

AGENDA PAPER

IFRS Foundation Trustees meeting

LONDON 10 JULY 2014

Agenda ref 2

PRESENTER HANS HOOGERVORST

Report of the IASB Chairman

Introduction

1. I am pleased to provide a report on developments since our meeting in April 2014.

Work plan overview

2. In this quarter we have issued:
 - IFRS 15 *Revenue from Contracts with Customers*;
 - *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)*; and
 - *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)*.
3. We have also published:
 - a Discussion Paper *Accounting for Dynamic Risk Management: a Portfolio Approach to Macro Hedging*; and
 - an Exposure Draft *Investment Entities—Applying the Consolidation Exception (Proposed amendments to IFRS 10 and IAS 28)*.
4. We are in the finalisation phase of the revised IFRS 9 *Financial Instruments*. We expect to issue the revised Standard in July.
5. On Leases we continue to work with the FASB and both parties continue to agree that most leases need to be recognised on the balance sheet; we have less agreement about how the lease asset and liability should be run off in the income statement. We are committed to looking for improvements that will make the Standard less costly to implement and apply.
6. On Insurance Contracts we are continuing to try to find a globally acceptable solution that meets the objective of a high quality, understandable and enforceable Standard. This is a challenge, because there are such divergent regional accounting practices today and there is significant variation in the types of insurance contracts issued within those regions.

7. We are redeliberating the Discussion Paper on the *Conceptual Framework* in the light of the comments received. We are carefully listening to our stakeholders and have tentatively decided to make changes to the way in which we deal with prudence and stewardship.

Engagement strategy

8. As I reported to you last quarter, we had devoted additional resources to reviewing our investor engagement strategy with the objective of improving our interaction and feedback received from investors. This includes enabling them to better understand how their views have been considered in the standard-setting process. This should, in turn, increase the transparency of our process as well as improve relationships with investors.
9. In this quarter we have started to focus on the implementation of our investor engagement strategy, including reviewing and determining how to address specific regional or country issues.
10. In addition to the investor engagement strategy, we are also focusing on wider stakeholder management and have established regional committees with the objective of developing regional engagement strategies and monitoring developments in those regions. The committees are made up of Board and senior staff members who have established relationships in that region, are well versed in the issues affecting it, and are likely to travel there. The majority of the regional committees have been grouped to correspond with the regional standard-setters (e.g. GLASS, AOSSG, EFRAG and PAFA).
11. We continue to engage with our advisory and consultative bodies. In this quarter we have had meetings of the Advisory Council, the Accounting Standards Advisory Forum (ASAF), and the Emerging Economies Group. In addition the Global Preparers Forum and the Capital Markets Advisory Committee are holding a joint meeting on 30 June 2014.
12. The Advisory Council met on 9 and 10 June 2014, with Joanna Perry chairing her first meeting. The main topics for discussion were a consideration of the use of judgement in financial reporting and consideration of the role of the Council with respect to communication and advocacy. Members supported principle-based standard-setting and emphasised the importance of education activities to facilitate the use of judgement. The Council also considered progress on the *Conceptual Framework*, the approach to implementation groups, the approach to research activities, the report of the Effects Analysis Consultative Group and the progress on the Post-implementation Review of IFRS 3 *Business Combinations*.

Regional and national standard-setting Charter

13. Our engagement strategy includes regional and national standard-setting bodies, who are important participants in the IASB's standard-setting process and play a key role in

supporting the IASB's consultative activities when developing Standards and in supporting the spread and understanding of IFRSs on a local level. On 7 May 2014, the IFRS Foundation published an updated [Charter](#) establishing key principles of co-operation between the IASB and national standard-setters and other accounting standard-setting bodies, represented by the International Forum of Accounting Standard Setters (IFASS)¹.

