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International
Accounting Standards
Committee Foundation

*This document is provided as a convenience to observers at IASCF meetings, to assist them in following the discussion.*

**INFORMATION FOR OBSERVERS**

**IASCF Trustees Meeting**
**Amsterdam 7 July 2009**

**Agenda Paper 5A**

# Chairman's Report

## Overview

1. Our work programme so far this year has been dominated by our response to the global financial crisis. However, we have not abandoned our efforts to make improvements that also address differences between our standards and national standards, principally US GAAP, nor have we been prevented from continuing to make necessary improvements to existing IFRSs.

2. The next sections of this report provide an overview of our responses to the financial crisis. Additional information about specific projects is included in the discussion about our work plan, beginning at paragraph 17.

### The financial crisis

3. **[The agenda paper 'The IASB's response to issues arising from the financial crisis' deals with these issues specifically – Trustees may wish just to skim over the next few paragraphs.]** We have worked on a programme to address in a timely manner the issues raised by the Financial Stability Forum (now the Financial Stability Board (FSB)), the G20, the European Commission and other interested parties in the over 100 countries using IFRSs. Our initial focus has been on the three topics identified by the FSF:

(a) the application of fair value in illiquid markets;

(b) accounting for off balance sheet items; and

(c) disclosures related to risk.

4. On all three topics, we have met the time lines set out by the G20 and the FSF in 2008.

(a) ***Fair value in illiquid markets:*** In October 2008 we published our expert advisory panel's report *Measuring and disclosing the fair value of financial instruments in markets that are no longer active*. The FASB publications gave similar guidance. To make sure that global consistency was obvious, in May 2009 we published an exposure draft on fair value measurement that directly incorporates the relevant FASB guidance.

(b) ***Off balance sheet items:*** We have published proposals related to off balance sheet items (both consolidation and derecognition). There is some evidence that the current requirements in IFRSs have held up relatively well, but we have now proposed tightening our requirements. In June we held round tables on the consolidation and derecognition proposals, in conjunction with the FASB.

(c) ***Disclosures related to risk:*** In March 2009 we issued improvements to the disclosure requirements about fair value measurements and reinforced existing principles for disclosures about the liquidity risk associated with financial instruments.

## Response to European Union concerns

5. In October last year the European Commission wrote to us on behalf of Member States and EU interests, and asked us to respond to several concerns. We know, through our consultation with the Standards Advisory Council, that those concerns were shared by IFRS users outside the EU. Those issues were:

(a) the need for guidance on fair value measurement in illiquid markets;

(b) the desire for clarification of whether credit derivative obligations (CDOs) include embedded derivatives, to ensure consistency between IFRSs and US GAAP;

(c) the existing impairment rules related to available-for-sale instruments; and

(d) the possibility of reclassification out of the fair value option into other categories.

6. The first two of these were addressed quickly—we published guidance on valuations in illiquid markets (mentioned above) a few days after receipt of the Commission's letter. The second issue is being dealt with by the FASB, which has published proposals designed to bring US accounting more into line with IFRSs. Our original plan, which reflected input from Europe and elsewhere, was to resolve the last two issues through a comprehensive revision of IAS 39. This has always been a priority.

7. It was for this reason that, on 1 April, we announced that we would undertake an urgent six-month comprehensive project to produce a proposal aimed at a comprehensive revision of IAS 39 *Financial Instruments: Recognition and Measurement*.

8. The next day the G20, at its London summit, called on standard-setters 'to reduce the complexity of accounting standards for financial instruments'. This was shortly followed by the publication of the US FASB Staff Positions (FSPs) regarding fair value measurement and impairment. Those changes to US GAAP caused us to accelerate the timing of the approach announced on 1 April.

9. Rather than developing a replacement for IAS 39 in one step we have decided to replace IAS 39 in three stages. We are giving priority to the stage on classification and measurement. We have held specially arranged extra Board meetings, and we shall continue to do so to ensure that the first stage is completed in time for 2009 financial statements.

## Consultation and transparency

10. The crisis has highlighted the need for closer co-ordination among policymakers, standard-setters and securities and prudential regulators. It has also highlighted that any proposals must be developed with transparent and open consultation.

11. The exposure draft we shall publish in July will be open for public comment for two months to ensure that any conclusions follow a transparent and open due process that considers the views of all interested parties.

12. We are also establishing a more formal dialogue with prudential regulators on issues related to the interdependence of accounting and prudential standards. We want to develop a structure that will ensure that we do a better job of understanding the views of central banks and prudential supervisors as well as the political context in which we all operate.

