

Summary of the conclusions of the IFRS Foundation Trustees' meeting

October 2012, Brussels

Introduction

The latest meeting of the Trustees of the IFRS Foundation, chaired by Michel Prada, was held in Brussels on 10-12 October 2012.

Report of the Chairman of the IASB

Hans Hoogervorst, Chairman of the IASB, provided the Trustees with an update on the IASB's activities. He started with the good news that the IASB had started work on its new agenda, following the agenda consultation undertaken during 2011. The IASB had agreed to take forward as a priority a major review of the conceptual framework, focusing on elements of financial statements, measurement, reporting entities, presentation and disclosure. The IASB had also agreed to work towards the issue of a single Discussion Paper, rather than separate Discussion Papers for each area. While the issues were complicated, the IASB had set itself an ambitious target to complete the work within three years.

The IASB had also agreed to add a limited-scope project on IAS 41 *Agriculture* for bearer biological assets to its technical agenda, noting that this was an issue of particular importance in Asia and beyond. The IASB aimed to publish an exposure draft in the first half of 2013.

In addition, the IASB had discussed a proposed standards-level project for Rate-regulated activities. It was noted that this was a difficult area and one that had been identified as a particular issue in the July 2012 report of the staff of the US Securities and Exchange Commission (SEC). The IASB had agreed to take another in-depth look at the issue and proposed to develop a Discussion Paper, which it aimed to issue in the fourth quarter of 2013.

On the four main Memorandum of Understanding (MoU) and convergence projects, the progress was rather more mixed, although the Chairman of the IASB still felt that there was light at the end of the tunnel.

On the positive side, on Financial Instruments, the IASB had issued on its website a review draft of a proposed IFRS on general hedge accounting, which would bring improvements to financial reporting by more closely aligning hedge accounting with a company's risk management activities. An IFRS would follow in the near future. The projects on revenue recognition and leases were also on track. On revenue recognition, the objective of the IASB and the US Financial Accounting Standards Board (FASB) was to complete the redeliberations by late 2012 and issue a final standard in mid-2013. On leases, the two Boards were working towards issuing exposure drafts in the first quarter of 2013.

The situation on impairment was more challenging. After extensive joint discussions on a proposed expected loss approach, in July 2012 the FASB had decided to explore a different approach – one still based on expected losses, but where lifetime expected losses would be recognised for all loans from initial recognition. Since July, the FASB had been addressing detailed aspects of this alternative approach. In the meantime, the IASB had continued to work on the original proposed approach, on which the staff had undertaken extensive outreach, the results of which it planned to discuss in

October. While the IASB continued to remain in open communication with the FASB, it did not support the recognition of lifetime expected losses when a financial asset was first recognised, and the Chairman of the IASB was not confident that a converged solution would be reached.

Report of the Chairman of the Due Process Oversight Committee

David Sidwell, the Chairman of the Due Process Oversight Committee (DPOC), reported on its October 2012 meeting with the leadership and directors of the IASB.

The DPOC received a summary of the comment letters that had been submitted in response to the recent consultation on the draft Due Process Handbook (DPH) for the IASB and the Interpretations Committee. A total of 50 comment letters had been received. While the overall thrust of the responses was supportive, respondents raised a large number of issues, which the staff and the DPOC would work through, with the aim of bringing final recommendations on the proposed DPH to the Trustees at their January 2013 meeting in Hong Kong.