14. The Charter:

- re-emphasises the importance of the global accounting standard-setting community to the work of the IASB and builds on the premise that it is essential that all parties should work together in a spirit of openness and close co-operation in order to meet shared goals;
- describes a shared understanding of the commitments and expectations of the IASB and national standard-setters and other accounting standard-setting bodies, presented as a statement of co-operation; and
- focuses on practical aspects whereby staff and members of the IASB and other accounting standard-setters can work co-operatively, describing the actions and procedural matters that deserve the most care.

IFRS Taxonomy Due Process

15. The strategic review of IFRS Taxonomy activities undertaken in 2013 led to a review of the IFRS Taxonomy Due Process.
16. At its January 2014 meeting, the Due Process Oversight Committee (DPOC) approved the creation of a new IFRS Taxonomy Consultative Group (the ITCG) replacing the XBRL Advisory Council (XAC) and the XBRL Quality Review Team (XQRT). The formation of the ITCG was completed in April 2014. The ITCG provides taxonomy technical expertise to the IASB.
17. At its July meeting, the DPOC is considering an update on proposals to amend the Due Process for the IFRS Taxonomy (Agenda Paper, AP 3D refers).

Use of IFRS globally

18. We continue to make important steps in assessing our progress towards the goal of globally accepted accounting standards by developing profiles about the use of IFRSs in individual jurisdiction profiles. In this quarter we have updated the profile on use of IFRS in Singapore to reflect the joint announcement by the Accounting Standards Committee and the Singapore Stock Exchange that Singapore-incorporated companies listed on the SGX will apply a new financial reporting framework identical to IFRS starting in 2018. The current differences

¹ The *Charter* can be accessed at: <http://www.ifrs.org/Alerts/Governance/Pages/IASB-agrees-charter-with-accounting-standard-setting-community.aspx>.

between Singapore Financial Reporting Standards and IFRS will be eliminated.

19. We have posted a new profile on use of IFRS in Yemen where financial institutions are required to apply IFRS. We have also updated the profiles for New Zealand and Turkey.
20. As a further means of informing interested parties about the progress towards global accounting standards, a 198-page pocket-sized book based on the profiles will be published. The book, titled *IFRS as global standards: a pocket guide*, is being released in conjunction with the Tommaso Padoa-Schioppa Memorial Lecture delivered on 9 July 2014 by Mr Mario Draghi, President of the European Central Bank.
21. The guide is primarily a summary of the use of IFRS in each of 130 countries and other jurisdictions. The summaries provide a comprehensive picture of exactly where and how IFRS is used globally. To provide a perspective on the use of IFRS, the guide also summarises what IFRS is; the benefits of global accounting standards; the IFRS Foundation and IASB structure; the history of the development of IFRS; how IFRS is developed, the requirements of current IFRSs; and where IFRS resources can be found on line.

Consistency in the application of IFRS globally

22. We have also continued to take steps to ensure IFRSs are applied and enforced on a globally consistent basis.
23. In June 2014 senior members of the IASB staff and three board members attended meetings in Tokyo with IOSCO's Committee 1 to discuss matters in support of the consistent application of IFRS. These meetings are part of the co-operation between the IFRS Foundation and IOSCO as envisaged in the protocols signed by our two organisations last September. Later that week, our Asia-Oceania office organised a seminar in Tokyo for securities regulators and members of the Asian-Oceania Standard-Setters Group. This seminar was hosted by us in co-operation with the Japanese securities regulator, the FSA, and led by our Board members and senior staff who had attended the meetings with IOSCO's Committee 1.
24. Also in June, the IASB and the FASB announced the formation of a Joint Transition Resource Group (TRG) for Revenue Recognition. The TRG will inform the IASB and the FASB about potential implementation issues that could arise when companies and organisations implement the new Standard. The TRG will also provide stakeholders with an opportunity to learn about the new Standard from others involved with implementation. The TRG will not issue guidance.

