



Overview

1. At its November 2009 meeting the SAC started its discussions on the post-June-2011 IASB technical agenda. This paper has been developed to continue that discussion. It reflects the discussions at the November meeting and some additional input by a working group of SAC members who volunteered to assist in preparing the material for continued discussions at the February 2010 meeting.
2. The opinions and suggestions contained in this paper reflect the views of the individuals preparing the paper. The Board of the IASB has yet to consider the matters raised in this paper or any potential projects for its agenda after June 2011.
3. The focus of this paper remains on the strategic direction of how the post-June-2011 technical agenda should be developed, rather than on identifying specific projects that the SAC would like to ask the IASB to consider when it sets its agenda in the end of this year or at the beginning of 2011.

IASB Technical Agenda: Strategic Direction for 2011-16

Some factors to consider

4. Determining the most appropriate strategic direction for the IASB technical agenda for the next five years requires
 - (a) making a realistic assessment of IFRS reporting as at 30 June 2011, and;

This paper has been prepared for discussion at a public meeting of the Standards Advisory Council of the IASB.

The views expressed in this paper are those of the authors.

Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRIC or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in IASB *Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

- (b) setting targets/milestones for key accomplishments for 2011-16.

This includes an assessment of the quality of the standards and their interpretation and application in practice. Ultimately, what matters is the quality of the IFRS financial reports being issued.

An analysis of the likely IFRS as at 30 June 2011 is set out in the appendix to this paper¹.

Characteristics of an Effective Financial Reporting System

5. The following characteristics of an effective financial reporting system are proposed. They are derived from the IASB Framework:
- (a) All the pieces fit together according to an underlying logic with the objective of achieving appropriate measures of financial performance, cash flows and financial position ('coherency').
 - (b) The underlying economics are reflected clearly, including disclosure and presentation, and are consistent with the business model of the reporting entity ('transparency').
 - (c) The full spectrum of transactions (and events) having financial consequences is covered ('completeness').²
 - (d) The information is useful to investors and other users in making economic decisions, subject to reasonable cost/benefit constraints.
 - (e) Similar transactions (and events) are measured and presented in a similar manner by all entities and across time periods ('consistency').
This does not mean uniformity; sufficient flexibility and discretion is allowed so as to reflect the underlying economic activity.

¹ A number of major new and revised standards are expected to be issued in 2010 and in the first half of 2011 that will have significant and pervasive effects on many entities. These standards will not become effective until 2013 and beyond.

² This includes consideration of scope exclusions embedded in existing standards as well as topics not currently covered by the standards; for example, common control transactions, and many aspects of accounting for mineral resources.

SAC meeting

- (f) The standards are robust and enforceable. They are clearly written and easily understood, enabling those responsible for financial reporting to understand precisely what is expected of them.
6. SAC members noted that these criteria are consistent with the position taken by IOSCO in evaluating the predecessor IASs for endorsement, namely that the standards must be robust, comprehensive and capable of consistent interpretation and application. The IOSCO endorsement process was arduous and spanned nearly a decade. The IASB has responded systematically to the major issues and concerns raised by IOSCO. IFRS has also been rigorously evaluated by many jurisdictions, including the EU, as part of their due diligence in deciding to adopt the IFRSs. The completion of the current IASB work programme, including the MOU projects, is another milestone in the process for ensuring that the IFRSs meet the criteria for an effective financial reporting system. That is not to say that the standards are complete. On the contrary, they must continue to evolve.
7. Some SAC members also noted that the criteria used to evaluate potential agenda projects were set nearly a decade ago, and should be reassessed in the light of the considerable changes in the financial reporting environment that have occurred since then.³ For example, the continued relevance of convergence as a primary objective should be reconsidered. Also, some stakeholders, including SAC members, stress the need to simplify accounting standards. They note that there is a perception that some of the new and revised standards issued in recent years are more detailed and procedural than they think is appropriate. They question whether the IASB is doing enough to ensure that its standards are

³ In a letter dated 6 November 2009, FEE proposed four criteria relating to:

- i) objective evidence of significant problems in practice or of a significant gap in IFRSs;
- ii) simplification, reduction in complexity or cost reduction, without loss of relevance;
- iii) sufficient resources and capacity of market participants as well as of the IASB and a practical timeline to fully engage all stakeholders; and
- iv) implementation costs not disproportionate to expected benefits.

enforceable: there are concerns that some requirements are difficult to interpret and apply on a consistent basis.

