

# STAFF PAPER

**24 October 2012**

## Prepared for Capital Markets Advisory Committee Meeting

<b>Project</b>	<b>IFRS Education Initiative</b>		
<b>Paper topic</b>	<b>Enhancing investors' and analysts' IFRS knowledge</b>		
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This paper has been prepared by staff of the IFRS Foundation. The views expressed in this paper reflect the individual views of the author[s] and not those of the IASB or the IFRS Foundation. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs.

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### Purpose of this paper

1. This paper describes the IFRS Foundation's tentative plans for contributing to the education of investors and analysts on accounting matters.
2. We would like to get CMAC members' views on how the staff could most effectively apply their limited resources to enhance the IFRS knowledge of investors and analysts.

### Background

3. The attachment to this paper contains the IFRS Education Initiative plan presented at the Trustees' Education and Content Services Committee meeting in October 2012 (in particular, see Project 4 set out on pages 6 and 7 of the attachment). The education staff have also discussed the plan with the IASB Education Committee and the Education Advisory Group (an external group of accounting educators that provides advice to the Education Initiative).
4. The plan responds to the investor education issues observed in the Final SEC Staff Report<sup>1</sup> and in other forums. The education staff and investor liaison staff plan to collaboratively develop a range of investor-focused IFRS education material and services.

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<sup>1</sup> *Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers*, July 2012.

5. The attachment to this paper (see pages 6 and 7) sets out the framework for a new investor-focused project being developed for inclusion in the Education Initiative's medium term plan (Plan 2012–2016). In accordance with that plan, the education and investor liaison staff are consulting with interested parties (including CMAC members and investor representatives of the IFRS Advisory Council) to gather input to help them in developing actions to undertake in fulfilment of that plan in 2013 and beyond.

### **Questions for CMAC members**

6. What are the IFRS education needs of investors and analysts?
7. What form of IFRS education would investors and analysts likely find most useful?
8. What changes would you suggest to the plans set out in the attachment to this paper and what actions can you suggest to give effect to those plans?

# AGENDA PAPER

IFRS Foundation Trustees' meeting—Education and Content Services Committee

Brussels

11 October 2012

Agenda paper 4B

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**To:** Education and Content Services Committee

**From:** Michael (Mike) Wells

**Date:** 28 September 2012

**Re:** IFRS Education Initiative

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## Overview

### Purpose

The purpose of this agenda paper is to provide a basis for developing the plans for 2013 for the IASB Education Initiative, in the context of our medium-term strategic priorities.

### Background

The Education Initiative reinforces the IFRS Foundation's goal of promoting the adoption and consistent application of IFRSs by arranging IFRS events (eg major IFRS conferences and 'train the trainer' workshops) and by developing material (eg texts—Executives Briefings, A Guide through IFRSs—, comprehensive Framework-based teaching material for those teaching CA/CPA stream students and comprehensive training material for the *IFRS for SMEs*).

Its activities are designed to support the Trustees' duty to foster and review the development of educational programmes and materials that are consistent with the Foundation's objectives [IFRS Foundation Constitution section 15(j)].

### *Funding and staffing*

The Education Initiative is self-funding. It is staffed by a Director (Michael Wells), a Project Manager (Guillermo Braunbeck from April 2012), an Executive Assistant (Gloria Lindfield) and two IFRS academics on sabbatical leave from their universities—in 2012: Andrew Hyland

(University of Cape Town, South Africa (12 months)), Guillermo Braunbeck (FIPECAFI, Sao Paulo, Brazil) (3 months), Ann Tarca (University of Western Australia (3 months) and Elizabeth Buckley (formerly a consultant to the global IFRS offices of ‘Big 4’ accounting firms in London) (6 months). Consistently with the Trustees’ Strategy review other technical staff at the IASB are increasingly contributing to the development of IFRS education material. For example, in 2012 Mariela Isern led the development of the first chapter of the education material on IFRS 13 which is dedicated to measuring the fair value of unquoted equity instruments.

### *Objectives and guiding principles*

Consistently with the objectives of the IFRS Foundation the objectives of the Education Initiative are:<sup>(1)</sup>

1. Reinforce IFRS Foundation’s goal of promoting the adoption and consistent application of IFRSs
2. Generate revenue to fund the Education Initiative’s activities
3. In fulfilling the objectives associated with 1 and 2, to take account of, as appropriate, the special needs of:
  - (i) small and medium-sized entities, and
  - (ii) emerging economies.

In striving to achieve its objectives, by making available an appropriate range of high quality, understandable and up-to-date education material and services about standard-setting, IFRSs and the *IFRS for SMEs*, the Education Initiative is guided by the following principles:<sup>(2)</sup>

1. Education Initiative and standard-setting operation should work together towards the common objectives of the IFRS Foundation
2. IFRS Foundation education material and services should be accessible worldwide
3. IFRS Foundation education material and services must complement and not derogate from the complete text of IFRSs and the *IFRS for SMEs*
4. The IFRS Foundation Education Initiative shall leverage the work of select external parties
5. Take account of the special needs of small and medium-sized entities
6. Take account of the special needs of emerging economies.

