Topic **The Work Plan**

Overview

1. In the last quarter of 2009 the IASB made good progress towards establishing globally accepted financial reporting standards and completing the first phase of our project to improve and simplify the accounting for financial instruments.

Global financial reporting standards

2. We have continued to give priority to developing globally accepted financial reporting standards, which is consistent with the requests made by the G20. In October the IASB made significant progress towards convergence at its joint meeting with the FASB. The outcome of that meeting was a renewed shared commitment by the boards to make improvements to the financial reporting topics in our Memorandum of Understanding (MoU). We produced a comprehensive plan that outlines how we expect to complete each of the MoU projects.

3. Some commentators have questioned the speed at which we are working, suggesting that we are being too ambitious. While the programme is indeed ambitious it is achievable, and the target of 30 June 2011 is important. The G20 has urged us to complete the MoU projects by that date and many major economies have selected 2011 or 2012 as the year to adopt IFRSs on the basis of a completed programme. We also know that the appetite for constant and major changes to IFRSs would be tested if we extended the timetable.

4. I want to emphasise that a focused effort to achieve ambitious targets will not lead us to sacrifice quality. As we have shown with IFRS 9 *Financial Instruments*, we can finish a high quality standard, with significant outreach work included, that garners respect internationally. Indeed, I believe that defined targets and deadlines impose much-needed discipline. Neither the IASB nor the FASB will issue a new standard unless it is an improvement over its current requirements.

5. Completing the MoU projects will lead to significant improvements in financial reporting. Moreover, eliminating differences between IFRSs and US GAAP will make it easier for US entities to move to IFRSs if the SEC decides that such a step is appropriate.

6. I was delighted that a roadmap for the adoption of IFRSs in Japan was approved by the Japanese FSA in June. The roadmap permits early adoption of IFRSs by listed companies for fiscal years beginning 1 April 2009. The US SEC also has a roadmap, which sets out milestones that, if achieved, could lead to the adoption of IFRSs in the United States in 2014. Although the comment period for the roadmap was extended the SEC Chairman recently stated that turning back to the roadmap is a priority. We are expecting to hear more from the SEC in the coming months.[1]

Financial instruments

7. On 9 November we met our commitment to finalise the first phase of the replacement of IAS 39 *Financial Instruments: Recognition and Measurement* by issuing IFRS 9 *Financial Instruments*. The new IFRS has an effective date of 1 January 2013, but earlier adoption is permitted. We published a *Feedback Statement* to accompany IFRS 9, which we sent

[1] I have reported previously on the adoption decisions of many other countries, including Canada, Mexico, India and several countries within South America.

to all Trustees at the time. We are pleased that the response to the IFRS has generally been positive. IFRS 9 has been put into legislation in Australia and New Zealand and is available in many other countries.

Managing the workload

8. We are committed to delivering the improvements promised by our MoU with the FASB.

9. We are, however, concerned about the difficulties that some entities, and jurisdictions that must pass our standards into law, could have coping with several major changes to IFRSs as we complete the projects listed in the MoU.

10. In anticipation of these concerns the Board has decided to limit the dates when IFRSs take effect to two dates in a calendar year (1 January and 1 July). The Board has also agreed that any IFRSs finalised in 2010 will not take effect before 1 January 2012 and those completed in 2011 will not be mandatory before 1 January 2013. It is possible that some IFRSs will have an even later effective date.

11. These actions mean that jurisdictions switching to IFRSs in 2011 will have the option of either adopting the new IFRSs early and having only one change <u>or</u> having the certainty of knowing the IFRSs that will be in use in 2011 and changing a few of them for accounting periods beginning after 1 January 2013.

12. The Board is also examining whether we can make the transition to new IFRSs easier by simplifying the steps that must be taken when an entity first adopts a new requirement.

The financial crisis

13. From the outset of the crisis, we have worked on a defined programme with time lines to address issues related to financial reporting. A number of official bodies, including the G20, the Financial Stability Board (FSB), the European Commission and other stakeholder groups internationally have asked us to respond to specific issues.

Enhanced stakeholder engagement

14. In line with the G20 recommendations, we have deepened our engagement with our stakeholders and we are taking account of the Basel Committee's guiding principles and the report of the Financial Crisis Advisory Group (FCAG). While recognising our commitment to investors as the primary users of financial information, we have, amongst other actions, already established an enhanced technical dialogue with prudential supervisors, market regulators and other stakeholders. This dialogue will ensure their deeper input in the development of new standards. As I reported at the last meeting, the first such enhanced technical dialogue took place on 27 August in London. A second meeting is planned for the first quarter of 2010.

