

Topic

Report to IFRS Foundation Trustees and IASB by Paul Cherry, IFRS Advisory Council Chairman

1. The Council met in London on 21-22 February. Members particularly welcomed the increased participation of Trustees and IASB members.

Update on IASB activities

2. Sir David reported on the major projects and reiterated the Board's determination to complete them by 30 June 2011 if possible. The scope of the leases project may be narrowed to deal primarily with lessees, which was the main reason for the project in the first place. Members' comments included that the financial instruments package is incomplete until macro hedging is dealt with. Members stressed again that timely completion, particularly on the financial instruments projects, is important, but that quality is more important, and they asked whether the deadline could be extended to the end of the year.

Trustees' strategy review and Monitoring Board review

3. Mr Glauber made a presentation on the four main areas of the Trustees' strategy review: mission, governance, processes and funding. Members' comments included that:
 - the mission should not be changed in any fundamental respect at this time;
 - the public interest is best served by rigorous due process that is transparent and broadly inclusive of all stakeholder groups;

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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- the current three-tier governance structure is appropriate (although views might change depending on the outcome of the Monitoring Board review). The respective roles of the Monitoring Board and the Trustees should be more clearly defined in an effort to avoid duplication of roles.
 - rigorous, transparent oversight of IASB due process by the Trustees is welcomed; and
 - a broad-based, secure source of funding is highly desirable but not necessarily to the exclusion of voluntary contributions provided that they are not so significant individually as to impair independence.
4. Mr Sidwell outlined proposals for a rigorous formal ‘certification’ system whereby the Trustees would certify compliance with due process on standard-setting projects. Some members cautioned against over-engineering the process, noting that the process must be continuous at each key milestone, rather than only at the conclusion of a project, in order to avoid wasted time and effort.
 5. Mr Kono made a presentation on the Monitoring Board review of the IFRS Foundation. The primary focus is on independence and accountability issues. Members supported this focus but believed that the ability of the Monitoring Board or the Trustees to make agenda decisions would impair the independence of the IASB. Members urged the Monitoring Board to enhance the transparency of its operations. Members noted that the proposed enlargement of the Monitoring Board would not respond to concerns of some that it consists solely of securities regulators.
 6. Members observed that both reviews are timely. Given the important interrelationships, close coordination of both reviews is essential in order to achieve integrated and cohesive conclusions on all essential points. Members were assured that this is the intention. Mr Cherry noted that the Council will meet again before the reviews are concluded and invited the Trustees and the

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Monitoring Board to consult the Council on their tentative conclusions at the June meeting.

Public consultation on the post-2011 agenda

7. Mr Stewart provided an update on the pending public consultation regarding the post-2011 technical agenda and priorities. He thanked those members who had provided comments on a working draft. The consultation paper is expected to be published in early July with a comment period of approximately four months. This timing enables the new IASB chairman and vice-chairman to be involved. A lively discussion ensued as to the best approach for the public consultation. Agenda-setting should be a 'shared responsibility' and is essential to the continued success of the IASB and to the relevance of IFRSs. Some members expressed concern that the current draft is too general, because it invited open-ended suggestions for potential projects and activities without any mention of, for example, resource constraints and existing commitments. Sir David and Mr Cooper responded that the open-ended approach is intended to avoid giving the impression that the Board had already made preliminary decisions, which is not the case, and to encourage stakeholders to provide their views. Members observed that a second round of consultation might be necessary if respondents' views differed widely. Mr Stewart responded that a second round of public consultation is not contemplated. The Council and the Trustees will be consulted as part of the IASB's due process before individual major projects are added to the agenda. A member queried whether the consultation should await the SEC decision later this year on the adoption of IFRSs. The responses from Board members indicate that they believe that the consultation should proceed as planned and should not prejudge the SEC's decision.
8. Various suggestions were made to improve the paper. Respondents would be interested in knowing the current Board's assessment of the 'state of IFRS' and of what the most pressing issues would be once the current work plan was completed. Sir David noted that the IASC had done something similar when the

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IASB came into existence. New and continuing projects could be classified according to their nature: for example, care and maintenance of existing standards, post-implementation reviews, new standard-setting projects and research activities. In addition, an indication could be provided of how much of the Board's resources and capacity is likely to be available for each category. This would avoid misunderstanding as to the potential extent of certain activities such as research. It would be helpful to include not only a brief explanation of what a project might entail but also the pros and cons for undertaking it now, together with an example of how the Board had applied its agenda selection criteria in evaluating a major project. Most members felt that the document should include something like a preliminary work plan, including some options and alternatives. This would give respondents a sense of what capacity might be needed for new projects and would make it easier for them to provide constructive input.

9. Mr Cherry closed the session by noting that the proposed timing gives the Council the opportunity to discuss the topic again at its June meeting.

