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International Financial Reporting Standards



Advancing financing for a global standard-setter

6th July 2009
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Purpose of discussion

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- The Trustees wish to discuss with the Monitoring Board ways forward on **securing a long-term, sustainable, and broad-based financing system**.
- In doing so, the Trustees will:
 - **Recap** the financing priorities discussed at the April meeting.
 - **Update** the Monitoring Board on the current funding status and possible funding shortfalls based on identified future priorities.
 - **Seek advice** on solutions and possible tradeoffs.

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Recap: Financing requirements

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- In April, the IASC Foundation presented a draft five-year plan (regarding resource requirements) to the Monitoring Board.
- The Trustees developed the plan following a 2007 strategy review, which called for the IASC Foundation to establish IFRS's as the unrivalled global standard for financial reporting.
- The five-year plan presented in April provided:
 - an assessment of those resources required to deliver on vision and commitment.
 - a framework for the organisation's resource and resulting financing requirements.



Summary

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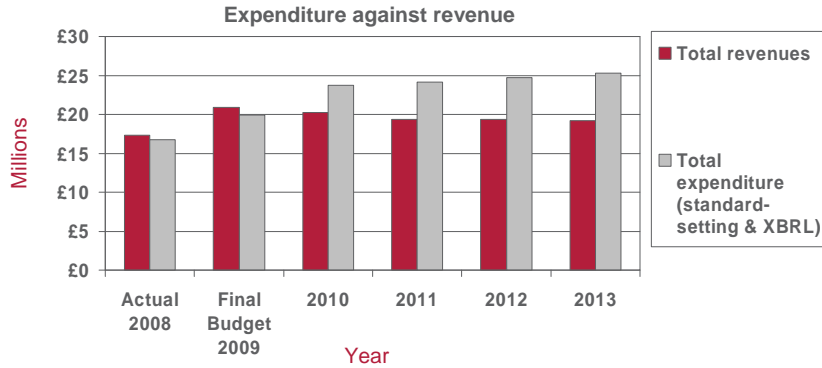
- Trustees expect financing from 3 primary sources:
 - Country financing regimes (many in place).
 - Interest on reserve funds (reserve = £7.2 million) and cash on deposit (usually equal to half year operations).
 - publications and related activities.
- Expenses are planned to grow over the next 5 years with the need to:
 - augment headcount for technical, outreach and support activities and
 - replace and strengthen core infrastructure.



Recap: Potential Funding Gap

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- At the Monitoring Board meeting in April 2009, we identified the following potential resource gap resulting from a comparison of existing financing commitments and total identified expenditure needs.



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Recap: Potential Funding Gap

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Revised for latest exchange rates for 2010 onwards

£000's	Actual 2008	Budget 2009	2010	2011	2012	2013
Total Revenue (June 2009 FX rates)	17,299	20,864	20,274	19,314	19,364	19,206
XBRL Expenditure	613	669	687	663	680	697
IASB Expenditure	16,143	19,279	23,045	23,471	24,032	24,578
Total Expenditure	16,756	19,948	23,732	24,134	24,712	25,275
Potential Operating Surplus/ deficit	543	916	(3,458)	(4,820)	(5,348)	(6,069)

XBRL expenditure has been held constant as Trustees are still to discuss and approve next steps

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Key financing issues arising

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- Even under the baseline scenario, a funding gap develops in 2010.
- There are three elements to review:
 1. Relative priorities and phasing within expenditure plans.
 2. Country financing gap.
 3. Options to reduce currency mismatch. With the majority of funding in US dollar and euro and most expenses in sterling, currency fluctuations create uncertainty in financing requirements.



Expenditure priorities

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- The IASC Foundation has prioritised resource requirements:
 - Critical** initiatives that are essential to the delivery of the standards, that we are committed to (such as 16th board member and staffing commitments) or where we believe there is an urgent need to proceed, e.g. to replace obsolete or unserviced technology
 - Important** initiatives reflecting the expanding international reach of the organisation and those that will make a significant contribution to achieving our organisational goals
 - Optional** outreach activities including satellite offices in North America and Asia and potential, as yet unapproved and therefore unquantified, XBRL expenditure for industry extensions.