15. We continue to meet the Basel Committee regularly and we are a member of the FSB, where financial reporting issues are discussed regularly.

16. In developing a high quality and broadly accepted solution regarding the classification and measurement of financial assets (now IFRS 9 *Financial Instruments*), we conducted a consultation process that was unprecedented in its global scale and outreach activity. Round-table discussions were held in Asia, Europe and the United States. Interactive webcasts, each attracting thousands of registered participants, were made, often on a weekly basis. In addition, more than a hundred meetings were held with interested parties around the world during a period of four months. Such

efforts place heavy demands on our staff and Board members, but have been widely acclaimed.

Focused efforts to achieve global convergence

17. On 5 November we issued a joint statement with the FASB describing our plans and milestone targets for completing the major MoU projects in 2011. The statement, which we sent to you in November, also describes the values and principles underpinning the boards' collaboration and significant successes achieved thus far.

18. In affirming our shared commitment to developing a common set of high quality standards, the boards took note of the support of the leaders of the G20 nations, the Financial Crisis Advisory Group of the FASB and IASB, and the Monitoring Board of the International Accounting Standards Committee (IASC) Foundation for the joint convergence efforts under way.

19. We are meeting the FASB every month, rather than twice a year, to discuss projects we are developing together. This step is helping the project teams and the boards. We are able to understand better the thinking processes when the boards reach different conclusions, which will help us to address those differences.

20. We are due to provide the first of our quarterly updates on progress in February.

Our initial response to the financial crisis

21. Our initial response focused on the three areas identified by the Financial Stability Forum (FSF, the FSB's predecessor):

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

    (b) accounting for off balance sheet items; and

(c) disclosures related to risk.

22. For all three matters we met the time lines set out by the FSF in 2008.

The application of fair value in illiquid markets

23. The FSF identified concerns regarding the application of fair value in illiquid markets. This was the catalyst for us establishing, in May 2008, our Expert Advisory Panel. The exposure draft we published last year incorporated aspects of the panel's report. We have continued to liaise with the panel as part of our consideration of comments received in relation to the exposure draft.

24. We have agreed a timetable with the FASB that should see the boards finalise common requirements for the measurement of fair value in the second half of 2010. The boards are together considering the comments received, and the FASB is committed to amend US GAAP to ensure that IFRSs and US GAAP are aligned.

Accounting for off balance sheet items

25. The FSF and the G20 emphasised the importance of improving the transparency of accounting related to off balance sheet items. We published proposals related to off balance sheet items (consolidation in December 2008 and derecognition in March 2009).

26. The FASB has agreed to develop new consolidation requirements and to review the requirements it recently issued in relation to *variable interest entities* with the objective of aligning IFRSs and US GAAP. As a consequence, we have agreed to delay finalising our consolidation standard until the second half of 2010 so that the FASB can expose similar proposals to those developed by us. The boards will consider together the comments received and expect to develop requirements that are aligned.

27. There was qualified support for the alternative derecognition model we proposed. We expect to complete our derecognition requirements in early 2011, also with the FASB.

Disclosures related to risk

28. The FSF recommended improved disclosures related to risk. In March 2009 we published proposals to improve the disclosures about fair value measurements and to reinforce existing principles for disclosures about the liquidity risk associated with financial instruments.

29. The consolidation and derecognition proposals also included proposals for disclosures about risks not related to financial instruments of the entity reporting. We expect to put those new requirements in place towards the end of 2010.

Reducing complexity of accounting for financial instruments

30. At their summit in April, the G20 leaders called for accounting standard-setters 'to reduce the complexity of accounting standards for financial instruments'. We already had a commitment to achieve that objective, but the call for a common global approach from the G20 provided impetus to our efforts.

31. As you know, the announcement we made in the first week of April to undertake an urgent six-month project to produce a proposal aimed at a comprehensive revision of IAS 39 *Financial Instruments: Recognition and Measurement* was not the beginning of a new project. We were simply accelerating, albeit at an unprecedented rate, the work we had been undertaking with the FASB. We had published in March 2008, with the FASB, a discussion paper *Reducing Complexity in Reporting Financial Instruments*.

32. We gave priority to the portion of the comprehensive project concerning classification, measurement, and related impairment issues and published

an exposure draft on those topics in July 2009. To the EU Finance Ministers and other stakeholders internationally, the IASB undertook to issue by year-end an IFRS related to the prioritised portion of the IAS 39 replacement that would be available for use in 2009 year-end financial statements.

