

AGENDA PAPER

IFRS Foundation Advisory Council

London

10-11 June 2013

Agenda
Paper

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Memorandum

To: Advisory Council

From: Hans Hoogervorst

Date: 30 May 2013

Re: Report of the IASB Chair

Overview

In this report we will provide you with highlights of the IASB's and the IFRS Foundation's activities since the last Advisory Council meeting, and a preview of the IASB's plans for the next four months. An update on the status of the IASB's current technical projects and a copy of the work plan as at 30 May 2013 will be provided in Agenda Paper 1A for this meeting.

Activities during the last four months

Since the last report to the Advisory Council, the IASB and/or the IFRS Foundation have:

- (a) established a new advisory group to the IASB (the Accounting Standards Advisory Forum or ASAF);
- (b) published a feedback statement on the Discussion Forum on Disclosure;
- (c) published an Exposure Draft *Financial Instruments: Expected Credit Losses*;
- (d) published an Exposure Draft *Leases*;
- (e) established a Consultative Group on rate regulation and published an Exposure Draft *Regulatory Deferral Accounts*;

- (f) published an Exposure Draft *Novation of Derivatives and Continuation of Hedge Accounting*;
- (g) published an amendment to IAS 36 *Impairment of Assets* clarifying the application of fair value measurement disclosures;
- (h) published an IFRIC Interpretation regarding levies;
- (i) published proposed limited amendments to IAS 19 *Defined Benefit Plans: Employee Contributions*; and
- (j) held the first meeting of the effects analysis consultative group.

Creation of ASAF

Following the request for nominations issued in February 2013 the membership of the ASAF was announced on 19 March 2013. The establishment of the ASAF and the appointment of its members was the subject of extensive consultation and a thorough due process. The creation of such an advisory group was one of the main recommendations of the Trustees' strategy review.

As you are aware, the principal purpose of the ASAF is to provide advice and views to the IASB on major technical issues related to its standard-setting activities, and to provide input on national and regional issues. The proposals will result in a more streamlined and effective dialogue between the IASB and stakeholders from the standard-setting community.

The first meeting of the ASAF was held in London on 8 and 9 April 2013. The main topic on the agenda was the IASB's Conceptual Framework project. In addition, the Impairment project was discussed with both the IASB and FASB presenting their Impairment proposals. Both projects are extremely important items on the IASB's agenda and sharing a range of views on these topics is critical to their success.

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, 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 2013 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 make narrow-scope amendments to IAS 1 *Presentation of Financial Statements* to address perceived impediments to preparers exercising their judgement in presenting their financial reports.
- (b) Materiality: the IASB will seek to develop educational material on materiality with input from an advisory group.
- (c) Separate project on disclosure: the IASB will consider as part of its research agenda the broader challenges associated with disclosure effectiveness.

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 IFRSs 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 IFRSs.

The last few months have been particularly busy for the IASB. In relation to the four major projects we are currently undertaking outreach on our Impairment proposals, we plan to commence joint redeliberations of Classification and Measurement in the near term and we have published a revised Exposure Draft for Leasing. The revised Insurance Contracts Exposure Draft will be published in late June. In addition, we are in the process of finalising the new IFRS on Revenue Recognition and the new Hedge Accounting chapter to be included in IFRS 9. We expect these two new IFRSs to be completed in the middle of 2013.

We published our revised Impairment proposals in March 2013. The redeliberations of the Impairment proposals will be a key focus for the IASB in the coming months. As part of these redeliberations we will work with the FASB to consider any areas for closer convergence based on the feedback we have received on our respective proposals.

The new projects are also well under way. In particular we have made significant progress on our *Conceptual Framework* project and the Discussion Paper is currently being drafted.

We have been working to a very ambitious timetable and I am pleased to say we are progressing well to meet that timetable. Since the February Advisory Council meeting the vast majority of our Board time has been spent discussing the *Conceptual Framework* and we are on target to publish a Discussion Paper in early July. As noted above, the 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 interim *Exposure Draft* regarding Rate-regulated Activities (in addition to our broader project on this topic) and plans to publish an Exposure Draft proposing changes to the accounting for Bearer Plants shortly. Each of these new projects addresses particular issues that were raised for urgent attention in the recent Agenda Consultation.

Agenda Paper 1A 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 (PIR) of IFRS 8 *Operating Segments*. A draft report summarising the feedback received is expected to be published in June 2013. Work on the PIR for IFRS 3 *Business Combinations* will commence in the near term.

Effects Analysis Consultative Group

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 internationally in thinking about what is the appropriate scope and methodology for this type of analysis.

As recommended by the Trustees in their strategic review, an Effects Analysis Consultative Group has been established by the IASB. 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, and has been formed to develop an agreed methodology for effect analyses in an effort to improve the usability of financial information. The Effects Analysis Consultative Group held its first meeting on 20 May 2013:

- (a) to identify the main issues the group expects an IASB effects analysis to address;
- (b) to identify a range of analytical techniques that the IASB can use in its effects analyses, and when particular analysis is more appropriate; and
- (c) to develop effective ways of communicating the results of its field work and analysis.

The staff are drafting a report on the decisions reached during the meeting.