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<sup>(1)</sup> The objectives presented are as amended by the Trustees at their meeting in Tokyo in January 2007 and re-confirmed at their meeting in London in March 2011.

<sup>(2)</sup> The guiding principles presented are as amended by the Trustees at their meeting in Tokyo in January 2007 except that in developing Plan 2012–2016 principles 5 and 6 were disaggregated and presented as two separate principles.

## Planning

The work of the Education Initiative is guided by its medium-term plan. Its medium-term plan (Plan 2012–2016) was developed in consultation with the IASB and IFRS Foundation senior staff and executive management, IFRS Foundation Education Advisory Group (EAG), IFRS Advisory Committee, IASB Education Committee (BEC), appropriate others (eg select World Bank staff) and the Trustees' Education and Content Services Committee (TECSC). In March 2011 the plan was approved by the IFRS Foundation Trustees in London and posted on the IASB's website (<http://www.ifrs.org/Use-around-the-world/Education/Documents/EducationinitiativePlan2012to2016.pdf>). That Plan is a 'living' document designed to set objectives, guiding principles and *aspirational* medium-term goals for the Education Initiative. Although it provides a framework from which the initiative's more concrete short-term plans are developed, it is envisaged that the initiative may deviate from that plan in response to previously unforeseen opportunities and education needs. Consequently each year the Education Initiative consults with the EAG, BEC and TECSC in considering whether there is a need to update its medium-term plan.

Following similar consultation processes, in late 2011, the work plan of the Education Initiative for the year ending 31 December 2012 (Plan 2012) was finalised. Agenda Paper 4A reports the staffs' progress on competing Plan 2012.

This paper provides a basis for developing the Education Initiative's plans for 2013.

## Priorities

### Current projects

*'Flagship' project: Promoting and supporting Framework-based teaching of principle-based accounting standards (IFRSs and the IFRS for SMEs)*<sup>(3)</sup>

**Expected outcomes:** Improved skills and knowledge to interpret IFRSs and make the judgements that are necessary to apply it. Reduce the perceived need for industry-specific IFRS Application Guidance and for IFRS Interpretations.

Reduce resistance to improvements in IFRSs and better prepare constituents to deal with the changes in new and amended accounting standards

*Promoting the adoption of IFRSs and supporting its consistent and rigorous application*<sup>(4)</sup>

<sup>(3)</sup> Current state (2011): IFRS teaching is based on *previous GAAP* objectives (eg tax based, central planning based or bookkeeping). IFRS is mostly taught without reference to *Conceptual Framework* and results in fragmented understanding of IFRSs, which impedes ability to interpret IFRSs and to make the judgements that are necessary to apply it. It also creates resistance to proposed improvements to IFRSs.

<sup>(4)</sup> Current state (2011): IFRSs widely adopted for consolidated financial statements of listed entities. Some jurisdictions in process of adoption (eg, Argentina, Malaysia, Mexico, Nigeria) and major jurisdictions contemplating adoption (China, Indonesia, Japan, US). Concerns about the consistency and rigour with which IFRS is applied (eg World Bank ROSC reports and issues in the US).

**Expected outcomes:** Increased adoption of the IFRSs. Increase the consistency and rigour with which IFRSs are applied. Improved skills and knowledge to interpret the IFRSs and to make the judgements that are necessary to apply them.

Reduce the perceived need for industry-specific IFRS Application Guidance and for IFRS Interpretations.

*Promoting the adoption and supporting the implementation and rigorous and consistent application of the IFRS for SMEs<sup>(5)</sup>*

**Expected outcomes:** Increased adoption of the *IFRS for SMEs*. More consistent and rigorous application of the standard. Improved skills and knowledge to interpret the *IFRS for SMEs* and make the judgements that are necessary to apply it. Reduce the perceived need for Application Guidance and Interpretations.

### Recent changes

Since setting Plan 2012–2016 in 2011 a number of events have occurred that the education staff believes are material to the future work of the Education Initiative. In particular:

- consistently with the Trustees' strategic review and feedback from the IASB's agenda consultation process, the IASB's strategy is changing to focus more on IFRS implementation support including education activities.
- the Final SEC Staff Report *Work Plan for the Consideration of Incorporating IFRSs into the Financial reporting System for U.S. Issuers* observes that "regardless of the ultimate determination by the Commission as to whether to incorporate IFRS, the Staff will consider how investor engagement and education related to the development and use of accounting standards could be improved". (page 6)
- The IFRS Foundation has received requests for regulators and development agencies to provide IFRS training for regulators.
- IFRSs is increasingly being used in the world's leading emerging markets—eg Brazil (2010), Russia (2012), India and Malaysia (2013) China and Indonesia (convergence ongoing)—and emerging economies are increasingly engaging with the IASB (eg issues raised at the Emerging Markets Group).

