

REPORT ON THE INTERNATIONAL FORUM OF ACCOUNTING STANDARD SETTERS (IFASS)

26/27 September 2017, London

IFASS is an informal network of national accounting standard setters (NSS) from around the world, plus other organisations that have a close involvement in financial reporting issues. It is a forum at which interested stakeholders can discuss matters of common interest. The group is currently chaired by Liesel Knorr, former President of the Accounting Standards Committee of Germany.

IFASS met in London on 26-27 September 2017 and discussed the agenda items set out below.

The public meeting was attended by representatives of standard setters from Australia, Austria, Belgium, Brazil, Canada, Denmark, France, Germany, Hong Kong, India, Indonesia, Iraq, Italy, Japan, Malaysia, Mexico, Nepal, Netherlands, New Zealand, Republic of Korea, Sierra Leone, Singapore, South Africa, Spain, Sudan, Sweden, Taiwan, United Kingdom, and the United States of America. Representatives of the European Financial Reporting Advisory Group (EFRAG), the International Accounting Standards Board and its staff, the International Arab Society of Certified Accountants (ASCA), and the International Public Sector Accounting Standards Board (IPSASB) also attended. A complete list of participants is attached. A number of observers were present.

Welcome and opening remarks

Liesel Knorr welcomed participants to London and thanked the IFRS Foundation for hosting the meeting.

1. Administrative matters

First, Liesel Knorr pointed to a paper she put forward to address the current and future distinction between participants and observers mainly with regard to the cafeteria seating arrangement. She referred to comments made by some participants in the online evaluation for the recent meeting in Taipei. It was highlighted that observers were not able to follow the group debates. The question was how to deal with observers in future meetings.

Participants indicated that observers should be allowed to follow the group discussions by joining the participants grouped at tables. IFASS secretariat may consider – as done for this meeting – to leave some of the seats empty at each group table in order to let observers take a seat temporarily for group discussions if they wish so. Furthermore, the host organisation should not be limited in the number of observers registered to the meeting and attending the proceedings, provided room capacity permitting.

Second, the chair announced that the second meeting of IFASS in 2018 will take place in the same location on 2 & 3 October 2018 following the WSS Conference on 1 & 2 October. Furthermore, Liesel Knorr confirmed the dates and the location for the next meeting of IFASS: 12 & 13 April 2018 in Mumbai, India. She thanked the ICAI representatives for their kind willingness to host IFASS next April.

The chair further referred to the evaluation survey of the Taipei meeting and pointed to the paper that presented the analysis of that evaluation. There were no comments by the participants on that analysis.

The last issue addressed in this session was the IFASS chairmanship. Liesel Knorr referred to papers and arrangements agreed under her predecessor. These stipulate that the IFASS chair is elected for a term of two years and is given the opportunity to extend the chairmanship unilaterally / without (formal) consultation by one further year. She expressed her willingness to continue chairing IFASS in order to conclude the still ongoing debate about the future role of the forum.

There were no objections expressed by the participants.

2. Cooperation of IFASS participants

The chair briefly introduced the work done and conclusions drawn / issues raised to date by the IFASS working group on communication. Furthermore, she reported that only a few organisations had submitted their research profiles and participants' profiles. Collecting this kind of information was one of the conclusions drawn by participants jointly at the IFASS meeting in September 2016 and in March 2017.

It was questioned whether the participants' profiles was the kind of information IFASS participants would be wanting to share as there was probably enough on the IASB website in terms of 'profile'. On the other hand, participants conceded that the profiles available at the IASB website are focused on jurisdictions, rather than on NSS or similar organisations. The participants' profiles as developed by the IFASS secretariat would serve the need expressed at several occasions, to get to know each other better.

However, this information may not be given the highest priority. Highest priority should be assigned to what is necessary to foster consistent application, as also being concluded at the Taipei meeting. An example for that was – as already being carried out – the involvement of IFASS participants in fatal flaw reviews of consultation documents that are uploaded to the IFASS area on the sharepoint of the IASB website (IFASS sharepoint) prior to their public issuance. In this regard it was also indicated that one might consider whether the IFASS sharepoint would be the better forum for sharing information between IFASS participants.

