REPORT OF THE MEETING OF NATIONAL STANDARD-SETTERS (NSS)
8-9 SEPTEMBER 2009

The NSS group met in Frankfurt on 8-9 September 2009 and considered the agenda items set out below.

Background

The NSS is a grouping of national accounting standard-setters from around the world, plus other organisations that have a close involvement in financial reporting issues. The group is chaired currently by Ian Mackintosh, Chairman of the UK Accounting Standards Board (ASB).

The meeting was attended by representatives of standard setters from Austria, Australia, Canada, France, Germany, Hong Kong, India, Italy, Japan, Mexico, New Zealand, Norway, Republic of Korea, Romania, Saudi Arabia, Singapore, South Africa, Sudan, Sweden, Taiwan, the United Kingdom, and the United States. Representatives of the European Financial Reporting Advisory Group (EFRAG) and the International Accounting Standards Board (IASB) also attended, as did the Chairman of the IASB's Standards Advisory Council (SAC). A list of participants is attached.

1. **Global Financial Crisis: Accounting Developments and Implications**

1.1 A representative of the UK Accounting Standards Board (ASB) updated NSS members on developments related to the global financial crisis and their implications for financial reporting. The latest most significant developments included:

- The letter dated 26 August sent by French Finance Minister Christine Lagarde to European Commissioner Charlie McCreevy on the IASB's July 2009 Exposure Draft (ED) on the classification and measurement of financial instruments. The letter expressed concerns that the proposals could lead to more financial instruments being measured at fair value, rather than less, which – it was stated – would not be in the European general interest. The view in the letter was that financial instruments should be measured at fair value only when it was relevant to the business model and holding horizon of the holder;
- On 27 August, the Basle Committee on Banking Supervision issued a number of high level principles for the replacement of International Accounting Standard (IAS) 39 'Financial Instruments: Recognition and Measurement';
- On 28 August, the IASB and the International Accounting Standards Committee Foundation (IASCF) had made available on the website an updated overview of measures undertaken in response to the recommendations made by the G20 leaders at their economic summit held in London in April 2009;
- Preparations underway for the next G20 economic summit to be held in Pittsburgh, USA on 24-25 September;
- The continuing pressure for there to be greater alignment between financial reporting and prudential regulatory reporting.

1.2 In discussion:

- There was general concern expressed at the blurring of the boundary between financial reporting and prudential regulatory reporting. NSS members believed that there was a need to differentiate between accounting standards and prudential regulation and to acknowledge their different objectives;
- Most NSS members expressed concern at the desire from some quarters for amendments to be made to accounting standards, in particular those relating to financial instruments, as a matter of urgency. The standards needed to be improved, but in a considered way with proper due process;
- Some NSS members were already in contact with their Governmental colleagues ahead of the September G20 summit to highlight the above points and all NSS present were encouraged to do the same. There was general agreement that the report of the Financial Crisis Advisory Group (FCAG), published in July 2009, was a valuable tool for NSS to use in their discussions, in particular in pressing the case in the four main areas covered in the report, namely -
    - Effective financial reporting
    - The limitations of financial reporting
    - The desirability of achieving global convergence of accounting standards, and
    - The importance of standard-setters having independence and accountability.

1.3 The latest activities on financial crisis issues by the IASB and FASB were also considered, in particular the IASB's ED on 'Financial Instruments: Classification and Measurement', and the FASB's equivalent discussions on financial instruments.

1.4 The proposals in the IASB's ED that were discussed, and the reaction of NSS members to them, included:

a. there should be two measurement categories: amortised cost and fair value – there was general support for a mixed measurement attribute approach;

b. the classification approach to determine which financial assets or financial liabilities would be accounted for at amortised cost depended on both of two conditions being met: first, that the instrument had basic loan features; and second, that it was managed on a contractual yield basis (the business model view) – there was some concern that this could lead to more financial instruments being measured at fair value. A view was expressed that the approach needed to avoid past mistakes occurring again. Some NSS members took the view that primacy should be given to the business model condition;

c. the accounting for embedded derivatives would be simplified by having a single classification approach for all financial instruments including hybrid contracts with financial hosts – there were varying views expressed, with some members taking the view that bifurcation should be retained, at least as an option;

d. all equity investments to be at fair value, but an entity may make an irrevocable (ie no reclassification) election to present changes in the fair value of equity instruments not held for trading in Other Comprehensive Income (OCI), but with no recycling to the income statement – again, there was a variety of views expressed on some or all aspects of this proposal, with particular concerns at the proposal to fair value all equity instruments and the prohibition on recycling;

e. there should be retrospective application, with some transition reliefs – some NSS members expressed concerns about this aspect, including the proposed effective date and the fact that the IASB was taking forward this project in a phased way, albeit for understandable reasons.

