

Summary of the conclusions of the IFRS Foundation Trustees' meeting

January 2013, Hong Kong

Introduction

The latest meeting of the Trustees of the IFRS Foundation, chaired by Michel Prada, was held in Hong Kong on 22-24 January 2013.

Report of the Trustees' Executive session

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

The Trustees had discussed their **international strategy**, reviewing developments around the world during 2012 and the direction for 2013. The Trustees discussed the on-going challenges with regard to the lack of a decision by the US Securities and Exchange Commission (SEC) on the adoption of IFRSs. The USA was an important constituent and adoption of IFRSs by the USA remained a goal, but it was not the only one. With the Norwalk process coming to an end, the Trustees discussed a new pragmatic way forward to fulfil the G20's objective.

The Trustees also discussed the importance of continuing to support the adoption of IFRSs globally and of keeping other important economies on the path to IFRS adoption. The Trustees planned to engage with the G20, plus other international bodies such as the Financial Stability Board (FSB), the International Monetary Fund (IMF) and the International Organisation of Securities Commissions (IOSCO) to reinforce their support for the mission of a single set of global accounting standards and to encourage them to advocate that the relevant authorities in their member countries help the Foundation secure stable and long-term funding.

As part of this item, the Trustees discussed the Asia-Oceania office. The opening of the office in November 2012 was judged to have been a great success, with representatives attending from across the Asia-Oceania region. The Trustees considered the role that the office could play as part of the organisation's general international strategy, not least in promoting the adoption of IFRSs across the region. Staff were now putting in place the resources to permit the office to play a full role in this. In addition, the office would assist with research projects and outreach activities. The organisation was keen to encourage secondments to the office from NSS across the region.

The Trustees reviewed arrangements for the **funding** of the organisation. Securing a longer term publicly sponsored funding commitment from the US authorities remained a challenge. As well as the US funding challenge, the Trustees discussed arrangements and options for the overall funding of the organisation. In terms of expenditure control, the Trustees' financial plan for 2013-15 proposed a stable head count base for the organisation and only modest increases in expenditure to reflect inflationary pressures while making all possible efforts to control operational costs. The Trustees acknowledged that this was a change from the large increase in the budget proposed in their Strategy Review report. While the increased budget remained a longer-term ambition, the plan for 2013-15 reflected a realistic view of the challenging economic climate and the levels of funding the organisation could expect to raise in the next few years. The Trustees also discussed a number of potential options for the proposed funding structure for the organisation and asked the staff to investigate further and to come back with proposals for their meeting in April 2013.

The Trustees also reviewed the feedback received following the publication in November 2012 of an Invitation to Comment on a proposal to establish an **Accounting Standards Advisory Forum (ASAF)**. The creation of such an advisory group followed one of the main recommendations of the Trustees' *Strategy Review*. ASAF was an important initiative to rationalise and streamline the current complex web of bilateral relationships that the IASB had with National Standard-Setters (NSS) and regional bodies associated with accounting standard-setting. The Trustees noted the high level of support for the initiative and agreed with the proposal to press ahead with establishing the Forum. The Trustees noted that the proposed timetable for establishing the ASAF was ambitious but took into account the IASB's desire to have the Forum up and running as soon as possible. The Trustees agreed that the next step was to issue a Call for Candidates for membership of the Forum, together with proposed Terms of Reference and a Memorandum of Understanding (MoU). A Feedback Statement would also be published at the same time, analysing the comments made and how the Foundation proposed to respond to them. These documents were subsequently published on the IFRS Foundation website on 1 February 2013.

The Trustees also discussed strategy proposals for developing **XBRL** within the IASB. The main recommendation in the proposals, with which the Trustees agreed, was that the IASB should focus on how an IFRS Taxonomy could help facilitate regulatory filing requirements and help users of IFRS financial statements to consume that information. There would in future be less emphasis on the technology behind the taxonomy, ie XBRL. This would have an impact on the IASB, which would need to devote some meeting time to discuss the taxonomy implications of new disclosure requirements. The change in emphasis would also have an impact on the XBRL Advisory Council, which would consider the proposals at its meeting in March 2013.

The Trustees also discussed the following:

- The feedback to the drafting review of changes to the IFRS **Constitution** to reflect the separation of the role of the IASB Chair and the Executive Director. The Trustees agreed the proposed changes and to the revised Constitution being published in February;
- A proposal to enter into a MoU with the **International Integrated Reporting Council (IIRC)**. The Trustees agreed to an MoU being signed;
- The Board **Committees** that had been established to implement various recommendations in the *Strategy Review*. Staff reported on the work of those Committees and the Trustees considered how they impacted on the Trustees' Committees;
- A proposal to establish a **research capability** – to make better use of academics and other research professionals and to improve the use the IASB made of research within the standard-setting process. The Trustees supported the general direction of the process, which would be considered further at the April 2013 meeting; and
- The results of the **Trustee body evaluation** that had been conducted in late 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.