33. On 12 November, after a period of intense consultation (see above), we issued IFRS 9. This IFRS uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. It also requires a single impairment method to be used, replacing the many different impairment methods in IAS 39. Thus IFRS 9 improves comparability and makes financial statements easier to understand for investors and other users.

34. As well as being asked to act urgently, we have also been asked to work with the FASB to ensure that the requirements in IFRSs and US GAAP are aligned. The FASB has not yet published any proposals to replace financial instrument accounting. The joint statement released by the IASB and the FASB on 5 November outlined the steps the boards are taking to align the timing of the development and consideration of their proposals.

Provisioning, including consideration of an expected loss model.

35. On 5 November we published for public comment an exposure draft on the amortised cost measurement and impairment of financial instruments.

36. IFRSs and US GAAP both use an incurred loss model for the impairment of financial assets. An incurred loss model assumes that all loans will be repaid until evidence to the contrary (known as a loss or trigger event) is

identified. Only at that point is the impaired loan (or portfolio of loans) written down to a lower value.

37. The global financial crisis has led to criticism of the incurred loss model for presenting an initial, over-optimistic assessment of [no?] credit losses, only to be followed by a large adjustment once a trigger event occurs. Responding to requests by the G20 leaders and others, in June 2009 we published a *Request for Information* on the practicalities of moving to an expected loss model.

38. The responses have been taken into account in developing our exposure draft. Under the proposals expected losses are recognised throughout the life of the loan (or other financial asset measured at amortised cost), and not just after a loss event has been identified.

39. This would avoid the front-loading of interest revenue that occurs today before a loss event is identified, and would better reflect the lending decision. Therefore, under the proposals, a provision against credit losses would be built up over the life of the financial asset. Extensive disclosure requirements were proposed to provide investors with an understanding of the loss estimates that an entity judges necessary.

40. We are aware of the significant practical challenges of moving to an expected loss model. For this reason, as mentioned above, we set up an Expert Advisory Panel (EAP) comprising experts in credit risk management to advise us. The exposure draft has an eight-month comment period to allow adequate time for entities to consider the impact of such a change within their organisation.

41. We will build on the unprecedented level of outreach activity that was undertaken in developing IFRS 9. We will also co-operate closely with the FASB with a view to agreeing a common approach to the impairment of financial assets.

Financial liabilities and fair value changes related to own credit risk.

42. In June 2009 we published an Invitation for Comment on the effects of fair value gains arising from changes in a company's own credit risk.

43. We then included proposals for the accounting for financial liabilities and fair value changes related to own credit risk as part of proposals for what became IFRS 9. However, we decided not to change the requirements for the classification and measurement of financial liabilities when we issued IFRS 9.

44. We now expect to finalise our requirements for financial liabilities in conjunction with the FASB in the second half of 2010.

Hedge accounting

45. We expect to publish an exposure draft to improve and simplify hedge accounting in the first half of 2010. We are working with the FASB to ensure convergence of hedge accounting approaches with the first comprehensive discussion scheduled for next month. We expect to finalise the requirements towards the end of 2010, thereby completing the replacement of IAS 39.

Financial instruments with characteristics of equity (liabilities and equity)

46. We have been working on a proposal to replace IAS 32 *Financial Instruments: Presentation* and the extensive literature in US GAAP. The next few months will be critical in defining the direction this project will take. Our most recent discussions indicate that we will be able to publish an exposure draft in the second quarter of 2010.

The Board

Meeting time

47. Our commitment to deliver improvements to financial reporting standards quickly, in response to the financial crisis, and to deliver the projects on the MoU by 30 June 2011, led us to review our Board meeting schedule.

48. We have held additional meetings on several occasions between our regular monthly meeting weeks and plan to do so until May 2011. Many of these extra meeting times include participation by the FASB.

The Boardroom

49. Over the last nine months we have been making improvements to the Boardroom. We have updated the audio and video equipment, expanded the table and increased the observer space. The full benefits were realised for the first time with the December Board meeting.

50. Remote observers who view the meeting over the internet have a much enhanced experience, with a higher quality audio feed and an intelligent camera system that focuses on the speaker. These features have also enhanced our ability to hold meetings via videoconference, including making presentations at conferences. We are also able to allow some Board members to participate in round-table meetings via video conference.

51. The increased size of the Board table and observer space allows us to hold working group, round-table and joint IASB-FASB meetings in-house. The cost savings are significant. Just as importantly, holding meetings in-house is less disruptive to the staff and Board members.