## The US FSPs

13. Many commentators have suggested that we should simply incorporate into IFRSs the changes the FASB made, through its FSPs. However, adopting the FSP approach to available-for-sale debt securities would neither create a level playing field nor bring to an end the level playing field issue.

14. Our impairment rules are very different from US GAAP and we know that financial institutions applying IFRSs would not want us to adopt the US approach on impairment. For example, IFRSs permit reversals of losses in a number of instances, where the US does not. The triggers for impairments in IFRSs are also not the same as those in US GAAP.

15. The arguments about a level playing field are also less clear than some would claim. The interactions between all of the differences between IFRSs and US GAAP mean that it is often very particular circumstances that cause financial assets to be measured differently. At the same time that many European institutions are concerned that US banks have a competitive advantage the US banking association is arguing the converse. The only way to eliminate these perceptions is to develop identical requirements.

16. We believe that the approach we are taking is superior to trying to adapt into IFRSs the FSP on impairment. First and foremost, our work on impairment addresses directly the specific nature of concerns that users of IFRSs have expressed. Secondly, our approach responds directly to the G20’s call for reduced complexity. The proposal will see a much needed reduction in the number of categories of financial assets and will leave us with a single impairment method. Thirdly, the proposal anticipates future problems associated with reclassifications by replacing restrictive tainting rules affecting held-to-maturity securities with measures aimed at transparency. Lastly, a comprehensive solution avoids the confusion and cost that

would arise from repeated changes in reporting requirements. In this economic environment we recognise that this unnecessary cost would not be welcomed by most financial and non-financial companies.

# The work plan

## Financial crisis related projects

17. So far this year, in relation to the financial crisis alone, we have issued two IFRSs and published two exposure drafts and a discussion paper. Those publications are listed in the table below and discussed in the sections that follow.

| Month | Publications | |
|---|---|---|
| **March** | **IFRS** | **Improving Disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments: Disclosures)** |
| | **IFRS** | **Embedded Derivatives (Amendments to IFRIC 9 and IAS 39)** |
| **April** | **ED** | **Derecognition (Proposed amendments to IAS 39 and IFRS 7)** |
| **May** | **ED** | **Fair Value Measurement** |
| **June** | **DP** | **Credit Risk in Liability Measurement** |

### *Financial instruments*

18. We took our first steps to replace IAS 39 when we published a discussion paper *Reducing Complexity in Reporting Financial Instruments* in March 2008.

19. As mentioned above, on 1 April this year we announced that we would undertake an urgent six-month project to produce a proposal aimed at a comprehensive revision of IAS 39. However, the recent FSPs on fair value measurement and impairment caused us to accelerate the timing. We have now given priority—in advance of other topics covered in the IAS 39 replacement—to the stage of the comprehensive project on classification, measurement and related impairment issues.

20. We intend to publish an exposure draft on the classification and measurement of financial instruments in July 2009. In October we will publish an exposure draft on the accounting for provisions and by December 2009 an exposure draft on hedging. On the basis of those proposals we aim to issue the new requirements on classification and measurement by December 2009, in time for 2009 year-end financial statements. We will replace all of the requirements of IAS 39 during 2010.

21. Classification and measurement are being addressed before impairment and hedging because classification and measurement form the basis of any accounting standard. Much of the concern raised during the financial crisis arose from the classification and measurement requirements. For example, concern has been expressed about the difference in magnitude of impairment losses recognised for debt instruments arising from differing classifications. The quickest way of dealing with such issues is by replacing the base classification and measurement requirements in IAS 39.

22. The FASB is working on similar proposals. We know that we are likely to reach different conclusions on some aspects of the models, particularly the measurement bases. However, our models share many fundamental components. We will publish any conclusions the FASB reaches to ensure that the IASB community is able to assess all of the alternative approaches. The FASB is taking a similar approach. Our goal remains to develop a model that ensures that the requirements of IFRSs and US GAAP are the same.

*Short-term changes to IFRSs*

23. As the financial crisis has evolved it has been necessary for us to make changes to our standards, as a matter of urgency.

***Ensuring embedded derivatives are assessed and separated if financial assets are reclassified***

24. In March we issued an IFRS clarifying that all embedded derivatives should be assessed and, if necessary, separately accounted for in financial statements. This was in response to requests from participants in the credit crisis round tables we held in December 2008 who asked us to act in order to prevent any diversity in practice developing as a result of the amendments made to IAS 39 in October 2008 to permit the reclassification of some financial assets in particular situations.