Education Initiative

25. Our goal of consistent application is supported by the Education Initiative (EI), which makes available high quality, understandable and up-to-date material about IFRS and

arranges events that aim to enhance the rigour and consistency with which IFRS is applied. The Trustees' Education and Content Services Committee received an update on the EI's activities at its February and July meetings. Highlights of the EI's work in the first half of 2014 include:

- publishing comprehensive free-to-download teaching material designed to assist those teaching IFRS to progressively develop their students' ability to make the estimates and judgements that are necessary to apply IFRS. Translations of that material are now available in all of the world's widely spoken languages and selected other languages, for example Japanese.
- facilitating workshops arranged with development agencies and regional academic accounting associations in Kuala Lumpur, London, San Antonio, Tallinn, Tokyo, Warsaw and Yerevan, to train IFRS teachers to use that material to develop their students' ability to make IFRS judgements.
- arranging major IFRS conferences in London (audience of over 400) and Singapore (audience of over 130).
- arranging and co-facilitating jointly with the World Bank a multi-day workshop for emerging European and Central Asian banking, insurance and securities regulators.

Other activities

26. We have also supported the launch of The Corporate Reporting Dialogue (CRD), by the International Integrated Reporting Council (IIRC). The purpose of the CRD is to strengthen co-operation, co-ordination and alignment between key organisations with Integrated Reporting as the umbrella.

Effects analysis

27. The Effects Analysis Consultative Group was formed in 2013 in response to the Trustees' strategic plan and had its first meeting in May 2013. This is an important step for the IASB, because it sets out how we will undertake and report on an assessment of the likely effects of changes to financial reporting that the IASB is proposing.
28. A draft of the Group's report is being considered by the DPOC at its July meeting (agenda item 3C for that meeting refers).

Technical Agenda

29. I have outlined above the focus of our technical agenda. A more detailed summary of the IASB's technical agenda is provided in Appendix A.

Appendix A

IASB Technical Agenda

Major projects

IFRS 9 Financial Instruments—Classification and Measurement (limited amendments) and Impairment

- A1. We envisage that the revised IFRS 9 *Financial Instruments* will be published in July 2014, with a mandatory effective date for annual periods beginning on or after 1 January 2018. The revised Standard will include the classification and measurement limited amendments proposed in November 2012 and the impairment proposals published in March 2013.

Accounting for Macro Hedging

- A2. As noted above the Discussion Paper (DP) was published in April 2014, with a comment period of 180 days, ending on 17 October 2014. We are undertaking outreach at present primarily to raise awareness about the DP and to obtain initial feedback from constituents.

Insurance Contracts

- A3. As noted above we have been redeliberating the proposals in a revised Exposure Draft (ED) *Insurance Contracts* on the accounting for insurance contracts, which was published in June 2013. That revised ED sought targeted feedback on specific aspects of its proposals in view of the extensive debate the IASB has undertaken over the years, and the need to avoid further undue delay in finalising a much-needed Standard for insurance contracts accounting.
- A4. As at 23 June 2014, the IASB has made tentative decisions on three of the five items that were targeted in the 2013 ED as they relate to non-participating contracts—namely, unlocking the contractual service margin, recognising the effects of changes in the discount rate in other comprehensive income, and insurance contracts revenue. In addition, the IASB has also made tentative decisions on the specific issues that were highlighted by respondents to the 2013 ED that were not targeted for input, but that the IASB had decided to address. The direction that the IASB took in all these decisions was largely consistent with the feedback that it had heard on the 2013 ED.
- A5. It is currently anticipated that the IASB will continue to redeliberate the proposals in the 2013 ED during 2014. We are conscious of carefully balancing the need to complete this project without compromising the quality of our decision-making process.

Leases

- A6. The objective of the Leases project is to improve the quality and comparability of financial reporting by providing greater transparency about an entity's leverage and the assets it uses in its operations.