The chair concluded that the debate addressing participants' profiles was of lower priority and; therefore, the debate will be postponed. Instead, she resumed the debate on the content to be shared, in particular implementation support including interpretation issues, and research.

The forum went on debating the participants' information on responses to outreach requests. It was repeatedly noted that the IFRS Foundation publishes the responses in a condensed manner only, whereas IFASS participants would like to see the detailed responses instead, in order to seek partners in cases where there is more than one jurisdiction with the same issue. As the IFRS Foundation is not able to make the responses available to IFASS participants for due process reasons (outreaches are seen as an informal process step), IFASS participants might have to find a way on how to collect and to share this information. The other aspect to be dealt with would be local guidance or related activities carried out by NSS. Some participants questioned the necessity to share that information on the grounds that local issues, were they interpretation - or implementation/application – driven, are unique very often. Other participants conceded this may be the case on a number of occasions; however, many participants repeatedly expressed their interest of being informed what issues arise in other jurisdictions and what issues are dealt with by the NSS in this respect.

When debating the question on what platform in a broader sense the exchange of information shall be based on, the forum considered that IFASS is a forum that has neither a legal body nor funding. It was concluded that the easiest way for sharing the responses on outreach requests was using the IFASS mailing list. Each participant should consider sending its outreach response to the IFRS IC and cc to the IFASS mailing list. The question was raised whether sharing information by e-mail may also work well for other issues (local activities and guidance in a broad sense, and research).

The forum reconsidered using some sort of a register where NSS put in information on what they had developed locally. Furthermore, Michelle Sansom indicated the IFRS Foundation might be willing to put more research papers onto the IFASS sharepoint. However, sharing finalised research papers might not be preferred by all participants as some may be interested in being informed earlier so as to be able to join in the respective research.

The chair then asked if participants would – for the time being – agree if the IFASS secretariat is going to send out two or three Requests for Information per e-mail seeking NSS related information on local IFRS guidance, implementation activities such as local TRGs, and current research projects.

There were no objections.

Lastly, Liesel Knorr observed that it was too early for considering a MoU at this time and proposed to address this at another meeting. No objections were made by participants.

3.-6. Optional sessions

(These sessions were optional, no minutes taken)

Agenda item 7 was – as items 8 and 9 – dealt with by a brief introduction of each topic, a debate in several groups with the group conclusions being reported to and considered by the whole forum.

7. BCUCC: Mergers & Acquisitions – The Premise for Separate Accounting Methods

Christina Ng (HKICPA) and Tommaso Fabi (OIC) presented a paper brought forward by the staff of both HKICPA and OIC. The objective of the session was to consider whether and why some or all business combinations under common control (BCUCC) should be accounted for differently compared to business combinations that are not under common control. Furthermore, the debate at IFASS should foster further debate of BCUCC at the IASB with respect to an appropriate accounting method. The debate at the IFASS meeting was focused on two questions based on three case studies:

- The first case is a business combination between two unrelated parties. That is, the reporting entity is a listed company and the acquiree is controlled by a third party before the transaction
- The second case is a business combination under common control. That is, the acquirer (reporting entity) is a listed company and both the acquirer and the acquiree were ultimately controlled by the same entity before and after the transaction.

- The third case is a merger of two legally separate entities under the control of a common parent company.

The questions under consideration were (1) what factors are relevant for evaluating the economic substance in the first and second case, and (2) how can the acquirer be identified in a merger under common control in the third case.

Economic Substance

It was questioned what exactly is substance. Nevertheless, the predominant view expressed was that every BCUCC transaction should be presumed to have economic substance; otherwise it would not have been carried out. There are a variety of reasons for those transactions, e.g. they may be tax driven, or for the purpose of utilising synergies from group restructurings etc.

The participants discussed a range of factors to be considered when evaluating the economic substance of a BCUCC: The existence of minority shareholders involved in the transaction seemed to be the factor that is predominantly relevant. In this respect, local minority protection laws will play a significant role in many cases.

