

Summary of the conclusions of the IFRS Foundation Trustees' meeting

July 2013, Johannesburg

Introduction

The latest meeting of the Trustees of the IFRS Foundation, chaired by Michel Prada, was held in Johannesburg on 9-11 July 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 the IFRS Foundation's on-going relationship with the **International Organisation of Securities Commissions (IOSCO)**. The Trustees' Strategy Review report, published in 2012, had emphasised the importance of consistent application of IFRSs and the need to work with securities regulators. The relationship with IOSCO was an important one for two reasons. First, it was IOSCO endorsement of core standards that had set the IFRS ball in motion. Second, consistent standards of the enforcement of IFRS were important to achieve a global language of financial reporting. The Foundation was exploring ways to further strengthen this important relationship, in particular with IOSCO's Committee on Issuer Accounting, Audit and Disclosure, including developing a written statement of co-operation.

The Trustees continued their review and discussion of the **funding** of the IFRS Foundation, emphasising the importance of the need to stabilise the situation for the long term and to find the right balance between publicly-sponsored sources of funding and other sources. The Trustees discussed activities in various jurisdictions around the world to encourage them to meet their proportionate funding burden. The Trustees reaffirmed the funding principles described in their Strategy Review, namely that the funding of the IFRS Foundation "*should not be contingent on fulfilling any conditions that would compromise the independence of the standard-setting process.*"

The Trustees expressed their appreciation for the on-going contributions from jurisdictions around the world and stood ready to support jurisdictions in those activities, while continuing to ensure the independence of the IASB.

The Trustees also discussed a range of funding initiatives, including: (a) seeking contributions from those jurisdictions that were using IFRSs but not contributing to the costs of their creation, (b) the possibility to derive additional financing arrangements through greater licencing of the intellectual property of the IFRS Foundation, and (c) the removal of the financing discount as applied to emerging and developing economies.

On the **Strategy Review** more generally, the Trustees reviewed the actions and achievements that had been undertaken to address the recommendations for implementation by the IFRS Foundation that had been contained in the 2012 reports of the Trustees' Strategy Review and the Monitoring Board Governance Reviews. The Trustees noted that most of the actions resulting from the governance and strategy reviews had now been implemented in full and without modification. The one exception to this was the on-going challenge regarding the long-term financing of the

organisation. The Trustees agreed that a report on the actions should be prepared for submission to the Monitoring Board.

The Trustees discussed a **survey conducted in Canada on the cost of transition to IFRSs**. The survey had been carried out independently by the Canadian Financial Executives Research Foundation (CFERF), the research arm of Financial Executives International (FEI) Canada, and had been supported financially by the Canadian authorities and the IFRS Foundation. The Trustees found the report both interesting and helpful and were of the view that the survey of Canada's experience of adopting IFRSs would prove useful to other jurisdictions that were contemplating their own transitional plans to IFRSs. The Trustees looked forward to the publication of the survey later in July¹.

The Trustees reviewed **IFRS developments around the world**. The Trustees were updated on developments in the **European Union**, notably on meetings held with Philippe Maystadt as part of his review on the governance of European bodies involved with financial reporting and the process for the endorsement of IFRSs in the EU. While the Maystadt review was an internal issue for Europe, it had consequences for how the IFRS Foundation and the IASB co-operated with European bodies. The Trustees also discussed developments in the **United States**, with particular reference to an initial meeting Michel Prada and Yael Almog had held with Mary-Jo White, the new Chair of the US Securities and Exchange Commission (SEC).

In addition, the Trustees welcomed progress in **Japan** to expand the number of companies that are permitted to adopt IFRSs as issued by the IASB. The Trustees noted the increasing number of companies that were planning to voluntarily adopt IFRSs and noted that the Keidanren estimated that companies representing 20% of the total market capitalisation of the Tokyo Stock Exchange would be reporting using full IFRSs. The Trustees noted the intention by the Japanese authorities to introduce a new index of international companies listed in Japan, whereby a requirement for inclusion within the index was the use of IFRSs. Finally, the Trustees also noted the intention by the Japanese authorities to introduce an additional version of Japanese GAAP that was closer to full IFRSs as part of Japan's transition to full IFRSs. While acknowledging that this was a matter for the Japanese authorities, the Trustees were keen to stress that, from a branding perspective, this set of standards should **not** be labelled as a version of IFRSs.

Since the beginning of 2013, the Trustees had allocated a greater amount of time during their meetings to discuss a single issue of strategic importance. For this meeting, the Trustees discussed the support offered by the IFRS Foundation and the IASB to meeting the needs of **emerging economies**. In November 2010, the G20 Leaders called upon the IASB to further develop its outreach to emerging economies. During the meeting, Trustees reviewed the numerous steps taken by the IASB consistent with the G20 recommendation and were satisfied that this objective had been met. As a demonstration of the importance of this issue, the Trustees noted specifically the IASB's creation of an Emerging Economies Group as well as the representation of emerging economies across the IFRS Foundation and the IASB's decision-making and advisory functions and its working groups.