### Planned new project

In response to the events above the education staff proposes adding a new investor education project to Plan 2012–2016 and new regulator focussed actions to its existing project *Promoting the adoption of IFRSs and supporting its consistent and rigorous application*. The staff also suggests paying particular attention to providing education products and services that are designed to enhance IFRS capacity in the world's emerging markets.

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<sup>(5)</sup> Current state (2011): *IFRS for SMEs* adopted or planned to be adopted in the next 3 years by +70 countries. Potentially millions of SME preparers supported by thousands of medium-sized and small accounting practices that frequently do not have access to significant accounting resources and are not members of global networks (therefore significant risk of inconsistent and poor application of standard).

*Enhancing IFRS understanding in the investor community*

**Expected outcomes:** Improved knowledge with which to analyse IFRS financial information particularly with regard to the judgements and estimates that are necessarily made when preparing IFRS financial information.

Reduce the perceived need for industry-specific IFRS Application Guidance and for IFRS Interpretations. Contribute indirectly to the increasing the consistency and rigour with which IFRSs are applied. Reduce IFRS adoption barriers.<sup>(6)</sup>

**Funding proposed new investor education project and new regulator capacity building actions**

Expanding the education activities to contribute further to the rigorous and consistent application of IFRSs necessarily requires additional resources. In particular, undertaking the the proposed investor education project would require an additional investor focussed staff resource.

Consistently with the Education Initiative's guiding principles and current practices the staff tentatively proposes minimising the costs and maximising the effect of those new IFRS capacity building projects by seeking to work with the world's development agencies and select others (eg investor organisations). The staff also tentatively proposes adding some new income generating activities that the staff believe are not inconsistent with the public interest objectives of the Education Initiative and the IFRS Foundation. For example, the envisaged charges for the new products and services tentatively proposed for the established investor community are likely to be immaterial to them. Agenda Paper 4C considers further the public interest implications of increasing the IFRS Foundation's income generating activities as a whole (Note: Agenda Papers 4A and 4B include only the Education Initiative's income generating activities).

**Question for the Committee**

Question: Do the Trustees have any feedback on these matters?

**Operational Factors**

We are developing an operational plan reflecting the strategic priorities noted, and the factors described above. That draft plan tentatively includes updating the Education Initiative's Plan 2012–2016 by adding a new investor focussed project and regulator focussed actions as set out in the Appendix to this agenda paper.

**Next steps**

Finalise the operational plan reflecting the strategic priorities noted, and the factors described.

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<sup>(6)</sup> Concerns about the level of IFRS knowledge and consistency in the US investor community are observed in the SEC Final Staff Report *Work Plan for Consideration of Incorporating IFRSs into the Financial Reporting System for U.S. Issuers*

**APPENDIX (to Agenda Paper 4B)**

In response to the strategic priorities and the factors described noted in this agenda paper (4B) the staff propose updating the Education Initiative’s Plan 2012–2016 by adding a new investor focussed project and regulator focussed actions as set out below.

<b>Plan 2012–2016 as approved by the Trustees in March 2011</b>	
<b>Project 2</b> Actions and expected outcomes	
<b>Promoting the adoption of IFRSs and supporting its consistent and rigorous application</b> <sup>(7)</sup>	
<b>Expected outcomes:</b> Increased adoption of the IFRSs. Increase the consistency and rigour with which IFRSs are applied. Improved skills and knowledge to interpret the IFRSs and to make the judgements that are necessary to apply them. Reduce the perceived need for industry-specific IFRS Application Guidance and for IFRS Interpretations.	
1.	...
1A	Staff tentatively propose adding this action in October 2012.  Work with development agencies and others (eg IOSCO) to enhance IFRS regulatory capacity.  <b>Expected outcome:</b> Enhance the ‘goodwill’ of the IFRS brand. Increased adoption of IFRSs and increased capacity for IFRS regulation thereby indirectly contributing to its more rigorous and consistent application.
	...
12 A	Staff tentatively propose adding this action in October 2012.  Work with IOSCO to enhance IFRS regulatory capacity by providing IFRS regulators with IFRS Updates on new IFRSs that are issued but not yet effective (or have recently become effective).  <b>Expected outcome:</b> Enhance the ‘goodwill’ of the IFRS brand. Increased capacity for IFRS regulation thereby indirectly contributing to its more rigorous and consistent application. Learn from regulators information about new IFRSs are being implemented.
	...