Progress was reported on the four main MoU and convergence projects. On **revenue recognition**, which was a joint project with the US Financial Accounting Standards Board (FASB), the two Boards

had completed their substantive redeliberations of the recognition and measurement principles in the 2011 Exposure Draft. The Boards would shortly redeliberate the remaining topics, including scope, disclosure and transition and aimed to issue a final Standard in mid-2013. On **leases**, another joint project, the Boards aimed to issue Exposure Drafts in the first half of 2013. The Chairman of the IASB reported that welcome support for the leases project had been expressed by Eumedion (a Corporate Governance Forum that represented the interests of 70 institutional investors). 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. Given the importance of the project, and the pressing need to have an IFRS on insurance contracts, the IASB hoped this would avoid further undue delay in finalising a standard. 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. The FASB had already issued an Exposure Draft of its Current Expected Loss Model and the IASB was pushing to issue its Exposure Draft on the “three-bucket” model as soon as possible. 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 had restarted on the **conceptual framework** project, with a Discussion Paper targeted for the second half of 2013. The IASB expected that the ASAF, when established, would play an important role in providing advice on this project. The IASB was examining **disclosures** in financial reporting, and would be hosting a disclosure forum in London on 28 January. The IASB was also taking forward a narrow-scope review of IAS 41 **Agriculture**, focusing on bearer biological assets.

Sue Lloyd, Senior Director – Technical Activities, outlined progress on a number of other projects, including the publication of amendments to Standards on **Investment Entities**, introducing an exception that would require investment entities to measure their subsidiaries at fair value through profit and loss rather than consolidating them. On financial instruments, the IASB had issued an Exposure Draft proposing limited amendments on **classification and measurement** and, at its January 2013 meeting, would be considering the key issues raised on the review draft of the proposed chapter of IFRS 9 on **hedge accounting**. The IASB had also issued the first tranche of educational material on **fair value measurement**, which dealt with unquoted equity instruments within the scope of IFRS 9.

Alan Teixeira, Senior Director – Technical Activities, presented the feedback statement on the 2011 **Agenda Consultation**. He highlighted the project being taken forward on **rate-regulated activities** and the projects as part of the **research programme**, where the input of NSS and regional bodies would be important. As an example, the Australian Accounting Standards Board (AASB) and the Hong Kong Institute of Certified Public Accountants (HKICPA) were assisting on the project on **discount rates**.

Report of the Chairman of the Due Process Oversight Committee

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

The major item on the DPOC agenda had been to consider the revised **Due Process Handbook**, together with a Feedback Statement and Due Process Protocol tables, which the DPOC was recommending that the Trustees should approve for publication.

The Due Process Handbook:

- Clarified and formalised the role of the DPOC to assure transparency, full consultation, and accountability throughout standard setting process;
- Integrated the due process of the IASB with that of the Interpretations Committee to better clarify roles and streamline operations;
- Formalised the process for dealing with due process breaches;
- Codified existing practices to publicly demonstrate consistency with best practices. Examples included (a) the broadened focus of the triennial public review of the work programme on strategic direction rather than individual projects; (b) the practice of embedding effects analysis into multiple stages of standards development; (c) distinguishing the processes for major projects from Narrow Scope Amendments; (d) introducing Post Implementation Reviews (PIRs) as a formal part of the standard setting process; (e) having a research programme to allow for Discussion Papers to be introduced earlier in the process in order to better inform the setting of project priorities; and (f) extended comment period for proposed rejection of requests for Interpretations from 30 to 60 days.

The Feedback Statement summarised the consultation that had taken place, the main views that had been expressed by respondents in the 51 comment letters received (together with views expressed by the IFRS Advisory Council) and how the Foundation proposed to react to the responses. A major change incorporated into the Due Process Handbook was to extend the minimum comment period for re-exposure drafts to 90 days as against 60 days proposed in the Exposure Draft. The DPOC was recommending that a number of suggestions should not be pursued, including:

- Making DPOC meetings public – the DPOC had considered this carefully, but wanted to preserve the candour of its deliberations and believed it could best achieve this by continuing to meet in private, but furthering enhancing the transparency of the reporting of its meeting;
- Incorporating the objectives of DPOC into the IFRS *Constitution* – the DPOC took the view that the Due Process Handbook was the more appropriate place to set out the objectives, as is allowed for more frequent review and flexibility for updating;
- Instituting a time limit on due process complaints – the DPOC view was that this was impractical; and
- A suggestion that PIRs be conducted independently from IASB – the DPOC view was that this could harm the effectiveness of the process by distancing the IASB from the feedback. The DPOC was confident that the transparency of the PIR process would protect its integrity.

