

Summary of the conclusions of the IFRS Foundation Trustees' meeting

April 2013, London

Introduction

The latest meeting of the Trustees of the IFRS Foundation, chaired by Michel Prada, was held in London on 9-11 April 2013.

Report of the Trustees' Executive session

Michel Prada noted that the Trustees had addressed a number of issues at this meeting.

The Trustees noted that the first meeting of the newly-formed **Accounting Standards Advisory Forum (ASAF)** had taken place on 8 and 9 April. The ASAF was a technical advisory body to the IASB composed of representatives of the global accounting standard-setting community. The establishment of the ASAF was a direct result of the Trustees' Strategy Review, which was published in February 2012. The Trustees were encouraged that the meeting had gone well, with a high quality level of debate. Given its particular role in acting as a consultative group to the IASB on its conceptual framework project, the timetable for setting up the ASAF had been an ambitious one, to enable ASAF members to be involved in the development of the project at a very early stage. The Trustees emphasised the importance of conducting a transparent and well-planned appointment process. However, selecting the membership had not been an easy task. With almost 30 applications for just 12 seats, the Trustees had made some very difficult decisions regarding the appointments. The Trustees noted their gratitude for the understanding of those important members of the IFRS standard-setting community whose applications for membership had not been successful on this occasion. The Trustees were committed to review after two years the working and composition of the ASAF.

The Trustees reviewed and discussed the current and future arrangements for the **funding** of the IFRS Foundation. Both the Trustees' Strategy Review and the Monitoring Board's own Governance Review had identified the need for further development in the funding arrangements for the IFRS Foundation if the organisation was to achieve its goal to become the global accounting standard-setter. The Trustees discussed various different approaches to putting in place a more longer-term funding arrangement, including: steps to encourage contributions from jurisdictions that had adopted IFRSs but that made no financial contribution to the operation of the organisation, alternatives other than using GDP as a determining factor for sharing the funding burden globally, and changes to the contribution of the larger accounting firms. The Trustees endorsed the so-called three pillar system of funding as a transitional approach as outlined in the Strategy Review, with the first pillar covering publicly-sponsored contributions, the second private contributions (including contributions from the accounting firms) and the third, commercial fee income. For the public contributions, Trustees supported maintaining the use of GDP as the determining factor, eliminating the 25% reduction for emerging economies and introducing a minimum level of contribution.

The Trustees noted continued progress around the world with regard to adoption of IFRS as the way to achieve the G20-endorsed goal of a single set of high quality global accounting standards. Within that context, the Trustees discussed **recent developments in both the United States and Japan**.

With regard to the **USA**, the Trustees discussed a number of issues. These included: how to address the on-going funding regarding the US meeting its share of the organisation's funding burden; the need to ensure that question regarding a decision on domestic use in the US remains as an item on the SEC's work programme; and how the Foundation could ensure that relationships with US stakeholders were maintained, particularly with the Securities and Exchange Commission (SEC) and counterparts at the Financial Accounting Foundation (FAF) and the Financial Accounting Standards Board (FASB). On **Japan**, the Trustees noted that some large Japanese companies had already adopted IFRSs on a voluntary basis while many others are making plans to do so in the near future. At the same time, the Japanese government continued to discuss a possible mandatory transition to IFRS. Recent surveys had indicated positive sentiment among Japanese companies towards IFRSs. Furthermore, recent visits to Japan had indicated a speeding up in a positive way of the Japanese consideration of the adoption of IFRSs.

The Trustees also discussed the following:

- **Nominations:** following a discussion around the progress towards adoption of IFRSs in Japan, the early and unexpected retirement of one of the Japanese Trustees, Noriaki Shimakazi, and the consequent value of continuity in Japanese representation, the Trustees agreed to extend for a period of 9 months (with an option to extend to up to one year) the term of Tsuguoki (Aki) Fujinuma as Vice-Chairman of the Trustees.
- **Expenses:** the Trustees agreed a policy for their expenses.
- **IASB Committees:** Trustees received a progress report on the work of the IASB's Committees covering XBRL, Adoption, Research and Stakeholder Engagement. All committees reported progress being made.
- **Education and content services:** Trustees reviewed progress in a number of areas, including tentative steps to explore the sponsorship of conferences organised by the IFRS Foundation. The Trustees also reviewed progress toward the development of an eIFRS 'app', subject to successful user testing. eIFRS subscribers would be able to download on a free of charge basis the 'app', which would provide users of mobile devices the ability to access in a mobile-friendly format the wealth of information contained within eIFRS.
- **Financials:** Trustees reviewed and confirmed their formal approval of the 2012 financial statements and the letter of representation from the auditors, BDO.
- **IFRS country profiles:** Staff provided an update on the project to create a series of country-based profiles for publication on the IFRS website. Each profile would describe the progress made towards adoption of IFRS within a particular country or jurisdiction. Staff expected to publish a batch of around 60 country profiles during the second quarter of 2013.
- **Constitution review:** Despite the recent conclusion of the Trustees' strategy review and corresponding changes to the Constitution having only been recently completed, the Trustees were required to conduct a Constitution Review every five years. Accordingly, staff would begin preparations to complete the next review of the Constitution by 2015.
- **Discussion on IASB Impairment proposals:** Trustees received an update from the IASB technical staff on proposals recently published for public comment on the recent Exposure Draft (ED) on expected credit losses.
- **Trustee meetings:** Trustees discussed meeting locations for 2014. The Trustees confirmed their wish to meet four times a year in different parts of the world, while making their best

efforts to limit costs. The Trustees confirmed that, during 2014, they would meet in Mexico City, Sydney and twice in London.

- **Research programme:** The Trustees discussed plans to develop a research capability, including the general approach as well as plans to link the research programme to the planned memorial lecture in honour of Tommaso Padoa-Schioppa, former Chairman of the Trustees, who died in 2010.

Meeting with the Monitoring Board

The Trustees met with the Monitoring Board of the IFRS Foundation. A separate transcript of the meeting will be provided by the Monitoring Board in due course¹.

Report of the Chairman of the IASB

Hans Hoogervorst, Chairman of the IASB, provided the Trustees and the Monitoring Board with an update on the IASB's activities.

The IASB was moving into a new phase in its **international engagement**, not only through the establishment of ASAF, but with other initiatives, including the opening of the Asia-Oceania regional office in Tokyo. The IASB was also seeking co-operation with a wide range of national standard-setters and regional bodies on the IASB's research programme and would, as an example, be hosting a meeting in the margins of the April 2013 meeting of the International Forum of Accounting Standard-Setters (IFASS) with representatives of around 35 organisations. In addition, the IASB was seeking to develop an agreed methodology for **effects analysis** and field tests, and had established a consultative group to advise the IASB. The first meeting of the group was planned for 20 May.

Progress was reported on the four main MoU and convergence projects. On **revenue recognition**, which was a joint project with the US FASB, the two Boards had completed their redeliberations and aimed to issue a final Standard in the next few months. On **leases**, another joint project, the Boards aimed to issue Exposure Drafts in the first half of 2013. The Chairman of the IASB highlighted the importance of having leases better recognised on the balance sheet. On **insurance contracts**, the IASB was aiming to issue an Exposure Draft in the first half of 2013, seeking views on five key matters on which there had been significant changes from an earlier Exposure Draft issued in 2010. The **impairment** project was the most important, and most sensitive, part of the overhaul of accounting for financial instruments. The IASB and FASB were taking different approaches in their respective EDs. The Chairman of the IASB encouraged securities regulators to examine closely the proposals. The two Boards planned to have a joint discussion on the responses to both their proposals. The aim was to finalise impairment requirements in 2013.

With regard to new projects following the 2011 *Agenda Consultation*, work was underway on the **conceptual framework** project, with a Discussion Paper (DP) targeted for around the end of June 2013. The ASAF was already playing an important role in providing advice on this project.

Sue Lloyd, Senior Director – Technical Activities, outlined progress on a number of other projects, including the IASB's proposals for limited amendments to the requirements for the **classification and**

¹ A recording of the meeting can be accessed at:
<http://w.on24.com/r.htm?e=603093&s=1&k=D8D3337F81FA08C277739795DE18264>

measurement of financial instruments. The comment period for the IASB's ED ended on 28 March 2013. A FASB ED on classification and measurement was still out for comment. The IASB planned to redeliberate the proposals with the FASB, with a view to completing this project in 2013. The IASB was also close to finalising its requirements for the proposed chapter of IFRS 9 on **hedge accounting**. The IASB was continuing to discuss the accounting for portfolio hedges (macro-hedge accounting), with the aim of publishing a DP during 2013.

