MILAN	27 JANUARY 2014	**Agenda ref MB3**
PRESENTER	HANS HOOGERVORST	

Report of the IASB Chairman

Introduction

1. Since April 2013, when I last reported to you, we have been very productive in taking concrete steps towards accomplishing our mission of high quality, financial reporting standards that are understandable, enforceable and globally accepted. These steps include:
   - continual progress on our technical agenda;
   - undertaking a major research programme looking at the extent to which IFRS jurisdictions have actually adopted the standards;
   - helping to ensure international standards are applied and enforced on a globally consistent basis; and
   - building our co-operation with national standard-setters through the Accounting Standards Advisory Forum (ASAF).

Application of IFRS globally

2. To assess our progress towards the goal of globally accepted accounting standards, the IFRS Foundation is developing profiles about the use of IFRSs in individual jurisdictions and has and has posted those profiles on its website. Currently, profiles are completed for 122 jurisdictions, which cover all of the G20 jurisdiction plus 102 others. The plan is to have a profile for every jurisdiction that has adopted IFRS, or is on a programme towards adoption of IFRS.

3. The findings from this work are remarkable. Of the 122 countries researched so far, nearly all have made a public commitment to IFRS as global standards. More than 100 of the 122 countries surveyed have already adopted IFRS for most or all domestic listed companies, while many of the remaining 21 permit IFRS for at least some of those listed companies. More importantly, very few jurisdictions have made modifications to the standards, and

where they did, they were regarded as temporary. There is now firm evidence that IFRS use is widespread, and that most jurisdictions are adopting IFRS in the right manner. A more detailed review of this work is in Agenda Paper MB2 of this meeting.

4. The IFRS Foundation is committed to assessing and sharing knowledge regarding the likely costs of implementing proposed new requirement and the likely ongoing costs associated costs and benefits of any new IFRS. As part of this commitment we and the Canadian Accounting Standards Oversight Council co-funded an independent survey by FEI Canada on transition costs from Canadian GAAP to IFRS. 62 per cent of the companies surveyed reported transition budgets under $500,000. For larger companies with revenues of more than one billion dollars, the highest recorded transition cost was less than 0.1 per cent of turnover. These numbers are consistent with surveys elsewhere such as in Europe and Korea, so there is now evidence that the costs of transition are manageable.

Consistency in the application of IFRS globally

5. Steps have also been taken to help ensure international standards are applied and enforced on a globally consistent basis. In September 2013 the IFRS Foundation entered a joint Statement of Cooperation with IOSCO. As a result of this agreement, the IASB and IOSCO will work together in a proactive manner to encourage greater consistency in the implementation and enforcement of IFRS.

6. Our goal of consistent application is supported by the Education Initiative, which makes available high quality, understandable, and up-to-date material about IFRS. The team has had a very productive 2013, with all of its publications having sold out and its conferences and new IFRS implementation sessions in Amsterdam and São Paulo being attended by 480 and 280 participants respectively.

7. Other educational activities in 2013 included:

- Publication of the first collection of its comprehensive teaching material, which is designed to support those who are teaching aspiring professional accountants to make the judgements and estimates that are necessary to apply IFRS with rigour and consistency.

- The launch, for the first time, of regional workshops for IFRS regulators—although the target participation is for securities regulators from emerging and developing markets, prudential regulators also participated in the workshops.

- The launch of an investor-focused education project, including investor-focused events co-ordinated around our main IFRS conferences. In addition *An Investor Briefing* text (covering all IFRSs) and an *Investor Guide to new Revenue Requirements* are being developed.

Effect analysis

8. Acceptance of our proposals will only be achieved if the likely implementation costs and the ongoing associated costs and benefits are understood. The IASB gains insight on the likely effects of the proposals for new or revised IFRS through its formal exposure of proposals and through its fieldwork, analysis and consultations with relevant parties through outreach activities.

9. Although the IASB routinely documents the probable effects of its proposals in the Basis for Conclusions that accompanies every Exposure Draft and IFRS, there remain differences internationally on what is the appropriate scope and methodology for this type of analysis is. The IASB's working group, which is tasked with agreeing a methodology for field visits/tests and effect analyses, has met three times and is well advanced in developing a draft of its report to the IASB, which is expected to be finalised in early 2014.

