

Summary of the conclusions of the IFRS Foundation Trustees' meeting

April 2014, Sydney

Introduction

The latest meeting of the Trustees of the IFRS Foundation, chaired by Michel Prada, was held in Sydney on 8-10 April 2014.

Report of the Trustees' Executive session

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

The Trustees discussed the public consultation on the **International Public Sector Accounting Standards Board (IPSASB) Governance Review**. A consultation document had been issued in January 2014 by a review group consisting of the Organisation for Economic Co-operation and Development (OECD) and a number of other international bodies. One of the options set out in the consultation document to enhance the governance of IPSASB was that the IFRS Foundation and the Monitoring Board should extend the scope of their activities to encompass IPSASB. The Trustees agreed that public sector accounting needed to be improved, but were of the view that it would not be feasible, at least not in the short to medium term, to extend the scope of the remit of the IFRS Foundation and the Monitoring Board to encompass IPSASB. A more practical option was that a joint monitoring and oversight body, consisting primarily of members of the IPSASB review group, should be established. In the meantime, the good working relationship with IPSASB that was formalised through a joint Memorandum of Understanding would continue. The Trustees agreed that a response along these lines, which was consistent with the advice provided by the IFRS Advisory Council, should be submitted to the review group.

The Trustees were updated on a number of **IFRS international developments**:

- **Saudi Arabia** – the Chairman of the Trustees reported that he had participated in the recent 8th meeting of the Gulf Co-operation Council Accounting and Auditing Organisation (GCCAAO). It was clear that events regarding IFRS were moving very positively in this region. The Foundation's working relationship with the Saudis and others was very good. Although Trustees did not become involved in technical matters, there had been some interesting discussions about Islamic transactions. The IASB had created a committee to look into these transactions and how they fitted in to the existing IFRS regime.
- **USA** – the Chairman of the Trustees outlined recent US developments and reported on the outcome of his recent trip to meet with various US authorities, including the Securities and Exchange Commission (SEC). On US funding, there had been welcome news, with the recent US\$ 3 million contribution by the Financial Accounting Foundation (FAF), as well as a 50 per cent increase in the funding contribution made by the US Federal Reserve. There continued to be encouraging signs in the US, which was already a big user of IFRS, not least the plans by the Ford Motor Company to transition to IFRS. It was noted that SEC Chair Mary Jo White had said she that hoped to be able to come back to the Trustees with some proposals in the next months, including the possibility to use the IFRS XBRL Taxonomy. The possibility of allowing an option by US companies was for the first time mentioned in the conversations without explicit opposition.

- **Japan** – the Trustees received an update on developments in Japan to transition to IFRS, focusing on three particular topics:
 - The activities of the Asia-Oceania office and its future prospects;
 - Progress on the local endorsement process and potential modifications to IFRS in Japan; and
 - The increase of IFRS adopters in Japan and future prospects. The Japanese Keidanren had announced that around 60 companies with approximately 20% of market capitalisation had adopted or were considering the adoption of IFRS.
- **Europe** – the Trustees discussed the situation in Europe and the challenges the organisation had faced there. The welcome news was that, following a positive vote in the European Parliament (EP) on 13 March, the European Union's (EU's) contribution to the funding of the IFRS Foundation for the period 2014-2020 had been agreed (subject to annual assessment by the European Commission).
- **G20** – the Trustees noted that meetings had been held with representatives of the Australian Treasury and the Australian Securities and Investment Commission (ASIC). Given Australia's Presidency of the G20, an important focus of the discussions had been on maintaining momentum with the G20 and the Financial Stability Board (FSB) on emphasising the mission of a single set of global accounting standards as part of the agenda on fostering global growth;

The Trustees discussed the Foundation's **governance and control developments**, in the light of the episode of the organisation's past lapses in filing registrations with the UK's Companies House. The Trustees reviewed the Foundation's overall risk management and controls processes and procedures, which were considered to be generally effective, noting the specific remedial actions taken and further actions proposed. The Trustees noted that there had been calls from some quarters for further developments to the Foundation's governance and agreed that such calls should be considered in the context of the organisation's next review of structure and effectiveness, which was scheduled to start in 2015. This would take place at the same time as the planned review of the Accounting Standards Advisory Forum (ASAF). The Trustees asked the staff to start the preparatory work for that review as soon as possible in the second half of 2014, rather than wait for 2015.

