G4+1 COMMUNIQUÉ

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The G4+1 Group of standard setters met in London, England, on January 30 – February 1, 2001. The G4+1 comprises members of national standard-setting bodies from Australia, Canada, New Zealand, the United Kingdom, and the United States of America. Representatives of the International Accounting Standards Committee (IASC) attend as observers. The views noted in this Communiqué are those of the representatives of the member standard-setting bodies and not necessarily of the bodies themselves.

G4+1 Group Disbands and Cancels Future Activities

The Group discussed whether the activities of the G4+1 should continue given the imminent commencement of activities by the new International Accounting Standards Board (IASB) and agreed that the Group would disband and cancel its planned future activities. The Group agreed that the G4+1 had been a successful forum for discussions between national standard setters during an era in which national standard setters had less-formal links with the IASC. The Group noted that a successful restructuring of IASC to create an IASB designed to include an active partnership with national standard setters would obviate the need for the G4+1. In addition, the Group acknowledged the possibility that continuing the activities of the G4+1 might divert resources that otherwise could be used to support the IASB's efforts to achieve convergence of standards worldwide. No further G4+1 publications are expected, and the London meeting was declared the last meeting of the Group.

Liability Recognition

The Group continued its discussion of an approach for resolving certain liability recognition issues that focuses on how the settlement of an obligation would impact the net asset position of the obligated entity. The Group discussed a series of cases analyzed using the Group's conclusion that a liability should be recognized only to the extent that an entity was presently obligated and that the settlement transaction would result in a net decrease in the fair value of the obligated entity's net asset position. The Group agreed that the discussion at the London meeting concluded its exploration of this topic; however, a paper communicating the Group's final conclusions, including the case analyses, would be prepared as input for future work on the convergence of Group members' conceptual frameworks.

Intangibles

The Group continued discussion of an approach to identifying when an intangible item that meets the definition of an asset could be considered for recognition as an intangible asset separate from goodwill. That approach would make a distinction based on whether control over the future economic benefits associated with the intangible item was established through contractual or legal rights or whether the intangible item could be identified separately from other assets. The Group also discussed aspects of initial measurement of separately recognized intangible assets. The Group did not reach any final conclusions on this topic but noted that at least three G4+1 member jurisdictions (Australia, New Zealand, and the UK) had active projects on their national agendas through which the area of intangibles would be explored in more depth.

Measurement Alternatives for Nonfinancial Items

The Group continued its discussion of measurement alternatives for nonfinancial items, focusing on (1) the existing requirements in each Group member's jurisdiction for accounting for investment properties and for commodity inventories and (2) techniques for undertaking revaluations in those jurisdictions that require or permit revaluations of certain nonfinancial assets. The Group discussed the similarities and differences between different Group member jurisdictions in the accounting for those items. The Group agreed that revaluation techniques and commodity inventories were two areas for which future convergence efforts by national standard setters might be fruitful.

New Basis Measurement

The Group continued its discussion of new basis measurement in the individual entity financial statements of members of a consolidated group. The Group agreed to conclude its discussion on this topic noting that agreement had been reached on the following two principles to be used in recognizing a new basis of accounting in business combination transactions involving entities under common control:

- <u>Principle 1</u>: The form, order or structure of transactions that produce a similar outcome (that is, the same economic interest) should not affect the accounting result.
- <u>Principle 2</u>: At the time the parent acquires control, the financial statements of an acquired subsidiary should reflect the basis on which its assets and liabilities are reflected in the parent's consolidated financial statements.

The Group noted that the application of the two principles might vary between jurisdictions to the extent that there were differences between the principles and practices that underlie consolidation procedures in different jurisdictions.

Revenue Recognition

The Group discussed the status of work being conducted by the UK on revenue recognition. The discussion centered on the difficulties of establishing recognition criteria that can be usefully and consistently applied to various types of revenue-generating transactions. In particular, the Group discussed transactions in which it is not clear to what extent performance or delivery has occurred, how to distinguish and when to account separately for various elements in transactions involving multiple elements (including sales of goods with warranties and with rights of return), how to account for barter transactions, and certain aspects of revenue measurement. Group members acknowledged that all jurisdictions were facing similar issues in the area of revenue recognition and that ongoing communication among standard setters, including the new IASB, about developments in their jurisdictions was desirable.

Convergence of Accounting Standards

The Group continued discussion of prospects for convergence of individual Group members' accounting standards in key areas. The Group identified a number of potential accounting topics that might be candidates for short-term or long-term joint projects. The Group agreed that the relative priority of topics and the ability for individual Group members to provide resources to support those efforts were issues that would need to be discussed further and ultimately resolved at the national level. However, those national resolutions would be arrived at with consideration of topics that the Group identified and also of those or other topics that are placed on the agenda of the IASB. Group members reaffirmed their commitment to bring about the convergence of national standards toward high quality international solutions and to support the restructured IASB as the focal point for convergence efforts.

The Group also discussed progress on its project to compare the conceptual frameworks of the Group, including that of the IASC. The Group discussed the implications of certain identified differences between the conceptual frameworks in the areas of definitions of elements of financial statements (for example, assets and liabilities) and their recognition criteria. The Group agreed that an examination of the prospects for eliminating differences in the existing frameworks was an important effort that should continue despite the disbanding of the G4+1. The Group agreed to summarize its efforts to date, develop some case studies to illustrate the potential implications of the differences identified, and decide on the next steps once the IASB had determined its priorities.

The Group also discussed the need to facilitate the dissemination of information about the application and interpretation within one G4+1 jurisdiction of any standards that are the same or similar to those of another G4+1 member. The Group agreed that if two or more jurisdictions have, for example, issued the same standard as a result of a joint project, then implementation questions arising in the application of those standards must be resolved similarly to ensure that the benefits of convergence efforts are maintained. Group members agreed to identify relevant standards in each of their jurisdictions and to develop and implement a shared protocol for addressing this issue.

Project Updates

The Group discussed the work that the UK is doing to follow up on the G4+1 project on leasing. The Group's discussion focused on alternative accounting methods for certain residual value guarantee arrangements. The Group also discussed an analysis of the comments from UK constituents on the discussion paper developed by the G4+1, *Accounting for Share-based Payment.*

The Group discussed the status of the FASB's project on accounting for business combinations and intangible assets. An FASB Exposure Draft on aspects of goodwill accounting will be issued for a short comment period in the near future. The FASB expects to issue a final standard on business combinations and intangible assets, including goodwill, at the end of June 2001.

This *G4+1 Communiqué* is published by the Financial Accounting Standards Board with the concurrence of other members of the G4+1.