***Ensuring consistent treatment of accounting for particular credit-linked investments between US GAAP and IFRSs***

25. Some have called for the need to clarify any possible difference in the accounting treatment between IFRSs and US GAAP. The FASB is planning to issue mandatory implementation guidance on this matter to clarify the requirements of US GAAP. The accounting required by IFRSs is clear, and there is no diversity in practice.

### *Credit risk in liability measurement*

26. In June 2009 we published a staff paper prepared by Wayne Upton on credit risk in liability measurement, accompanied by a discussion paper. The staff paper analyses the role of credit risk in current measurements of liabilities, including the consequences of measuring an entity's own debt at fair value. This is a matter that has generated considerable debate, particularly when entities recognise gains as their creditworthiness deteriorates. We are seeking comments on this issue by 1 September 2009 and intend to consider the responses we receive as we develop the financial instruments models.

### *Disclosure*

27. In March we issued amendments to IFRS 7 *Financial Instruments: Disclosures* to require disclosures that are based on a three-level fair value hierarchy (similar to that used in the US standard SFAS 157 *Fair Value Measurements*). The amendments require disclosures about the level of the fair value hierarchy into which fair value measurements are categorised in their entirety, the fair value measurements resulting from the use of significant unobservable inputs to valuation techniques and the movements between different levels of the fair value hierarchy.

28. The amendments also clarify the definition of liquidity risk, improve the quantitative disclosures about liquidity risk, and strengthen the relationship between qualitative and quantitative disclosures about liquidity risk.

### *Fair value measurement*

29. In May we published an exposure draft *Fair Value Measurement,* a proposal to establish a single source of guidance for all fair value measurements required or permitted by existing IFRSs. The exposure draft reflects our convergence work with the FASB, to ensure that the fair value requirements are the same in IFRSs and US GAAP. The FASB has recently issued amendments to SFAS 157 (by way of FSPs). We have incorporated those amendments into our exposure draft.

30. We have ensured that the FASB has been kept informed of any differences between our proposals and SFAS 157. If our differences are improvements to the requirements the FASB will consider amending SFAS 157 to ensure that the wording is the same.

*Illiquid markets*

31. In May last year we assembled an expert advisory panel to review best practice in valuation techniques and to formulate any necessary additional guidance on valuation methods for financial instruments and related disclosures when markets are no longer active. In October 2008 we published the panel's report *Measuring and disclosing the fair value of financial instruments in markets that are no longer active*. The report identifies practices that experts use for measuring the fair value of financial instruments when markets become inactive and useful practices for fair value disclosures in such situations. In February 2009 we asked the members of the panel whether any new issues had arisen that could usefully be discussed by the panel, or whether any of the issues it had previously discussed should be revisited in the light of subsequent developments. The work of the panel was incorporated into the March improvements to IFRS 7 and is included in the proposals on fair value measurement.

*Disclosure*

32. The exposure draft on fair value measurement included enhanced disclosures designed to inform users of financial statements about the use of fair values and the inputs used to derive those fair values. In addition, one of the proposed annual improvements due to be published in August is an amendment to IAS 34 *Interim Financial Reporting*. We are proposing clarifications to ensure that investors have updated information about fair value information, particularly when there are changes in the level of the fair value hierarchy used to measure a financial asset.

*Outreach*

33. We have held webcasts explaining the proposals. Public round-table meetings are planned for October in Norwalk and December in Asia and Europe.

***Off balance sheet activities***

*Consolidation and improved accounting for off balance sheet items*

34. In December last year we published proposals to strengthen and improve the requirements for identifying which entities a company controls.

35. The use of special structures by reporting entities, particularly banks, to manage securitisations and other more complex financial arrangements was highlighted by the FSB and the G20 as a matter of concern. Some have questioned whether financial statements convey the extent to which reporting entities are exposed to risks from those types of structures.

36. The proposals address those concerns by presenting a new, principle-based definition of *control of an entity* that would apply to a wide range of situations and be more difficult to evade by structuring. The proposals also include enhanced disclosure requirements that would enable an investor to assess the extent to which a reporting entity has been involved in setting up special structures and the risks to which these special structures expose the entity. The proposals would apply not only to the banking sector but to any entity that uses legal entities to manage its activities.

37. We held public round tables in London in September 2008 to discuss early drafts of our proposals. In January we held webcasts outlining the proposals.

38. We received 148 comment letters, for which we had a preliminary discussion in May. In June we held round-table meetings in Toronto, Tokyo and London, in conjunction with the derecognition project (below). On the basis of feedback received to date the Board intends to issue a revised standard at the end of 2009.

39. The FASB is intending to discuss our proposals and to publish our standard as an exposure draft. If the FASB's exposure process identifies any improvements to our requirements we will consider making similar changes to ensure that the requirements are the same.