Some participants expressed the view that evaluating the economic substance of a BCUCC does not differ from a Business Combination between unrelated parties. In other words, factors such as impact on future cash flows, form and amount of consideration, and the business purpose of the transaction (e.g. preparing an IPO) would be most relevant for evaluating economic substance.

Some participants discussed whether one can presume a transaction is at arms' length in some BCUCC transactions, and that perhaps a separate accounting treatment is needed in those cases. For example, even if people were to concede that economic substance exists from the acquirer's perspective, the transaction might be distorted in terms of price and conditions, because of the fact that one entity ultimately controls both acquirer and acquiree. As such, it was reported that there are jurisdictions in which a BCUCC is accounted for on a book value basis with the difference between book value and consideration paid being charged against equity.

It was further noted that for evaluating the economic substance in the BCUCC scenario, it is important to remember who are the users of the financial statements. The fact that the acquirer is a listed company is an important factor to be considered as its financial statements are published for the purpose of informing parties outside the unit under common control. The information needs of parties outside the unit under common control may therefore be different from parties inside the unit. Accordingly, accounting for the BCUCC at book value, for example, may not be appropriate in this case.

Identifying the acquirer

Participants expressed diverse opinions on the question, that is, which entity is the legal acquirer in a merger under common control. Some took the view, the fact that the legal acquirer (being controlled by the ultimate parent) is a listed entity, would be decisive for the conclusion that the legal acquirer should be considered to be the acquirer for accounting purposes. However, as the transaction is scoped out from the IFRS literature, there is more or less a free choice. Some expressed the view that the bigger entity should be considered the acquirer, effectively leading to reverse acquisition accounting by analogy. Few participants favoured the view that the legal acquirer may not always be considered the acquirer.

In addition, some commented that the business purpose of the transaction and who the users of the financial statements are, would help to determine the appropriate accounting. For example, if two entities are merged with a view to be kept in the group, using the predecessor method might be worth considering. However, if the entities are merged with the view that the entity is going to be listed, the users of the financial statements (i.e. the ultimate parent or the market) might determine the conclusion on how to identify the acquirer and on how to account for this transaction (e.g. reverse transaction according to IFRS 3). Other methods of accounting (e.g. fresh start accounting) should be considered as well.

General comments

Some participants suggested that the guidance in IFRS 3 may be relevant/appropriate for some BCUCC transactions as some sort of substance is assumed in common control transactions. However, if a separate accounting is considered, some participants questioned the appropriate measurement (carrying amounts, fair values, or something in between), and how the difference between consideration and the assets/liabilities recognized should be recognised (some sort of goodwill to be charged against equity).

Christina Ng informed the forum that HKICPA and OIC are currently conducting a survey with investors in HK and Italy, which aims to figure out what investors regard as substance and whether there is a different substance when comparing BCUCC against business combinations with unrelated parties. She indicated that IFASS will be informed about the outcome once the study is completed.

8. Wider corporate reporting – Ways forward for IASB & NSS?

Andreas Barckow (ASCG), Stig Enevoldsen (Danish Accounting Standards Committee), and Anthony Appleton (FRC) introduced their thoughts to start a debate on the further development of wider corporate reporting (WCR). They asked the forum to gather their experience so far with non-financial reporting and to debate in groups, ways forward for the IASB.

Experience with non-financial reporting

The forum observed that, although non-financial reporting is a prevalent issue in almost all jurisdictions, the degree of regulation for reporting non-financial information varies across jurisdictions. In some countries, entities are required to report on non-financial issues, in other countries entities do so voluntarily. Furthermore, it was noted that some doubted that the term wider corporate reporting is commonly understood; for instance some participants were unsure if it simply means to widen the management commentary by non-financial information. Against this background, some participants doubted it was straightforward to differentiate between non-financial and financial information. They reasoned that what many deem as non-financial might have a significant impact on entities' financials, so it was questionable why there should be a difference.

The forum's participants noted further that tasks and responsibilities for National Standard Setters differ across jurisdictions. Only few NSS have a mandate for setting non-financial reporting standards, such as in New Zealand regarding their public sector accounting standards, whereas most NSS do not. It was observed that the mandate for setting non-financial reporting standards was often separated from the mandate for setting accounting standards/financial reporting standards.

