has, indeed, clarified the definition. For question (e), some members expressed concern that goodwill may appear to be excluded.

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- 5.6 Members highlighted two issues related to the proposed asset definition. The first issue relates to the confusion around the meaning of the term “resource”. One participant recommended removing that word from the text. It was also noted that the word “privilege” had various meanings when translated and could lead to different ‘answers’.
- 5.7 Participants also expressed several concerns about the implications of the Conceptual Framework project as a whole. These include:
- (a) Whether the expected completion date of the project would be an impediment to the removal of the IFRS/US GAAP reconciliation requirement. A Board member responded that the Framework is not part of the work necessary to remove the reconciliation.
 - (b) The rationale for replacing the word “reliability” with “faithful representation” in the qualitative characteristics section of the Framework. Several members feared that changing the wording would create confusion amongst constituents who are unfamiliar with the English language.
 - (c) Others expressed concern on how changes in the Framework would affect other projects. The staff replied that there is ongoing coordination with staff members working on other projects. The staff established that in the event of inconsistencies arising between the Framework and a standard, the latter would take precedence over the former.

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