*Derecognition*

40. In April we published proposals to amend IAS 39 in relation to the derecognition of financial assets and liabilities (including securitisations). We have been considering two models. Both are based on control but one, which the Board preferred, has a greater emphasis on continuing involvement. However, although the main proposals in the exposure draft reflect our preferred approach we have also presented, in an appendix, the other model. This will ensure that potential respondents are presented with fully developed alternatives.

41. In May we held public webcasts to explain the proposals. In June we held public education sessions in Toronto and Tokyo, in conjunction with round-table meetings. We also held round-table meetings in London. Comments are due by 31 July.

42. This project is being developed as a joint project with the FASB. As with consolidations, the FASB is intending to discuss our proposals and publish our standard as an exposure draft.

## One set of standards

43. The development of a single set of high quality, understandable and enforceable global accounting standards for use in the world's capital markets has been the primary goal of the IASB since its inception in 2001. That aim has driven our work. The global financial crisis has only served to emphasise that having similar requirements around the world is simply not good enough. The requirements must be the same, otherwise entities, or jurisdictions, will seek regulatory arbitrage by trading off the differences.

### *International adoption*

*United States*

44. On 14 November 2008 the SEC published for public comment a proposal entitled *Roadmap for the Potential Use of Financial Statements Prepared in accordance with International Financial Reporting Standards by U.S. Issuers*. The proposed roadmap sets out milestones that, if achieved, could lead to the adoption of IFRSs in the United States in 2014. The roadmap also proposes to permit the early adoption of IFRSs from 2010 for some US entities. The comment period ended on 20 April 2009 and the SEC is currently considering the comment letters it received.

*Japan*

45. On 11 June 2009 the Business Accounting Council (BAC), a key advisory body to the Commissioner of the Financial Services Agency (FSA), approved a roadmap for the adoption of IFRSs in Japan. The roadmap still requires the formal approval of the FSA which is expected to take place by the end of the month. If adopted, the roadmap

would permit early adoption of IFRSs by listed companies for fiscal years beginning 1 April 2009. The roadmap proposes mandatory adoption of IFRSs from 2016, subject to a final decision being taken by 2012.

*Other jurisdictions*

46. Canada, India, Japan and Korea have also announced plans to adopt or converge with IFRSs in 2011. Mexico has announced plans to adopt IFRSs for all listed entities from 2012. Indonesia, Malaysia and Singapore have committed themselves to adopting IFRSs in 2012 while several South American countries have also recently announced a move to IFRSs.

***IASB-FASB Memorandum of Understanding***

47. The most widely adopted accounting reporting requirements around the world are IFRSs and US GAAP. That is why the Memorandum of Understanding (MoU) we have with the FASB is so important to our efforts to develop a single set of global standards. The MoU identifies the projects to which each of us is committed to complete, either on our own or together, in the short term. The purpose is to eliminate differences between our requirements.

48. Although we often characterise this as a convergence programme, a more appropriate description of the MoU is that it is an agreement that guides a collaborative effort by the IASB and the FASB to deliver the greatest possible improvements to financial reporting. We think that by combining our resources and having the boards challenge each other we will not only end up with identical standards but will also create more robust and sustainable solutions.

49. The successful completion of each MoU project eliminates differences between IFRSs and US GAAP. Of course, the more similar IFRSs and US GAAP become the easier it will be for US entities to move to IFRSs if the SEC decides that such a step is appropriate.

***30 June 2011***

50. Our objective is to have the major projects completed by 30 June 2011. Setting that date as a deadline ensures that the major changes to IFRSs will be in place in time for

the many jurisdictions moving to IFRSs and will avoid the need for them to make major changes shortly after they have adopted IFRSs.

51. We are concerned that our work plan could overload some parties and affect their ability to provide us with comment letters and to cope with implementing changes to IFRSs. Over the next 24 months we expect to publish 21 discussion papers and exposure drafts and to issue IFRSs for 13 major projects. Those numbers exclude unforeseen promulgations which, as the last 12 months have shown us, can be significant.

52. It is difficult to remove projects from the agenda. Each project is there for a good reason and is important to those affected. What we can do is manage the timing of document releases and the comment periods. For example, we are providing longer than normal comment periods for the *Management Commentary* exposure draft and the *Extractive Industries* discussion paper. We are also examining transitional provisions and extending the period before the published IFRSs become effective to help jurisdictions moving to IFRSs.

## Memorandum of Understanding projects

53. The projects on consolidation, derecognition, fair value measurement and replacing the existing financial instruments standards are all part of the MoU. An overview of each of these projects is included in the previous sections, as part of the discussion of our response to the global financial crisis.