¹ The Survey report 'The Cost of IFRS Transition in Canada' was published on 16 July and can be accessed at <https://portal.feicanada.org/enews/file/Press%20Releases/2013/IFRS%20Transition%20Cost%20Survey%20-%20Press%20Release%20-%20FINAL.pdf>.

Of particular relevance to emerging and developing economies was the **IFRS for SMEs**. More than 80 countries used this standard or were making plans to do so. The Trustees discussed feedback received from the IASB's comprehensive review of the IFRS for SMEs and how to respond to that feedback. For example, whether the IFRS for SMEs should be considered as an integral part of the single set of standards, and whether and to what extent the IASB should express a view on what sort of companies should apply the IFRS for SMEs within a jurisdiction. The Trustees' feedback from this discuss would be used to further develop the thinking of the IASB.

The Trustees also discussed the following:

- **Nominations:** the Trustees noted the appointments to their ranks of Dr Abdulrahman Al-Humaid from Saudi Arabia and Joji Okada from Japan, both of whom were attending their first meeting. The Trustees also noted the re-appointments for a second term as Trustees of Duck-Koo Chung (Korea), Dick Sluimers (Netherlands) and Antonio Zoido (Spain).
- **Trustee meetings:** the Trustees held a further discussion of their meeting locations for 2014. The Trustees confirmed that they would meet in Sydney in April 2014 and their intention to meet in Mexico City in either July or October 2014. The Trustees revisited their earlier decision to meet twice in London during 2014 and decided to meet only once in London, with the fourth meeting to be held in an alternative location in Europe.

Report of the Chairman of the IASB

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

The previous three months had been a productive one for the IASB. The IASB and the US Financial Accounting Standards Board (FASB) had issued a revised Exposure Draft (ED) on **leases**. Outreach on the proposals had already started, in particular with investors, most of who viewed leasing as financing and so supported the proposal to recognise lease assets or liabilities on the balance sheet. Investor views, however, were rather more mixed on the dual approach proposed in the revised ED to the recognition, measurement and presentation of expenses and cash flows arising from a lease, but the two boards knew that this was a difficult issue. The outreach with preparers, which would be more challenging, was also starting.

The IASB had also issued its revised ED on **insurance contracts**. The initial reaction to its issue had been quite supportive, although many challenges remained. The IASB was trying to get across a message of urgency to complete the project. While the model presented in the 2010 Exposure Draft had been broadly supported, some specific issues were raised that the IASB had sought to address. The revised proposals responded to those issues by introducing enhancements to the presentation and measurement of insurance contracts while seeking to minimise artificial accounting volatility. That said, the IASB had been explicit that the trade-off of the proposals to deal with volatility was an increase in complexity. However, it was also necessary to recognise the fact that the insurance industry worked in a volatile climate. This would be a major theme of the outreach.

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 comment period on the IASB's ED had closed recently, with – at the time of the

meeting – over 140 comment letters having been received. The general impression of the comment letters overall was one of support for the proposals in the ED and a view that, while convergence with the US was important, the IASB should focus on refining its proposals and complete the project on a timely basis. The reaction of users was that they wanted something sorted out, but some remained wary of an expected loss approach and the earnings management implications. The role of regulators was important on this project. There had been intensive communications with the Basel Committee on Banking Supervision, and the IASB had received some good suggestions on how to make its model more forward-looking, for example by looking at macro-economic indicators. The two Boards planned to have a joint discussion in July on the responses to both their proposals. While the models proposed by the IASB and the US FASB might move closer together, the view was that convergence was not likely to be achieved.

The Discussion Paper (DP) on the **conceptual framework** project would be issued later in July. The IASB had attempted to be disciplined in both the scope and timing of the DP, wanting to provide a basis for a good discussion. The Chairman of the IASB highlighted two main issues addressed in the forthcoming ED. The first concerned measurement. The DP included proposals for high level guidance on when to apply fair value and when to apply amortised cost. The second concerned presentation and the use of Other Comprehensive Income (OCI). The DP outlined proposals to try to outline a basis as to why and what to put into OCI. The IASB was planning extensive outreach on the DP, including holding a number of public roundtables, and would be continuing to discuss the proposals with the Accounting Standards Advisory Forum (ASAF). It was noted that the IASB's plan was to complete the project by the end of 2015.