Global co-operation

10. The IASB has now held three meetings of the Accounting Standards Advisory Forum (ASAF) and it is clear that ASAF enjoys strong support. The forum enables us to communicate effectively with national standard-setters, while ensuring that we receive a broad range of national and regional advice on major technical issues.

Technical agenda

Overview

11. The IASB has continued to focus on completing its major technical projects, and in November it completed a major step towards the finalisation of its financial instruments project with the publication of IFRS 9 *Financial Instruments* (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39). The amendments:

    (a) bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements;

    (b) allow the changes to address the so-called 'own credit' issue that were already included in IFRS 9 *Financial Instruments* to be applied in isolation without the need to change any other accounting for financial instruments; and

(c) remove the 1 January 2015 mandatory effective date of IFRS 9, to provide sufficient time for preparers of financial statements to make the transition to the new requirements.

12. The IASB has also published revised Exposure Drafts on Leasing and Insurance contracts and will commence consideration of the comments received in early 2014. In early 2014 it will also published the final Standard on Revenue Recognition and a Discussion Paper on Accounting for Macro Hedging.

13. Importantly, the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting* was published in July 2013. The Discussion Paper is the first step in revising the Conceptual Framework and responds to requests arising from the 2011 Agenda Consultation. A discussion of the comments received on this paper will commence in the first quarter of 2014

14. A copy of the current work plan is at Appendix A of this paper. The following section provides an update on the technical projects.

Major IFRS

Financial Instruments

15. As noted above, the IASB has now published a package of final amendments to the accounting requirements for financial instruments, including a substantial overhaul of hedge accounting.

16. As noted in our previous meetings, in November 2012 the IASB published an Exposure Draft *Classification and Measurement: Limited Amendments to IFRS 9* (*Proposed amendments to IFRS 9 (2010)*). This Exposure Draft proposed limited amendments to the classification and measurement requirements for financial instruments that were already contained in IFRS 9. The main changes proposed in the ED were to clarify the notion of principal and interest, to propose the introduction of a ‘fair value through OCI’ category for simple debt investments and to propose clarifications to the concept of ‘holding to collect’ contractual cash flows.

17. The FASB issued an Exposure Draft on the classification and measurement of financial instruments in February 2013. While the Exposure Drafts reflect joint decisions made by the boards, because of the different stage of development of our projects (the IASB is revising IFRS 9 whereas the FASB is proposing completely new guidance), the documents were not identical.

18. The IASB has been deliberating the comments received on the Exposure Drafts with the FASB and has made a number of tentative decisions. The FASB, at its meeting in December 2013, made a number of tentative decisions that suggest it will not proceed fully with the proposals set out in its own Exposure Draft.

19. Our target for completion of IFRS 9 (incorporating the final classification and measurement, impairment and hedge accounting requirements) remains the first half of 2014.

Impairment

20. The IASB continues to recognise the importance of finalising the Impairment project. The objective of the Impairment project is to increase the usefulness of financial statements by improving the transparency of information about the credit quality of loans subject to impairment[1], and improving the timeliness of recognition of expected credit losses.

21. In March 2013 the IASB published an Exposure Draft *Financial Instruments: Expected Credit Losses*. The proposals in that document were based on the model that the IASB had been developing jointly with the FASB. The proposals would result in expected credit losses always being recognised (from when a financial instrument is first purchased or originated), with full lifetime expected credit losses being recognised when a financial instrument suffers a significant deterioration in credit quality.

22. As discussed at previous meetings, in July 2012 the FASB decided to explore a different approach—one still based on expected credit losses, but in which full (all) lifetime expected credit losses are recognised for all loans from initial recognition.

23. In late December 2012, the FASB published its Exposure Draft on impairment. The IASB and FASB have shared the feedback they have received on their respective Exposure Drafts. While many (including the Financial Stability Board) would like a converged solution, geographical differences in feedback continue to be apparent, including from users of financial statements and few suggestions have been made for how convergence could be achieved.