Key factors and assumptions - Full IFRS

8. A number of assumptions must be made about developments in the financial reporting environment. Some factors are under the direct control of the IASB but many are not. This paper makes the following assumptions.
 - (a) The current MOU projects are completed by 30 June 2011.⁴ A number of major new/revised standards taking effect in 2012-16 affect all entities using IFRS. These include financial statement presentation, revenue recognition, consolidation, derecognition, financial instruments, leases and insurance contracts. The changes are significant; and the full effects will only be observed as experience is gained in applying the new standards. Moreover, significant waves of first-time adopters are expected, for example in 2011-13.
 - (i) Target/milestone: confidence in IFRS reporting is maintained.
 - (ii) A 'settling-in' period is provided. Stakeholders are not inundated with discussion papers, exposure drafts and other due process documents.
 - (iii) The effective dates of major new/revised standards may need to be reconsidered, perhaps staggering some to spread the workload.

⁴ The scopes of the major projects under way are likely to be construed very narrowly in order to achieve the June 2011 completion deadlines. This carries the risk that important issues are excluded or not addressed comprehensively. These should be inventoried and evaluated as potential projects for 2011-16.

- (iv) Considerable education, training and other support is provided to interpret and apply new and revised standards properly and consistently. Additional resources may be required.
- (b) The IASB continues to focus on financial reporting by profit-oriented entities in the private sector.
 - (i) Target/milestone: the IFRS convergence efforts of the IPSASB for the public sector continue and are supported. Preliminary research on the financial reporting needs of not-for-profit organisations may be warranted.
- (c) Countries already using, or committed to adopting, IFRSs continue to do so and the trend to IFRS continues. By 30 June 2011 IFRS will be permitted or required for specified entities (eg listed companies) in all the major capital markets. In the USA it is permitted only for foreign registrants. Emerging markets increase in importance. Asia is particularly important.
 - (i) Target/milestone: the US continues to support convergence and a single set of global accounting standards. By 2016, the SEC declares its policy regarding the use of IFRS by US domestic registrants.
 - (ii) Resources are allocated to support the adoption of IFRS in emerging markets, especially Asia.
- (d) The emphasis shifts from ‘signing up’ new countries towards ensuring that IFRS is perceived as an effective financial reporting system. Convergence with national standards is no longer a primary driver of the IASB work programme.
 - (i) Target/milestone: the independence of the IASB is maintained and enhanced.
 - (ii) Priorities and timing reflect the balance expected of an independent global standard-setter.

SAC meeting

- (e) The IASB needs a network of robust national standard-setters (NSS).
The role of NSS continues to evolve and adapt. It is increasingly difficult for the NSS to maintain fully-fledged standard-setting capability when final decisions on the standards and interpretations rest with the IASB and IFRIC. Experience has shown that effective IASB project management is very difficult unless team members are based in the IASB offices. The NSS can also provide an invaluable pool of future IASB members. Regional organisations will also be important. EFRAG is to be commended in this regard and other bodies, such as the Asia-Oceania Standard Setters Group, are to be encouraged.
 - (i) Target/milestones: NSS work closely as the ‘eyes and ears’ of the IASB and IFRIC to identify issues, help in promoting/explaining IFRSs, assisting with PIRs, etc.
 - (ii) An active staff exchange programme is in place with NSS and regional organisations seconding staff to the IASB and possibly vice versa.
 - (iii) The NSS also collaborate with regional bodies, as appropriate.
 - (iv) National authoritative interpretations, carve-outs or other modifications of IFRS are avoided. The IFRIC is adequately resourced to be able to respond on a timely basis.
- (f) The economic recovery will probably be uneven and there are likely to be concerns about impairment of long-lived non-financial assets (both tangible and intangible). Massive government assistance has been provided by some countries in response to the 2008-09 financial crisis. The accounting by recipients could become controversial and politically sensitive.
 - (i) Target/milestone: maintain a strong relationship with G20/financial regulators.

SAC meeting

- (g) Technology significantly affects the way in which financial information is reported and used. XBRL is widely used by listed companies in the major capital markets.
 - (i) Targets/milestones: research the effects of technology to ensure that financial reporting remains relevant.
 - (ii) Assist development of a global IFRS-compatible XBRL taxonomy.
- (h) The process for establishing the IASB agenda and priorities is formalised, including consultation with the SAC and an opportunity for the public to provide input periodically.
 - (i) Target/milestone: a public consultation process is in place for a triennial review commencing in 2013-14.

Key factors and assumptions – IFRS for SMEs

9. The IFRS for SMEs has widespread acceptance throughout the world, although implementation is at an early stage. By 2016, IFRS for SMEs will probably be the most widely-used basis of reporting in the world for this sector. Many SMEs lack extensive internal financial reporting resources and many regions, eg emerging markets, lack adequate infrastructure to support this sector.
 - (a) Target/ milestone: considerable support is required to ensure high-quality implementation.
10. The first periodic revision of the IFRS for SMEs must be undertaken (probably in 2013). It will be particularly challenging, because decisions will be required on the timing and extent of amendments to incorporate major revisions in IFRS that occurred in 2010-11. SMEs have a lower capacity to accommodate substantive changes. However, allowing major differences from IFRSs to continue to exist is undesirable, and could damage the credibility of the IASB and create confusion in the marketplace.