54. The next sections provide an overview of the MoU projects under three headings—Conceptual Framework, short-term improvements and major projects.

### *Conceptual Framework*

55. Last year we published with the FASB an exposure draft on the objective and qualitative characteristics of financial reporting, and a discussion paper on the reporting entity. We expect to finish the phase dealing with the objective and qualitative characteristics and to publish an exposure draft on the reporting entity in the third quarter of this year.

56. At the June Board meeting we are discussing an early draft of a discussion paper on measurement and assessing whether we should develop a discussion paper based on that draft.

57. The phase of the project to define the accounting elements (assets, liabilities, revenue and expenses) has not progressed well. Having said that, the projects on leases, derecognition and financial instruments with the characteristics of equity are providing helpful analysis. We are reassessing staffing assignments and are still hopeful of publishing a discussion paper on accounting elements in 2010.

58. We have not yet decided on a timetable for the inactive phases on presentation and disclosure, the purpose and status of the framework, and applicability of the framework for not-for-profit entities and government business entities.

***Short-term projects***

59. The 2006 MoU with the FASB identified a few focused areas that the boards thought could be eliminated through one or more short-term projects. We have two such projects remaining to be completed.

*Joint ventures*

60. The objective of the project is to improve the accounting for, and the quality of the information being reported about, joint arrangements—which include joint ventures and joint operations. We published an exposure draft in September 2007 and had planned to issue the ensuing IFRS early in 2009. However, in response to comments received we are ensuring that the joint arrangment requirements are aligned with the proposed new consolidation requirements. We are also examining the implications for associated companies. We expect to issue an IFRS in the second half of 2009.

*Income taxes*

61. We have been working with the FASB for several years on a joint project on income tax. The aim of the project is to improve the accounting for income tax by eliminating exceptions from the basic model common to both IAS 12 *Income Taxes* and SFAS 109 *Accounting for Income Tax.* In March we published an exposure draft of a replacement for IAS 12. The FASB has indicated that, as part of its review of its

strategy for short-term convergence projects in the light of the possibility that some or all US public companies might be permitted or required to adopt IFRSs at some future date, it will seek input from US constituents by issuing an Invitation to Comment containing our exposure draft. After that review, it will decide whether to undertake projects that would eliminate differences in the accounting for taxes.

### ***Major projects***

*Financial statement presentation*

62. In October 2008 we published with the FASB a joint discussion paper containing proposals for a clearer presentation in financial statements to make it easier for users of financial statements to follow the flow of information through the statements. We have received more than 220 comment letters. During the 180-day comment period the project team have been field testing the proposals, which involves organisations that have volunteered to recast their financial statements into the new formats. The boards are considering feedback from this exercise in June and July.

63. As part of this project, we had been considering the definition of discontinued operations and the related disclosure requirements. Rather than wait until the project is completed in 2011 the boards decided to accelerate this part of the work. We published exposure drafts in September 2008 and had expected to finalise the amendments in the second quarter of 2009. However, the staff have been asked to give further consideration to eliminating a requirement to present discontinued operations in the statement of comprehensive income. As a consequence, any amendments are now unlikely to be completed until the end of 2009.

64. At the Standards Advisory Council meeting in June the staff will be asking Council members to consider whether the Board should give further consideration to other comprehensive income (OCI). The post-employment benefits and financial instruments projects are both challenging the earlier decision of the Board not to add any new components to OCI.

*Revenue recognition*

65. In December 2008 we published with the FASB a joint discussion paper containing proposals on when and how entities should recognise revenue arising from contracts

with customers to provide goods and services. These proposals are intended to improve existing practice by clarifying the principles for revenue recognition and by ensuring that entities in different industries recognise revenue more consistently. The proposals should also greatly simplify the requirements in US GAAP. We held live webcasts in February to explain the proposals and respond to questions. Comments were due by 19 June 2009.

*Financial Instruments with characteristics of equity (liabilities and equity)*

66. In February 2008 we published a discussion paper inviting comments on an FASB preliminary views document *Financial Instruments with Characteristics of Equity*. The comment period ended on 5 September and we began discussing comments received in October 2008. We will continue to develop a model, with the goal of publishing an exposure draft in February 2010.

*Leases*

67. The objective of the project is to develop by mid-2011 a new improved accounting model for lessees. We published a discussion paper with the FASB in the first quarter of 2009, presenting preliminary views on the main components of a lessee accounting model. Comments are due by 17 July 2009.

