

# AGENDA PAPER

IFRS Advisory Council Meeting

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TOPIC Interaction between the Trustees and the Advisory Council

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PRESENTER Michel Prada

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This paper has been prepared for discussion at a public meeting 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.

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## Introduction

1. The purpose of this paper is to set out details of the current interaction between the Trustees and the Advisory Council (the Council) and to seek the Council's views on a number of recommendations agreed by the Trustees as to how communications between the Council and the Trustees can be improved.
2. This paper has been written following a suggestion made by Paul Cherry, the former Chair of the Council, supported by the Vice-Chairs, that there should be a session at this meeting on what the Trustees expect of the Council and what the Council expects of the Trustees. This is as a follow-up to the Council's recent performance assessment survey and a concern that the Trustees may not be making much proactive use of the Council. This paper highlights that this is not the case, but acknowledges that a number of improvements can be made on how the Trustees and the Council communicate (see the recommendations in paragraph 23, which the Trustees agreed at their January 2014 meeting).

## Background

3. The IFRS Foundation Constitution (Section 44) specifies that the Council provides a forum for participation by organisations and individuals, with an interest in international financial reporting, having diverse geographical and functional backgrounds, with the objective of:
  - a. Giving advice to the IASB on agenda decisions and priorities in the IASB's work;

- b. Informing the IASB of the views of the organisations and individuals on the AC on major standard-setting projects; and
  - c. Giving other advice to the IASB or the Trustees.
4. The Constitution (Section 46) also specifies that the Council “shall be consulted by the IASB in advance of IASB decisions on major projects and by the Trustees in advance of any proposed changes to the Constitution”.
  5. The primary objective of the Council, reflecting what is set out in Section 44 of the Constitution, is set out in Section 1 of the Council’s Terms of reference and operating procedures (latest version: February 2012). It contains the following reference: “When considered appropriate by the members of the Council, or on the request of the Trustees of the IFRS Foundation, the Council also provides input to the Trustees on matters relating to the activities of the Council or the IASB and any other relevant issues”.
  6. The Terms of reference and operating procedures (but not the Constitution) specifies a secondary objective for the Council, which is “to support the IASB in the promotion and adoption of IFRSs throughout the world” (Section 2). The Council is scheduled to consider this issue at its meeting in June 2014.

### **Context: the Council’s performance assessment**

7. During 2013, the Council undertook a review of its own performance to ensure that it is meeting its objectives and to suggest any improvements in its role, responsibilities and operations. The review was led by a sub-committee of Council members. A survey of Council members was carried out, which was later extended to seek the views of IASB members and Trustees.
8. The report of the sub-committee 2013 IFRS Advisory Council Review – Phase 1 Report was presented to the Council at its October 2013 meeting<sup>1</sup>, where it was noted that it had also been shared with members of the IASB and the Trustees’ Nominating Committee (to support that Committee in its process to appoint almost 20 new members of the Council).

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<sup>1</sup> The report can be accessed at: <http://www.ifrs.org/Meetings/MeetingDocs/Advisory%20Council/2013/AC1013-AP3%20AC%20self%20review%20report%20phase%201.pdf>.

### ***The Council's objectives***

9. The sub-committee report highlighted the general view that the Council's objectives are "broadly appropriate" and "well understood" by Council members (paragraph 16 of the report). That said, with regard to the Council's secondary objective, the report noted that:

"In relation to enhancing the global acceptance of IFRSs, the AC and the Trustees and the IASB feel there may be more the AC could do. However, different views emerged regarding the role of the Council and the way it might enhance the global acceptance of IFRS. Further discussion in the Advisory Council and with the Trustees concerning how Council members may add to the credibility of the standard setting process is necessary. IASB members suggest some support from the Advisory Council on assessing the impact of the standards ie advice on effect analysis would be welcome. Discussions within the Council and with the IASB need to take place to see how this may be achieved in a cost effective manner".
10. The Council is scheduled to hold a discussion, including break-out sessions, on its secondary objective at its meeting in June 2014. The outcome of this discussion will be reported to the Trustees at their July 2014 meeting.

### ***Council views on interaction with the Trustees***

11. The sub-committee report highlighted general support for the current level and extent of interaction between the Council and the Trustees (paragraph 31 of the report), noting that Council members expressed support for direct dialogue, in particular when IASB members and Trustees participate in break-out sessions. That said, while communications are considered good, Council members did express some concerns regarding feedback from both the IASB and Trustees, which might be an area for further consideration (paragraph 35 of the report). This theme is explored more below.

