

31 August 2010

Sir David Tweedie, Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6HX

Dear David

Re: IFRS Advisory Council paper on the post-2011 work plan

The IFRS Advisory Council has spent considerable time at its meetings in November 2009, February 2010 and June 2010 discussing the post-2011 work plan. The results of these discussions have been incorporated into the enclosed paper, which was approved for submission to the IASB unanimously by the Council in June.

We hope that the Board finds the paper useful in its discussions of the future work plan and look forward to discussing the Board's response to the paper in due course.

We also hope that it will be of assistance to the Board in its public consultation process on its future agenda.

Kind regards,

Paul Cherry
Chairman of the IFRS Advisory Council

Enclosed: Paper on the post-2011 work plan

CC: Tommaso Padoa-Schioppa, Chairman of the IFRS Foundation Trustees

The IFRS Advisory Council is a the formal advisory body to the IASB and the Trustees of the IFRS Foundation.

Topic

Post-2011 Work Plan

Overview

1. One of the IFRS Advisory Council's responsibilities is to advise the IASB on agenda decisions and priorities. The IASB will begin its deliberations on its future agenda later this year, and will begin its first triennial public consultation process by 30 June 2011. This is a process that the Council strongly endorsed in the recent Constitution Review. The completion of the IASB's current work plan, and of the international convergence programme reflected by the MoU, will be a major achievement. The size and composition of the IASB will have changed since its establishment. All the founding Board members will have completed their terms, and many of the continuing Board members, including the Chairman, will be relatively recent appointees. It is therefore timely to obtain the views and advice of the Council on the IASB post-2011 work plan.
2. In November 2009, February 2010 and June 2010, the Council discussed strategic considerations in the light of the financial reporting environment. A small working group assisted in developing the agenda papers for the meetings. The papers covered a range of issues, including (i) the characteristics of an effective financial reporting system, (ii) a consideration of the state of IFRS as it is expected to exist in June 2011 and (iii) potential targets and milestones for important accomplishments. Breakout sessions were held for users, preparers and other members. The reports back from the breakout groups were circulated afterwards to confirm their completeness and accuracy. A critical constraint in the Council's discussions is the assumption that all of the current MoU projects will be completed by June

This paper has been prepared by the IFRS 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 IFRS Interpretation Committee 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.

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2011. Council did not discuss the implications for the post-2011 work plan if delays were to occur, and encouraged the Board to monitor closely its progress in meeting the June 2011 deadline.

3. The strategy, work plan and priorities of the IASB should reflect its objectives as set out in the Constitution¹ to:
 - (a) develop, in the public interest, a single set of high-quality, understandable, enforceable and globally-accepted accounting standards based on clearly-articulated principles. These standards should require high-quality, transparent and comparable information that helps capital market participants and other users to make economic decisions;
 - (b) promote the use and rigorous application of IFRS;
 - (c) take account of, as appropriate, the needs of a range in size and types of entities in diverse economic settings; and
 - (d) promote and facilitate adoption of IFRS through convergence with national standards.

Convergence is not an objective as such and is intended merely as an interim step to facilitate adoption of IFRS.

4. Preserving the independence of the standard-setter is essential. The technical agenda and the infrastructure to support the work of the IASB should reflect its mandate as the independent global standard-setter, without bias or deference to particular countries, regions or special interest groups.

¹ The IFRS Foundation's Constitution paragraph 2.

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5. While views may differ on matters of detail, Council's discussions have revealed general agreement on a number of factors affecting the strategy, priorities and main elements of the post-2011 work plan. This paper summarises the main points arising from the discussions, and the consensus of views, for the purpose of communicating them to the IASB.

The financial reporting environment and implications for the IASB

6. Council members identified various factors that are likely to affect the financial reporting environment and the work of the IASB in the next three years.
7. **High-quality financial reporting.** The IASB has been very successful in promoting the adoption of its standards, and IFRS is now accepted as a basis of financial reporting in most parts of the world. The Council believes the IASB should focus more of its activities on ensuring that IFRS is achieving the intended objective of requiring high-quality financial reporting. Convergence with national standards is no longer a prime consideration. This means being responsive to the needs of those already using IFRS, as well as to the needs of those who are in the process of moving to IFRS (first-time adopters).
8. **Focus on investors.** The Council believes that the IASB's objective of serving the needs of investors, creditors and other providers of capital for profit-oriented entities ('investors') should not be changed or enlarged at this time. Nonetheless, it is acknowledged that accounting rules can affect financial stability in certain circumstances. Protecting the financial system (eg through financial stability) is another important function for which the primary responsibility and accountability rest largely with regulators. The interaction of IFRS reporting, which is designed for capital market participants, with prudential regulation needs to be monitored closely and, as appropriate, co-ordinated with the aim that, where possible, financial reports

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prepared in accordance with IFRS satisfy the needs of investors and regulators. In those instances where this is not possible, the objective of serving the needs of investors, creditors and other capital market participants must be given primacy.

