

AGENDA PAPER

IFRS Foundation Trustees' meeting

Johannesburg July 2013

Agenda
paper 2

Memorandum

To: IFRS Foundation Trustees

From: Hans Hoogervorst

Date: 28 June 2013

Re: Report of the IASB Chair

Overview

In this report I will provide you with highlights of the IASB's and the IFRS Foundation's activities since the last Trustee meeting, and a preview of the IASB's plans for the coming three months. An update on the status of the IASB's current technical projects and a copy of the work plan as at 21 June 2013 are provided in Agenda Paper 3B to this meeting.

Activities during the last three months

Since the last report to the Trustees, the IASB has:

- (a) published a feedback statement on the Discussion Forum on Disclosure;
- (b) published an Exposure Draft *Leases*;
- (c) published an Exposure Draft *Insurance Contracts*;
- (d) published an amendment to IAS 39 *Financial Instruments: Recognition and Measurement* to enable hedge accounting to continue on the novation of a derivative to effect clearing with a central counterparty;
- (e) established a Consultative Group on rate regulation and published an Exposure Draft *Regulatory Deferral Accounts*; and
- (f) published an Interpretation regarding levies.

Disclosure Discussion Forum

In January 2013 the IASB hosted a public discussion forum on disclosures in financial reporting to foster dialogue between preparers, auditors, regulators and users of financial statements and standard-setters. The objective of the forum was for these and other interested parties to get a clearer picture of the ‘disclosure problem’ and its causes. It was hoped that the discussion could be used to identify:

- (a) ways of making disclosures more effective that could be implemented in both the short-term and long-term; and
- (b) solutions that could be implemented within existing disclosure requirements.

The IASB published a feedback statement in May summarising messages from the forum and next steps. It was acknowledged at the forum that preparers, standard-setters, auditors, regulators and the users of financial statements are all important parties that contribute to one or more of the problems perceived about disclosure. However, despite this shared responsibility it was also clear that forum participants thought that the IASB was best placed to lead improvements in disclosures.

In relation to its responsibilities the IASB intends to take action in respect of:

- (a) **Amendments to IAS 1:** The IASB will propose making narrow scope amendments to IAS 1 *Presentation of Financial Statements* to address perceived impediments to preparers exercising their judgement in presenting their financial reports. The IASB will start considering these amendments at its meeting in September. Although these amendments are likely to be relatively small in technical terms, my expectation is that they have the potential to affect reporting behaviour significantly.
- (b) **Drafting:** We have started drafting disclosure requirements in new Standards using more principled, and hence less prescriptive, wording.
- (c) **Materiality:** The IASB will assess whether it should develop application guidance (which forms part of a Standard) or education material on materiality. We plan to undertake that assessment in cooperation with the auditing standard-setter (IAASB) and securities regulators.
- (d) **Separate project on disclosure:** The IASB will undertake a project, as part of its research programme, reviewing its current disclosure requirements. The goal will be to replace our three main financial statement presentation and disclosure Standards (IAS 1, IAS 7 *Statement of Cash Flows* and IAS 8 *Accounting Policies Changes in Accounting Estimates and Errors*) with one consolidated IFRS – effectively creating a disclosure framework. We plan to draw on work already undertaken in the suspended Financial Statement Presentation project. Part of this research will include a holistic review of disclosures across the full suite of Standards.

Technical Projects-Update

On the technical front we are extremely busy with three main streams of work – the ongoing work to complete the four major projects, new projects including the Conceptual Framework Project and maintenance of existing IFRS through the activities of the Interpretations Committee. This three-pronged approach reflects the feedback received in response to the Agenda Consultation that reflected the need for a balance between active projects, research and the maintenance of existing IFRS.

The last few months have been particularly busy for the IASB, particularly in relation to the four major projects. We are currently undertaking outreach on our *Impairment of Financial Instruments* proposals, for which we will soon recommence deliberations. We have also started joint redeliberations on the Financial Instruments Classification and Measurement project. In May the IASB and FASB published a revised exposure draft for *Leasing* and the IASB published a revised *Insurance Contracts* exposure draft in June. In addition, we will publish the new IFRS on Revenue Recognition and the new hedge accounting requirements in the next few months.

The new projects are also well underway. In particular we have made significant progress on our *Conceptual Framework* project, which is a project of particular interest to me. It forms the foundation for our Standards. We have been working to a very ambitious timetable and I am pleased to say that we expect to publish the discussion paper in July. The newly formed Accounting Standards Advisory Forum (ASAF) will be very much involved in helping us to develop the Conceptual Framework.

In addition to the Conceptual Framework project the IASB has published an exposure draft to provide interim requirements for *Rate Regulated Activities* while the IASB works on a broader project on this topic. It has also published an exposure draft proposing changes to the accounting for *Bearer Biological Plants*. Each of these new projects addresses particular issues that were raised for urgent attention in the recent Agenda Consultation.

Agenda paper 3B provides more detail about the current technical activities.

Post Implementation Review of IFRS 8

The IASB has now completed its analysis for the Post Implementation Review of IFRS 8 *Operating Segments*. A draft report summarising the feedback received is expected to be published in the next few weeks.

Effects analysis

The IASB is committed to assessing and sharing knowledge about the likely costs of implementing proposed new requirements and the likely ongoing associated costs and benefits of each new IFRS—the costs and benefits are collectively referred to as effects. The IASB gains insight on the likely effects of the proposals for new or revised IFRSs through its formal exposure of proposals and through its fieldwork, analysis and consultations with relevant parties through outreach activities.

The IASB now routinely documents the likely effects of its proposals (sometimes referred to as cost-benefit analyses or impact assessments) in the Basis for Conclusions that accompanies every exposure draft and IFRS. Although this move is likely to be welcomed, there remain differences in thinking internationally about what is the appropriate scope and methodology for this type of analysis.

The IASB has established, as recommended by the Trustees in its strategic review, a working group to develop an agreed methodology for field visits/tests and effect analyses. The IASB invited applications from the international community for members of a consultative group, which the IASB will chair. The group has a broad international membership, including representation from members of the Monitoring Board. The first meeting was held on 20 May 2013.

Interaction with Securities Regulators and Prudential Regulators

Following the establishment of the Implementation Steering Committee, the staff of the IASB are working more closely with IOSCO and other securities regulators. This initiative is an important element in improving the consistency of application of IFRS globally.

In addition, we continue to work closely with prudential regulators at a global, national and regional level. Relationships with prudential regulators enable us to be aware of the consequences of our proposals from a regulatory perspective and to obtain input from prudential regulators on a timely basis.

Given the importance of these relationships we are investigating ways to formalise them.