

## **Extract from TechWatch Issue 52 (January 2007)**

### **8. IASB/FASB Roundtables on Measurement and HKFRSs/IFRSs Forum**

#### **IASB/FASB Roundtables**

Two IASB/FASB Roundtables were held on 16 and 17 January 2007 in Hong Kong. The Roundtables were hosted by the IASB Chairman (Sir David Tweedie), two IASB Board Members (Messrs. Warren McGregor and Tatsumi Yamada), the IASB Director of Technical Activities (Ms. Elizabeth Hickey) together with a member of the FASB staff (Mr. Kevin McBeth) who works on the joint IASB/FASB project on measurement. The two Roundtables were attended by 20 participants from Hong Kong, the Mainland, Australia, Japan, Singapore, Korea and Malaysia at the invitation of the IASB.

The Roundtables were an initial discussion forum without any key commitments from the IASB. They provided an opportunity to deliberate on the suitable methods of measurement. It was noted that most participants preferred a mixture of measurement basis comprising of historical cost, amortised cost, fair values, present value, replacement cost and others. Most were happy with fair value for investments as long as fair values could be measured reliably.

As the Institute has not yet formulated any official view on the subject, its representative raised his personal view which were echoed by many others, as follows:

- Manage the balance between reliability and relevance. Historical cost based measurements are generally more reliable and easier to develop, although historical cost is not well-designed to cope with accounting for transactions involving leasing, complex financial instruments and share based-payments. In all these examples, items that are apparently valuable may have no historical cost or a historical cost of zero. On the other hand, value based measurements may provide more relevant information but it is more difficult in many cases to develop fair value (the IASB's present discussion

paper on Fair Value Measurements is evidence of this). In particular, jurisdictions that are less sophisticated than the UK and the US will have great difficulty in providing fair values for many transactions and events. Even taking the FAS 157 fair value hierarchy approach, fair value measurements become more subjective the more they depend on inputs from lower levels in the fair value hierarchy.

- Concern that users of financial statements give more credibility to aggregates than those aggregates deserve. For example, users of financial statements may assess the size of a company by considering total assets without understanding the impact of our mixed measurement model (and the options in various standards) on such totals. At the moment, we are where we were 30 years ago with foreign currencies before we learnt to convert currencies to a common base. It is the hope that assets held by different companies might eventually be truly comparable.
- Measurement should not be separated into different stages in their life cycles or segments. There is a need for "cradle to grave" robust measurement concepts that help standard setters, preparers, auditors and users of financial statements to understand how measurement should be applied to all transactions and events. This will help us to determine what capital maintenance concept should apply and the consequential effect on profit and net assets.
- Any measurement methods would eventually have to be subject to assurance procedures – which include external audit, internal audit etc. Some research on the auditability of information prepared on different measurement bases would be useful.
- Finally, to be controversial, what is the IASB's thinking on fair value? We do not hold the commonly expressed view that

the IASB is hoping to bring in fair value for all assets through the current fair value measurement project or the first Discussion Paper for this part of the conceptual framework project. However, it does appear that fair value has a number of benefits (such as comparability) and a number of disadvantages (such as day 1 profits on the purchase of inventory). We would like the IASB to complete the Framework project before any further measurement developments within IFRSs.

Some notes (in brief) of the views expressed by some of the participants were:

- Aggregated historical costs are not very meaningful as the amounts represent costs at different times.
- There are problems with fair valuing in some countries as "real" fair values cannot be easily obtained.
- Initial measurement need not be the same as subsequent measurement.
- There should be a clear distinction between financial assets/liabilities and operating assets/liabilities.
- Mixed measurement basis should also take into account cash flows to the entity.
- Deliberations on whether management or economic intent should be taken into account in determining measurement basis, as this can be subject to manipulations.
- Cooperate with valuation or appraisal institutes in various jurisdictions to reduce misunderstandings between auditors, appraisers and standard setters.
- Concern over "valuation" shopping.
- Consider using the value of the asset to the business rather than being skewed too much towards investors' needs.
- Any measurement bases should take

into account implementation issues and complexity such that it would not result in auditing in a "vacuum".

### **HKFRS/IFRS Forum**

The HKFRS/IFRS Forum was attended by around 180 Institute members. Messrs. Warren McGregor and Tatsumi Yamada and Ms. Elizabeth Hickey of the IASB were speakers. The key topics addressed were:

- Accounting for leases;
- Financial statement presentation project; and
- IASB work programme.

At the Forum, views on the following subjects were raised with the IASB delegates:

- The complexity and understandability of financial statements prepared under IFRSs.
- The importance of IFRSs on leases and investment properties in this part of the world.
- The urgent need for speedy revisions to the related party standard and income tax standard.
- The need to have a workable standard for SMEs.