Ways forward for the IASB

Although participants voiced doubts about financial reporting losing relevance, most participants agreed that investors have a need for non-financial information as such information would be increasingly relevant for financial decision making. For comparable information across entities there is a need for common standards and a need for a Framework on non-financial reporting; however, there is a huge number of organisations already active in this area, for instance the SASB (US) and the GRI (International).

The forum went on debating which organisation should assume the lead in developing internationally accepted, binding non-financial reporting standards. The participants considered the IASB doing so. The views were very diverse, ranging between two contrary positions: Some expressed the opinion the IASB should assume the leadership in developing WCR standards and – as a first step – clarify what wider corporate reporting is. The project on management commentary might be a good anchor to start with. Other participants noted that the IASB might not have the expertise as the composition of the board was geared to financial reporting exclusively. Therefore, the IASB should strictly stick to financial reporting standards, whereas the IFRS Foundation should consider setting up another board and tasking it with the development of globally accepted, binding non-financial reporting standards. A third group advocated the IASB becoming more active than just monitoring. However, participants in this camp were not yet in a position to elaborate on the IASB's role in more detail. Mixed views were also expressed regarding whether and how NSS should be tasked. In this respect it was noted that jurisdictions have specific reporting requirements in place for management commentary.

Hans Hoogervorst, who was present at this session, thanked the participants for the discussion and the views expressed regarding the IASB's task. He stressed the term WCR was difficult to define. Furthermore, for standard setting one should exactly know the addressees. Simply saying "society at large" would not be sufficient. He acknowledged that non-financial issues may have the capability to become financial issues at a later point in time, and, therefore, should not be deemed 'non-financial' in general. He preferred the term 'broader financial reporting' and announced the IASB will address 'broader financial information' in the project on management commentary.

9. Research on Pensions: Hybrid plans

Rebecca Villmann (AcSB) presented the findings obtained in research carried out jointly by the NSS from Canada, the US, Japan, the UK, and Germany (pensions working group). The purpose of the research is assessing the need for further global guidance in IFRS standards on accounting for hybrid pension plans in order to better reflect their economic characteristics. The purpose of the discussion at IFASS was to obtain participants' views on the need for further guidance, possible ideas to explore, additional issues to address, and other work to do.

Is there a need for further guidance within IFRS Standards

Many participants reported they were observing a general tendency to move the risk from the plan sponsors, resulting in a decrease in number of pure defined benefit plans. This development even results in some jurisdictions having predominantly defined contribution plans. However, in most jurisdictions the pension plans coming into play were something in between, i.e. hybrid plans. The participants noted that the requirements for classification and accounting treatment in IAS 19 *Employee benefits* were purely binary. Therefore, the need for guidance on was deemed necessary by participants from jurisdictions with hybrid plans.

Possible ideas to explore

To foster the debate at the forum, Rebecca Villmann briefly introduced seven approaches on how to start finding a solution for the problem. The idea of unbundling guarantees/risk elements from contribution-based promises had been considered a potential solution in Japan and Germany. The forum observed that this approach could be seen as the most promising one out of the seven presented, at least for some hybrid plans. However, it was questioned how that approach would work in practice. In particular, the question was raised how to measure the guarantee. The 'Fulfilment value approach' was considered having merits but only in the long term.

The participants considered the other ideas presented as well but none was supported to a great extent. There were mixed views on the 'Specific measurement methodology' approach. Some supported the idea but other participants struggled in understanding how this idea will work in practice. The 'Likelihood of plan sponsor absorbing risk' approach was criticised by some participants as this approach would require a threshold definition that was deemed problematic. Furthermore, participants noted that it was not clear what happens if the likelihood is very low.

The idea to "focus on guarantees' was partly supported, too; however, it was noted that it should be combined with the 'unbundling' approach', rather than considered to be a stand-alone approach. It was further suggested to revise IAS 19 in order to identify a measurement principle that would enable judgment to be applied when measuring pension obligations.