1.5 A number of NSS members also expressed worries at the fact that the IASB and the US Financial Accounting Standards Board (FASB) appeared to be at different stages of their considerations of amending their standards on financial instruments and going in different directions. There were particular concerns expressed at the IASB's intention to complete the classification and measurement phase of its project by the end of 2009.

1.6 FASB representatives explained the background to the FASB's work. While they acknowledged that at present the two Boards were not aligned, they stated the FASB's commitment to arrive at a converged solution. The pressures in the USA were different to those seen elsewhere, particularly in Europe, with US constituents wanting the amendments to the financial instruments standards made as a package, rather than in a piecemeal way. There was also a lively discussion of the merits of fair value accounting, and the role that it had played in various crises (not just the most recent one). It was acknowledged that fair value might not be the right answer, but FASB was clear that there needed to be a full and considered 'conversation' on the issue.

1.7 Summing up the discussion, the Chairman noted that:

- There was general support for the direction of the IASB's proposals, but concerns about a number of the detailed proposals;
- There was general concern for the speed at which the IASB was pressing ahead with its project and a view that this should not be rushed. NSS members were encouraged to communicate with those parties that were applying the pressure for a rapid fix to stress the importance of having a full and considered debate on what was a complex issue.

2 IASB Work Plan

2.1 A representative of the UK ASB presented the latest version of the IASB's published work plan and noted that it both (a) contained a large number of projects and (b) an ambitious timetable. It was noted that the latest published version of the agenda had already been amended. The IASB representatives informed NSS members that, at their joint meeting in October 2009, the IASB and FASB would be discussing whether there should be one statement of financial performance or two (FASB's tentative view was to move to one statement) and examining what currently was recognised in Other Comprehensive Income (OCI). The IASB's Financial Statement Presentation team was planning to look at the issue of classification in OCI in the longer term.

2.2 During the session on the IASB's work plan:

- The Chairman of the SAC noted that, at its November meeting, the SAC would start thinking about the IASB's agenda priorities post-2011, on the assumption that the main projects in the IASB-FASB Memorandum of Understanding (MoU) would be completed by then;
- Concerns were expressed at the continuing pressure being placed on constituents by the intensity of the IASB's work plan. The IASB was looking at ways to ease the

burden, but representatives of the IASB admitted that the period until the end of 2009 would be very busy;

- It was noted that the IASB was scheduled to discuss proposed amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' at its September meeting and the general view was that the proposals should be re-exposed for public comment;
- Concerns were also expressed that the continuing pressure of the MoU priorities and deadlines could lead to standards that emphasised convergence at the cost of high quality. A number of jurisdictions that were in the process of moving to International Financial Reporting Standards (IFRS) were worried about the impact of successive changes to the standards and their adoption dates, which could give them a difficult period in their transition to IFRS.

3 **Conceptual Framework**

3.1 A representative of the US FASB presented a staff draft of a measurement chapter that had been discussed by the IASB and FASB in June 2009 as part of their joint Conceptual Framework project. The aim of the proposed chapter was to provide guidance for selecting measures to be used in financial statements. Work was continuing on a revised draft of the chapter.

