

AGENDA PAPER

IFRS Foundation Trustees meeting

Washington DC 12 July 2012

Agenda ref 3

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Memorandum

To: IFRS Foundation Trustees and IASB

From: Paul Cherry

Re: Report of the IFRS Advisory Council Chair

1. The Advisory Council met on 18-19 June 2012. This report highlights items of particular interest to the Trustees and the IASB.

Update on IASB activities

2. Hans Hoogervorst expressed optimism that the end of the remaining four joint projects might be in sight. Important further progress on convergence has been made, in particular on the Leases project.

IFRS adoption in the US and Japan

3. Ms Erhardt reported that the final SEC staff report on the work carried out under the workplan is expected within weeks. Mr Sonoda outlined the process in Japan to evaluate the implications of requiring IFRS for listed companies. There has been a slowing down. The decision process that began in 2010 is likely to span 5-7 years. Members from Japan reported that many users and preparers there remain strongly supportive of IFRS. Members expressed dismay that 5-7 years is too long; other countries had done it more quickly.

Trustee activities

4. Mr Prada reported on various liaison meetings, including in China and Japan. The Trustees are looking at ways to increase the interaction between the Foundation and IOSCO, in particular related to IFRS implementation matters. Mr Glauber reported on progress in making appointments of Trustees and IASB members. Mr Sidwell updated members on activities of the DPOC and proposed amendments to the *Due Process Handbook*.
5. A member reported there is a strong movement in ASEAN to develop a single market and related regulatory infrastructure. This could provide further impetus for adopting IFRS.
6. Staff confirmed that data will be gathered and published showing which countries had adopted IFRS as issued by the IASB and which had carve-outs etc. This would provide greater transparency on the basis of reporting being used in various jurisdictions. Members agreed this would be useful.

Updates to IASB's due process

7. Members were updated on proposed amendments to the IASB *Due Process Handbook*, including the DPOC protocol. Break-out groups were asked to discuss the role and responsibilities of the DPOC, the due process protocol, the research programme and the distinction between implementation/maintenance (narrow-scope projects) and comprehensive projects. Members support the importance of robust due process and the general direction of the proposals. However, a number of suggestions were made to enhance and clarify the proposed amendments. Appendix A includes some additional comments made at the meeting. A summary of the reports back of the discussion groups will be prepared and circulated.

Disclosures/complexity

8. Members received a summary of the break-out sessions at the previous meeting and the consensus views on several important points. Members were advised that the IASB

intends to convene an international forum of interested parties and agreed to monitor future developments.

IASB agenda consultation

9. Members commended the quality of the analysis of the comments received and the recognition of the Council's input.
10. Members generally agreed with the IASB's proposed response and priorities but cautioned that the IASB should also take into consideration other developments that could influence the evolution of financial reporting such as XBRL, integrated reporting and sustainability reporting.

Interaction of IAASB and IASB

11. Messrs Schilder and Montgomery commented on recent initiatives of the IAASB including proposed changes in the content of auditors' reports and the disclosure of going concern considerations and other material uncertainties affecting the reporting entity. There is an IAASB/IASB liaison working group and the two boards have done joint outreach session on matters of mutual interest. Collaboration is needed to achieve holistic changes in the financial reporting model.

External involvement in IASB standard-setting process

12. The objective of the session was to identify what improvements, if any, are needed to ensure that the various stakeholder groups have an adequate opportunity to provide input on IASB projects. Representatives of users, national standard-setters, academics, preparers, auditors, securities and prudential regulators made brief presentations. The tone of the session was very positive and in the nature of suggesting potential enhancements rather than pointing out existing flaws. In particular, the IASB's outreach efforts and transparency were praised. Members saw little risk that the IASB's processes would impair, or be seen to impair, its independence but they think that current convergence and other bilateral arrangements between the IASB and individual national standard-setters have outlived their usefulness. Some combination of

regional/geographical channels and industry/topic matter expertise is probably needed and more effort should be directed at the emerging markets. To some extent the onus rests with stakeholders to help the IASB identify the most effective and efficient channels of communications (a bottom-up approach). Appendix B includes some additional comments of presenters and Council members made at the meeting. A summary of the reports back of the discussion groups will be prepared and circulated.

13. In response, Mr Hoogervorst said that multilateral discussions would need to emerge, involving the IASB and regional groups and/or major jurisdictions. He also agreed that the special access to the IASB that FASB, ASBJ and EFRAG have enjoyed must change and new arrangements must be developed that are inclusive yet compact enough to be workable.

