

# AGENDA PAPER

IFRS Foundation Trustees meeting

London

13 April 2012

Agenda ref 5

**To:** IFRS Foundation Trustees

**From:** Paul Cherry

**Re:** Report of the IFRS Advisory Council Chairman

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## **Report of the IFRS Advisory Council Chairman to the Trustees and IASB on the February 2012 Council meeting**

1. The Advisory Council met on 20-21 February 2012. This report highlights items of particular interest to the Trustees and the IASB.

### ***General***

2. This was the first meeting of the new Council. Substantially all members and observers, including thirteen new members, attended. A separate induction session was held for new members.
3. It was a heavy agenda lasting a full two days. Members expressed a high level of satisfaction with the topics discussed and greatly appreciated the participation of five Trustees, including Chairman Prada, and six IASB members, including the Chair and Vice-Chair.
4. Given the widespread and growing use of IFRSs throughout the world, the Council is of the view that the focus should now shift to more serving the needs of those who have adopted or are in the process of adopting IFRS and on achieving a high level of consistent interpretation and application of the standards. The breadth and depth of Council's membership puts us in a strong position to provide advice on these and other matters.

***Update on IASB Activities***

5. Hans Hoogervorst reported on the status of the four remaining joint IASB/FASB projects. The IASB and FASB continue to give top priority to their timely completion but significant issues remain to be resolved and, as a result, progress had slowed down. Members agreed that timely completion of these projects should be given top priority and that every effort should be made to converge on key points, especially regarding impairment of financial assets, in order to achieve high quality international accounting standards.

***Update on US position regarding adoption of IFRS***

6. SEC Chief Accountant James Kroeker updated members on the work under way relating to the use of IFRS by domestic issuers. The views he expressed were his personal views and not those of the Commission. There has been a significant shift in the staff's view in favour of developing a framework for the eventual adoption ('endorsement') of IFRS for use by all domestic issuers rather than a 'condorsement' approach. In his view, such an overarching framework is an essential prerequisite. The final report is being reviewed and is on track to be issued later this year. Mr Kroeker is uncomfortable with the idea of allowing domestic issuers the option of using IFRS but might be sympathetic to voluntary early adoption once an overarching framework is in place.

***Financial instruments***

7. Sue Lloyd provided an update on convergence with US GAAP on impairment, hedging and classification and measurement. IFRS 9 is generally considered to be working reasonably well. The intention is to reopen the debate only on a few key issues to achieve greater convergence with US GAAP. Exposure drafts on classification and measurement and impairment could be issued in the second half of 2012, as well as a discussion paper on macro hedging. Members generally supported the goal of convergence but some expressed a concern about increased complexity if a third category were to be introduced whereby some debt instruments would be carried at fair value through OCI. Some members suggested that the Board should also reach out to non-financial institutions

because they could be significantly affected and argued that an expected loss model might be too complex and too onerous for trade receivables.

### ***Trustee and Monitoring Board reviews***

8. David Loweth has been appointed as Director of Trustee Activities and Ms Yael Almog is the new Executive Director of the IFRS Foundation.
9. Mr Prada highlighted certain conclusions in the Trustees' strategy review, including the importance of securing stable funding and the development of a research capacity to be shared with national standard-setters, academics and other interested parties. The mission and mandate of the organisation have not changed. Mr Glauber noted that the Trustees will seek a mechanism to secure the support of regulators, auditors and other organisations in achieving a consistent application of IFRSs. A member noted that emerging economies and start-up entities need more implementation guidance in applying IFRSs properly. Another member supported principle-based standards, but said that they require appropriate feedback mechanisms so that the IASB and the Interpretations Committee can respond on a timely basis to issues that arise in practice. Mr Sidwell noted that the Trustees are close to concluding their review of the Interpretations Committee.
10. Makoto Sonoda reported on the final report of the Monitoring Board (MB) review. The MB will be limited to capital markets authorities and new members drawn from jurisdictions that (i) use IFRSs and (ii) provide financial contributions to the development of IFRS. Selection criteria for future IASB Chairs will be agreed by the MB and the Trustees; the Trustees will develop a shortlist of candidates; the MB will be consulted on the shortlist and the final selection will be made by the Trustees.
11. Mr Sidwell provided an update on the Due Process Oversight Committee.
12. The Chairman congratulated both groups for the successful conclusion of their reviews and for the extensive consultation and co-ordination that had culminated in the issue of the two final reports as a single package.