3.2 NSS members noted and discussed:

- The proposal in the draft chapter that selecting measures for financial statement items should start with the statement of financial position – some concerns were expressed about the emphasis being given to the statement of financial position and the fact that the draft chapter itself was not conceptual, but rather a description of how to measure the resources of an entity and the claims against it. A view was expressed that the draft needed to articulate why there was a need to measure and what the measure of wealth was;
- The draft chapter discussed the concept of value realisation (ie the conversion of the economic value of an asset or liability into cash, other assets, services or release from obligations) and made a distinction between direct and indirect value realisation, with implications for the general choice between current and non-current measures – some questioned the value of the distinction but others were more comfortable with the direction of argument in the draft, in particular as the draft chapter as a whole assumed a mixed-measure financial reporting system;
- The draft chapter set out a view that current measures were generally relevant to direct realisation items and less relevant to indirect realisation assets – this caused some discussion, with some questioning what was meant by the term 'current measure' (it did not have to be an exit value) and whether the direct/indirect distinction was a relevant one. It was acknowledged that the draft chapter was seeking to ensure that financial reports would give the reader help to assess future cash flows and give them some guidance on where those cash flows would come from;
- The draft chapter discussed other measurement factors to be considered when selecting a financial statement measure – some NSS members questioned that the draft seemed to give a high status to the cost of using a measure and wondered whether it was necessary to first think about the benefits of selecting a measure, rather than starting with a cost constraint;

3.3 NSS members were asked whether, considering the draft chapter as a whole, the measurement factors provided sufficient guidance for selecting financial statement measures at the framework level. A number of NSS members commented that the draft was headed in the right direction, but that it needed further work, both in terms of the evidence to back up some of the statements in the draft chapter, and to test the proposals set out in the draft against a number of real-life examples. In summing up, the Chairman encouraged the IASB-FASB project team to keep working on the issue.

4 Raising of Issues for the International Financial Reporting Interpretations Committee (IFRIC)

4.1 The President of the German Accounting Standards Board (GASB) presented a paper seeking the views of members on the setting up or improvement of communication channels between NSS/National Interpretation Groups (NIGs) and IFRIC to develop an information network on the handling of interpretation/application issues. The paper noted that NSS/NIGs should be in a good position to identify application issues and diversity in practice and encouraged them to submit potential agenda item requests to IFRIC. The paper proposed that: "However, if the IFRIC decides not to address an issue, NSSs or NIGs might issue implementation guidance".

4.2 In discussion, NSS members:

- Agreed that there was a need to avoid NSS/NIGs issuing national interpretations of IFRS, but the picture was somewhat less clear with the issue by some NSS/NIGs of non-mandatory/non-authoritative implementation guidance.
- Noted that there was sometimes pressure from certain quarters, including regulators, for the issue of such guidance. But a number of members felt that even if such guidance was labelled as non-mandatory/non-authoritative, the fact that it was issued by a NSS/NIG could effectively give it that authoritative status.
- Agreed that there was a need for better liaison between IFRIC and NSS. Communications between NSS could also be improved so that, for example, if one NSS was dealing with an interpretation issue that appeared to be specific to its own jurisdiction, it should contact other NSS to see if the issue was one of more widespread application, which could then be more appropriate as an agenda proposal for the IFRIC to consider. There was a feeling among some NSS members at least that there was very little that would be truly specific to one jurisdiction.

4.3 In summing up, the Chairman felt that this was a topic worth pursuing, even if it was a difficult issue to resolve. He noted that Chapter 6 of the IASB's April 2006 statement on its working relationships with other accounting standard-setters had a section on the question of interpretations. He wondered whether this could be revisited and a more explicit reference included on improving communications between NSS on interpretation issues.

5 Intangible Assets

5.1 A representative of the Accounting Standards Board of Japan (ASBJ) presented a case study analysis of the accounting treatment of internally generated intangible assets under IAS 38 'Intangible Assets' (based on the 2008 accounts of 50 large European corporations). The survey found diversity in practice, with expensing the norm in some industries (such as pharmaceutical), capitalisation in others (such as automotive vehicles), and a mixed picture in others (such as pulp and paper). This followed up a similar case study based on the 2007 accounts that the ASBJ had presented to the NSS at the April 2009 meeting.

5.2 As part of its survey, the ASBJ had sought the views of a sample of Japanese analysts. It was noted that some doubted the usefulness of capitalisation, but there was a view that proper disclosure requirements could be a solution, although the analysts had no specific proposals. An interesting insight from the ASBJ survey was that better performing companies tended to more conservative about capitalisation, and less well-performing companies more optimistic.

