Summary of the conclusions of the IFRS Foundation Trustees' meeting

October 2013, Frankfurt

Introduction

The latest meeting of the Trustees of the IFRS Foundation, chaired by Michel Prada, was held in Frankfurt on 15-17 October 2013.

Report of the Trustees' Executive session

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

The Trustees were informed that the IFRS Foundation had signed a 'Statement of Protocols' for co-operation with the **International Organisation of Securities Commissions (IOSCO).** The Trustees also noted and considered the discussions underway with a number of other bodies to strengthen collaboration with the Foundation.

The Trustees were updated on the progress of the **jurisdictional profiles project**, as part of which the Foundation was developing and posting on its website profiles about the use of IFRSs in individual jurisdictions. To date, a total of 81 profiles had been published, with further profiles to be published as they were completed. The profiles revealed an encouraging picture, with all but one of the 81 jurisdictions making a public statement supporting the use of IFRSs as the global accounting standard. It was also encouraging to note that, in general, jurisdictions were adopting IFRSs as they were written by the IASB, with few modifications.

The Trustees also considered aspects of the Foundation's **operations**, to ensure that the organisation operated in an efficient manner, including feedback from the Chair of the IASB regarding the efficiency of the IASB's decision-making process. The Trustees noted that the Foundation was facing budgetary constraints and had discussed steps to ensure that it had sufficient resources to achieve its mission. There was a need for the Foundation to manage its resources as efficiently as possible and, in this regard, the organisation had succeeded in reducing its travel costs by more than 20%. The Foundation would continue to look for further efficiencies.

The Trustees reviewed a proposed **stakeholder engagement programme** by the IFRS Foundation to ensure that policy-level contacts were sufficiently informed about the work of the Foundation and the IASB. This was important given the interest of the G20 and others in the organisation's work. In developing the programme, staff would continue to work in close cooperation with others, such as accounting standard-setters in different jurisdictions.

The Trustees considered the timing of the next **Constitution Review**, which had been reviewed every five years. The first review had been completed in 2005, the second in 2010, with the next review due to be completed by 2015. In fact, the Constitution required that the structure and effectiveness of the organisation be reviewed every five years. The Trustees had undertaken a far-reaching Strategy Review, and the Monitoring Board a review of the Foundation's governance, the reports of which had been published in February 2012. The Trustees discussed whether it was appropriate to conduct a further Constitution review so soon after the publication of these reports, given that these reviews had addressed many areas of the Constitution and the recommendations were still being implemented. There was also a risk of consultation fatigue among constituents. The Trustees agreed to defer the start of the next review until 2015, which would also have the benefit of aligning the timing with the Monitoring Board's governance reviews. This would be discussed with the Monitoring Board.

The Trustees reviewed **IFRS developments around the world.** The Trustees were updated on developments in the **European Union**, notably on the progress of the review by Philippe Maystadt of 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 recent developments with regard to the European Union's (EU's) contribution to the funding of the Foundation, where negotiations among the relevant EU institutions were on-going.

The Trustees discussed developments in the **United States**, with particular reference to the meetings that had been held by the Trustees and the IASB Chair with Mary-Jo White, the Chair of the US Securities and Exchange Commission (SEC). The Trustees noted the on-going challenges regarding the US financial contribution to the Foundation and the continuing work with stakeholders in the United States to overcome those challenges.

On this theme, 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 also continued to discuss 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) discussions with the accounting profession about broadening the funding base from the firms, and, in particular, (c) the possibility to derive additional financing arrangements through greater licencing of the intellectual property of the IFRS Foundation. On this last issue, the Trustees were keen to ensure that there was an appropriate balance between the Foundation's public interest role and its need to ensure that the organisation was compensated appropriately when commercial organisations benefitted financially from the use of the Foundation's intellectual property.

The Trustees had also received a number of update reports. The first was from Masamichi Kono, Chair of the **Monitoring Board** of the IFRS Foundation, on the Monitoring Board's work to implement the conclusions of its Governance Review, in particular the proposals to expand its membership and its approach to assessing membership. The second was from Paul Cherry, Chair of the IFRS **Advisory Council**, who delivered his final report. The Trustees expressed their appreciation for Paul's outstanding leadership of the Advisory Council and for his contribution to the work of the Foundation.