### ***Performance assessment: next steps***

12. At its October meeting, the Council agreed that a process should be put in place, and perhaps a working group formed, to prioritise the suggested improvements and bring them forward for discussion to future Council meetings.

### ***What do the Trustees expect of the Council?***

13. As Michel Prada noted at the October 2013 meetings of the Council and the Trustees, the Trustees highly appreciate the contribution of the Council and were pleased to the survey results revealed that improvements have been made since the last survey undertaken in 2010 and that the Council believes that it is operating efficiently and effectively.

14. As well as meeting its objective of giving advice and providing information to the IASB, the Trustees expect the Council to:
- a. Provide input to reviews undertaken by the Trustees;
  - b. Provide input to strategic developments proposed by the Trustees/IFRS Foundation (either as a result of the reviews under 1 above or separately); and
  - c. Provide advice, and give information, to the Trustees on broad strategic issues affecting financial reporting standards, in order to assist the Trustees in fulfil their duty under Section 15(d) of the IFRS Foundation Constitution to review such issues.
15. In addition, the Trustees welcome the proposal for discussions with regard to the Council's secondary objective referred to in paragraph 9 and 10 above.
16. In the staff's view, the Council is already meeting the expectations listed above, in particular in relation to (a) and (b) in paragraph 14 above, as the following examples demonstrate:
- a. Provide input to reviews undertaken by the Trustees, such as –
    - i. Reviews of the structure and effectiveness of the IFRS Foundation (Constitution/Strategy Reviews) – for example, at the June 2011 meeting of the Council, a presentation and break-out sessions were held to seek the views of Council members on the Strategy Review and the Monitoring Board's review of governance. Feedback from that Council meeting, together with a number of roundtable meetings, was reported to the Trustees at their meeting in July 2011. An update was given to the Council at its October 2011 meeting. The IFRS Foundation Constitution requires the Trustees to consult with the Council before making amendments to the Constitution;
    - ii. Reviews of the due process of the IASB and Interpretations Committee, including on its electronic reporting (XBRL) activities – for example, at the June 2012 meeting of the Council, a presentation and break-out sessions were held to seek the views of Council members on proposed revisions to the IFRS Foundation's *Due Process Handbook*. The Council's input was considered by the Due Process Oversight Committee (DPOC) in late 2011 and early 2012 along with the comment letters received on the draft *Due Process Handbook*. The Council received a report on the finalisation of the revised *Due Process Handbook* at its February 2013 meeting;
    - iii. Reviews of the effectiveness of bodies of the IFRS Foundation relevant to its standard-setting activities – for example, at the October 2011 meeting of the

Council, a session was held to seek the views of Council members on the Trustees' review of the IFRS Interpretations Committee. The Council's views were considered along with other stakeholder input in the development of the final report, which was approved by the Trustees in April 2012 and published in May 2012.

- b. Provide input to strategic developments proposed by the IFRS Foundation (either as a result of the reviews under 1 above or separately), such as –
- i. The proposal in 2012 to establish the Accounting Standards Advisory Forum (ASAF) – at the February 2013 meeting of the Council, a presentation and break-out sessions were held on the proposal and the implications for the Council of the establishment of the ASAF, together with the results of a survey of Council members;
  - ii. The consideration of developing with a wider range of stakeholders an involvement in the IASB's standard-setting process – on which presentations and break-out sessions were held at the June 2012 meeting of the Council, with further presentations given at the October 2012 and October 2013 meetings;
  - iii. The proposal to establish an IASB dedicated research capacity – at the October 2012 meeting of the Council, a presentation and break-out sessions were held on the proposal;
  - iv. The proposal to develop an agreed methodology for effects analysis – at the October 2013 meeting of the Council, a presentation and break-out sessions were held on the emerging recommendations of the Effects Analysis Consultative Group;
  - v. The development of a revised strategy for XBRL and its integration into the standard-setting activities of the IASB, including proposals to modify the XBRL due process and consultative arrangements – the Council was updated on the proposed plan at its February 2013 meeting. At the June 2013 meeting of the Council, a presentation and break-out sessions were held on the implications for the Council of the proposal to wind up the XBRL Advisory Council (XAC);
  - vi. The development of jurisdictional profiles on the use of IFRSs around the world - the Council was updated on progress at its February and October 2013 meetings.