<b>Added October 2012 (after Plan 2012–2016 was approved by the Trustees in March 2011)</b>	
<b>This discussion draft proposal is prepared by the education and investor liaison staff</b>	
<b>Project 4</b> Actions and expected outcomes	
<b>Enhancing IFRS understanding in the investor community</b>	
<b>Expected outcomes:</b> Improved knowledge with which to analyse IFRS financial information particularly with regard to the judgements and estimates that are necessarily made when preparing IFRS financial information. Reduce the perceived need for industry-specific IFRS Application Guidance and for IFRS Interpretations. Contribute indirectly to the increasing the consistency and rigour with which IFRSs are applied. Reduce IFRS adoption barriers <sup>(8)</sup>	

<sup>(7)</sup> Current state (2011): IFRSs widely adopted for consolidated financial statements of listed entities. Some jurisdictions in process of adoption (eg, Argentina, Malaysia, Mexico, Nigeria) and major jurisdictions contemplating adoption (China, Indonesia, Japan, US). Concerns about the consistency and rigour with which IFRS is applied (eg World Bank ROSC reports and issues in the US).

<sup>(8)</sup> Concerns about the level of IFRS knowledge and consistency in the US investor community are observed in the SEC Final Staff Report *Work Plan for Consideration of Incorporating IFRSs into the Financial Reporting System for U.S. Issuers*



1.	See also the separate proposal on <i>Framework</i> -based teaching
2.	<p>Work with investor profession associations/investor organisations (eg CFA Institute, CRUF, EFFAS, SAAJ) to promote enhancing the IFRS knowledge and competences of their members</p> <p><b>Expected outcome:</b> Increased understanding of IFRSs in the investor community. Increased acceptance of IFRSs possibly leading to increased IFRS adoption. Increased revenue to fund education projects.</p>
3.	<p>Explore the possibility of co-brand a maximum of 2 leading events that focus on investor IFRS education arranged by each of the bigger investor institutes</p> <ul style="list-style-type: none"> <li>• +1 in Africa and the Middle East each year</li> <li>• +2 in Asia-Oceania each year</li> <li>• +2 in Europe each year</li> <li>• +2 in North America each year</li> <li>• +1 in Latin America and the Caribbean each year</li> </ul> <p><b>Expected outcome:</b> Enhance investors' knowledge of IFRSs and their understanding of the judgements and estimates in applying IFRSs. Increased revenue to fund education projects (co-branding fee = £20,000 per event). Possibly also improve outreach on current IASB projects and reduce barriers to the adoption of IFRSs.</p> <p>Note: the staff wonder if the not for profit organisations targeted for such events would be willing to pay £20,000 for such co-branding arrangements.</p>
4.	<p>Arrange investor education special interest sessions each year (eg sessions on specialist IASB projects, regulatory updates, IFRS teaching) around each of our IFRS conferences:</p> <ul style="list-style-type: none"> <li>• 1 in Africa and the Middle East every second year</li> <li>• 1 in Asia-Oceania each year</li> <li>• 1 in Europe each year</li> <li>• 1 in North America each year</li> <li>• 1 in Latin America and the Caribbean every second year.</li> </ul> <p><b>Expected outcome:</b> Enhance investors' knowledge of IFRSs and their understanding of the judgements and estimates in applying IFRSs. Increased revenue to fund education projects. Possibly also improve outreach on current IASB projects and reduce barriers to the adoption of IFRSs.</p>
5.	<p>Develop (with the IASB investor liaison staff) and publish an investors' guide for each substantial new or amended IFRS issued.</p> <p><b>Expected outcome:</b> Increased understanding of the effects of new and amended IFRSs. Increased revenue to fund education projects?</p>
6.	<p>Develop and maintain investor focussed IFRS material (eg summaries, video clips, PowerPoint presentations with voiceovers).</p> <p><b>Expected outcome:</b> Increased understanding of IFRSs. Increased revenue to fund education projects.</p>
7.	<p>Work with the investor liaison staff to publish occasional articles on selected IFRS issues in the investor trade press and on the IFRS website.</p> <p><b>Expected outcome:</b> Increased understanding of IFRSs.</p>
8.	<p>Explore the possibility of running IFRS CPE workshops targeted at the investor community. The idea is to seek CPE recognition from the investor professional organisations (eg CFA Institute and EFFAS) on the basis that the certificate of <u>attendance</u> would qualify their members for CPE credits</p> <p><b>Expected outcome:</b> Increased understanding of IFRSs in the investor community. Increase network of investor contacts. Generating income to fund further education activities.</p> <p>Note: because of public interest concerns the remit of the Education Initiative and Investor Liaison Programme does not extend to testing and certifying IFRS competence.</p>
9.	<p>Create the post of Investor Fellow in the Investor Relations and Education teams and seek to fill the post staff from an investment firm or investor organisation.</p> <p><b>Expected outcome:</b> capacity to develop the investor education material set out in Project 4 and improve relations with investor community.</p>