Additional issues to address and activities that could be done to move this topic forward

Participants advised to review and to update the ASAF paper as of December 2015, which presented global trends and issues in pensions. The pensions working group was further advised to clarify whether it was a measurement issue or a classification issue (or both) that needs to be solved. It was further deemed useful to have the research results presented to ASAF.

Wrapping up the session, Rebecca Villmann informed the forum that the pensions working group will continue its work. She further encouraged participants to join the group.

10. Interpretation issues

IAS 24 Related Party Disclosures

Shiwaji Zaware, and Vidhyadhar Kulkarni (both Institute of Chartered Accountants of India) presented an issue around IAS 24 *Related Parties Disclosures*, that is prevalent in India. The question was whether so-called independent directors are in the scope of the definition of Key Management Personnel in IAS 24. The term 'independent director' is defined by Indian local laws, they reported. For example, an independent director is neither a promoter of the company nor does he/she hold the position of 'key managerial personnel' nor is or has he/she been an employee of the company. However, every listed company is required to have at least one-third of the total number of directors as independent directors.

Participants took the view that based on the facts presented, independent directors should be considered key management personnel under IAS 24. The reasons given included that members of the governing board of an entity were key management personnel by definition, regardless of whether they are 'independent' directors. It was further indicated, that IAS 24

would not require entities to assess all of the criteria mentioned in the standard's definition of key management personnel. However, participants conceded that IAS 24 was not free of flaws, in particular the standard uses a terminology that is used in the legal context of many jurisdictions; therefore, an accounting definition exists next to a legal definition of what 'director' means. This fact may result in confusion.

IAS 12 Income taxes

Vidhyadhar Kulkarni introduced the Minimum Alternate Tax (MAT) rule that requires Indian companies to pay the minimum of 30% profit as calculated under tax specific rules ('normal' tax) and 18.5% profit according to GAAP. He addressed the question whether a MAT credit carryforward (resulting from the difference between the higher MAT paid and the 'normal' tax) was a deferred tax asset under IAS 12 *Income Taxes*.

Upon a number of questions regarding the facts presented he mentioned that under US-GAAP the tax rate to start with when reconciling the effective tax rate in those cases was the 'normal' tax rate. He further explained that whatever the entity carries forward, it can reduce the tax liability up to the base of 18.5% tax rate. Shiwaji Zaware added when the MAT liability is higher than the liability based on 'normal taxation' the difference would be the tax credit. In case the entity can assume to recover it within the next 15 years it can be carried forward. Otherwise it has to be derecognised.

Participants initially discussed if the MAT is an income tax in the scope of IAS 12 and they agreed it was. They concluded that a loss carryforward or a tax credit carryforward would be a deductible temporary difference in principle. Therefore, it should be recognized as a deferred tax asset.

Another issue was raised by the forum: what is the temporary difference, i.e. what is the reference point for the tax basis. It may be the accounting measure or the tax measure. Basically, there are two possible answers. On the one hand, the tax rate could be 18.5% resulting in a tax reconciliation to 18.5%. On the other hand, the tax rate could be assumed to be 30%, thereby the reconciliation would go to 30%. Depending from what direction the entity looks, it might probably come to different conclusions on what the temporary difference is and how it will affect the effective tax rate reconciliation.

Closing remarks

Shiwaji Zaware (Chair of the Accounting Standards Board of the Institute of Chartered Accountants of India) welcomed all IFASS participants to the next IFASS meeting in Mumbai.

Liesel Knorr thanked all who were organising the London meeting, in particular the IASB for hosting it. She announced the invitation for the online meeting evaluation to be coming soon and that participation would be very welcome.

