

Report

IFRS Advisory Council Meeting

LONDON 14–15 October 2013

PRESENTER Paul Cherry, Chairman

CONTACT Paul.Cherry@cica.ca

This paper has been prepared by the Chairman of the IFRS Advisory Council. The views expressed in this paper are those of the authors. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS.

Report of the IFRS Advisory Council Chairman to the Trustees and the IASB on the October 2013 Advisory Council meeting

1. The IFRS Advisory Council met in London on 14–15 October 2013. The main topics for discussion in addition to the usual updates on the IASB’s and Trustees’ activities were updates on the Monitoring Board, IFRS application in Japan, the role and composition of the Council, implementation and maintenance activities, the *Conceptual Framework* project, interaction of International Valuation Standards and IFRS, Effects Analysis, the Post-implementation Review of IFRS 3, use of IFRS around the world and *Leases* project. The Council wishes to emphasize the following points as of particular importance to the Trustees and IASB members:
 - Impairment of financial assets: the Council continued to stress the utmost importance of reaching a converged solution as a matter of urgency.
 - Leases: members received a comprehensive update on the feedback received on the leases proposals from meetings to date, which did not yet include a complete analysis of all of the comment letters. IASB member Jan Engström noted that the project has reached a critical phase and informed members that the IASB seeks the Council’s advice on the path forward. In his view, there are three alternatives for the boards—the first is that some have suggested stopping the project, the second is that some have suggested delaying the project and, possibly, working on disclosures only in the first instance, and the third is to proceed with finalising the project on a timely basis, but

potentially simplifying and refining the proposals that reflect the feedback received. A number of members commented on the alternatives—some expressed support for proceeding with the project, others stated that delaying the project would be the worst outcome and one member noted that a disclosure project would be a bad outcome from a preparer’s perspective. Members requested that the Agenda Committee bring the matter forward as a major agenda item for February 2014 meeting. This will enable appropriate background papers to be prepared and members to consult with their constituents so that Council is able to provide the IASB with strategic advice on the project.

- Implementation and maintenance activities: The Council supported the direction being taken but caution is needed. Standards should be able to stand alone. A clear distinction between authoritative and non-authoritative material is essential to reduce the risk of non-authoritative material taking on unintended authority. It is important that jointly-developed Standards remain converged post-publication. It would be desirable to agree a protocol with the relevant national interpretative bodies to ensure that, to extent possible, any authoritative interpretations of or amendments to converged Standards are, where possible, also converged.
- Effects analysis: The Council continued to support this initiative. Recognizing the challenges involved and the relative lack of experience in doing them, members urged caution in moving forward. The scope of the analysis should be consistent with the objectives of financial reporting as set out in the *Conceptual Framework*. The IASB should encourage interested parties to undertake their own analysis of the relevant effects and, in that regard, may act as a facilitator without assuming responsibility for such efforts.

2. The attached supplemental notes provide additional information on the matters discussed. In addition, summaries of the report-backs of the break-out sessions on implementation and maintenance activities and effects analysis are available separately.

Supplemental notes

3. **IASB activities:** the Accounting Standards Advisory Forum recommended that the proposed comprehensive review of current IFRS disclosure requirements be accelerated. The IASB outreach activities confirmed strong support from analysts and other users of financial reports for bringing leases onto the balance sheet although the level of support differs in some regions. Efforts are underway by both the IASB and the FASB, to clarify and refine the proposed expected loss impairment model, make it easier to apply more forward-looking and responsive to changes in credit conditions. Very constructive input has been received on the insurance contract proposals.
4. **Monitoring Board:** the Monitoring Board is evaluating potential new members from the emerging markets that are applying the new membership eligibility criteria. In addition, guidance is being developed on what constitutes domestic use of IFRS for those purposes.
5. **IFRS application in Japan:** the Business Accounting Council recently reaffirmed its commitment to IFRS as the single set of global standards and steps have been taken to encourage greater voluntary adoption of IFRS in Japan. The eligibility requirements for using IFRS have been relaxed. As a result, the number of eligible companies for voluntary adoption has increased nearly ten-fold. The number of Japanese companies using IFRS is likely to increase significantly in the next few years. A new set of Japanese standards will be introduced based on IFRS with very few modifications. This is an intermediate step with the ultimate goal being adoption of IFRS as issued by the IASB.
6. **Role and composition of the Council:** the recent performance self-assessment revealed a high level of satisfaction overall, with many areas showing significant improvement from the previous survey. Several potential areas for improvement were also identified. A process should be put in place, and perhaps a working group should be formed, to prioritize the suggested improvements and bring them forward for discussion. For example, the Terms of Reference regarding promoting the adoption of IFRS may need to be revised now that most members are appointed as representatives of their organizations.