The IASB had also issued in May 2013 a feedback statement on the **Discussion Forum – Financial Statement Disclosure**, following up the disclosure forum in London that the IASB had hosted on 28 January 2013. The Chairman of the IASB noted that he had followed this up with a ten-point action plan to make disclosures more effective in a speech he made in Amsterdam in June². The plan involved both short-term and longer-term actions.

In the short-term, the IASB intended to take action in respect of:

- Amendments to IAS 1 *Presentation of Financial Statements* – the IASB would propose making narrow scope amendments to IAS 1 to address perceived impediments to preparers exercising their judgement in presenting their financial reports;
- Drafting – the IASB had started drafting disclosure requirements in new IFRSs using more principled, less prescriptive wording;
- Materiality – the IASB would assess whether it should develop application guidance or education material on materiality. The IASB would work on this in co-operation with the International Auditing and Assurance Standards Board (IAASB) and securities regulators.

The IASB hoped that this would have an impact on behaviour and help to tackle the 'tick-box' mentality and the production of boilerplate disclosures.

² The speech 'Breaking the boilerplate' can be accessed at: <http://www.ifrs.org/Alerts/Conference/Documents/2013/HH-Amsterdam-June-2013.pdf>.

Alan Teixeira, Senior Director – Technical Activities, amplified the summary with a presentation to Trustees on the work the IASB was doing on disclosures³. The presentation also covered the fact that, in the longer-term, the IASB would undertake a project, as part of its research programme, to review its disclosure requirements, with the aim of replacing the current financial 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. Part of the research would include a review of disclosure across all IFRSs.

In discussion, the Trustees welcomed the initiatives that the IASB was taking forward on disclosures, but noted the challenges that it would face, not least in tackling the issue of materiality. They emphasised the importance of working with all stakeholders: preparers, users, auditors and regulators, noting that each would have different perspectives. Users, for example, would tend to err on the side of having more, rather than less, disclosure. The IASB representatives acknowledged the point, emphasising that the focus was not to have fewer disclosures for the sake of it, but to have better disclosures. For example, the IASB would be considering whether to introduce a Net Debt Reconciliation. The Trustees also highlighted the importance of engaging the broad international community on these issues.

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.

At its July 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 a number of the major projects were following proper due process steps as outlined in the Due Process Handbook. The DPOC focused on a number of aspects of the financial instruments project (classification and measurement, impairment and hedge accounting), and the projects on insurance contracts and the conceptual framework. The DPOC was satisfied that all the due process requirements as set out in the Due Process Handbook were being met.
- A report on the full lifecycle of the project on **revenue recognition**, which was close to finalisation. The DPOC noted that the project dated back to 2002 and included a DP in 2008, and two EDs in 2010 and 2011. Given the central importance of revenue recognition to the production of financial statements by all companies in all sectors, the IASB followed an extensive due process to ensure that all constituents had an opportunity to participate in the process. The DPOC was therefore satisfied that the project had completed the due process steps necessary to move to final balloting.
- The DPOC conducted an annual review of **consultative groups**. All existing groups were reported to be operating effectively, and several new groups were in the formation stage. The DPOC enquired about the effectiveness of several project working groups that did not hold formal meetings in the past year. This received particular attention because of the importance of the projects in question (financial instruments, leases, insurance). The DPOC

³ The presentation can be accessed at:
http://www.ifrs.org/Meetings/MeetingDocs/Trustees/2013/July/AP2A_Public_Disclosures.pdf.

was satisfied with the explanation that most project work groups had the bulk of their meetings at the beginning of a project's life as the initial ED was being contemplated. As the project advanced towards its final stages, the role of the working group evolved to that of a group of experts that the IASB could call on to get specific advice on specific elements of the proposed standard. This stage did not usually require formal meetings of the group. Despite the fact that they were no longer meeting as a group, the IASB needed to keep the individuals on these projects active in the process until the project was complete.

- The DPOC also reviewed the **production timing of documents** for the remainder of 2013, reviewed the **reporting protocol**, and examined the updated format for the **DPOC pages of the website**.
- On **correspondence**, at the time of its meeting no new matters had been received since the April 2013 meeting. However, subsequently a case was submitted by Business Europe which the DPOC would investigate in line with the procedures outlined in the Due Process Handbook.

Regional outreach activity

As part of the Trustees' meeting, the IFRS Foundation hosted a successful joint event with the South African Institute of Chartered Accountants (SAICA) 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 financial reporting in Africa*. Professor Mervyn King, Chairman of the International Integrated Reporting Council (IIRC) gave a keynote address and this was followed by a lively panel discussion. A video recording of the panel discussion would be posted on the IFRS Foundation website shortly⁴.

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⁴ The video recording can be accessed at: <http://www.ifrs.org/Features/Pages/Panel-discussion-South-Africa-July-2013.aspx>.