Alan Teixeira, Senior Director – Technical Activities, noted that the IASB was continuing to examine **disclosures** in financial reporting, following up the disclosure forum in London that the IASB had hosted on 28 January 2013. A feedback statement from the event was being prepared that would outline a number of steps that the IASB would consider taking in relation to (a) materiality; (b) the perceived constraints imposed by existing standards; and (c) a more general review of disclosure requirements. Progress was also reported on the work being taken forward on **rate-regulated activities** and the narrow-scope review of IAS 41 **Agriculture**, focusing on bearer plants.

Report of the Chairman of the Due Process Oversight Committee

Scott Evans, Chairman of the Due Process Oversight Committee (DPOC) reported on the recent activities of the DPOC and its April 2013 meeting with the leadership and directors of the IASB.

The major item on the DPOC's recent agenda had been to develop and finalise the revised **Due Process Handbook**, which had been approved by the Trustees at their January 2013 and published in February, together with a **Due Process Protocol**, which was a reporting tool used by the staff to ensure both that all due process steps had been completed and to document compliance with those steps. As part of this review of due process, the DPOC had considered carefully whether it should hold parts of its meetings in public session, but had concluded not to do so, on the grounds that it could affect the candour and tone of the discussions. Instead, the DPOC had favoured increasing the level of transparency of the reporting of DPOC activities and meetings.

At its April 2013 meeting, the DPOC covered the following:

- A review of the IASB's current **technical activities**. The DPOC focused its attention on gaining comfort that major projects nearing publication had been through proper due process steps as outlined in the Due Process Handbook. The DPOC also received a progress report on items that were new to the agenda, in particular the conceptual framework (including the advisory role on this project being played by the ASAF), and rate-regulated activities. The Committee was particularly focused on the Insurance Contracts project, which was close to publication of a new ED, due to the importance and sensitivity of this project. The DPOC noted that the IASB was issuing a full exposure draft of the proposed standard on insurance contracts, but was focusing its questions to constituents on a number of key areas.
- A report on the full lifecycle of the project on **hedge accounting**, which was close to finalisation. The DPOC concluded that all due process steps had been satisfactorily completed, including the handling of the tricky issue of the scope of the proposed IFRS and the implications for those financial institutions that undertook macro-hedge accounting.
- A report on progress and review of procedures on the **post-implementation review (PIR) of IFRS 8 Operating Segments**. The DPOC acknowledged that in the outreach conducted some participants wished to remain anonymous in order to express their views and concerns in a

candid and confidential manner and that this presented a challenge of how to report the feedback received externally. The DPOC agreed with the IASB that more work needed to be done to consider in a systematic way how the content of feedback received confidentially could be reported publicly and so considered in the formal feedback process without compromising the privacy of the participant. The DPOC noted that the challenge of reporting these confidential discussions was common to most IASB projects. That said, overall the DPOC was content with the very transparent way in which the IFRS 8 PIR had been conducted. Overall, the DPOC's view was that the process used for the PIR of IFRS 8 had worked well in practice, represented a good start to the PIR process of the IASB, and provided a useful template for future PIRs.

- On **consultative groups and DPOC engagement**, the Committee was satisfied with membership proposals for a new consultative group on rate-regulated activities and a change in the membership of the financial instruments consultative group. On engagement, the DPOC agreed that a member should observe at least part of a face-to-face meeting of each of the major groups at least once a year and report back to the Committee to validate the breadth of attendance and an appreciation of the quality of dialogue.
- On **correspondence**, no new matters had been received since the January 2013 meeting.

Regional outreach activity

As part of the Trustees' meeting, the IFRS Foundation hosted a successful joint event with the Institute of Chartered Accountants in England and Wales (ICAEW) at which the Trustees and the leadership of the IASB met with representatives of key stakeholders to discuss issues under the theme *The relationship between financial reporting and long-term investing*. Ugo Bassi of the European Commission introduced the Commission's Green Paper on long-term financing, whilst the Chairman of the IASB, Hans Hoogervorst, offered his thoughts on the relationship between long-term investing and financial reporting².

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² A copy of Hans Hoogervorst's speech has been posted on the IFRS website at: <http://www.ifrs.org/Features/Pages/HH-speech-buy-and-hope-April-2013.aspx>.