**IASB agenda consultation**

13. Members were given an overview of the comments received on the Request for Views. Mr Hoogervorst noted that the consistency in views expressed by respondents was remarkable. There was broad agreement with putting the emphasis on maintaining existing standards, including post-implementation reviews and responding to issues arising in practice, and completion of the conceptual framework (CFW) (including a disclosure framework). A less ambitious agenda has been described as providing a ‘period of calm’ in standard-setting but it will in fact by no means be a period of calm. There was also broad support for giving top priority to completion of the remaining four joint projects. This may constrain the IASB’s capacity to take on major new projects in the near term. However, Mr Mackintosh observed that those projects may not require much IASB agenda time during the period when due process documents have been issued and are awaiting comments. Specific standards-level projects that had attracted support as being high priority include performance reporting/OCI, business combinations under common control, agriculture and rate-regulated accounting. However, Council urged caution in evaluating priorities at this early stage. Moreover, as a member pointed out, circumstances could change in the next 12-18 months that could affect the evaluation of priority items.
14. Break-out sessions were asked to address three issues:
- the relative emphasis on maintaining IFRSs, developing the CFW, research and standards-level projects;
  - using an evidence-based approach for agenda decisions; and
  - factors to consider in evaluating agenda items (a matrix approach).
15. The four groups expressed remarkably similar views:
- Complete the remaining four joint IASB/FASB projects.
  - Update the CFW, but the approach needs to be reconsidered to ensure there are realistic deliverables and a reasonable time frame.

- Research is needed to consider both sides of the argument and weight the evidence before (and throughout) every project to ensure that it is addressing relevant practical issues, that there are feasible solutions within reasonable cost/benefit constraints, and that the time frame and resource requirements are appropriate
- A robust agenda-setting process is important and should also apply to significant changes in the scope of a project and to decisions to delete or suspend a project. The matrix is a useful tool. Additional factors for consideration were suggested, including the time frame, estimated costs to the IASB and preparers, estimated benefits to users and urgency. The weight given to each factor will depend on the topic. Judgement will be required in evaluating the ‘business case’ for a project.

***Improving disclosure: improving quality and reducing clutter***

16. Presentations were made on a number of projects that currently under way, dealing with various aspects of disclosures, primarily footnote disclosures:
  - EFRAG/ANC/ASB and FASB: Mario Abela/Ron Lott
  - ICAS/NZICA ‘Losing the excess baggage—reducing disclosures in financial statements to what’s important’: Isobel Sharp/Amy Hutchinson
  - FRC ‘Cutting the clutter’: John Hitchins/Roger Marshall
  - ANC ‘Proposals to simplify accounting obligations for ‘small listed companies’ in Europe’: Jerome Haas
  - IASB staff update on disclosures: Alan Teixeira.
17. These projects differ in important respects. Some aim to develop a framework for footnote disclosures to improve the quality of the information conveyed, putting the emphasis on relevance, materiality and effective communications rather than on compliance with disclosure checklists and ‘boilerplate excess’ verbiage. For the FASB, for example, this could result in a Concepts Statement. Others seek more immediate relief by eliminating certain disclosures, for example, redundant items, ‘encouraged’ items, certain comparative information, reconciliations and information that is unchanged

from what was discussed in the previous period. All groups agreed that two things are essential to any solution: (i) an enhanced appreciation of how the concept of materiality should be applied in evaluating potential footnote disclosures; and (ii) a significant change in behaviour of all players in the financial reporting chain including preparers, auditors and regulators.

18. Break-out sessions discussed the various projects that are under way and what role, if any, the IASB should play. The reports back revealed a high level of agreement on a number of key points. Council reached consensus that:

- Improving the quality and reducing the clutter in footnote disclosures should be addressed as a matter of urgency.
- Quick fixes should be resisted. The topic is complex. A holistic, structured approach is required, including agreement on the purpose/role of footnote disclosures. The assistance of other organisations is needed. It is probably more realistic to aim for a medium-term solution.
- Differential disclosure requirements based on size is not supported. Solutions should be sought that would apply to all reporting entities using IFRSs.
- In the near term, guidance on the application of materiality to footnote disclosures would be useful. This might usefully build on the distinction between the materiality of line items in the primary financial statements and the evaluation of related information disclosed in the footnotes.
- The IASB should take a leadership role. Convening a forum of interested parties could be a useful start. The IASB might form a Working Party.

***How does the IASB consult?***

19. Alan Teixeira, Hilary Eastman and Mark Byatt gave a presentation explaining the extensive steps taken at the inception and throughout a project to ensure that stakeholders are kept informed of the IASB's activities and are given the opportunity to provide input to the standard-setting process and related outreach activities.