Communication

52. We continue seek ways to enhance our communication activities. The daily meeting updates we introduced in September have been well received. In December we made available a podcast in which Stephen Cooper and Alan Teixeira provided an informal 35-minute summary of the Board meeting. Initial feedback has been very good and we expect to continue this innovation, rotating the presenters.

Working with national standard-setters

53. The national standard-setters (NSS) are our partners in seeking to remove differences in accounting, worldwide. Although we meet the FASB more frequently than any other NSS, that does not diminish the importance of other NSS.

54. We hold two joint meetings with the ASBJ each year, one each in London and Tokyo. We have strengthened our interaction with the Chinese Ministry of Finance and will hold formal meetings at least twice a year. Board members also attend meetings of other NSS, including those of Australia, New Zealand, South Africa and the UK. Board members also attend regional conferences, including the recently formed Asia Oceania Standard Setters Group.

Technical staff

55. The technical staff have responded with distinction to the demands placed on them. In particular, the team working on IFRS 9 has been exceptional. The staff know how challenging the next 18 months will be but they are committed to the process of improving financial reporting globally.

56. As well as developing Standards and Interpretations, the technical staff are playing a more active role in liaising with constituent groups. A technical staff member has been allocated to each of our important liaison

groups to improve the communication between that group and the IASB. Luci Wright, who is part of the IFRS Interpretation and Implementation team, has also taken on broader responsibility for working with the investor and analyst communities.

Staffing changes

57. Allison McManus (Canada) has joined us and will be working on the projects on the conceptual framework and emission trading schemes.

58. Luciana Abrantes (Brazil) completed a short-term attachment to the education team to help with the development of education material for SMEs. In January 2010 Ricardo Lopes Cardoso joined the education team as a practice fellow. He is relocating from Brazil with his family and will be here for a year.

Appendix - The technical agenda

Completed projects

Related party disclosures

1. In November 2009 we issued revisions to IAS 24 *Related Party Disclosures*. The amendments 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.

Employee benefits

2. In November 2009 we amended IFRIC 14, which is itself an interpretation of IAS 19 *Employee Benefits*. The amendment applies in the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset.

Rights issues

3. In October 2009 we amended IAS 32. Without that amendment, application of IAS 32 could lead to large accounting losses for a successful capital raising when the rights are issued in a foreign currency.

Pension liability discount rate

4. In August 2009 we published an exposure draft *Discount Rate for Employee Benefits* (proposed amendments to IAS 19). The responses indicated that the proposed amendments raised more complex issues than had been expected. The Board therefore decided not to proceed with the amendment.

Active projects

5. Agenda paper 1a is the technical work plan as at 1 August 2009.

Projects related to the financial crisis

6. The projects that form part of our response to the financial crisis are discussed in the body of my report.

Other MoU projects

Financial statement presentation

7. We have been considering the comments contained in the 220 letters we received in response to the discussion paper we published in 2008. We have also been considering the results of field tests and experiments conducted over the past year. The proposals are intended to provide a clearer presentation in financial statements and so make it easier for users of financial statements to follow the flow of information through the statements. We are planning to publish an exposure draft in April.

8. We have also been considering a separate proposal to remove the option of being able to present other comprehensive income in a separate schedule. We have decided, with the FASB, to propose this change because of the significant improvement we think it will make to the comparability of financial statements. We are planning to publish an exposure draft in early March.

Revenue recognition

9. We received 221 comment letters in response to the discussion paper we published, with the FASB, in December 2008.

10. The discussion paper contained proposals on when and how entities should recognise revenue arising from contracts with customers to provide goods and services. The 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.

11. This project is particularly important to the successful completion of the MoU because many commentators believe that there is not sufficient application guidance in IFRSs and they rely on US GAAP to supplement IFRSs. In contrast, it is widely accepted that the equivalent US GAAP requirements are cumbersome, prescriptive and internally inconsistent.

12. In December we conducted several workshops to test the proposals with preparers from a variety of industries. The feedback on our proposals was encouraging. We are working to publish an exposure draft in March.

Leases

13. The objective of the project is to develop a new improved accounting model for 2011. 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, and we received 295 comment letters.

14. Most respondents and the leases working group, which met in London in September, told us that we should develop proposals for accounting for leases from the perspective of both the lessor and the lessee. The boards decided to do just that.