5.3 It was noted that the ASBJ had a medium-term intangibles project, as part of its consideration of the remaining differences between Japanese GAAP and IFRS, the goal of which was to develop a comprehensive accounting standard on the lines of IAS 38 (with a proposed Discussion Paper in 2010).

5.4 A representative of the Australian Accounting Standards Board (AASB) staff presented NSS members with a summary of responses to the October 2008 AASB staff Discussion Paper (DP) 'Initial Accounting for Internally Generated Intangible Assets'. A total of 16 comment letters had been received. The majority of respondents indicated that they:

(a) considered accounting for intangible assets to be a controversial area in need of review;

(b) supported the objective of the DP, which was to generate international debate on issues in relation to the initial accounting for internally generated intangible assets; and

(c) considered that the DP provided a significant contribution to the debate on accounting for intangible assets.

5.5 Views were rather more mixed on the detailed comments and proposals set out in the DP. In the light of the comments received, the AASB staff view was that further research could be justified. In summary, the AASB staff proposed that the most appropriate way to proceed would be to undertake a post-implementation review of the initial accounting for intangible assets under IFRS 3 'Business Combinations' by for-profit entities. The AASB staff's reasoning for this was because:

(a) the conclusions in the DP relied heavily on the assumption that the principles in IFRS 3 regarding intangible assets were appropriate for internally generated intangible assets. Accordingly, a post-implementation review of IFRS 3 should assist in determining whether this reliance was appropriate and provide information on the practicability of the conclusions in the DP; and

(b) the results from such a post-implementation review were also likely to be useful input for either or both the IASB and FASB in any future review of IFRS 3.

5.6 NSS members acknowledged that this was a difficult and controversial area, but expressed support for the AASB staff proceeding as it suggested. The Chairman asked the AASB staff to submit a project plan to the next meeting of NSS.

6 Effects Analysis of Accounting Standards: Proposals for a Model Framework

6.1 A representative of the UK ASB/EFRAG presented a paper that suggested a model framework to provide a more systematic approach for considering the effects of accounting standards as those standards are developed. This followed up an earlier paper that had been considered by NSS members at their meeting in April 2009, where three main issues had emerged from the discussion:

- What effects should standard-setters consider – specifically whether macro-economic effects should be taken into account? If so, how should such effects influence the standard-setting process?;
- How should the consideration of effects be embedded in the standard-setting process?; and
- How should this work be taken forward?

6.2 The paper responded to each of those questions. The basic premise was that standard-setters should consider all effects in assessing whether an accounting standard was likely to lead to an improvement in the quality of financial reporting. That was consistent with the IASB's existing 'Framework for the Preparation and Presentation of Financial Statements', which did not restrict costs and benefits to just those that were likely to fall on preparers and users of financial statements.

6.3 Four core principles were proposed:

(1) Consider all effects;
(2) Explain intended outcomes;
(3) Gather evidence; and
(4) Consider effects throughout the due process.

6.4 The proposed mechanics of considering effects were to embed such a consideration throughout the standard-setting process and ensuring that there was a robust evidence base to support conclusions reached at each stage. The emphasis was on strengthening the quality and transparency of the process and not adding to the administrative burden of the standard-setter. That is, the consideration of effects was not just aimed at assuaging the concerns of critics of the standard setting process and calls for more extensive due process; it was about anchoring policy choices in evidence about effects – both intended and actual.

6.5 Under the proposed approach, evidence requirements of the potential likely effects of accounting standards would be embedded in the due process. Assumptions about the potential likely effects of accounting standards would be tested subsequently in the post-implementation phase.

6.6 There was again a lively discussion, with two broad views emerging:

- Some NSS were strongly in favour of the proposed approach as a means of enhancing transparency and accountability, and as a means of imposing discipline on the standard setting process by anchoring decisions in a broader evidence base. It was acknowledged that the IASB was already doing a lot of work in this area, and was continuing to develop its due processes, but could do more to articulate more clearly what it was doing in its published documents;

- Others remained far more cautious, expressing concerns as to how far standard-setters should take into account wider effects and whether they should impact on the decisions taken, and whether this could lead to a 'tick-box' compliance exercise that merely slowed down the process of developing standards.
- All acknowledged that this was difficult territory.