24. The FASB, at its meeting in December 2013, elected to proceed with its model, which is a full lifetime expected credit loss model. The IASB aims to substantially complete its discussions of clarifications and improvements to the proposals in its exposure draft in

[1] We refer to all financial assets subject to impairment as 'loans' in the Impairment section of this paper for ease of discussion.

early 2014 and then to provide an update to the FASB on our tentative decisions.

Accounting for Macro Hedging

25. As noted, the IASB expects to issue the Discussion Paper on the model for accounting for macro hedging (portfolio hedges) in the first quarter of 2014. The IASB has had a number of public discussions and sought the advice of ASAF at its September 2013 meeting.

Leases

26. The objective of the Leases project is to improve the quality and comparability of financial reporting by providing greater transparency about leverage, the assets an entity uses in its operations and the risks to which it is exposed from entering into lease transactions.

27. This is a joint project with the FASB. In May 2013, the boards published a joint and revised Exposure Draft on leases. During the comment period, extensive outreach activities were undertaken, focusing in particular on obtaining feedback from users of the financial statements and understanding the drivers of costs for preparers.

28. The boards will start to discuss the proposed models and any possible scope simplifications in January 2014 with the aim of reaching decisions on the central topics in March 2014.

Revenue Recognition

29. The objective of this joint project with the FASB is to improve financial reporting by creating a common revenue recognition Standard that clarifies principles that can be applied consistently across various transactions, industries and capital markets. The project applies to all contracts with customers (except leases, financial instruments and insurance contracts).

30. This project is currently being finalised, following resolution of three issues that arose from the fatal flaw review, and the final Standard is expected to be published in the first half of 2014.

31. In view of the importance of revenue and the broad scope of the new Standard, the IASB and the FASB intend to establish a limited-life transition resource group to support preparers in the transition to the new Standard. Importantly, it is not envisaged that the group will provide authoritative guidance.

Insurance Contracts

32. The objective of this project is to eliminate inconsistencies and weaknesses in existing practice by replacing IFRS 4 *Insurance Contracts* and to provide a single principle-based Standard to account for all insurance contracts. Although the boards have worked together on this project, they have reached different decision in several key areas.

33. The IASB published its revised Exposure Draft at the end of June 2013. In view of our previous consultation, feedback was sought on five key matters on which there have been significant changes to the proposals in the 2010 Exposure Draft.

34. The comment period for the Exposure Draft ended on 25 October 2013. In early 2014 the IASB will carefully consider how to finalise this Standard in the light of the comments received.

Rate-regulated Activities

35. The IASB has a project on Rate-regulated Activities that is divided into two phases; the development of a Discussion Paper and an interim IFRS.

36. The aim of the Discussion Paper is to consider whether rate regulation gives rise assets or liabilities in addition to those already recognised in accordance with IFRS for non-rate-regulated activities. Following *A Request for Information* in March 2013 requesting information about the common features of rate regulation, the IASB is now considering the common features identified as being most important to distinguish rate-regulated activities from general commercial activities. In addition, the ASAF was asked to provide input at its December 2013 meeting. It is expected that the Discussion Paper will be published in the second half of 2014.

37. The interim IFRS is designed to assist those who are adopting IFRS prior to completion of the first phase. It will permit first-time adopters to continue using their current accounting treatment. The IASB expects to publish the interim IFRS in the first quarter of 2014.

Implementation projects

Disclosure Initiative

38. This is a broad-based initiative to explore how disclosures in IFRS financial reporting can be improved. The Initiative is divided into short- and medium-term projects.

39. In the short term the IASB will issue an Exposure Draft of narrow-focus amendments to IAS 1 *Presentation of Financial Statements* to address some of the concerns that the IASB has heard and has highlighted in the Feedback Statement on its *Discussion Forum on*

Disclosures in Financial Statements. It is expected that the Exposure Draft will be published in the first quarter of 2014.

40. As part of the short-term project the IASB is considering how materiality is applied in practice and will consider whether further guidance is needed.