Expenditure Scenarios

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- The different expenditure options give an indication of the potential additional financing requirement – once committed, costs are recurring subject to inflation.

£000's	Existing	Future		
	2009	Critical	Important	Optional
Expenditure Base Line	19,948	19,948	21,746	22,607
Critical Spend	0	1,251	0	0
Important Spend	0	0	861	0
Optional Spend	0	0	0	1,125
Inflation		547	0	0
Cumulative Total Expenditure	19,948	21,746	22,607	23,732

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Potential financing requirements

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- Immediate country financing needs are focused on **critical** and **critical and important** expenditure requirements. Optional requirements, principally satellite offices, could be financed by alternative approaches.

£000's	Critical	Critical + Important	Critical + Important + Optional
Cumulative total expenditure	21,746	22,607	23,732
Less contributions from: Big 4 accounting firms, Central banks, Publications & related activities, and other income	(8,665)	(8,665)	(8,665)
Financing Requirement	13,081	13,942	15,067
Existing Financing Committed	10,642	10,642	10,642
Total Financing Gap	(2,439)	(3,300)	(4,425)
Fair Value Adjustment (2010 only)			967
Operating Deficit			(3,458)

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Covering the financing gap

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- The IASC Foundation will be able to address the financing gap in the following ways:
 - **Enhancing the existing financing model** by securing additional country commitments and building in a mechanism for reasonable expenditure growth.
 - **Drawing on reserve funds**, but that is not a sustainable long-term strategy.
 - **Making difficult choices** about expenditure priorities that could slow global adoption efforts.



5 Year Plan: Contributions: Risks

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- Contribution regimes should be able to adapt to:
 - reflect approved budgetary/inflationary increases.
 - reflect the global responsibility in supporting IFRSs as a public good.
 - allow capacity building to achieve global standard-setting objectives.
- How do we ensure a broader spread of contributions, including the United States, which has a narrowly based voluntary system?
- How do we address EU commitments? A major step forward but at €4 million, less than previously announced.
 - Raises issue regarding national regimes.
 - Issues of contingent demands.



Issues for discussion

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- Trustees seeking to finance, at minimum, **critical** and **important** expenditures. Therefore, the Trustees are seeking the MB's views on:
 - Whether priorities drawn are appropriate
 - Whether certain optional expenses (such as satellite offices and funds for XBRL extension) are critical and the implications of such a determination
 - How the IASC Foundation should address funding shortfall arising from the United States and possibly the EU (assuming the €4 million contribution)

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Appendix: country financing requirements

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Funding amounts calculated using rates as at 9th June 2009.

€000s	Expected Funding	Critical		Critical + Important	
		Proportionate Funding	Gap	Proportionate Funding	Gap
European Union/EEA	4,435	4,539	(104)	4,838	(403)
United States	1,854	4,291	(2,436)	4,573	(2,719)
Japan	1,731	1,622	109	1,729	3
China (excl. HK)	578	549	29	586	(7)
Canada	448	379	69	404	44
Korea	186	288	(102)	307	(121)
India	247	183	64	195	52
Brazil	9	183	(174)	195	(186)
Mexico	31	183	(152)	195	(164)
Russia	0	183	(183)	195	(195)
Australia	491	241	251	257	235
Switzerland	216	126	91	134	83
South Africa	93	59	34	63	30
Argentina	0	44	(44)	47	(47)
Hong Kong SAR	121	60	60	64	56
Israel	124	44	79	47	76
Singapore	0	41	(41)	43	(43)
New Zealand	77	38	39	40	37
Chile	0	26	(26)	28	(28)
TOTAL:	10,642	13,080	(2,439)	13,941	(3,300)