Feedback resulted in numerous clarifications being added to the final draft of the DPH, including:

- Clarifying the independent role of the Trustee staff;
- Clarifying the use of the Due Process Protocol as a management tool rather than a formal and overly bureaucratic instrument of the DPOC;

- An assurance that breaches would not immediately invalidate standards already incorporated and that interpretation rejection notices would not impose additional mandatory requirements since they were not IFRSs.

The Trustees approved the Due Process Handbook, Feedback Statement and Due Process Protocol for publication.

At its meeting, the DPOC also covered the following:

- A review of the process for sign off of **educational materials** by technical staff and IASB. The DPOC supported the fact that, although educational materials were not authoritative, they received appropriate review by staff and IASB members;
- 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 Committee was particularly focused on the Impairment standard, which was close to publication of a new exposure draft, due to the importance and sensitivity of this project. The Chairman noted that the DPOC would be asked to conduct similar reviews on an on-going basis, some of which may not coincide with meetings of the full trustee group.
- A mock-up of **web site improvements** to the project pages and DPOC section of the IFRS website. The DPOC was pleased to see that these improvements would make the site easier to navigate in the future.
- Approval of the IASB Chairman's recommendation that IASB member Darrel Scott be appointed to chair the **Small and Medium-sized Entities Implementation Group (SMEIG)**, and approval of changes to the terms of reference and operating procedures of the SMEIG to allow for an expansion in the membership of the group and to implement a staggered board over the next few years; and
- On **correspondence**, no new matters had been received since the October 2012 meeting.

The Korean experience of IFRS adoption

Duck-Koo Chung, a Trustee of the IFRS Foundation, presented a report *IFRS Adoption and Implementation in Korea, and the Lessons Learned*, that had been prepared by the Korea Accounting Standards Board (KASB) and the Financial Supervisory Service.

Korea had announced its 'Roadmap towards IFRS adoption in Korea' (the Roadmap) in 2007 and made IFRS application mandatory for all listed companies in Korea effective from 2011 as part of a 'big-bang' approach. The aim was to improve the domestic and foreign investors' perception of the transparency of financial statements published by Korean entities and to eliminate the so-called 'Korea discount'. The Roadmap also demonstrated Korea's strong will to take part in the international movement towards a single set of high-quality global accounting standards.

The report summarised the planning that Korea had put in place to deliver the Roadmap, including the necessary amendments to laws and regulations, the translation of IFRSs into Korean, and the establishment in 2009 of an IFRS Implementation Support Task Force to deal with issues arising from early adoption and to support the adoption process. Even with all this planning, Korean constituents faced many implementation challenges and difficulties, not least Korea was moving to a new and

unfamiliar financial reporting regime that emphasised: principles rather than specific rules; economic substance rather than legal form; consolidated financial statements rather than individual financial statements; and a greater use of fair value measurement.

While the Korean view was that adoption of IFRSs was a 'must', the adoption process had been a bumpy ride and the report provided some lessons learned and advice to both prospective IFRS adopters and the Foundation. The need to provide sufficient education and promotion was emphasised, as was the importance of communication among both local and foreign constituents. While Korea had received much support from the IFRS Foundation in its implementation of IFRSs, the Korean view was this support should have been more robust. The KASB had suggested that the IFRS Foundation should establish a structured system, referred to as an 'incubating system', to help new IFRS-adopting countries, including the establishment of a task force dedicated to the adoption process of the country.

The Trustees welcomed the presentation and the report as a document that would prove very useful for prospective IFRS adopting countries. The report provided a lot of helpful information and food for thought for the IFRS Foundation in how it might assist other countries in their move to IFRSs.

Meeting with representatives of the Monitoring Board

The Trustees met with Masamichi Kono, Acting Chairman of the Monitoring Board of the IFRS Foundation to provide an update on the progress made in following up the recommendations of the review of the governance of the organisation, published in February 2012, and to hold an exchange of views.

Regional outreach activity

As part of the Trustees' meeting, the IFRS Foundation hosted a successful joint event with the HKICPA at which the Trustees and the leadership of the IASB met with representatives of key stakeholders to discuss issues under the theme *The future of global financial reporting*. A video recording of the event would be posted on the IFRS Foundation website shortly.

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