41. In the medium term the IASB will undertake a research project to explore whether IAS 1, IAS 7 *Statement of Cash Flows* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* should be replaced. This research project will incorporate a review of the work previously done on the Financial Statement Presentation project. In the medium term, the IASB will also undertake a research project to review disclosures in existing Standards to identify and assess conflicts, duplication and overlaps.

42. In October 2013 the IASB announced that it is bringing together members of its standard-setting team with the eXtensible Business Reporting Language (XBRL) team. The creation of a combined team of standard-setting and electronic reporting experts reflects the increasing importance of electronic filing of financial information.

IAS 41—Bearer Plants

43. In June 2013 we published an Exposure Draft proposing that bearer plants should be accounted for in accordance with IAS 16 *Property, Plant and Equipment* instead of IAS 41 *Agriculture.* Bearer plants are a class of biological assets that, once mature, are held by an entity solely to grow produce over their productive life. Examples include grape vines, rubber trees and oil palms.

44. Currently, IAS 41 requires all biological assets that are related to agricultural activity, including bearer plants, to be measured at fair value less costs to sell. This requirement is based on the principle that biological transformation is best reflected by fair value measurement. However, once mature, bearer plants no longer undergo significant biological transformation. The proposals would permit the use of the cost model or revaluation model.

The Conceptual Framework

45. The Discussion Paper *A Review of the Conceptual Framework for Financial Reporting* was issued in July 2013. The Conceptual Framework sets out the concepts that underlie the preparation and presentation of financial statements. It is not a Standard or Interpretation and does not override any specific Standard or Interpretation, but it identifies principles for the IASB to use when it develops and revises its IFRSs.

46. The Discussion Paper is designed to obtain initial views and comments on important issues that the IASB will consider as it develops an Exposure Draft of a revised Conceptual Framework. It focuses on areas that have caused the IASB problems in practice, including:
   - definitions of assets and liabilities;
   - recognition and derecognition;
   - the distinction between equity and liabilities;
   - measurement;
   - presentation and disclosure; and
   - other comprehensive income (OCI).

47. During the comment period, extensive outreach is being conducted to obtain feedback on the issues included in the Discussion Paper. The IASB has also consulted its advisory groups—ASAF (which acts as the project team's working group), the Capital Markets Advisory Committee (CMAC), Global Preparers Forum (GPF), and the IFRS Advisory Council.

Research Projects

48. The IASB has made a cautious start to the research programme. The success of the programme depends at least partly on the contributions of national standard-setters.

49. Work has commenced internally on business combinations under common control (BCUCC), building on discussions developed by the Emerging Economies Group, NSS papers and our own outreach.

50. In addition internal work by the staff has started on the development of a first draft of a background paper on discount rates, for discussion with the IASB.

51. There are several projects that warrant work because of the high proportion of interpretations requests received on those topics—the equity method, post-employment benefits and share-based payments. The staff anticipate taking papers to the IASB in the first half of 2014 on the equity method.

IFRS for SMEs

Comprehensive Review 2012–2014

52. The Exposure Draft of proposed amendments to the I*nternational Financial Reporting Standard for Small and Medium-sized Entities* (IFRS for SMEs) was published in October

2013 with an extended comment period of 150 days to allow organisations additional time in order to solicit and consolidate the views of smaller businesses in their jurisdictions. As previously discussed, the IASB had committed itself to undertake the review when it published the issued *IFRS for SMEs* in July 2009.

53. In order to assist in the process of identifying which items to consider for amendment, the IASB issued a Request for Information (RfI) in June 2012 to seek public views and consulted with the SME Implementation Group, an advisory body to the IASB. After considering the feedback it received, and taking into account the fact that the *IF*RS for SMEs is still a new Standard, the IASB only proposes to make limited amendments to the IFRS for SMEs. The proposed amendments are not expected to result in significant changes in practice for SMEs or to have a significant impact on their financial statements.

