

Canada Draws International Accounting Leaders from Around the Globe

Toronto as Host City

The critical subject of convergence of international accounting standards got a boost from a series of meetings held in Toronto, Ontario, Canada during the week of October 20.

From the Sheraton in downtown Toronto, where activities began with a conference on convergence, to the Canadian Institute of Chartered Accountants (CICA) headquarters, just blocks from the SkyDome, accounting standard setters from across the globe converged on Canada's largest city.

International Summit Conference

The conclave kicked off on October 21 with a day-long conference, the "International Summit on Financial Reporting," which brought together international accounting leaders to present on key issues impacting global financial reporting.

Among the guest speakers were Paul Cherry, Chairman, Canadian Accounting Standards Board (AcSB); Robert Herz, Chairman, FASB; Sir David Tweedie, Chairman, International Accounting Standards Board (IASB); and Michael Crooch, FASB member.

At that conference, Mr. Herz noted that the FASB is committed to convergence of accounting standards in supporting globalization of the capital markets. He added: "Let's do something internationally. It would be good for Canada, good for the U.S. and good for all of us in the global marketplace."

Historic Tripartite Meeting Brings Together AcSB, FASB and IASB

Following the Summit, the Canadians served as gracious hosts for the first-ever Tripartite Meeting held on October 22 that brought together more than 30 participants from the AcSB, FASB and IASB. This meeting, held at CICA headquarters, attracted the international standard-setting community for a thought-provoking exchange on several topics of common interest to the three Boards.

The meeting focused on four subjects: the disclosure framework, measurement, revenue recognition and equity-based compensation. The Boards discussed the findings on the AcSB's disclosure framework project. The three standard-setting bodies also covered the AcSB's research project on measurement, the next steps for the IASB and related aspects of the FASB project on fair value measurement.

After discussion among the meeting participants, the AcSB agreed to further develop the scope of the potential disclosure framework project for future consideration by the participating Boards. The AcSB will complete the research paper on measurement, including considering the implications for impairment, and circulate the document for comment by the IASB and other national standard setters, including the FASB, with a view to possible publication in the second quarter of 2004.

Revenue Recognition

In addition to those topics, the Boards discussed a conceptual model for revenue recognition that entails analyzing assets and liabilities arising from contractual rights and obligations. As part of that discussion, the Boards examined illustrations of the conceptual model by applying it to existing guidance, including software arrangements and nonrefundable upfront fees for loan originations and commitments.

Board members discussed the conceptual model for revenue recognition with emphasis on measuring a reporting entity's performance obligations to its customers. Specifically, the Boards discussed the application of the fair value hierarchy described in the FASB's fair value measurement project to measurement of those obligations. Board members generally agreed that fair value is the relevant measurement attribute and that decisions about which measure of fair value to use should be based on the relative reliability of those measures, with *reliability* defined as in FASB Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information*.

At future meetings, the Boards will try to reach a consensus on how the fair values of performance obligations should be measured, including whether the reference market should be the "retail" market (in which they are measured at the amount at which the reporting entity sold or could sell identical or similar products or services to similarly situated customers) or the "wholesale" market (in which they are measured at the amount that the entity would pay a third party to assume those obligations).

Equity-Based Compensation

Lastly, the Boards met on convergence issues relating to equity-based compensation—specifically, accounting for the effects of income taxes, classification of share-based payments as liabilities or equity and fair value measurement of equity compensation arrangements.

They decided that the tax effects of equity-based payment transactions, depending on the nature of the tax deduction, relate to both an income statement (compensation expense) and an equity transaction (the exercise of the option). In those circumstances, the income tax effects of the equity-based payment award would be allocated between the income statement and equity. The Boards did not reach a decision on the income-tax-effect allocation method or how to account for income tax effects prior to tax realization, but will reconsider the issues at future FASB and IASB meetings.

In addition, the Boards also decided that the fair value of a reload feature would not be incorporated into the estimate of the award's grant-date fair value. As a result, subsequent grants of new awards under the reload feature would be accounted for as new awards on their respective grant dates.

Joint Meeting of FASB and IASB

Finally, CICA headquarters in Toronto served as the setting for the second joint meeting held between the Norwalk-based FASB and the London-based IASB. The meeting, held on October 23, was a follow-up to the initial meeting of the two bodies held in September 2002 at FASB headquarters. That meeting set the foundation for a joint short-term convergence project.

The FASB and IASB joint meeting focused on four subjects: reporting financial performance, a follow-up on the Boards' short term convergence project, business combinations—purchase method procedures and plans for coordinating future agendas.

On performance reporting, the two Boards focused on the direction of the FASB's project and the decisions made, to date, and discussion of similarities and differences between both Boards' projects.

The portion of the meeting that addressed the short-term convergence project covered both the progress made and areas where the project's original scope had changed, classification of liabilities in connection with loan agreements and accounting for income taxes.

The Boards discussed areas on which the FASB and IASB have reached different conclusions on the business combinations—purchase method procedures project.

A discussion of the three previous projects is reported in the accompanying article on page 8, "FASB-IASB 2003 Joint Meeting Decisions."

Next Steps toward Convergence

As a result of the Toronto meeting, the two standard-setting bodies agreed to convene again in a face-to-face meeting to be held in April 2004 in London.

Over the next few months, the FASB and IASB will appoint a joint working group drawn from members and staff of both Boards. That group will identify areas where divergent accounting standards can be converged. The joint working group will be charged with proposing a coordinated planning agenda that the Boards will review at the meeting in April 2004.

At a press conference held immediately following the joint meeting, FASB Chairman Bob Herz stated that the joint agenda would reflect "both priority and sequence" in its composition. On the due process aspect of convergence, he added: "Having a network of people from across borders can both provide input into standards and vet them at the national level, which will always remain very, very important."

AcSB Chairman Paul Cherry viewed the week's meetings as positive and productive. "First and foremost, we wanted to demonstrate that there is a working partnership among the three Boards—an absolute commitment by the Canadian Board, FASB and IASB—to work toward convergence, meaningful progress and lively debate—all of which took place. We also saw some of the impediments to convergence being removed."

In commenting on the progress achieved during the Toronto meetings, IASB Chairman David Tweedie summed up the effort as "a major step forward this week for everyone" in providing better global financial reporting.