6.7 Some more detailed issues raised in discussion included:

- Whether NSS members were the right bodies to undertake such work – some thought not; others took the view that this was a side issue. The work needed to be undertaken by someone and NSS could play a useful conduit role;
- Whether an effects analysis should be undertaken on all standards, or only 'major' ones – one view expressed was that it should apply to all, but that the degree of work would vary depending on the issue;
- In considering the four core principles, there was a general view that principle (2) should come first;
- Some concerns were expressed at the labelling of principle (1) as 'consider all effects' – for example, did 'consider' imply that the IASB would come to a different conclusion if it came across an effect that potentially impacted on an area outside its remit of improving the quality of financial reporting for the capital markets?

6.8 In summing up, the Chairman acknowledged that this was a difficult and controversial issue, but he concluded that the view of the majority of NSS members was that this work should be continued. A suggestion was made that this might be a good issue for the SAC to discuss. The UK ASB would continue work on developing a model framework and would report back to the NSS group.

7 The Financial Reporting of Pensions

7.1 A representative of the UK ASB presented a paper setting out the results of the ASB's redeliberations in the light of comments received in response to the January 2008 Proactive Accounting Activities in Europe (PAAinE) DP 'The Financial Reporting of Pensions'. Three particular areas were highlighted:

- The measurement of liabilities to pay benefits – only present obligations should be recognised as liabilities; measurement should be based on the expected value of the cash flows, which was the probability-weighted average of the cash flows; and the discount rate applied should reflect only the time value of money, and should therefore be a risk-free rate;
- Presentation in financial statements – the ASB confirmed its preliminary view in the DP that the actual return on assets should be presented in financing income was conceptually correct, but noted that respondents had raised concerns about the volatility that this would introduce into the profit and loss account, and whether it would provide useful information. The ASB view was that further research was needed in the area of presentation before a satisfactory solution could be found;
- Financial reporting by pension plans – the ASB affirmed its view that the objective of pension plan financial statements was to provide information about the financial position, performance and changes in financial position of a pension plan that was useful to members, and those who acted in their interests, in making economic decisions and assessing the stewardship of trustees. Pension scheme financial

statements should recognise the liability to pay future benefits but the ASB considered that a more detailed study of potential costs should be undertaken. The ASB agreed (by majority) that, conceptually, the employer's covenant should be recognised as an asset in the pension plan accounts but recognised that this could present a number of serious practical difficulties. The alternative preferred was to require narrative disclosure of how the difference between the assets and liabilities was going to be funded.

7.2 The ASB noted that its proposed report to the IASB setting out the results of its redeliberations was currently out for comment with other participants in the PAAinE partnership. It was intended that the final report would be submitted before the end of 2009.

8 **Retirement Benefit Plans: Implications of Withdrawing IAS 26**

8.1 The Chair of the NZ Financial Reporting Standards Board (FRSB) presented a paper that set out the results of further work it had undertaken on the detailed implications of the withdrawal of IAS 26 'Accounting and Reporting by Retirement Benefit Plans' and what might replace it. It was noted that the issue was particularly pressing in jurisdictions where retirement benefit plans were required to observe IFRS. This followed discussions at earlier meetings of the NSS group on whether a recommendation should be made to the IASB to withdraw IAS 26 on the basis that it was (a) out-of-date (and the IASB did not want to have industry-specific standards), (b) did not provide adequate accounting guidance, and (c) had not been adopted by many jurisdictions (either directly or in the form of an equivalent national standard). At the April 2009 meeting, the NZ FRSB had presented a paper on the use of IAS 26 around the world.

8.2 The paper contained a consideration of the recognition, measurement and disclosure issues that needed to be addressed, together with recommendations for solutions. It did not attempt to resolve technical issues, but rather develop an approach that could be presented to the IASB for consideration, should the NSS group decide that a recommendation should be made to the IASB to withdraw IAS 26. The proposals were predicated on the view that retirement benefit plans were not sufficiently different from other entities to justify a specific financial reporting standard.