11. Care must be taken to ensure that the marketplace is not confused by the co-existence of IFRS and IFRS for SMEs (eg. there is a risk that IFRS for SMEs is viewed as 'IFRS lite').

Summary

12. Some general observations can be made:
 - (a) A primary objective in 2011-16 is to consolidate and solidify the enormous accomplishments of the first ten years of IASB work (a 'settling-in' period). Preparers and users will likely have little capacity or appetite for major new standards. The IASB should resist the temptation to undertake new standard-setting projects even if IASB resources are available unless they clearly meet the agreed criteria. Strict control is required to guard against 'scope creep' leading to minor projects expanding into major ones.
 - (b) The criteria for evaluating potential agenda projects should be reconsidered in light of current circumstances.
 - (c) The IASB should arm itself with empirical evidence to respond to those who doubt that the IASB's avoidance of extensive detailed rules can achieve the requisite degree of consistency (both within jurisdictions and among jurisdictions).⁵ Post-Implementation Reviews will be a major activity and will be crucial to ensuring that the standards are producing the intended results. The IASB should address what a PIR is expected to entail. It will presumably include an assessment of whether an appropriate degree of consistency is being achieved in practice.

⁵ The academic community could provide invaluable assistance in this regard.

- (d) Timely completion of the conceptual framework is important, including a disclosure framework.⁶ A comprehensive reassessment of the nature and extent of required minimum elements of disclosure also seems important.
- (e) Preserving the independence of the IASB is essential. The IASB technical agenda, and the infrastructure to support it, should reflect its mandate as a truly independent global standard-setter without undue bias or deference to individual countries, regions or special interest groups.
- (f) The IASB requires sufficient capacity, resources and flexibility to deal with the crises and unexpected problems that inevitably occur from time to time.
- (g) Considerable effort is required to protect the reputation of the IFRS and IFRS for SMEs brands as high-quality financial reporting systems that can be used worldwide.

⁶ Once the CFW project is complete it would seem logical to inventory the major inconsistencies between the new CFW and the existing standards, and to assess whether projects should be undertaken to deal with them; for example, measurement, recognition and derecognition conflicts.

Appendix

An analysis by topic of IFRSs expected to exist as at 30 June 2011

** Note: The NSS and EFRAG have undertaken projects on these, and other, topics which can provide valuable input if and when the topic is taken onto the IASB technical agenda.

Topic	Comments	Convergence with US ⁷	Potential Activity 2011-16 ⁸
<u>Conceptual Framework:</u>			
1.Objectives/Qualitative Characteristics	Recent chapter	Substantially converged in a joint IASB/FASB project	Complete remaining chapters
2. Measurement	Recent chapter	Substantially converged in a joint IASB/FASB project	Complete remaining chapters**
3. Reporting Entity	Recent chapter	Substantially converged in a joint IASB/FASB project	Complete remaining chapters
First-time Adoption of IFRSs (IFRS 1)	Recent standard	Not applicable	
Share-based Payments (IFRS 2)	Recent standard	Largely converged but some differences exist	PIR ⁹
Business Combinations (IFRS 3)	Recent standard	Substantially converged in a joint IASB/FASB project	PIR; Common control transactions
Insurance contracts	Recent standard	Substantially converged in a joint IASB/FASB project	Implementation support; (too soon for PIR)

⁷ Assumes the successful completion of current MOU projects

⁸ In addition to the continual care and maintenance required for all standards (eg. annual improvements)

⁹ PIR = post-implementation review

Topic	Comments	Convergence with US⁷	Potential Activity 2011-16⁸
<u>Financial Statement Presentation:</u> 1. Non-Current Assets & Discontinued Operations	Recent standard	Substantially converged in a joint IASB/FASB project	PIR
2. Statement of Comprehensive Income	Recent standard	Substantially converged in a joint IASB/FASB project	(Too soon for PIR)
3. Statement of Cash Flows	Recent standard	Substantially converged in a joint IASB/FASB project	(Too soon for PIR)
4. General presentation requirements	Recent standard	Substantially converged in a joint IASB/FASB project	
5. Disclosure requirements	Recent standard	Substantially converged in a joint IASB/FASB project	Develop a more general disclosure framework, considering the disclosure requirements in other standards; comprehensive reconsideration of current requirements
Mineral Resources-exploration & evaluation expenditures (IFRS 6)	Interim standard	No.	Develop new standard**
<u>Financial Instruments:</u> 1. Classification and Measurement	Recent standard	Substantially converged in a joint IASB/FASB project	(Too soon for PIR)
2. Hedging	Recent standard	Substantially converged in a joint IASB/FASB project	(Too soon for PIR)

