

## **Overview report of the IFRS Advisory Council Chairman to the Trustees on the June 2011 Council meeting**

1. The Advisory Council met on 20-21 June. This overview report highlights items of particular interest to the Trustees. A copy of my full report on the meeting is attached.

### ***General update by Chair and Vice-Chairs***

2. Mr Cherry reported that the transition to IFRSs appears to be going well in Canada. Mr Macek reported that the recent annual IFRS forum in Indonesia attracted more than 300 participants from 21 countries. Mr Marteau reported that extensive outreach activities have been conducted in Europe on the current IASB work programme.

### ***Update on IASB Activities***

3. Sir David's report noted that the IASB cannot cater to any single region and must balance the needs of all regions. He encouraged efforts of regional bodies to co-ordinate the input of views within the region before taking them to the IASB.
4. Members generally felt that good progress has been made to date. Re-exposure of the revenue recognition proposals is welcomed. A concern was expressed about one board issuing proposals ahead of the other. This creates the risk that further changes will occur when the second board catches up and is a disincentive to early adoption of the first standard. If we want a joint standard, we should produce an exposure draft together and then produce a final standard together. The projects touch on fundamental issues, but it is not always clear

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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.

what principles are being adopted (eg risks and rewards or transfer of control).  
It is preferable to develop the concepts first.

#### ***EFRAG outreach activities***

5. Participants generally supported the revised revenue recognition proposals but there was ‘massive rejection’ of the leasing proposals. There was a unanimous view that not all leases are financing. A single approach for lessees cannot faithfully reflect the underlying economics. The current standard is preferred. An IASB member expressed dismay, saying that IASB outreach had shown broad acceptance of the proposals.

#### ***SEC update***

6. The Commission still expects to make a determination in 2011 on IFRSs. The staff paper on a possible approach to adoption was not deliberated by the Commission. A member asked a question regarding the Commission’s processes and Mr Goldschmid observed that in his experience it is unlikely a staff paper is issued if the Commissioners have fundamental objections to it.

#### ***IASB post-2011 agenda***

7. Hans Hoogervorst provided an overview of the draft consultation paper. The strategy must be sensitive to the needs of new areas using IFRSs such as Asia-Oceania and emerging markets. The draft paper takes both a ‘top down’ (developing versus maintaining) and ‘bottom up’ approach (eg constraining factors).
8. Members’ comments were consistent with the views in the Council’s paper on the post-2011 agenda and did not reveal any fundamental concerns, except to observe that there is no overall plan of what needs to be looked at over the next 5- and 10-year periods. Respondents need a sense of the total agenda, which should be integrated with the outcome of the strategy review. It was also suggested that we need a very clinical, intelligent look at the overall process of standard-setting.

#### ***Advisory Council performance review***

9. Charles Macek presented the final draft report, which he described as being an ‘aspirational’ list of proposed goals and objectives. Council unanimously

approved the document, subject to final editorial review. The challenge now is to implement it.

### ***Translation***

10. Translation poses challenges in many countries and translations into various languages create the risk of misunderstandings. The objective is to manage the translation process to achieve quality and consistency of translations and convey the same meaning as in English.
11. Several members commended the efforts of the translation team. The time required for translation and incorporation into local laws and regulations must be taken into consideration when the IASB sets effective dates of new standards. There may be a risk that the local legal version, translated as required by law, becomes the basis of any court case. However, if most people in the jurisdiction have used the original English text, the local translated version may not have been tested in the field.

### ***Cross-cutting issues***

12. The conceptual framework is the logical place to deal with cross-cutting issues that affect more than one standard. Members give high priority to the framework project, although it cannot be expected to resolve all of the inconsistencies. Some inconsistencies may be warranted, in which case they should be identified and justified.

### ***Use of underlying earnings and non-GAAP measures***

13. Such reporting practices are not inherently bad and do not necessarily imply that IFRS is deficient. Some measurements analyse the GAAP financial information. It is up to regulators to regulate such disclosures that are outside the financial statements. Certain aspects might be dealt with in the framework project and in addition, post-implementation reviews could assess whether a standard had affected the use of non-GAAP measures.

### ***Who is implementing IFRSs—and how? (IFRS ‘branding’)***

14. Enforcement of the standards is the responsibility of regulators. Members generally agreed that the IASB must aggressively protect the IFRS brand and guard against false claims of compliance of national standards with IFRSs. The
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IASB could gather and publish information on the extent to which national standards have, or have not, adopted IFRSs as issued by the IASB.

***Monitoring Board review and Trustees' strategy review***

15. Makoto Sonoda provided an update on the Monitoring Board review and gave some preliminary feedback on the comments that they had received. Bob Glauber gave an overview of the Trustees' strategy paper.
16. Members generally object to the Monitoring Board having influence on, or being able to add items to, the IASB agenda, because this might impair the IASB's independence. The Monitoring Board's role should be restricted to 'monitoring' the Trustees. We need to draw a clear line around the role of the Monitoring Board to avoid 'scope creep'. The Monitoring Board should not have a larger role in the appointment of the IASB Chair. Separation of IASB staff and Foundation staff should be considered.
17. Most members felt the Trustees' report strikes the right balance on the issues. Some members urged caution in attempting to integrate XBRL with standard-setting. A concern was expressed that the review fine-tunes where we are today and how to take that forward, rather than asking fundamental questions about where we want to be. A wider review could consider an ideal framework for a global standard-setting body, and then work towards identifying and closing gaps in the current position.
18. The Chair concluded by remarking that the break-out groups had shown strong support for the direction that the Trustees are proposing. He commended the Monitoring Board and the Trustees for their efforts to collaborate and to co-ordinate their reviews. The Council is willing and ready to assist the Trustees and the Monitoring Board.

***Integrated reporting***

19. An IIRC discussion paper is expected in July for comment by October 2011. The objective is not to produce less information but to improve how the information is presented, making it useful and insightful and also making it more user-friendly.
20. Members commented that institutional investors are focused on financial measurements and seem to dismiss non-financial information. The director

community is also likely to fear integrated reporting as being another way of requiring more compliance. The challenge of promoting integrated reporting is to get institutional investors on board and to address the concerns of the director community.

***The role of academic research in standard-setting***

21. Holly Skaife conducted an education session on academic research and related methodology on financial reporting issues. Members observed that more deductive research dealing with basic concepts would be useful to standard-setters. It may be necessary to create incentives (eg funding) for academic research. Perhaps the IASB should establish an academic advisory council to foster research etc.