8.3 The issues considered in the paper covered:

- Assets – the preliminary conclusion was that there appeared to be no good reason to measure the investment assets of a retirement benefit plan in any way different from similar assets held by other entities;
- Members' funds/liabilities to pay benefits – given the complexity and sensitivity of this issue, plus the interplay with the regulatory regimes for pension plans, it was unlikely that the removal of IAS 26 would gain acceptance without some clarity surrounding the classification and measurement of members' funds/liability to pay benefits. If IFRS are to be applied, the preliminary conclusion was that it was not possible to pre-determine the classification of members' funds/liability to pay benefits because the facts and circumstances of individual plans needed to be considered. Measurement would follow classification – liabilities would be measured in accordance with IAS 39, IAS 37 (or its revision) or, possibly, the forthcoming Exposure Draft on Insurance Contracts. Equity would be measured in the normal manner as a residual.

- Consolidation – the preliminary conclusion was that retirement benefit plans should be consolidated by an entity that controls a plan in accordance with IFRS. This might require changes to IAS 19 to require (where appropriate) full consolidation of plans by single employer plans in place of the existing requirements.
- Disclosures – the preliminary conclusion was that the disclosure requirements in IFRS were sufficient to meet the needs of users of financial statements of retirement benefit plans. It was anticipated that information about an individual member's specific entitlement would be provided other than through the financial statements.

8.4 NSS members agreed that IAS 26 was an unsatisfactory standard and a number of jurisdictions reported that they were keeping their own standards for pension plan reporting, at least in the short term. There was some discussion as to whether or not there should be a new IFRS to replace IAS 26 and the implications were noted for retirement benefit plans of the IASB finalising its standard on insurance contracts. It was noted that the IASB did not generally issue industry-specific standards. Some participants suggested that it would nonetheless be helpful and promote consistency if there was a single source of guidance on how retirement benefit plans might apply IFRS and questioned whether all the options in IFRS would necessarily be appropriate. The discussion was premised on the assumption that the requirements for retirement benefit plans would be consistent with, and no less stringent than, full IFRS.

8.5 In considering next steps, it was agreed that the issues raised in the paper and the possible ways forward could be communicated to the IASB, perhaps as a package with the proposed ASB report to the IASB referred to in paragraph 7.2 above.

9 Foreign Currency Transaction Accounting for Open Economies

9.1 A representative of the Korean Accounting Standards Board (KASB) gave a presentation of the impact of the reporting requirements of IAS 21 'The Effect of Changes in Foreign Exchange Rates' on entities in Korea and other emerging market countries arising from significant devaluations of their currencies. This followed an earlier presentation given by the KASB to the NSS meeting in April 2009, when its suggestions to amend IAS 21 (for example, either measuring long term foreign currency monetary items in terms of historical cost in a foreign currency, or recognising exchange differences from long term foreign currency monetary items in OCI) did not attract support.

9.2 The KASB had subsequently discussed the issue with representatives of the IASB and with a number of other standard-setters. In the light of these discussions, the KASB was now proposing that a comprehensive review should be undertaken of IAS 21, its US-counterpart (FAS 52) and all other relevant literature with the aim of producing a research paper for submission to the IASB which would propose new accounting treatments to reflect foreign currency-related issues. The KASB was proposing to set up a working group with other interested standard-setters, to be formed by December 2009. Under the KASB's provisional plan, the working group would meet in April 2010 to discuss issues such as the project objective, the scope and the way forward. The provisional timetable envisaged a research report being produced in June 2011.

9.3 In discussion, NSS members expressed some sympathy for the foreign currency issues being faced by Korea and other economies, but noted that was not just an issue for emerging markets – many jurisdictions faced similar issues. While it was acknowledged that IAS 21 was an older standard, many took the view that its requirements were appropriate and reflected, quite correctly, the economic substance and the inherent business risk in carrying open foreign currency exposures. A number of members felt that, while a review of IAS 21 might be appropriate, there was a lack of evidence to support the view that the standard needed revision. They cautioned that a lot of time and energy could be expended on a review which would result in little or no change to the present requirements. In considering the alternative put forward by the KASB that there might be a more limited review to look at the appropriate rate to be used for foreign currency translation under a sharp fluctuation in foreign exchange rates, a number of NSS members questioned how one would define a 'sharp fluctuation'.