Action List

Topic and action
IFASS Chair/Secretariat
<ul style="list-style-type: none">• To develop the online meeting survey and invite participants to it• To call for agenda proposals for the IFASS meeting in April 2018• To call participants for sharing their responses to IFRS IC outreach requests
All IFASS participants
<ul style="list-style-type: none">• To advise IFASS secretariat (secretariat@ifass.net or chair@ifass.net) of potential agenda items for the meeting in April 2018 so that they can be included in the first draft of the agenda• To advise the AcSB Canada if they would like to join the working group on pensions• Going forward: To inform each other about responses to IFRS IC outreach requests

List of participants

	Name	Organisation
1	Kris Peach	AASB (Australia)
2	Kala Kandiah	AASB (Australia)
3	Rebecca Villmann	AcSB (Canada)
4	Nancy Estey	AcSB (Canada)
5	Linda Mezon	AcSB (Canada)
6	Alfred Wagenhofer	AFRAC (Austria)
7	Gerhard Prachner	AFRAC (Austria)
8	Patrick de Cambourg	ANC (France)
9	Cédric Tonnerre	ANC (France)
10	Michel Barbet-Massin	ANC (France)
11	Doris Yi Hsin Wang	ARDF (Taiwan)
12	Chi-Chun Liu	ARDF (Taiwan)
13	Narendra Bhattarai	ASB Nepal
14	Jitendra Kumar Mishra	ASB Nepal
15	Atsushi Kogasaka	ASBJ (Japan)
16	Yasunobu Kawanishi	ASBJ (Japan)
17	Leong Siok Mun	ASC (Singapore)
18	Andreas Barckow	ASCG (Germany)
19	Sven Morich	ASCG (Germany)
20	Sadi Podevijn	BASB (Belgium)
21	Stig Enevoldsen	Danish Accounting Standards Committee
22	Peter Sampers	DASB (Netherlands)
23	Filippo Poli	EFRAG
24	Andrew Watchman	EFRAG
25	Djohan Pinnarwan Jusuf	FASB (Indonesia)
26	Marc Siegel	FASB (USA)
27	Marsha Hunt	FASB (USA)
28	Jeffrey Mechanick	FASB (USA)
29	Anthony Appleton	FRC (UK)
30	Paul Druckman	FRC (UK)
31	Andrew Lennard	FRC (UK)
32	Khaya Dlodla	FRSC (South Africa)
33	Shelley So	HKICPA
34	Christina Ng	HKICPA
35	Hans Hoogervorst	IASB

	Name	Organisation
36	Sue Lloyd	IASB
37	Michelle Sansom	IASB
38	Matt Chapman	IASB
39	Matt Tilling	IASB
40	Michelle Fisher	IASB
41	Darrel Scott	IASB
42	Tak Ochi	IASB
43	Amaro Gomes	IASB
44	Yulia Feygina	IASB
45	Kumar Dasgupta	IASB
46	Gary Kabureck	IASB
47	Peter Clark	IASB
48	Patrina Buchanan	IASB
49	Henry Rees	IASB
50	Lu Jianqiao	IASB
51	Mitsuhiro Takemura	IASB (Asia-Oceania)
52	Silvio Takahashi	IBRACON (Brazil)
53	Maria D Urrea Sandoval	ICAC (Spain)
54	Shiwaji Bhikaji Zaware	ICAI (India)
55	Debashis Mitra	ICAI (India)
56	Vidhyadhar Chidambar Kulkarni	ICAI (India)
57	Liesel Knorr	IFASS
58	Thomas Schmotz	IFASS
59	Oussama Tabbara	International Arab Society of Certified Accountants
60	Ian Carruthers	IPSASB
61	John Stanford	IPSASB
62	Rafid Al Nawas	Iraqi Union of Accountants and Auditors (IUAA)
63	Eui-Hyung Kim	KASB (Korea)
64	Sungsoo Kwon	KASB (Korea)
65	Won-Hee Han	KASB (Korea)
66	Mohamed Raslan Abdul Rahman	MASB (Malaysia)
67	Bee Leng Tan	MASB (Malaysia)
68	Felipe Pérez Cervantes	MFRSB (Mexico)
69	Kimberley Crook	NZASB (New Zealand)
70	David Bassett	NZASB (New Zealand)
71	Tommaso Fabi	OIC (Italy)
72	Leonardo Piombino	OIC (Italy)

	Name	Organisation
73	Tamba Momoh	SLAF (Sierra Leone)
74	Zein Borai	Sudanese Association of Professional Accountants
75	Mikael Scheja	Swedish Financial Reporting Board