The Trustees discussed the Foundation's **communications strategy for 2014**, in the context of a challenging political and policy environment. This included developing a revised overarching narrative for the organisation, enhanced co-ordination of policy-level outreach and media activity.

The Trustees received and discussed a thought-provoking presentation **Perspectives on the Strategic Positioning of IFRS, the IASB and the Trustees in the Asia Oceania Region** that was given by Kevin Stevenson, the Chairman and Chief Executive Officer of the Australian Accounting Standards Board (AASB).

The Trustees received reports from a number of Committees:

- the **Education and Content Services Committee** – the Committee had been updated on the work of the content services team, including the project to redesign eIFRS and the operation of the Translation Review Committees, as well as the work being undertaken by the IASB's Education Initiative; and

- the **Audit and Finance Committee** – following a review by the Committee and its recommendation, the Trustees had approved the financial statements for 2013 and for the formal signing of the statements to take place on 10 April. It was noted that the new external auditors had commented on how smoothly their first audit had taken place. Publication of the 2013 Annual Report would take place in the next few months.

Report of the Chairman of the IASB

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

The IASB was continuing to make progress on its **disclosure initiative**. It was noted that the complexity and length of financial statements had been raised at the stakeholder event that was held in Sydney (see below). Following a discussion forum held in early 2013, which was held to encourage the various participants in the financial reporting supply chain to discuss what could be done to improve the quality and usefulness of financial disclosures, the Chairman of the IASB had set out a 10-point plan in June 2013 to encourage meaningful improvements in this area. Progress was being made rapidly in this area, with the publication of an Exposure Draft (ED) in March 2014. The IASB was continuing to work with securities regulators, auditors and preparers to see how materiality was applied in practice and how better incentives could be given to avoid the disclosure of immaterial information. In the longer-term, the IASB was starting a research project to see how to develop clearer principles for disclosures, and would also review disclosures in existing standards to identify and assess conflicts, duplication and overlaps. This was an ambitious project, which was designed to help companies communicate better.

On **leases**, a joint project with the US Financial Accounting Standards Board (FASB), the two Boards had started their redeliberations on the proposals in the light of the feedback received on the 2013 Exposure Draft (ED). At their joint meeting in March 2014, the IASB and FASB had reached a number of tentative decisions, some converged, others not. Importantly, the Boards had remained committed to require lessees to recognise on the balance sheet assets and liabilities for all leases (other than short-term leases, and for the IASB, 'small-ticket' leases). Both Boards had also decided to retain existing lessor accounting. They were also agreed on the determination of the lease term. However, the two Boards had come to different tentative conclusions on the recognition and presentation of lease expenses in a lessee's income statement, with the IASB favouring a single model and the FASB a dual model. While achieving full convergence might be a challenge, the two Boards had agreed at the March 2014 meeting that the project would continue on a joint basis.

Ian Mackintosh, Vice-Chairman of the IASB, provided an update on **revenue recognition**, where the new Standard IFRS 15 *Revenue from Contracts with Customers* would be published in the near future. Progress was being made with the US Financial Accounting Standards Board (FASB) in establishing a limited-life implementation group to support preparers in the transition to the new Standard. This was a good example of co-operation between the two Boards. The precise composition of the membership of the group had yet to be finalised, but it would be co-chaired by the Vice-Chairmen of the IASB and the FASB and comprise around 25 members. The membership would reflect an appropriate mix of IASB and FASB stakeholders. It would be a discussion forum and

would not produce authoritative guidance. The meetings would be public and held simultaneously in London and Norwalk, with the first meeting taking place between July and September 2014. The plan was that the group would meet 3 or 4 times a year and would last for around 2 years. This would help to ensure that the converged Standard would remain converged. Whether the group was a precedent for other projects remained to be seen.