Topic	Comments	Convergence with US⁷	Potential Activity 2011-16⁸
3. Impairment	Recent standard	Substantially converged in a joint IASB/FASB project	(Too soon for PIR)
4. Derecognition	Recent standard	Substantially converged in a joint IASB/FASB project	Implementation support; (Too soon for PIR)
5 Presentation	Recent standard	Substantially converged in a joint IASB/FASB project	Implementation support; (too soon for PIR)
6 Classification as debt or equity	Recent standard	Substantially converged in a joint IASB/FASB project	(Too soon for PIR)
7 Disclosures	Recent standard	Substantially converged in a joint IASB/FASB project	
Operating Segments (IFRS 8)	Recent standard	Substantially converged	PIR
Inventory (IAS 2)	Old standard; recently revised	A few major differences, eg LIFO, measurement and reversal of impairments	
Subsequent Events (IAS 10)	Old standard but adequate	Substantially converged except for cut-off date	
Accounting Policies, changes in Estimates & Errors (IAS 8)	Recently revised	Substantially converged	
Revenue Recognition	Recent standard	Substantially converged in a joint IASB/FASB project	Implementation support; (too soon for PIR)
Income Taxes	Old standard	Converged in principle but important differences exist	Unclear**

Topic	Comments	Convergence with US ⁷	Potential Activity 2011-16 ⁸
Property, Plant & Equipment (IAS 16)	Old standard but adequate	Substantially converged on historical cost model (except for impairment; see <i>Impairment – IAS 36 on page 1414</i>). Not converged on revaluation model	
Leases	Recent standard	Substantially converged in a joint IASB/FASB project	(Too soon for PIR)
Post-employment benefits, including pensions & termination benefits (IAS19)	Recently revised	Converged in principle but important differences exist	Reconsideration of measurement of benefit obligation**
Government grants	Old standard; inadequate	US GAAP no better	Develop new standard
Foreign Currency Translation (IAS 21)	Recently revised	Substantially converged except for hyperinflationary economies	PIR**
Borrowing Costs (IAS 22)	Recently revised	Converged in principle but application differences exist	
Related Party Transactions-Disclosures (IAS 24)	Recently revised		
Retirement Benefit Plans	Old standard; inadequate	No	Withdraw or replace**
Consolidation	Recent standard	Substantially converged in a joint IASB/FASB project	Implementation support; (too soon for PIR)
Separate Financial Statements	(Covered at the concepts level in <i>Reporting Entity</i> chapter of CFW)	No	

Topic	Comments	Convergence with US⁷	Potential Activity 2011-16⁸
Interests in Associates (IAS 28)	Old standard but adequate	Substantially converged except conformity of accounting policies	Reconsider whether the equity method is appropriate
Hyperinflationary Economies	Old standard	No	
Interests in Joint Ventures (IAS 31)	Recently revised	Substantially converged but some differences exist	
Earnings Per Share (IAS 33)	Many feel this topic should not be dealt with in IFRS.	A number of differences exist.	If retained, updating/simplification will probably be required**
Interim Financial Reports (IAS 34)	Older standard but adequate	Major difference is discrete versus integral approach	
Impairment (IAS 36)	Older standard	No. Important differences as to timing and amount	Develop new standard
Provisions; contingent assets & contingent liabilities (IAS 37)	Recently revised	No standard of general application on provisions. Important differences exist	PIR
Intangibles (IAS 38)		Cost model substantially converged. No revaluations in US.	Unclear**
Investment properties (IAS 40)	Recent standard	No. Concept of investment property does not exist.	PIR
Agriculture (IAS 41)	Recent standard	No. Important differences exist on measurement	PIR

Topic	Comments	Convergence with US⁷	Potential Activity 2011-16⁸
Fair Value Measurement Guidance	Recent standard	Substantially converged in a joint IASB/FASB project	
Emissions Trading Schemes	Recent standard	Substantially converged in a joint IASB/FASB project	
Rate-Regulated Activities	Recent standard	Converged in principle.	PIR. Comprehensive project may be required
Management Commentary	Recent guidance [not a standard]	Not covered in US GAAP [MD&A covered by SEC]	
IFRS for SMEs	Recent standard	No. US GAAP provides limited relief only on disclosure.	Implementation support; (too soon for PIR)