Post-implementation review (PiR)

54. In July 2013 the IASB completed its first Post-implementation Review (PiR), the review of IFRS 8 *Operating Segments*. A report and feedback statement was published by the IASB. The general conclusion of the report was that IFRS 8 is functioning as was anticipated. IFRS 8 is a converged standard so the IASB noted that in the limited areas in which further investigation is warranted the IASB will liaise with the FASB and that any changes would be considered within the context of the convergence with US GAAP that was achieved with IFRS 8.

55. In July 2013 the IASB launched its PiR of IFRS 3 *Business Combinations*. The review will include both IFRS 3 (2004) and IFRS 3 (2008) as well as all the amendments made to other Standards (eg IAS 36 *Impairment of Assets*, IAS 38 *Intangible Assets* etc) as a result of the Business Combinations project.

56. The first phase of the review will be the publication of a Request for Information. The IASB considered (in both of its November and December meetings) the tentative questions to be included in RfI. The ASAF was asked for its advice on the tentative questions to be included in the RfI at its December meeting.

Appendix A

Work plan—as at 17 December 2013

Major IFRSs

Next major project milestone

	2014 Q1	2014 Q2	2014 Q3	2014 Q4
IFRS 9 *Financial Instruments* (replacement of IAS 39)				
Classification and Measurement (Limited Amendments)	Target IFRS			
Impairment	Target IFRS			
Accounting for Macro Hedging	Target DP			

Next major project milestone

	2014 Q1	2014 Q2	2014 Q3	2014 Q4
Insurance Contracts	Redeliberations			
Leases	Redeliberations			
Rate-regulated Activities				
Interim IFRS	Target IFRS			
Rate Regulation		Target DP		
Revenue Recognition	Target IFRS			

IFRS for SMEs: Comprehensive Review 2012-2014–**see project page**

Implementation

Next major project milestone

Narrow-scope amendments	2014 Q1	2014 Q2	2014 Q3	2014 Q4
Acquisition of an Interest in a Joint Operation (Proposed amendments to IFRS 11)	Target IFRS			
Annual Improvements 2012-2014 (Comment period ends 13 March 2014)		Redeliberations		
Annual Improvements 2013-2015			Target ED	
Bearer Plants (Proposed amendments to IAS 41)	Redeliberations			
Clarification of Acceptable Methods of Depreciation and Amortisation (Proposed amendments to IAS 16 and IAS 38)	Target IFRS			
Disclosure Initiative				

Amendments to IAS 1 (Disclosure Initiative)	Target ED			
Elimination of gains arising from 'downstream' transactions (Proposed amendments to IAS 28)	Target ED			
Equity Method: Share of Other Net Asset Changes (Proposed amendments to IAS 28)	Target IFRS			
Fair Value Measurement: Unit of Account	Target ED			
Put Options Written on Non-controlling interests (Proposed amendments to IAS 32)	Next steps TBD			
Recognition of Deferred Tax Assets for Unrealised Losses (Proposed amendments to IAS 12)		Target ED		
Sale or Contribution of Assets between an investor and its Associate or Joint Venture (Proposed amendments to IFRS 10 and IAS 28)	Target IFRS			
Separate Financial Statements (Equity Method) (Proposed amendments to IAS 27) (Comment period ends 3 February 2014)	Redeliberations			

Next major project milestone

Post-implementation Reviews	2013 Q4	2014 Q1	2014 Q2	2014 Q3
IFRS 3 *Business Combinations*		Publish Request for Information		

Conceptual Framework

Next major project milestone

	2014 Q1	2014 Q2	2014 Q3	2014 Q4
Conceptual Framework (chapters addressing elements of financial statements, measurements, reporting entity and presentation and disclosure) (comment period ends 14 January 2014)	Redeliberations			

Research Projects

Research projects on which preliminary work has commenced
Business combinations under common control
Disclosure initiative
Discount rates
Emissions trading scheme
Extractive activities
Financial instruments with characteristics of equity
Intangible assets
Research projects on which preliminary work is not expected to commence until after the 2015 agenda consultation
Income taxes

Post-employment benefits (including pensions)
Share-based payments
Research projects for which the timing of preliminary work has not yet been confirmed
Equity method of accounting
Financial reporting in high inflationary economies
Foreign currency translation
Liabilities–amendments to IAS 37