The DPOC considered an overview of the issues raised in the responses to the questions in the invitation to comment in the draft DPH and on a number of other matters. In terms of headlines:

- On the transparency of the DPOC, the Committee had held a broad discussion on whether parts of its meetings should be held in public, with a range of views being expressed. Some members thought that meetings in public might affect the candour and tone of the discussions; while others did not think that this would be the case. Meeting in public would be more of an imperative if it was felt that the DPOC had a credibility problem, but this was not thought to be the case. The DPOC already operated with a high level of transparency. There was general agreement that if meetings were to be in public, certain issues would still need to be considered in closed session, which raised a logistic issue, but that was not felt to pose too much of a problem. On balance, the DPOC was leaning towards greater transparency of the reporting of DPOC activities and meetings. Discussions on the issue would continue, including looking at the logistics of holding parts of DPOC meetings in public;
- Some respondents had interpreted the Due Process Protocol as too detailed and prescriptive, when it was intended to be a project management tool. The DPOC had agreed that the DPP would not be included as part of the final DPH, but would be available on the website.
- The role and objectives of the DPOC would continue to be reflected as best practice in the DPH rather than be written into the IFRS Foundation *Constitution*.
- The DPOC did not think that there should be a time limit on the submission of complaints about alleged breaches of due process, but the drafting on the way in which a breach was resolved could be clarified.
- Staff would consider the drafting of the section on implementation and maintenance, in particular to clarify the distinction between narrow-scope and comprehensive projects.
- The DPOC thought that a minimum 60 days comment period for re-exposure of issues that were narrow in focus was too short: 90 days might provide an acceptable compromise.

- In response to concerns about the handling of referrals from the Monitoring Board, the staff would confirm that the language conformed to that in the Trustees' Strategy Review and the Monitoring Board's review of governance.

At the meeting, the DPOC had also reviewed due process matters related to projects on the IASB's active agenda. The DPOC welcomed the reporting to the IASB of due process issues on each project and welcomed the development of this evidence-based approach, highlighting in particular the discussion that had taken place at the IASB on whether or not to re-expose the proposals on the insurance contracts project. The DPOC had also discussed one of the issues included in the proposed exposure drafts for the 2011-13 cycle on annual improvements, on revenue-based depreciation, and encouraged the IASB to consider further whether this should be handled as an annual improvement or taken forward as a separate narrow-scope amendment.

The DPOC considered, and approved, the proposed membership of a consultative group from the international community, chaired by the IASB, to develop an agreed methodology for field testing and effect analyses. The group looked to have a good mix of geographical representation and background experience. The DPOC had indicated that it would consider proposals to further expand the membership if that was thought appropriate.

The DPOC agreed with a proposal to expand the membership of the Small and Medium-sized Entities Implementation Group (SMEIG) to a maximum of approximately 30 as of 1 July 2014, together with proposals to stagger the terms of membership from that time, with the result that the terms of 15 members would expire on 30 June 2016 and those of the other 15 on 30 June 2017.

The DPOC considered, and approved, a number of proposals for the changes to the memberships of the XBRL Advisory Council (XAC) and XBRL Quality Review Team (XQRT). The DPOC Chairman reported that he and the Vice-Chair of the DPOC had attended a meeting of the XAC on 9 October to see how that committee functioned. They had been impressed by the level of participation and engagement by XAC members.

On correspondence, the DPOC Chairman reported that no new matters had been raised since the July 2012 meeting.

Finally, the DPOC Chairman reported that the DPOC had a full action list and remained pleased that it had a good collaborative relationship with the IASB, and benefitted from the presence of IASB members and senior staff at its meetings.

Report of the Education and Content Services Committee

Michel Prada (on behalf of Jeffrey Lucy, Chairman of the Education and Content Services Committee) reported on the Committee's October 2012 meeting.

The Committee had considered three broad issues. The first provided an update on the activities during 2012 of the IFRS Foundation's education initiative against its plans for the year (as part of its five-year plan for the period 2011-16), for which there were three main projects:

- (1) A 'flagship' project on Framework-based Teaching.
- (2) Promoting the adoption of IFRSs and supporting its consistent application.

- (3) Promoting the adoption and supporting the implementation and consistent application of the IFRS for SMEs.

Progress overall was on track, although there had been some delay under project 2 in assigning technical staff to develop education/implementation guidance for IFRSs 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements*. However, it was hoped that this would be back on track in early 2013.