15. We are planning to publish an exposure draft towards the end of the second quarter of 2010.

Post-employment benefits (including pensions)

16. Having considered the 150 comment letters we received in relation to our discussion paper *Preliminary Views on Amendments to IAS 19 Employee Benefits* we tentatively decided to publish an exposure draft that would

propose eliminating the smoothing of gains and losses in relation to pension obligations (known as the corridor method).

17. However, we delayed publishing the proposals while we re-examined the matter of presentation. In November we decided that some components of post-employment benefits should be presented in other comprehensive income rather than in profit or loss. We are planning to publish the exposure draft in March, along with the proposal to require other comprehensive income to be presented with the components of profit or loss.

Income taxes

18. We have been working with the FASB 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*. We published a proposal to replace IAS 12 in March and by the end of the comment period had received 167 comment letters.

19. The proposals were not well received. Both boards decided not to proceed with the proposals in their current form. However, we are cognisant of the need to address what many perceive to be weaknesses in the current requirements in relation to those jurisdictions that do not tax capital gains on the disposal of real property. We are therefore assessing how best to address these concerns.

Joint ventures

20. 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 expect to issue an IFRS towards the end of March.

Conceptual framework

21. In early January 2010 we began our formal balloting process to finalise the first two chapters of the new conceptual framework, dealing with the objective and qualitative characteristics of financial reporting. We are also preparing for publication an exposure draft of the chapter addressing the reporting entity.

22. Little progress has been made since June on the chapter in which the elements (assets, liabilities, equity, revenue and expenses) will be defined. We are still hopeful of publishing a discussion paper in late 2010 or early 2011 on this subject.

23. Early drafts of a discussion paper on measurement have been considered by both boards. We are aiming to publish a discussion paper later this year.

***Other* joint projects**

Insurance contracts

24. We have been working on this project since the IASB was formed. In October 2008 the FASB joined us on the project.

25. We are working to publish an exposure draft in the first half of 2010.

Emissions trading schemes

26. The project focuses on the accounting for emissions trading schemes. We are aiming to publish an exposure draft jointly with the FASB in 2010. Carbon schemes have been high on the agenda of the G20 and we have reinvigorated the project in the last six months. We expect to publish an exposure draft towards the end of this year.

Other improvements

Liabilities (revision to IAS 37)

27. This is a project to revise IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, our general standard on uncertain liabilities (sometimes known as provisions).

28. The Board has reached its decisions on most aspects of the project. However, because the Board has decided to change the way it describes how to measure this type of liability, on 5 January 2010 we invited additional comments on this one aspect of the original proposals (ie a re-exposure). Our plan is to consider the comments received in May and finalise the revised Standard by the end of June.

Management commentary

29. In June we published proposed guidance that sets out a framework for the preparation of management commentary and establishes principles for its structure, content and presentation. 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).

Rate-regulated activities

30. In July we published a proposal to clarify the circumstances in which rate-regulated activities should cause an entity to recognise a liability (or an asset) as a result of rate regulation by regulatory bodies or governments.

31. We expect to have in February our first look at the comments received.

Research projects

32. A project team with representatives from the national standard-setters of Australia, Canada, Norway and South Africa has developed a discussion

paper outlining ways that we could develop an IFRS to supersede IFRS 6 *Exploration for and Evaluation of Mineral Resources*. The discussion paper has been placed on our website. In February we will make a request for comments and we will use the feedback we receive to help us assess whether we should add this topic to the list of topics to be exposed later this year as possible issues to be added to the Board's agenda after June 2011.

International Financial Reporting Interpretations Committee (IFRIC)

33. The IFRIC met on 5 and 6 November 2009.

34. Over the last three months the IFRIC has considered nine new requests. It decided that seven of those requests should not be added to its agenda—all seven of those decisions are tentative with final decisions planned for its January meeting. Of the remaining two requests, one is pending further research and one was added to the agenda.

35. The item added to the agenda is a request for guidance on the accounting treatment of stripping costs incurred during the production stage of a mine. Stripping costs are the costs of removing uneconomic overlying material in a surface mine during the production phase, in order to access an economically valuable mineral reserve. The IFRIC will be discussing the issues associated with this request in its forthcoming meetings, from January.

36. The IFRIC has started to help the Board with the annual improvements project. IFRIC members are in a good position to identify whether small improvements suggested to the Board are, in fact, necessary. The Board retains responsibility for considering and approving any improvements the IFRIC recommends should be made. All such recommendations are considered by the Board in a public meeting and any resulting

improvements are balloted and exposed using the Board's normal procedures.