Going concern considerations (Lord Sharman report)

14. Roger Marshall briefed members on actions being taken in response to the Sharman report and others. Sharman recommended enhanced processes in three areas: management's review of the business, audit committees and auditors' reports, noting that banks are a special case. This has resulted in enhanced dialogue between the IAASB and IASB. The objective is to require more disclosure in financial statements, management commentary and the auditors' reports regarding material risks and uncertainties that could affect the reporting entity's ability to continue as a going concern. Members expressed the view that this may be more of a governance issue; and that early warning signals to investors would be useful but must not become so commonplace or vague as to be meaningless. The suggestion was made that perhaps the IFRS Interpretations Committee or the IASB could provide guidance on disclosures relating to material uncertainties.

Breakfast meetings

15. Breakfast meetings were held with investor representatives and emerging markets representatives. These meetings are very useful. Longer sessions may be needed in future.

Optional education sessions:

16. The Korean ASB made a presentation on research they had undertaken regarding potential amendments to IAS 21. The issue is the translation of long-term monetary items in rare circumstances in which the closing rate at the balance sheet date may not be an appropriate reflection of market prices in a deep and active market.
17. The Canadian AcSB made a presentation on accounting for cost-of-service-based rate regulation. IFRSs do not deal explicitly with this issue whereas US GAAP does. The US standard is widely used in a number of countries. IFRS 1 already provides relief for first-time adopters in this industry. The issue is whether IFRSs should provide guidance on the ongoing accounting and disclosure.

Appendix A: some comments relating to due process

- A1. The objective is to protect the IASB's integrity and objectivity.
- A2. Transparency of due process oversight is important.
- A3. A template for due process steps could usefully include a conclusion (certification of compliance).
- A4. Complaints on mandatory elements of due process should be lodged and dealt with before the standard is issued.
- A5. Reasons for dissenting from a Standard should include cost/benefit considerations as well as technical issues.
- A6. There should be criteria for adding items to the research agenda and for moving items from research to standards-level projects.
- A7. Guidance is needed on what constitutes adequate research for the IASB's purposes.
- A8. Transparency in the research phase is important.
- A9. Co-ordination of IASB/IFRS Interpretations Committee activities is important. Issues should be identified and dealt with on a timely basis.
- A10. The distinction between maintenance and major projects is a useful tool. However, judgement will be required. Some issues may be very narrow and affect relatively few, but very large, entities and could have very significant effects and hence would be considered by most stakeholders to be a major issue.

Appendix B: some comments relating to external involvement in the standard-setting process

- B1. The IASB needs to do more research.
- B2. The IASB needs to clarify which users it is trying to serve. One type of users the IASB does not seem to pay much attention is asset managers.
- B3. Different types of users have different needs for information.
- B4. Users are being overwhelmed. Communications with them should be more focused.
- B5. IASB's projects are forward-looking and often long term. Users often do not see immediate relevance/benefits to them.
- B6. The importance of adequate field testing, including preparers, auditors and users, before a standard is issued was stressed. The IASB should formalise and co-ordinate this process, eg with a field test tool kit.
- B7. IFASS is updating the Statement of Best Practice for interacting with the IASB. The primary role of NSS and regional bodies is issue identification of matters for consideration by the IASB/IFRS Interpretations Committee and local outreach.
- B8. Although local interpretations are to be avoided, they may be necessary in some cases, in which case IFASS may have a role to play.
- B9. The areas of interest and timeliness of much academic research may not be helpful ex ante. However, research can provide evidence and analysis that could be particularly useful ex post in PIRs.
- B10. Academic research on the macro-level impact of IFRS reporting on the cost of capital could be very useful to the IASB.
- B11. Many preparers feel isolated from the IASB and get involved too late. Face-to-face contact is important. Getting preparers involved in the early stages of a project reduces the risk that they will resist the final Standard.
- B12. Cost/benefits needs to be assessed adequately from the perspective of preparers as well as users.
- B13. The structure to support interaction with the major international accounting firms is generally good but there is room for improvement in the execution. Communications tend to be 'ad hoc' and could be better co-ordinated.
- B14. IOSCO is combining its emerging markets and developed markets groups. This will provide a much broader source of information and experience with IFRS in future. It would be useful to clarify what IASB is seeking from IOSCO: eg potential issues for interpretation?
- B15. Early involvement of securities and prudential regulators in IASB projects (and vice versa) is important.
- B16. More use could be made of technology eg podcasts.
- B17. Widespread dissatisfaction with a Standard or proposed Standard should not be ignored. It may be an indicator of a breakdown in due process or in communications.