17. The Trustees are also aware of the importance of the Council having the ability to provide its input and advice on a timely basis and will endeavour to ensure that this is achieved. Sometimes that can be challenging, as in the example of the proposal to establish the ASAF, which was taken forward very quickly. In that case, the Trustees acknowledge that the Council did not have an opportunity to discuss at a meeting the proposal during the period in which the proposal was published for public comment, although Council members were surveyed on the proposal. But the Council was still given the opportunity to discuss the proposal shortly after the comment deadline at its February 2013 meeting and to provide advice before the ASAF was established.
18. In relation to (3) above, the Trustees' view is that many broad strategic issues are considered already in the Council's consideration of the items in (1) and (2) above. That said, the Trustees note the proposal in the performance assessment *2013 IFRS Advisory Council Review – Phase 1 Report* that, given the Council's focus on strategic and broader technical issues, "it should be pro-active in identifying new and emerging issues pertaining to standard setting and in providing advice to the Board and the Trustees on these issues. This would mean more time on meeting agendas to be devoted to such forward looking issues. A standing item on future agendas would be 'future/emerging issues'" (paragraph 18 of the report). The Trustees welcome this proposal.

### **Communication between the Trustees and the Advisory Council**

19. After each Council meeting, the Council Chair prepares a written report for the Trustees and the IASB on the items that the Council wishes to bring to their attention. In addition, in each of the last two years (2012 and 2013), the Chair of the Council has attended two out of the four meetings of the Trustees (in July and October 2012, and in January and October 2013).
20. For the Council meetings held since February 2011, at least one Trustee (normally the Chair) has attended for at least part of the proceedings, with a usual representation of between 3 and 6 Trustees. As Chair of the Trustees, Michel has been present at each Council meeting since assuming the role at the beginning of 2012 and intends to carry on attending each meeting. Bob Glauber (as Vice-Chair and Chair of Nominating Committee) attended all 3 meetings in 2011 and 2 out of 3 meetings in each of 2012 and 2013. A number of Trustees have attended a Council meeting on an 'ad-hoc' basis, but we are conscious that, in particular for Trustees from outside of Europe, it is a heavy commitment in terms of time (for the Trustee) and cost (for the Foundation), which might only be worthwhile if attendance at a Council meeting can be combined with other commitments at the same time.

21. An oral update on Trustee activities is given at each Council meeting.
22. That said, the Trustees are conscious of the concerns referred to in paragraph 11 above about feedback raised by Council members and have heard the view expressed that the Trustees may not make much proactive use of the Council. The Trustees hope that the examples outlined in paragraph 16 above demonstrate that effective use of the Council is being made with regard to Trustee initiatives, but are aware that sometimes this is not made evident.

### **Recommendations for improving communications**

23. Given the position outlined above, the staff believe that there are a number of ways in which communications between the Council and Trustees can be further improved. At their January 2014 meeting, the Trustees agreed to the following recommendations that there should be:
  - a. **Improved agenda co-ordination** - Yael Almog and David Loweth are present on the calls of the Council's Agenda Committee and work with Michel in determining the agendas for meetings of the Trustees. They can advise on ensuring any necessary co-ordination between what the Council discusses and when it discusses them, and the issues that are coming to Trustees' meetings to ensure that, where appropriate, the advice of the Council is sought on a timely basis.
  - b. **Improved co-ordination between the Chairs of the Trustees and the Council** – the Chairs meet at meetings of the Council and a number of meetings of the Trustees, but there has been very little interaction between those meetings. Both Michel and Joanna Perry agree that there should be more interaction and that they should have a periodic catch-up, probably by telephone, to inform each other of developments and of potential forthcoming items for co-ordination.
  - c. **Improved positioning/labelling in papers and presentations to the Council and Trustees** – the examples highlighted in paragraph 16 demonstrate the extent to which the Council has discussed issues of importance to the Trustees, in both a proactive and timely manner. But the papers to the Council (and indeed to the Trustees) have not always made this clear and the Trustees agree with a staff recommendation that, in future, they will do so. The Trustees have also agreed with a staff recommendation that the feedback to the Council should be improved.
  - d. **Greater clarity over Trustees' attendance at Council meetings** – the current practice of Trustee attendance should become more formalised. Michel, as the

Chair of the Trustees, should be the main link with the Council and will aim to attend at least part of every Council meeting (or be represented by one of the Vice-Chairs). In addition, the Chair of one or more of the Trustees' Committees will aim to attend meetings when the Council is discussing issues of relevance to their Committee. The Trustees have agreed that the staff should also work with the Chair and the Executive Director to propose a plan for the attendance of other Trustees so that, over time, most will have the opportunity to attend at least one meeting of the Council.

24. The views of the Council would be welcome on the proposals set out in paragraph 23 and any further suggestions for improving communications.