Post-implementation reviews

10. Mr Stewart and Ms Yeoh outlined the approach proposed for the IASB post-implementation reviews (PIR). PIRs will be conducted only on new standards. As proposed, the primary focus will be on the major contentious issues that were identified when the standard was being developed and on any unexpected costs or implementation problems that had been encountered in practice. A draft report would be published that might include recommendations for proposed amendments of the standard or for additional guidance.
11. Mr Shroeder, the PIR Leader for the US Financial Accounting Foundation, highlighted the major differences in their proposed approach. Whereas the IASB views PIRs as part of the standard-setting due process, the FAF sees them as an oversight/governance issue. The focus will be on whether the standard has met its intended objectives rather than on dealing with contentious technical

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issues. Accordingly, PIR reports will not include recommendations on technical matters. FASB staff will be seconded to the FAF on a full-time basis to conduct the PIRs. The scope will include existing standards as well as new ones. Draft PIR reports will be shared with the FASB Chairman but will not be made public.

12. Members were asked to discuss how the PIRs should be conducted, whether external parties should be involved in conducting the reviews and what a reasonable time frame would be for completing them. Members supported the PIR initiative but believed that the reviews should also assess the effect of the standard upon financial reporting—had it produced the intended results or were there significant unintended results? Looking only at contentious issues and unintended costs or implementation problems was too narrow a focus. The IASB should also be more accountable for adherence to due process. These aspects entail an evaluation of the standard-setter's performance. Some members preferred the FAF approach of separating the reviewer from the standard-setter, noting the perceived conflict of interest if the standard-setter evaluates its own performance. However, on balance, most members accepted the arguments for having the PIRs done by IASB staff provided that the scope of the reviews was broadened and that there was transparency and a rigorous review process.
13. Reviewing the technical content of the standard is clearly part of the standard-setting function. Members generally agreed with the elements of the proposed review programme for dealing with contentious issues and suggested some reordering and refinements, including an emphasis on outreach activities at an early stage. These early outreach activities would include both those who had supported the standard when it was being developed and those who had opposed it. Did the standard affect the use of non-GAAP performance measures? Had local interpretations been issued since the standard was issued? A pre-review survey could invite stakeholders to submit issues. Information, including a list of known contentious issues, could be posted on the website and stakeholders could be invited to submit additional issues for consideration.

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14. There was general agreement that national standard-setters should play a useful role in gathering and analysing data from their local stakeholders' group. IASB staff should also be directly involved in some of these activities to ensure a consistent application of IASB due process throughout the entire review process. A PIR Steering Committee might be formed to oversee the reviews and ensure that a consistent approach was taken. Suggested time frames for the review ranged from 6-24 months, depending upon the complexity of the standard and the number of contentious issues.

Performance review

15. Mr Macek updated members on the activities of the working group. Members were satisfied that the paper prepared by the working group had captured the salient points and generally agreed with the recommendation derived from the report. A member noted that the Council's 'comparative advantage' is the diversity of its members and that we should try to take maximum advantage of it. A concern was expressed that Council's role in technical matters had been understated. Some technical issues, such as cross-cutting issues, conceptual issues (eg the conceptual framework) and trends in financial reporting also raise strategic issues, but Council should avoid getting into operational and standard-specific technical issues unless they also entail strategic considerations (eg effective dates). Council's mandate should also include 'peripheral issues', especially outreach and communications, education, consistent interpretations and brand protection, although a more appropriate label is needed to reflect their importance, eg 'additional strategic issues'. Views were divided on the merits of voting and other attempts to assess the balance of differing views. Feedback from the IASB and the Trustees is important, especially when Council's advice has not been accepted.

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16. The working group will reconvene by conference call and will bring the final paper and recommendations to the June meeting. Further revision may be necessary depending on the outcomes of the strategy and Monitoring Board reviews. The question of voting and consensus-seeking will be referred to the Agenda Committee as a potential agenda item.

Effective dates and transition provisions

17. Mr Stewart and Ms Lian gave a preliminary analysis of the responses that the IASB has received on its request for views on effective dates and transition requirements. It is difficult to generalise, especially when the content of the standards is in some cases not yet known. Many members preferred a ‘big bang’ approach, except that standards dealing only with presentation should be adopted as soon as possible. 2015 was proposed as a reasonable mandatory effective date. Some members preferred a sequential approach. It is difficult to prohibit early adoption when presumably the objective of the new standard is to significantly improve financial reporting. A concern was expressed, however, that giving a free choice of early adoption on individual standards risks ‘cherry-picking’ and standards that are interrelated should all be adopted at the same time. It was recognised that first-time adopters present additional challenges and will require special consideration so as to avoid creating unnecessary impediments to adopting IFRSs. Convergence with FASB was not seen as critical except possibly for issues and industries having global significance. Views differed as to the nature and extent of disclosures that should be made concerning the effect of standards that an entity has not yet adopted. Users argued for pro-forma quantitative information as well as qualitative disclosure. Others suggested that quantitative information should be disclosed as soon as it is available internally to senior management. Still others would simply rely on the existing disclosure requirements in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

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18. Mr Teixeira observed that the views expressed in the breakout groups for preparers, users, auditors and standard-setters were very consistent with those expressed in other outreach activities.
19. Mr Cherry closed the discussion by suggesting that the staff should give further consideration as to whether the existing IAS 8 disclosure requirements would meet users' needs when multiple major new standards have been issued but have not yet been adopted.

XBRL

20. A report on IFRSF XBRL activities was distributed to members in advance but was not discussed at the meeting.