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 initial experience of the **Accounting Standards Advisory Forum (ASAF)** had exceeded expectations. The ASAF had now met three times (twice in physical meetings and once by conference call) and the quality of the group's discussions had been high. The views expressed by ASAF members were mixed, which was to be expected, but the main added-value was to have the engagement around the ASAF table, which helped to identify areas of consensus for the IASB and 'buy-in'. In terms of ASAF discussions on a number of particular items:

- There was broad support to promote behavioural changes with regard to **disclosures**, with members encouraging the IASB to speed up revision of disclosure requirements across IFRSs;
- There was also broad support for recognising assets and liabilities arising from **leases** on the balance sheet, but rather more mixed views as to how this should be done;
- On the **conceptual framework**, where the ASAF was fulfilling the role of the consultative group on the project, the ASAF had considered a bulletin on prudence and its place in the framework that had been presented by the European Financial Reporting Advisory Group (EFRAG). There was broad consensus that the IASB should discuss the issue. If the term prudence was to be reintroduced into the Framework, it should not conflict with neutrality, nor introduce a systematic bias, nor should it lead to the return of 'cookie-jar' reserves. Hans Hoogervorst reminded Trustees of the speech he had given in September 2012 that stressed that prudence was still very much engrained in IFRSs[1].

On the major projects, it was noted that the IASB and the US Financial Accounting Standards Board (FASB) had issued a revised Exposure Draft (ED) on **leases**. The comment period on the ED had closed on 13 September and there had been extensive outreach and fieldwork undertaken. Strong support had been received from the majority of users of financial statements for the proposal to recognise lease assets or liabilities on the balance sheet. Investors knew that there was hidden leverage and at present made their own adjustments that often over-estimated the extent of leverage in the balance sheet. That said, there remained significant resistance to the proposals. The redeliberations on the project would commence shortly. The IASB would prepare an extensive effects analysis.

On **impairment**, the IASB continued to make progress. At its September meeting, the IASB considered a number of clarifications and enhancements to the proposals in the ED *Financial Instruments: Expected Credit Losses*, including on the responsiveness of the general model in recognising lifetime expected credit losses, the threshold between the 'good book' and the 'bad book', the unit of account and on the use of forward-looking information to take into account when assessing impairment (rather than relying only on delinquency information). The IASB staff also reported on the fieldwork performed during the comment period, which indicated that the standard would lead to an increase in the levels of provisions. The FASB was continuing to work on a single measurement method, but was looking at the timing of the recognition of losses. The two Boards planned to have joint discussions and consider the extent to which the models proposed by the IASB and FASB might move closer together, but the view remained that convergence was not likely to be achieved.

[1] The speech 'The Concept of Prudence: dead or alive?' (18 September 2012) can be accessed at: http://www.ifrs.org/Alerts/Conference/Pages/prudence-speech-Sept-2012.aspx

On **revenue recognition**, the two Boards were discussing some outstanding issues (on collectability, constraint, and licences) but there was a determination to complete the discussions in October and to finalise the proposed IFRS.

The comment period on the IASB's revised ED on **insurance contracts** was coming to a close, with a deadline of 25 October**.** There had been a lot of outreach on the proposals, which was still continuing. The views of the industry on the proposals were diverse. In seeking to deal with concerns on volatility expressed in regard to the proposals in the 2010 ED, the trade-off of the proposals in the revised ED was an increase in complexity. The IASB was committed to addressing the issues raised and was working hard to communicate with the industry.

It was noted that the Discussion Paper (DP) on the **conceptual framework** project was out for comment, with a deadline of 14 January 2014. It was hoped that the DP and the consultation would resolve some philosophical debates.

Alan Teixeira, Senior Director – Technical Activities, noted that work on a number of projects on the research programme was underway and building up, and that on these projects, the IASB was working in co-operation with National Standard-Setters (NSS). He also noted that work had begun on a Post-Implementation Review (PIR) of IFRS 3 *Business Combinations*.