Implementation and maintenance activities

7. The practical reality is that anything issued by the IASB or the IFRS Foundation is perceived as having some authority. Great care is taken in the preparation of educational and other non-mandatory material. However, it is not subject to the same rigorous due process as the mandatory material. Moreover, the endorsement or similar mechanisms adopted in many jurisdictions often apply only to the authoritative material.
8. Members emphasised that the Standards should stand alone and be understood on their own. However, members accepted the need to issue educational and other non-mandatory material. A visible, unambiguous distinction between the mandatory and non-mandatory material is essential. Labelling and terminology should be simplified and made clearer. For example, some consider that ‘application guidance’ is a bit contradictory since guidance, to many, implies non-mandatory. If the material provides more details to the principles in a standard, making them more complete, it should be classified as mandatory. On the other hand, examples and other material intended to help in applying a standard for the first time to become familiar with its requirements should be classified as non-mandatory.
9. Members supported the formation of implementation/transition support groups in special cases. Such groups should include a broad range of stakeholders, operate in a transparent manner and be subject to a limited life. Care is needed, however, to ensure that their output does not take on unwarranted authority. Members envisaged three potential outcomes/outputs of such groups: do nothing; request additional non-mandatory ‘education’ material; or request the IASB or IFRS IC to consider amendment of the standard or publication of authoritative interpretations. Such groups do not preclude others from raising the same or different issues directly with the IASB and the IFRS Interpretations Committee.
10. Members stressed the importance of keeping jointly-developed Standards converged post-publication. Amendments and interpretations of converged Standards should, to a

reasonable extent, also be converged. It was suggested that a protocol or other formal arrangement be agreed by the IASB and the FASB.

Conceptual Framework project:

11. Members were updated on the progress to date, including the publication of the Discussion Paper. Members discussed the suggested purpose and status of the *Conceptual Framework* and the approach taken to Chapters 1 and 3 of the existing *Conceptual Framework*.
12. Some members stated that identifying the IASB as the primary user of the *Conceptual Framework* was unhelpful and suggested that the needs of preparers and others should be considered when developing it.
13. Most members accept that, on rare occasions, it may be necessary for a Standard to depart from the new *Conceptual Framework*. However, such departures must be justified and there should be a process to consider whether the departure indicates a flaw in the *Conceptual Framework* that should be fixed.
14. Some members stated that consideration should be given to reinstating some discussion of prudence in the *Conceptual Framework*. Some also called for the IASB to consider how the concept of stewardship could be more clearly expressed in the *Conceptual Framework* and stated that the concept of reliability seems to be better understood than faithful representation.
15. **International Valuation Standards:** Sir David Tweedie made a presentation on the work of the International Valuation Standards Committee (IVSC). Sir David expressed satisfaction with the working relationship with the IASB and noted that the boundary between the content of IFRS regarding use of fair value measurements (when it should be used and the broad parameters) and the detailed application dealt with by the IVSC is appropriate.
16. **Effects analysis:** members discussed in break-out sessions how effects analysis should be conducted by the IASB. The scope should be consistent with the purpose of financial

reporting as set out in the *Conceptual Framework* and should not, for example, attempt macroeconomic analysis. At the same time, the IASB should recognize that other organizations may wish to conduct their own effects analysis and should endeavour to facilitate those efforts and take into consideration their results. However, the IASB should not be responsible for them. Concerns were expressed about the risk of bias if the effects analysis is done by the standard-setter itself. However, members recognized the need to be pragmatic. The risk of bias can be mitigated through appropriate governance/oversight, full transparency and by involving national standard-setters and regional bodies in the process.

17. **Post-implementation Review of IFRS-3 Business Combinations:** members were updated on the Post-implementation Review (PiR) of IFRS 3 *Business Combinations*. The members were informed that the interaction with the Financial Accounting Foundation (FAF) was going well and that the FASB had committed to wait for completion of the IASB's PiR before taking any standard-setting action. The members were satisfied with this approach as it is consistent with the Advisory Council's views on maintaining convergence. Members also wondered whether the period under which the Standard is reviewed (the financial crisis) would have an impact on some of the outcomes from the review. In response to their question on limited preparer involvement during Phase 1 of the PiR, staff informed them that it is expected that most of the comments on the RfI will come from preparers. The staff also informed the members that the IASB has a separate research project on the accounting for business combinations between entities under common control.
18. **Use of IFRS around the world:** Paul Pacter, former IASB Board Member, provided an update on the project of jurisdiction profiles and introduced new questions to add to country surveys. Members were very supportive of the initiative and thought it was very relevant.
19. **Retiring members:** The Chairman noted that this is the last meeting for the following members: Norbert Barth, Karyn Brooks, Andrew Buchanan, Paul Cherry, Jacques Le

Douit, Gerard Ee, Chanhong Kim, Sei-Ichi Kaneko, April Mackenzie, Jeff Mahoney, Reyaz Mihular, Liz Murrall, Joel Osnoss, Jerry de St. Paer, Francis Ruygt, Jim Sylph, Leo van der Taas and Mark Vaessen. He thanked them for their contributions to the work of the Council and the IASB and wished them well in their future endeavours.

Other

20. Breakfast meetings were held with investor representatives and emerging markets representatives, respectively.