9.4 In summing up, the Chairman noted the caution expressed by some NSS members. That said, he noted the KASB proposal that the first meeting of the working group was scheduled to take place in April 2010, which was around the same time as the next meeting of the NSS group. He suggested to the KASB representatives that they should articulate in more detail the issues they faced with IAS 21 and whether revisions to the standard could resolve them, as part of the more detailed project plan, and come back to that April 2010 meeting for a further discussion.

10 IFRS 2 'Share-based payment' review project

10.1 The French *Autorité des Normes Comptables* (ANC) gave a presentation of the progress of its project to review IFRS 2 and to develop a draft revised standard without changing the basic principles underlying the existing standard, in accordance with the IASB's objectives. The work was being taken forward by a working group set up by the ANC.

10.2 The ANC's objectives of the review project were to:

a. clarify the underlying accounting principles of IFRS 2;
b. ensure the consistency of these principles both within IFRS 2 and with other IFRS; and
c. make the standard easier to understand and apply.

10.3 The paper presented by the ANC set out a number of accounting principles underlying IFRS 2, namely:

(1) An entity should recognise goods or services received in exchange for share-based payments as an asset or expenditure respectively.
(2) An asset or an expense should be recognised even if the share-based payment was made by a shareholder of the entity or another group entity.
(3) The asset was recognised when received and an expense was recognised when the asset received was consumed or the service rendered.
(4) Consideration given for the goods or services received was recognised in equity or in debt according to the type of payment.
(5) The asset or service received was measured at the fair value of what was received or of what was given up according to the general principles applicable to exchange transactions.
(6) Initial measurement was made (at the fair value) at the exchange date (it should be noted that the ANC analysis did not challenge the view that 'grant date' was an appropriate surrogate measure of the fair value of the services rendered).

(7) Subsequent measurement of share-based payment transactions reflected the nature of the related reference items (debt or equity) according to the general principles of accounting for exchange transactions.

10.4 The paper also presented two possible accounting objectives of what the standard was setting out to portray. The ANC working group had noted two possible main accounting objectives that could be assigned to IFRS 2:

(1) To represent assets acquired by or services rendered to the reporting entity as part of a share-based payment transaction irrespective of whether there was an identifiable payment made by the entity (or by a entity's shareholder or another entity of the group).
(2) To represent share-based payments made by the reporting entity (or by an entity's shareholder or another entity of the group) irrespective of whether there was an identifiable service rendered to the entity.

10.5 The paper also two different definitions of "services rendered" and their possible impact on the way the transaction was represented:

(1) Services were supposed to be rendered regularly on an accrual basis and were supposed to be proportional to the employee's presence. This definition seemed consistent with the objective of representing service rendered and could facilitate the achievement of this objective.
(2) Services were rendered if service (and performance) conditions were fully completed, which implied that they were rendered if the employee was present at the end of a vesting period, if any. This definition seemed consistent with the objective of representing payment of share-based payment transactions

10.6 In discussion, a number of NSS members questioned a number of the principles, for example there was an issue as to whether principle (2) was a separate principle, or simply a subset of principle (1). The paper also highlighted a number of possible recognition and measurement methods and there was some discussion over one option - the units of service method - where NSS members were reminded that this method had been proposed in the ED of what became IFRS 2, where the response from preparers was that this could not be done.

10.7 During the session NSS members:

- Expressed support for the project and the quality of the analysis done to date;
- Noted that the ANC was requesting written comments on the issues and questions raised in the paper by mid-October. There was some flexibility on the timetable (up to mid-November), but the working group needed a steer on the issues before being able to make further progress;
- Noted that the ANC would bring a further progress report to the April 2010 meeting.

11 **A Framework for Disclosures**

11.1 A representative of the Canadian Accounting Standards Board (AcSB) presented a paper on the need to develop a disclosure framework. The paper provided background, including details of recent initiatives in this area, and identified various issues that might be addressed in a disclosure framework project. The AcSB paper noted that the FASB had announced that it was undertaking a disclosure framework project and proposed that the NSS group should monitor this work, which was scheduled to lead to a DP in mid-2010, rather than undertake a separate project .

11.2 A representative of EFRAG noted that EFRAG was also looking at this issue as a potential pro-active project and was preparing a proposal for the Planning and Resources Committee (PRC) for an agenda decision.

