

Joint Meeting – IASB and FASB

The IASB held a meeting with the Financial Accounting Standards Board on 20 and 21 October and discussed:

- Credit crisis
- Conceptual framework
- Consolidation
- Derecognition
- Emissions trading
- Fair value measurement
- Financial instruments: reducing complexity
- Financial instruments with characteristics of equity
- Liabilities: uncertainties and expected cash flows

Credit crisis

The boards decided to create a global advisory group comprising regulators, preparers, auditors, investors and other users of financial statements. The advisory group will help to ensure that reporting issues arising from the global economic crisis are considered in an internationally coordinated manner.

Advisory group

The advisory group will comprise senior leaders with broad international experience with financial markets. The boards will task this high-level advisory group with considering how improvements in financial reporting could help enhance investor confidence in financial markets. The group will also be charged with identifying the accounting issues requiring urgent and immediate attention of the boards as well as issues for longer-term consideration. The high-level advisory group will also draw upon work already underway in a number of jurisdictions on accounting and the credit crisis.

The boards will seek to identify external chairs and members of the group as soon as possible in order for the advisory group to begin its work expeditiously.

The boards will follow appropriate due process in developing their approaches on issues resulting from the discussions. In the interest of transparency, the advisory group will meet in public session with Webcasting facilities available to all interested parties.

Public roundtables

In the coming weeks, while the advisory group is being established, the boards will organise three roundtables—one each in Asia, Europe, and North America. The purpose of these public roundtables is to gather input on reporting issues emanating from the current global financial crisis—including responses by governments, regulators and others. This should enable the boards to act rapidly and the advisory group, once established, to advance its deliberations efficiently. The first roundtable will be held in Europe.

Common long-term solutions

In addition to considering the potential for short-term responses to the credit crisis, both boards emphasised their commitment to developing common solutions aimed at providing greater transparency and reduced complexity in the accounting of financial instruments. The boards will use their joint discussion paper *Reducing Complexity in Reporting Financial Instruments*, the responses received to the discussion paper, and the deliberations of the high-level advisory group as starting points for this longer term objective. The boards will reconsider the composition of the existing IASB Financial Instruments Working Group to ensure that working group provides appropriate and balanced advice to both boards.

Conceptual framework

The Boards tentatively adopted the following working definitions of an asset and of a liability for Phase B (recognition and measurement) of their joint project on the conceptual framework:

Definition of an Asset

An *asset* of an entity is a present economic resource to which the entity has a right or other access that others do not have.

- *Present* means that on the date of the financial statements both the economic resource exists and the entity has the right or other access that others do not have.
- An *economic resource* is something that is scarce and capable of producing cash inflows or reducing cash outflows, directly or indirectly, alone or together with other economic resources. Economic resources that arise from contracts and other binding arrangements are unconditional promises and other abilities to require provision of economic resources, including through risk protection.
- A *right or other access that others do not have* enables the entity to use the economic resource and its use by others can be precluded or limited. A right or other access that others do not have needs to be enforceable by legal or equivalent means.

Definition of a Liability

A *liability* of an entity is a present economic obligation for which the entity is the obligor.

- *Present* means that on the date of the financial statements both the economic obligation exists and the entity is the obligor.
- An *economic obligation* is an unconditional promise or other requirement to provide or forgo economic resources, including through risk protection.
- An entity is the *obligor* if the entity is required to bear the economic obligation and its requirement to bear the economic obligation is enforceable by legal or equivalent means.

Next step

The boards will consider at future meetings how the working definition of a liability interacts with the boards' joint project on financial instruments with characteristics of equity.

Consolidation

The Boards considered the feasibility of developing common standards on consolidation by discussing the similarities and differences in the recently published FASB's exposure draft proposing amendments to FASB Interpretation No. 46(R) and the IASB staff draft of an exposure draft on consolidation, to be published before the end of the year. The Boards' discussions related mainly to the scope of the exposure drafts, the definition of control and disclosure.

The Boards agreed that the likely timing of any final standards, and constituent feedback on the feasibility of the proposals, are important determinants of a convergence strategy. The Boards therefore agreed that a decision on any such strategy should be made after the IASB has published its proposals and the FASB has received comments on its proposals.

Derecognition

The boards discussed two possible approaches to derecognition of financial assets:

- **approach 1 – no continuing involvement:** The transferor of a financial asset (or a component of a financial asset) should derecognise the asset (or component) in its entirety if the transferor has no continuing involvement in the asset (or a component).
- **approach 2 – practical ability to transfer:** The transferor of a financial asset (or a component of a financial asset) should derecognise the asset (or component) if the transferee:
 - has the practical ability to transfer that asset (or component) in its entirety to a third party for its own benefit, and
 - is able to exercise that practical ability unilaterally and without needing to impose additional restrictions on the transfer.

A majority of each board expressed a preliminary preference for approach 2, but asked the staff to develop both versions further. The Boards did not make any decisions.

Emissions trading schemes

The Boards discussed accounting for emissions trading schemes, including how to account for:

- the receipt of allowances in a cap and trade scheme
- the baseline in a baseline and credit scheme

The session was educational and no decisions were made.

Fair value measurement

The boards discussed:

- the progress of the IASB's project on fair value measurement
- the work of the IASB's Expert Advisory Panel on the application of fair value when markets become inactive.

The session was educational and no decisions were made.

Financial instruments: reducing complexity

The boards discussed comment letters received in response to the IASB discussion paper *Reducing Complexity in Reporting Financial Instruments* and the FASB exposure draft *Accounting for Hedging Activities: an amendment of FASB Statement No. 133*. The boards discussed how to move forward with the projects on a joint basis.

The session was educational and no decisions were made.

Financial instruments with characteristics of equity

The boards decided to begin future deliberations using the principles underlying the perpetual and basic ownership approaches. Under the perpetual approach, an instrument would be classified as equity if it:

- lacks a settlement requirement and
- entitles the holder to a share of the entity's net assets in liquidation.

Under the basic ownership approach, an instrument would be classified as equity if it:

- is the most subordinated claim and
- entitles the holder to a share of the entity's net assets.

The boards acknowledged that they may decide to make exceptions to the basic principles as they continue to develop an approach to identify equity instruments.

Liabilities: uncertainties, and expected cash flows

The boards discussed the role of expected cash flows in recognition and measurement decisions. They decided tentatively that:

- expected outcome approaches do not play a role in recognition decisions. They are a measurement tool to be used after the decisions about recognition are made.
- decisions on measurement should be independent of decisions about recognition.
- in principle, measurements under conditions of uncertainty should take account of the range of possible outcomes and their relative probabilities. However, practical considerations may sometimes make it difficult to apply this principle. In general, IASB members stressed the benefits of the principle and FASB members stressed the practical concerns.