Sue Lloyd, Senior Director – Technical Activities, informed Trustees that the IASB would shortly be publishing the hedge accounting chapter of IFRS 9 *Financial Instruments*, which would also include two further changes. The first was the removal of the mandatory effective date of IFRS 9 (currently 2015); and the second was an amendment related to the presentation of changes in the value of own credit risk in financial liabilities. On the forthcoming revisions on hedge accounting, Sue Lloyd gave a presentation to Trustees[2]. The presentation highlighted the objectives of the project and the fact that it represented the outcome of a comprehensive review of hedge accounting. It was noted that the revisions were expected to be well-received and would deliver some important benefits, in particular by:

- Aligning the accounting treatment with risk management activity, which would enable preparers to better reflect hedging in their financial statements;
- Giving preparers the ability to account for more hedges of non-financial items and to achieve hedging accounting based on a more economic assessment of a hedging relationship; and
- Providing disclosures to help users of financial statements understand risk management and its impact on financial statements.

The Trustees noted that the project did not address macro-hedging, which would be the subject of a forthcoming DP, but that entities had an option to continue using IAS 39 until the macro-hedging provisions were revised. It was also made clear that the revisions were being made only by the IASB. The FASB had yet to redeliberate hedge accounting.

[2] The presentation can be accessed at: http://www.ifrs.org/Meetings/MeetingDocs/Trustees/2013/October/AP2A%20Hedge%20Accounting.pdf.

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 October 2013 meeting with the leadership and directors of the IASB.

At the meeting, the DPOC covered the following:

- A review of the IASB's current **technical activities**. As was usual, 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 the four aspects of the financial instruments project (classification and measurement, impairment, hedge accounting, and accounting for macro-hedging), leases, revenue recognition, insurance contracts, the Conceptual Framework, rate-regulated activities and narrow scope projects. The DPOC was satisfied that all the due process requirements as set out in the Due Process Handbook were being met.
- A discussion on the IASB's policy in relation to the preparation and issue of **educational material.** In particular, the DPOC considered the IASB's efforts to further clarify the distinction between material issued as part of a Standard (such as Application Guidance), and therefore subject to the transparency of full due process, and material that supported, but which was not part of, a Standard (such as Illustrative Examples) and thus subject to less extensive due process. The DPOC was encouraged by these efforts, and expressed a willingness to consider proposals for clarifying amendments to the Due Process Handbook once the IASB had completed its further research and outreach on the topic.
- An update on the activities of the **Effects Analysis Consultative Group**. The DPOC gave feedback regarding the due process aspects of effects analysis. The Committee cautioned that the IASB's legitimate efforts to be sensitive to the user needs of prudential regulators should not inadvertently expand the scope of the analysis beyond the constitutional limits of its standard setting responsibilities and should be consistent with the objectives of financial reporting as set out in the *Conceptual Framework*.
- A discussion on the observations of DPOC members and staff who had attended **consultative group meetings** that had been held since July. Except for project-specific working groups that were near the end of their lifecycle, all groups appeared to be meeting regularly and functioning well. DPOC members and staff would continue to attend selected consultative groups in the coming months. After questioning from Committee members, the IASB agreed to promptly come back with proposals to disband any groups that had outlived their original purpose. The Committee also considered and was content with proposals to expand the membership of the group that was looking at Shariah-compliant instruments and transactions.
- A progress report on the IASB's previously approved plan to restructure staffing and consultative activities related to **electronic reporting,** with a particular focus on the digital taxonomy for IFRS standards and XBRL.
- On **correspondence,** discussed a complaint that it received from Business Europe regarding the accuracy of staff reporting on comment letters. The Committee was satisfied that staff had responded in a timely and comprehensive manner to the complaint, and approved a response letter from the DPOC to Business Europe regarding the matter.

- In addition, the IASB reported that it had enhanced staff training on the general handling of **feedback from outreach activities**. The staff would keep the DPOC informed on its continuing efforts to improve the transparency of reporting of feedback from outreach and fieldwork activities, particularly with respect to reporting on feedback from persons and/or organisations who wished to remain anonymous.

Regional outreach activity

As part of the Trustees' meeting, the IFRS Foundation hosted a successful joint event with the Accounting Standards Committee of Germany (DRSC) 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.* Michel Prada 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 shortly after the event[3].

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[3] The video recording can be accessed at: http://www.ifrs.org/Features/Pages/Frankfurt-Trustees-meeting-panel-discussion-October-2013.aspx.