

Report

IFRS Advisory Council Meeting

LONDON 24–25 February 2014

PRESENTER Christoph Huetten and Charles Macek, Vice-Chairmen

CONTACT

This paper has been prepared by the Vice-Chairmen 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 Chairmen to the Trustees and the IASB on the February 2014 Advisory Council meeting

1. The Council met on 24-25th February with the two vice-chairs, Christoph Huetten and Charles Macek sharing the responsibility of chairing the meeting. The main topics for discussion in addition to the usual updates on the IASB's and Trustees' activities were IPSASB Governance Review, *Leases* Project, Future of corporate reporting, update on the Education Initiative, and Investor Engagement Strategy. The large number of new members attended an induction session before the start of the meeting.
2. The public meeting commenced with a formal welcome to the new members, acknowledgement of the appointment of Joanna Perry as the new Chair following Paul Cherry's retirement, and an apology for Joanna's absence due to commitments made prior to her appointment to the Council.
3. In matters arising from the previous meeting reference was made of the two topics that were specific agenda items at this meeting. The first dealt with Trustee interaction with the Council, which was an area identified as an opportunity for improvement, based on feedback from the Council's self-evaluation of its performance undertaken during 2013. The second was seeking the Council's feedback on the *Leases* project following a presentation by Jan Engstrom at the October meeting.

4. Members received an update from the IASB Chair and staff members on the work program and from the Chair of Trustees on recent developments in Europe and the US. The update on the work program included the information that convergence with US GAAP could not be achieved in the financial instruments project, that full convergence on leasing might not be reached and that the FASB has decided to limit their work on insurance accounting to making targeted improvements to US GAAP. During the discussion following these updates a number of Council members stressed the importance of IFRS / US GAAP convergence and the desirability of trying to achieve a single set of high quality international standards. In this respect the importance of keeping this objective on the G20 radar was emphasised.
5. Largely for the benefit of new members, a summary of key strategic issues dealt with by the Council and identified going forward was presented. In no particular order these included:
 - Building the IFRS network with organisations such as IPSASB, IIRC, IFASS and IVSC;
 - IFRSs for SMEs;
 - Effects analysis;
 - XBRL and the relationship between the Council and the XAC;
 - The importance of Post-implementation Reviews;
 - Consideration of the merit of an interim standard for rate regulated activities;
 - The future of financial reporting;
 - The desirability of a "period of calm" following completion of the MOU joint projects with FASB.
6. There was unanimous support of the proposals for improving communication between the Council and Trustees, in particular more formal and regular contact between the respective Chairs.

7. The Council intensively discussed the idea that the IFRS Foundation and the Monitoring Board should extend the scope of their activities to encompass the International Public Sector Accounting Standards Board (IPSASB) as proposed by an IPSASB Governance Review Group chaired jointly by representatives of the IMF, the OECD and the World Bank. OECD representative presented the work of the group. There was broad consensus that public sector accounting needs to be improved. There was, however, also broad consensus that it would not be feasible, at least not in the short term, to extend the scope of the remit of the IFRS Foundation and the Monitoring Board to encompass IPSASB. Members expressed strong concerns that such an approach would endanger the Foundation's priorities, raise severe funding issues and have an undesirable organisational impact (e.g. composition of the Board of Trustees and Monitoring Board). Additionally, members were very concerned that such an approach would, to a very great extent, increase the political pressure on and political interference with the Foundation's activities. Some members expressed the view that having IASB and IPSASB under one roof should be the long term aspiration due to the far reaching similarities between public sector accounting and private sector accounting. Other members, however, questioned whether these similarities are indeed very strong. Finally, members questioned whether the IPSASB's governance is truly the most important reason for the legitimacy issues that IPSASB faces.
8. Considerable time was devoted to discussing the status of, and options regarding, the Leases project. There was overwhelming support that leases create assets and liabilities which should be reflected on a lessee's balance sheet. Indeed, there would be enormous disappointment if the project did not achieve this development. There was strong endorsement that, while convergence with US GAAP is very important, quality should not suffer in order to achieve such harmonisation. Consistent with this perspective was the expressed desire to complete the project even if this results in non-convergence. There were mixed views in respect of the desire for simplicity and the relevance of materiality in this regard. Specifically, some members raised concerns about the ability of preparers to "game" the standard if it includes exemptions and bright lines. Some reference was made

to the options in respect of expense recognition in the income statement. However, as this is essentially a technical matter, there was limited discussion of this issue and the Council did not express any views on the three options or any other technical aspects of the standard. Nonetheless, the choice of model will clearly impact the source and degree of opposition to any new standard. The Council acknowledged the positive role it could play in raising awareness of the need for changes to lease accounting and the merits of more transparent information about lease contracts.

9. The usual breakfast meetings of Investor representatives and Emerging Market's representatives were held before the start of the second day of Council's meeting and notes from these are available separately.
10. Using a breakout group approach, the Council intensively discussed the impact of new trends in corporate reporting on the activities of the IASB and the Foundation. There was broad consensus that Integrated Reporting (IR) and Digital Reporting (DR) are important trends that will impact financial reporting. It was, however, also highlighted that these trends are moving targets and thus their further development and final impact on financial reporting is hard to predict.
11. The Council acknowledged that the IASB is already considerably involved in the activities around IR. There was strong support for the current approach of involvement under which the IASB does not aim for being the owner of the developments but rather collaborates with the IIRC and other standard-setters and stakeholders while continuing its focus on its core competencies.
12. The importance of an external audit for the credibility of an integrated report was highlighted but not viewed as an area of activity for the IASB.
13. Council members expressed a number of ideas for further involvement of the IASB in the IR developments, which included the alignment with other standard-setters on common topics (e.g. materiality) and the involvement in producing guidance or highlighting best practices for the inclusion of financial reporting data in integrated reports and for the reporting of key performance indicators.

14. Council members highlighted that the demand for financial reporting data will likely further increase in the future and that consequently technology may become even more important in financial reporting. Based on this notion the Council advised that the IASB should continue to stay current on technological developments. The alignment with other stakeholders and standard-setters on technological aspects of IR was highlighted as an area where the IASB's efforts with regard to the IR trend and the DR trend could be combined.
15. Looking at Corporate Reporting beyond IR and DR ideas for possible future research projects were presented which included the reporting of Non-GAAP/Non-IFRS measures and more comprehensive guidance on management commentary.
16. Detailed notes from the breakout session report backs are available separately.
17. An informative, and somewhat entertaining but stimulating and illuminating update on the Board's considerable education initiatives to facilitate effective implementation of IFRS globally was presented by Mike Wells. The Council was impressed by the extent and quality of the various initiatives.
18. The public meeting concluded with a presentation led by Barbara Davidson on the Board's investor outreach strategy. Specific input was sought from the Council on the objectives and process adopted by the Board in this activity. A number of suggestions were made together with offers of support from Council members in assisting staff in undertaking this engagement. It was noted there were requests by investors for confidentiality and that the Board and the investor outreach team is looking at ways of summarising input received from investors to increase transparency of investor outreach while still meeting Due Process requirements.