68. We held webcasts in February to explain the proposals and respond to questions and have three meetings with the leases working group planned in the next 18 months. We are on schedule to publish an exposure draft in July 2010.

*Post-employment benefits (including pensions)*

69. We have been considering the comment letters we received in relation to our discussion paper *Preliminary Views on Amendments to IAS 19 Employee Benefits*. That discussion paper proposed the elimination of deferred recognition (the corridor method), discussed different ways to present changes in plan assets and defined benefit obligations, and explored new accounting for contribution-based promises.

70. We have now turned our attention to the discount rate used to measure pension obligations. We are also examining how best to present information about post-employment pensions. We intend to publish an exposure draft in the second half of 2009.

## Other improvements

*Insurance contracts*

71. In May 2007 we published a discussion paper *Preliminary Views on Insurance Contracts*, which attracted over 160 responses. We began to review the responses in February 2008. In October 2008 the FASB joined us on this project. We are working to publish an exposure draft in late 2009.

*Related party disclosures (relationships with the state)*

72. In 2007 we proposed amendments to IAS 24 *Related Party Disclosures* to simplify the definition of a related party and clarify what related party disclosures are appropriate when the state has a controlling or significant investment in the reporting entity. After considering the comments we received we decided to publish a second exposure draft *Relationships with the State*. We expect to complete this project in the second half of 2009.

*Emissions trading schemes*

73. The project focuses on the accounting for emissions trading schemes. We expect to address the accounting for all tradable emissions rights and obligations arising in emissions trading schemes. We also expect to address the accounting for activities that an entity undertakes in contemplation of receiving tradable rights in future periods, such as certified emissions reductions. We were aiming to publish an exposure draft in 2009, but we now do not expect to publish an exposure draft until 2010.

*Liabilities (revision to IAS 37)*

74. This is a project to revise IAS 37, our general standard on uncertain liabilities (sometimes known as provisions). We published an exposure draft of proposed amendments in 2005. Most of the matters that the Board decided it needed to reconsider in the light of feedback on the exposure draft have now been resolved.

75. In July we will consider whether we will need to re-expose any aspects of the proposals, given the relatively lengthy redeliberation period. Depending on the

outcome of that debate we expect to issue a revised standard either at the end of 2009 or, if re-exposure is judged to be appropriate, at the end of 2010.

### *Management commentary*

76. We are developing guidance based on the discussion paper *Management Commentary*, which we published in October 2005. The guidance will set out a framework for the preparation of management commentary and establish principles for its structure, content and presentation.

77. Although it will not be mandatory, we think such guidance will benefit those jurisdictions that do not have any requirements or guidance for the preparation of management commentary (or MD&A as it is called in some jurisdictions). We will publish an exposure draft in the week of 22 June.

### *Earnings per share*

78. In August 2008 we published, with the FASB, an exposure draft *Simplifying Earnings per Share*. The proposals would simplify the calculation of earnings per share and eliminate some differences between IFRSs and US GAAP.

79. We discussed a summary of the comment received in April. In the light of other priorities, we do not expect to discuss this project until at least the end of the year, when we will review the timing for this project.

### *Share-based payment: group cash-settled transactions*

80. In June we issued amendments to IFRS 2 *Share-based Payment*, clarifying the requirements when a subsidiary in a group acquires goods or services from an external supplier but the parent pays the supplier. The amendments incorporated the consensus in two IFRIC Interpretations, which were therefore withdrawn.

### *Amendments to IFRIC 14*

81. In May we published *Prepayments of a Minimum Funding Requirement*, an exposure draft of proposals to eliminate an unintended consequence that arises in IFRIC 14 when the entity makes a payment and minimum funding contributions are greater than the IAS 19 service cost. Comments are due by 27 July 2009. We plan to issue the resulting amendment in December 2009.

*First-time adoption of IFRSs*

82. In September last year we published an exposure draft to amend IFRS 1 to address potential challenges for jurisdictions adopting IFRSs in the near future. These amendments propose relief for entities previously accounting for oil and gas assets using full cost accounting, and for some aspects of operations subject to rate regulation. We expect to complete the amendments this month, for issue in July.

*Rate-regulated activities*

83. In December 2008 we took on a project on rate-regulated activities. The issue is whether rate-regulated entities could or should recognise a liability (or an asset) as a result of rate regulation by regulatory bodies or governments. For several countries adopting IFRSs in the next few years, this is a particular problem. The project has a limited scope designed to preserve good practice and eliminate unacceptable accounting rather than developing new requirements. We expect to publish an exposure draft in the third quarter of 2009.