Report of the Chairman of the Due Process Oversight Committee

Scott Evans, Chairman of the Due Process Oversight Committee (DPOC) reported to the Trustees on the Committee's April 2014 meeting with the leadership and directors of the IASB.

At its meeting, the DPOC covered the following:

- A review of the IASB's current **technical activities**. The DPOC had considered all the major components of the accounting for macro-hedging project, leases, rate-regulated activities, revenue recognition, insurance contracts, the Conceptual Framework, as well as narrow-scope projects. After determining that delays in the timetable for revenue recognition and accounting for macro hedging were minor and non-substantive, the DPOC was satisfied that all the due process requirements as set out in the *Due Process Handbook* were being met.
- Reports on the full lifecycle of the phases on the **financial instruments project on impairment (expected credit losses) and classification and measurement limited amendments**. While all parties expressed regret that these standards had not achieved convergence with the FASB as originally planned, on both phases, the DPOC was satisfied that the required due process steps had been taken and that the IASB could proceed with issuing the final version of IFRS 9.
- The DPOC was updated on the IASB's plans for the publication of IFRS 9. In particular, the DPOC was content in principle with the proposal that the IASB might establish a **Post Issuance Implementation group for IFRS 9 Impairment**. If such a group was to be set up, the DPOC recommended that the group should have a formal charter limiting its scope to implementation feedback and specifically noting that the group would defer to the IFRS Interpretations Committee and/or the IASB on all matters pertaining to authoritative guidance. With respect to the composition of the proposed group, the Committee noted that it should reflect the technical nature of likely implementation issues, which might entail a large representation of subject matter experts from the accounting firms. The DPOC noted that this proposal would be discussed with the IFRS Advisory Council at its meeting in June 2014.
- An update on the activities of the **Effects Analysis Consultative Group (EACG)**. The DPOC gave feedback regarding the due process aspects of effects analysis. The Committee noted the EACG's emerging view that the focus of the IASB's review of the likely effects of a potential change in financial reporting requirements should reflect the objectives of financial reporting as set out in the *Conceptual Framework*. The IASB should be sensitive to the user needs of prudential regulators, not least given its membership of the Financial Stability Board, but that should not inadvertently expand the scope of the analysis beyond the constitutional limits of the IASB's standard setting responsibilities.

- A consideration of the IASB's proposals on changes to the due process for the **IFRS Taxonomy**. The DPOC was satisfied with the purpose of the proposed changes, which encompassed proposals for changes to both the content and technology of the IFRS Taxonomy. The DPOC noted the proposed timetable for the preparation of an Invitation to Comment on the proposals, which – once finalised – would need to be reflected in the Due Process Handbook. The DPOC would review proposals for public consultation at its meeting in July 2014,
- On **outreach and fieldwork**, the DPOC received a report on the progress made by the technical staff in improving the transparency of feedback from outreach meetings and fieldwork. The DPOC was pleased to hear of the efforts by IASB staff to improve the transparency of meeting discussion summaries.
- On **consultative groups and DPOC engagement**, the Committee continued its interest in engaging with each major consultative group in order to ensure that each body was functioning as intended. The DPOC reviewed the proposed memberships of the SME Implementation Group and the IFRS Taxonomy Consultative Group, which had been approved by the IASB, to take account of the balance of perspectives, in terms of both geography and professional background. The DPOC was content with both, but encouraged the IASB to continue to seek suitable candidates who were either preparers and investors or other users of SME financial statements to serve on the SMEIG, and for suitable candidates from Latin America who might be willing to join the IFRS Taxonomy Consultative Group.
- The DPOC was updated on the material that the **IFRS Education Initiative** was developing in 2014 and was satisfied that the level of review that was planned in each case was consistent with the requirements set out in the Due Process Handbook.
- On **correspondence**, no new matters had been received since the January 2014 meeting.

Regional outreach activity

As part of the Trustees' meeting, the IFRS Foundation hosted a successful joint event with the Institute of Chartered Accountants in Australia and CPA Australia 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'. The event attracted more than 100 Australian stakeholders and a recording of that panel discussion will shortly be posted on the IFRS website.