11.3 The FASB representatives outlined the background to its project, noting that the progress to date had been restricted to gathering information. The FASB staff had not yet taken anything to the FASB Board. The intention, subject to FASB Board approval, was to develop a proposed framework for exposure which the FASB could use as a guideline for the development of future standards. The proposed scope of the project was to look wider than financial reports into other disclosures, such as those required for regulatory reporting purposes. Whether the final output formed part of the revised Conceptual Framework or was a stand-alone standard had still to be determined.

11.4 In discussion, NSS members expressed general support for the project, but noted that it was very US-focused. There was a need for it to be an international project. This was acknowledged and an IASB representative noted that the IASB was keen to be involved. The links to the IASB's project on Management Commentary were also noted. It was suggested, and agreed, that the Chairman should write on behalf of the NSS group to the FASB expressing the group's interest in the project and desire to be involved in it. An update report would be provided to the NSS meeting in April 2010.

12 Operations and Procedures of the Group

12.1 Representatives of the UK ASB and EFRAG gave a report on progress on the proposal that a dedicated NSS website should be set up. EFRAG reminded NSS members that it had made an offer to host the website. It had conducted enquiries with its website supplier as to the technical feasibility and the costs of setting it up. EFRAG now wanted to validate with the supplier precisely what could be provided. It would then be possible to take a view on whether to go forward with the EFRAG supplier or use the supplier with whom the ASB had previously developed proposals. The Chairman noted this as work-in-progress and highlighted the fact that this could involve funding from group members, which would need to be discussed and agreed.

12.2 NSS members were content to stick to the current cycle of 2 meetings a year (one in March/April, and the other around the IASB's meeting with World Standard Setters in September).

12.3 It was noted that the KASB would host the next meeting of NSS in Seoul on 14-15 April 2010. Suggestions for the agenda would be sought from NSS. There was also a need to consider the venue for the September 2010 meeting.

12.4 In terms of follow-up to this meeting, the Chairman noted that:

- Consideration would be given to drafting a letter to the IASB, and possibly the G20, highlighting the importance of not rushing the financial instruments project (item 1);

- A letter to the FASB would be drafted on the disclosure framework project (item 11);
- The usual letter to the IASB would be drafted and circulated to NSS members for comment.

NSS MEETING – FRANKFURT: LIST OF PARTICIPANTS

Surname	First name	Country/Body
Participants		
Abela	Mario (Charles)	EFRAG
Bohlin	Carl-Eric	Sweden
Borai	Zein	Sudan
Chang	Conrad	Taiwan
Cherry	Paul	IASB SAC
Chuen	Ow Fook	Singapore
Fabi	Tommaso	Italy
Flores	Francoise	EFRAG
Garbina	Madalina	Romania
Garnett	Bob	IASB
Gil	Gérard	France
Giussani	Alberto	Italy
Ju-Yu Wu	Louise	Taiwan
Kato	Atsu	Japan
Knorr	Liesel	Germany
Kraehnke	Michael	IASB
Kvifte	Steinar	Norway
Lennard	Andrew	UK
Lepetit	Jean-Francois	France
Linsmeier	Tom	FASB
Lott	Ron	FASB
Loweth	David	UK
Ludolph	Sue	SA
Mackintosh	Ian	UK
Martin	Peter	Canada
McBride	Patricia	NZ
O'Malley	Tricia	Canada
Ong	Steve	HK
Papa	Jochen	Germany
Perry	Joanna	NZ
Prachner	Gerhard	Austria
Santhanakrishnan	S	India
Sarda	Mahesh	India
Stevenson	Kevin	Australia
Subramanian	Surya	Singapore
Suh	Chung-woo	Korea
Tabbara	Oussama	Saudi Arabia
Tan	Dexter	Singapore
Teixeira	Alan	IASB
Thomson	Angus	Australia
Toyoda	Shunichi	Japan
Watson	Alex	SA
Winkelman	Paul	HK
Kim	Yung-wook	South Korea
Lee	Kyungho	South Korea
Observers		

Grauer-Gaynor	Isabelle	France
Bui	Phillipe	France
Cervantes	Felipe Perez	Mexico
Gras	Juan	Mexico