9. **A period of calm in issuing new standards.** Many major new or revised standards will come into effect by 2013 (or sooner if early adoption is chosen). Implementing and responding to these changes will be a significant task for everyone involved in preparing, auditing and using IFRS financial reports (eg training and systems changes). The changes are significant and their full effect will become evident only with experience in interpreting and applying them. The IASB should be prepared to respond quickly to implementation issues as the new standards come into effect. A ‘sweep’ may be needed to deal with issues not dealt with in the effort to meet the June 2011 deadline for completion of the MoU projects, and also to deal with implementation issues if it turns out that the standards are not achieving the intended results. The Council believes that a significant part of the IASB’s efforts after 2011 should be focused on supporting the consistent application of the new suite of standards. The criteria for selecting and prioritising agenda proposals should recognise the need for the IASB to support, clarify and improve the 2013 platform. A prime focus should be on whether the objectives of the standards are being met, and on prioritisation of implementation, application and other operational issues. An important consequence of this change in focus is that the IASB and the IFRS Interpretations Committee must be adequately resourced to respond quickly as issues arise. It also means saying ‘no’ to some project proposals even though they have merit.
10. **Consistency and quality.** The most critical factors now are the consistency and quality of the information reported using IFRS. The Council believes that a primary activity should be ensuring that the standards are consistently interpreted and applied, and that they are producing the intended results. The

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ultimate objective is that financial reports be prepared in full compliance with IFRS as issued by the IASB. Post-implementation reviews will become a major continuous activity, and all existing standards might be reviewed periodically (for example, every 10 years) to assess their continued effectiveness. The nature, extent and resource requirements of the post-implementation reviews also need to be determined. Research is also needed to identify any important topics of global significance that are not adequately dealt with in the standards – a ‘gaps analysis’. Other organisations with an interest in IFRS such as national standard-setters may be well positioned to assist the IASB in these activities.

11. **An updated conceptual framework**. Progress on major new projects, resolution of conflicts and inconsistencies in existing standards, and reducing complexity without sacrificing quality are highly desirable, but are increasingly problematic under the current Framework. This affects many important issues relating to recognition, derecognition, measurement, presentation and disclosure. The Council believes that updating the conceptual framework and developing a disclosure framework are essential. They would provide an appropriate ‘road map’ for the future evolution of principle-based standards, help to resolve conflicts and inconsistencies in the current standards, and enable a comprehensive review and, it is to be hoped, rationalisation of disclosure requirements. Completion of the disclosure framework should not be delayed to wait for completion of other chapters of the conceptual framework.
12. **Outreach activities**. Widespread input, especially from users, and more feedback from the IASB on decisions and actions taken or not taken, are required on all major projects. However, many constituents have very limited capacity for participating in new standard-setting projects, and many are finding it increasingly difficult to participate in the IASB’s formal due process (eg submitting comment letters). Many reporting entities, especially SMEs, have limited internal reporting resources. IFRS-related infrastructure

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in many regions is lacking. It is unrealistic for everyone to ‘deal with London’, especially with the widespread use of IFRS for SMEs, and the increased economic significance of the emerging markets. The Council believes that enhanced outreach activities are essential (eg round tables and field visits, and possibly regional IASB offices). Greater use should be made of technology (eg web-based training and surveys).

13. Regional initiatives to support IFRS and the work of the IASB should be encouraged and supported. Close working relationships with national standard-setters remain essential. National standard-setters are an important resource for the technical work programme and can act as the ‘eyes and ears’ of the IASB.
14. **The future of financial reporting**. The types of users of financial reports and their needs are evolving with changes in market conditions (eg the increasing significance of large pension plans, investment funds and other sophisticated institutional investors) and with advances in technology such as developing a global XBRL taxonomy. It is important that the IASB should monitor these trends and developments. This information will help the IASB to reassess its strategic directions to ensure that IFRS remains relevant (protecting the IFRS brand).
15. **Managing the relationship between IFRS and IFRS for SMEs**. The coexistence of IFRS and IFRS for SMEs could cause confusion in the marketplace if not carefully managed. The IFRS for SMEs should be reassessed and revised periodically in the light of changes in IFRS that have occurred, and in response to practical experience in the interpretation and application of the IFRS for SMEs and to changes in the types of user and their needs in this sector.
16. At the Advisory Council meeting on 21 June 2010, those members attending unanimously approved this paper for submission to the IASB.

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The post-2011 work plan

17. The Council's advice to the IASB can be summarised as follows:

Basic policies

- (a) Focus on serving those who have adopted or wish to adopt IFRS. Convergence is no longer a prime consideration.
- (b) Retain the current objective of serving the reporting needs of capital market participants for profit-oriented entities.

Short- to medium-term objectives

- (c) Provide a period of calm in issuing new standards to bed down the numerous new and revised standards coming into effect. Stand ready to assist in resolving implementation issues. Assess proposals for new standard-setting projects against strict selection criteria. Provide some capacity and flexibility to deal with unforeseen urgent issues without disrupting the work plan.
- (d) Allocate significant resources to ensuring that the standards are interpreted and applied with an appropriate degree of consistency, and that they are producing the intended results. Post-implementation reviews become a significant activity.
- (e) Expedite completion of the conceptual framework project and developing a disclosure framework.
- (f) Monitor trends and developments that are likely to affect financial reporting in the future.

Interaction with constituents

- (g) Manage the relationship between IFRS and IFRS for SMEs. The first periodic update of IFRS for SMEs will be particularly challenging because of the recent spate of new or revised standards.

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- (h) Continue and expand outreach activities with particular emphasis on users and emerging markets.

This approach would allow the new Board to become better oriented before making extensive longer-term commitments, and would ease the transition from the old to the new Board.