*Annual improvements*

84. In April we completed the 2008-2009 cycle of improvements to IFRSs. However, we have been discussing candidates for the 2009-2010 cycle since September 2008 and will continue to consider additional issues until July 2009. We expect to publish an exposure draft of the approved proposals in August 2009. The topics in the exposure draft will be:

| IFRS | Subject of amendment |
|---|---|
| IFRS 2 *Share-based Payment* | Scope of IFRS 2 and revised IFRS 3 |
| IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* | Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations |
| IFRS 8 *Operating Segments* | Disclosure of information about segment assets |
| IAS 7 *Statement of Cash Flows* | Classification of expenditures on unrecognised assets |
| IAS 18 *Revenue* | Determining whether an entity is acting as a principal or as an agent |
| IAS 36 *Impairment of Assets* | Unit of accounting for goodwill impairment test |
| IAS 36 *Impairment of Assets* | Additional consequential amendments arising from revised IFRS 3 |
| IAS 38 *Intangible Assets* | Measuring the fair value of an intangible asset acquired in a business combination |
| IAS 39 *Financial Instruments: Recognition and Measurement* | Scope exemption for business combination contracts |
| IAS 39 *Financial Instruments: Recognition and Measurement* | Application of the fair value option |
| IAS 39 *Financial Instruments: Recognition and Measurement* | Cash flow hedge accounting |

| IFRS | Subject of amendment |
|---|---|
| IAS 39 *Financial Instruments: Recognition and Measurement* | Bifurcation of an embedded foreign currency derivative |

*Extractive industries*

85. We have a project on extractive industries with the objective of developing an IFRS to supersede IFRS 6 *Exploration for and Evaluation of Mineral Resources*. A project team with representatives from the national standard-setters of Australia (leader), Canada, Norway and South Africa has developed a discussion paper for publication in August 2009. The discussion paper will be the initial due process document for our deliberations, if we decide to add this project to our active agenda.

86. National standard-setters continue to make a valuable contribution when they undertake research for us. Not only does this research activity help us access the wealth of experience of the boards and staff of national standard-setters but it can reduce by up to two years the time the IASB needs to spend on a project.

### IFRSs for SMEs

87. In every country in the world, including developed ones, over 98 per cent of private entities have fewer than 50 employees. The project to develop an IFRS expressly designed to meet the financial reporting needs of such entities is an important step towards meeting the needs of a very important part of the global economy. We published an exposure draft with our proposals in February 2007 and began redeliberations in March 2008. We received 162 comment letters and 116 field test reports.

88. We are on schedule to ballot *IFRS for SMEs* by 30 June, with publication planned for July 2009.

## International Financial Reporting Interpretations Committee (IFRIC)

89. The role of the IFRIC is to consider requests received by the IASB for an interpretation of an IFRS. The IFRIC has 12 voting members and its non-voting chairman is Board member Robert Garnett.

90. Ken Wild completed his second term in May. In his place, Laurence Rivat, a partner at the national office of Deloitte France, has been appointed for a three-year term beginning on 1 July 2009. As a leader (since 2001) of one of six Deloitte IFRS Centres of Excellence and a member of the Deloitte IFRS Leadership Team, Ms Rivat is actively involved in global activities on IFRSs on various subjects.

91. Three IFRIC members have been reappointed for an additional three-year term—Sara York Kenny, Consulting Advisor, International Finance Corporation (World Bank Group), Takatsugu Ochi, Assistant General Manager, Financial Resources Management Group, Sumitomo Corporation and Ruth Picker, Partner and Global Director, Global IFRS Services, Ernst and Young.

92. At the end of June we lose the services of Tricia O'Malley, our Director of Implementation Activities. Tricia is to be the new Chair of the Canadian Accounting Standards Board from 1 July.

#### *Interpretations*

93. In January the Board approved IFRIC 18 *Transfers of Assets from Customers* (which the IFRIC finalised in December 2008). It is common in the utilities industry for an entity to receive transfers of items of property, plant and equipment from its customers that must be used to connect customers to a network and provide customers with ongoing access to a supply of commodities such as electricity, gas or water. The Interpretation clarifies when such transfers should be recognised by the entity as an asset and how to account for the corresponding credit.

94. So far this year the IFRIC has not had any interpretations to finalise.

#### *Matters not added to the agenda*

95. So far this year the IFRIC has considered 13 issues and finalised decisions that they should not be added to its agenda. In July, it will consider comments received on tentative decisions not to add an additional 13 issues to its agenda.