The Committee also considered a plan for the education initiative in 2013, in particular proposals to take on a number of new initiatives. The first was a proposed new project to enhance IFRS understanding in the investor community, which would require an additional investor-focused staff resource. The second involved the addition of two regulatory-focused activities under project (2), aimed at both working with the International Organisation of Securities Commissions (IOSCO) to enhance IFRS regulatory capacity in developed economies, and working with development agencies and others to develop such capacity in developing economies. The Committee supported the proposals, but noted the need for the education initiative to ensure that it could deliver on them within budgetary and capacity constraints, together with its other priorities.

Finally, the Committee had considered a proposal to improve the proportion of funding that the Foundation obtains through 'self-generating' activities: content services and education. This proportion had fallen from over 30 per cent of gross revenue in 2008 to just over 20 per cent in 2011. The Committee had agreed that the target should be to increase the proportion in the medium-term to 30 per cent. This would require better protection of the Foundation's intellectual property and more efficient management, but was still felt to be compatible with the organisation's public service mission. The staff would undertake an in-depth analysis and come back to the Committee with specific proposals.

Report of the Chairman of the IFRS Advisory Council

Paul Cherry, the Chairman of the IFRS Advisory Council (AC), noted that the next meeting of the AC would take place on 22-23 October. In his report, the Chairman of the AC highlighted two issues.

On the first, it was noted that the AC had not spent much time on emerging markets and the IFRS for SMEs. The Chairman of the AC wanted to rectify that and noted that the comprehensive review of the IFRS for SMEs provided an opportunity to address the issue. The diversity and considerable practical experience of the membership of the AC was well suited for this type of feedback and input.

The second issue related to the membership, where the Chairman of the AC highlighted the importance of maintaining and enhancing the right balance of backgrounds/perspectives of the membership in the forthcoming round of new appointments. The Chairman of the AC noted the potential implications for AC membership of the proposed Accounting Standards Forum. He also noted that representation on the AC from emerging markets and the SME sector looked light, although he acknowledged that the Foundation had established other groups to address this, namely the Emerging Economies Group (EEG) and the SMEIG.

Report of the Trustees' Executive session

Michel Prada noted that the Trustees had addressed a number of important issues at this meeting, focusing on the implementation of the recommendations of the Strategy Review, including:

- Consideration of a proposal to formalise the engagement with National Standard-Setters (NSS) and other regional bodies through the establishment of an Accounting Standards Forum. This proposal raised complex issues and careful thought on how to proceed. The Trustees requested more consultations with stakeholders, including the IFRS Advisory Council, the International Forum of Accounting Standard-Setters (IFASS) and publicly.
- A strategy for the future funding of the organisation.
- The initiatives being taken to strengthen the engagement and relationship of the Foundation and the IASB with IOSCO and working with them in a more co-ordinated way to make a positive contribution to the goal of consistent application of IFRSs.

The Chairman of the Trustees also reported that the IFRS Foundation had prepared an analysis of the July 2012 SEC Staff report on its *Work Plan for the Consideration of Incorporating IFRS into the Financial Reporting System for US Issuers*, which the Trustees decided to publish and which would hopefully be issued in the near future. (This report was subsequently issued on 23 October.)

Regional outreach activity

As part of the Trustees' meeting, the IFRS Foundation hosted a successful joint event with the European Financial Reporting Advisory Group (EFRAG) at which the Trustees and the leadership of the IASB met with a large number of key European stakeholders to discuss issues under the theme *An EU perspective on the move towards global accounting standards*.

Endpiece

Michel Prada noted that this was the final Trustees' meeting for four members: Yves-Thibault de Silguy, David Sidwell, Paul Tellier and Jeff van Rooyen. He thanked them all for their significant contributions to the work of the IFRS Foundation and wished them well in the future. He noted that the appointment of three new Trustees had been announced: Ms Sheila Fraser (Canada), Professor Wiseman Nkuhlu (South Africa) and Dr Heidi Miller (USA).

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