## The Board

96. We started the year with a full quota of 14 Board members, 13 full-time and one part-time. On 1 January Stephen Cooper changed from being a part-time to full-time member and Prabhakar Kalavacherla, or 'PK' as he prefers to be called, joined the Board. PK was born in India and is a chartered accountant from India. He was an audit partner in KPMG's San Francisco office. He has worked extensively in India and led KPMG India's US GAAP practice and has also worked in Europe.

97. On 30 June we lose the services of two Board members. Tom Jones, the Vice-Chairman, and Mary Barth complete their second terms with the Board on 30 June. We are fortunate that both have agreed to provide assistance to the Board after 30 June. Mary will be an academic adviser and Tom will provide advice to our Trustees and the Board.

98. Three new full-time Board members begin five-year terms on 1 July. Amaro Luiz de Oliveira comes to us from being the Head of Financial System Regulation Department of the Central Bank of Brazil. Amaro has expertise and practical experience in financial reporting, particularly in respect of financial institutions, and a proven record in international regulatory co-operation. His knowledge of South American markets will further enhance the truly global credentials of the IASB.

99. Patrick Finnegan, Director of the Financial Reporting Policy Group, CFA Institute Centre for Financial Market Integrity, and Patricia McConnell, former Senior Managing Director, Equity Research, Accounting and Tax Policy Analyst, Bear Stearns & Co., also join the Board on 1 July. Their appointments reflect calls from the investment community about the need to enhance the investor and analyst perspective on the IASB.

100. As a result of these appointments we will, from 1 July, have fifteen full-time Board members.

101. Board member turnover provides us with extra challenges each 30 June. Incoming Board members are often not comfortable voting for a document if they have not been involved in any of the deliberations. If we do not complete formal balloting by 30 June for a particular document it can delay that project by several months. I intend to bring a paper to the Trustees outlining conditions whereby retired members could vote on projects completed but not in published form at the time of their retirement.

102. Next year three Board members complete their terms, which will exacerbate the problem. To cope with Board member rotation we are developing education programmes for incoming Board members. Inevitably, however, our publication volume is likely to spike around July each year

#### *Working with national standard-setters*

103. The national standard-setters are our partners in seeking to remove differences in accounting, worldwide.

104. In April we held a joint meeting in London with the FASB, lasting two days. We have two-day meetings scheduled for London in July and Norwalk in October. We also have two joint meetings with the Accounting Standards Board of Japan each year.

105. In March several Board members attended a meeting of national standard-setters in South Africa. On 10 and 11 September 2009 we are hosting, in London, the annual meeting of world standard-setters. This provides the Board with the opportunity to hear about the issues that are of the greatest interest, or concern, to standard-setters. In addition, throughout the year Board members have been attending regular meetings of standard-setters.

## Standards Advisory Council

106. The Standards Advisory Council is one of the Board's primary consultative forums. The newly constituted Council met for the first time in January. The meeting was an opportunity to establish expectations about the role of the Council and identify the best way that it can contribute to the IASB.

107. When we sought views on the FSPs in March we directly solicited the advice of the SAC members. The views of the Council members were collated and incorporated in the staff analysis of the request for views.

108. In June we are asking the Council members for views on whether we should revisit *other comprehensive income* as well as on fast track consultative procedures. An innovation is the addition of private education sessions for Council members on projects. In June there are education sessions for financial instruments, XBRL, financial statement presentation and revenue recognition.

## Technical staff

#### *Arrivals and departures*

109. We have continued to attract excellent staff. Sue Lloyd (New Zealand) has been appointed as a senior technical consultant. Sue has extensive experience in investment banking. As well as being a former Board member of the Australian Accounting Standards Board, Sue is a former member of our technical staff. We also welcomed Joanna Yeoh (New Zealand) and Glenn Brady (Australia) as project managers and a new technical associate—Melissa Perkovich (US).

110. In addition, we are fortunate to have three new visiting fellows from national standard-setters—Jae-Ho Kim (Korea Accounting Standards Board) and Toshikazu Masuyama and Mitsuhiro Takemura (both ASBJ). Dr Xia Wenxian from the Chinese Finance Ministry joins us later this month.

111. Keiji Fukuzawa and Takashi Matabe (both ASBJ) also work for us from their base in Japan, supporting the derecognition and financial statement presentation projects.

112. Two practice fellows completed their secondments this year, with Shelley So (Hong Kong) returning to PricewaterhouseCoopers and Sébastian Landry (France) returning to Mazars. Ryan Richards (US), who worked on the fair value measurement project, is leaving us to take up a position in the US at the end of July.

#### *Looking ahead*

113. In July Judith Li (Australia) joins us as an assistant project manager. Two new technical associates start in September—Alessandro d’Eri (Italy) and Jeff Lark (US).