- A7. This is a joint project with the FASB. In May 2013, the two boards published a joint and revised Exposure Draft on leases, which was open for comment until 13 September 2013. At their March 2014 joint meeting, the IASB and the FASB reached tentative decisions on the lessee accounting model, the lessor accounting model, scope simplifications for ‘small ticket’ leases and the determination of the lease term:
- (a) Both boards tentatively decided to require lessees to recognise assets and liabilities for all leases (other than short-term leases and, for the IASB, leases of small assets such as laptops and office furniture). Consequently, with respect to the primary goal of the project, the boards have reached a converged solution. However, the boards came to different conclusions on the recognition and presentation of lease expenses in a lessee’s income statement:
 - (i) The IASB decided upon a single lessee model, whereby a lessee would recognise interest on lease liabilities separately from amortisation of lease assets.
 - (ii) The FASB decided upon a dual lessee model that would retain the existing distinction between operating and finance leases. This would, in essence, result in no change to the lessee’s income statement compared with the income statement outcomes under existing requirements. (Nevertheless, as noted above, existing operating leases would be recognised on the balance sheet.)
 - (b) Both boards decided to retain, in essence, existing lessor accounting.
 - (c) The boards reached converged decisions on the lease term and short-term leases.
- A8. In the second quarter of 2014 the boards have continued to redeliberate the proposals on a joint basis, and have largely reached converged tentative decisions on all matters discussed.
- A9. It is currently expected that the IASB will continue to redeliberate the proposals in the 2013 ED, together with the FASB, until later in 2014.

The Conceptual Framework

- A10. 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. However, it identifies principles for the IASB to use when it develops and revises its Standards.
- A11. The existing *Conceptual Framework* has enabled the IASB to develop high quality Standards that have improved financial reporting. However, it does not cover some important areas and some guidance needs updating. Consequently, most respondents to the 2011 agenda consultation identified the *Conceptual Framework* as a priority project for the IASB.

- A12. The Discussion Paper (DP), published in July 2013, is the first step towards issuing a revised *Conceptual Framework*. It was 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*.
- A13. In this quarter we have commenced redeliberations of the DP in the light of the comment letters received. Our original intention was not to fundamentally reconsider the Objective and Qualitative Characteristics chapters of the *Conceptual Framework*, which were published in 2010. However, respondents were asked for comments on this approach and many expressed the view that we should reconsider at least some aspects of those chapters (in particular, the treatment of prudence, reliability and stewardship). We have held meetings with a number of investors to get a better understanding of their concerns and the IASB has tentatively decided to make changes to the way which these chapters deal with prudence and stewardship.
- A14. The IASB will continue its redeliberation in the third quarter of 2014 with the aim of publishing an Exposure Draft of a revised *Conceptual Framework* by the end of 2014.

Disclosure Initiative

- A15. The Disclosure Initiative is a portfolio of projects designed to improve the quality of information provided in financial reports. The Initiative is divided into implementation and research projects that address some of the concerns the IASB has heard and that we highlighted in the Feedback Statement.
- A16. The implementation projects include:
- Narrow-focus amendments to IAS 1 *Presentation of Financial Statements*; and
 - Narrow-focus amendments to IAS 7 *Statement of Cash Flows*.
- A17. The research projects include:
- Principles of Disclosure—review of IAS 1, IAS 7 and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;
 - Materiality; and
 - Review of disclosures in existing Standards.

IAS 1—Presentation of Financial Statements

- A18. The IASB published an Exposure Draft of narrow-focus amendments to IAS 1 *Presentation of Financial Statements* on 25 March 2014 with a comment period of 120 days. These proposed amendments to IAS 1 are intended to clarify, rather than significantly change, existing requirements.

IAS 7—Statement of Cash Flows Reconciliation of liabilities relating to financing activities

A19. The objective of this narrow-scope project is to improve disclosures about an entity's liabilities relating to financing activities. The project responds to requests from investors who have highlighted that understanding cash flows is critical to their analysis of the entity, and that there is a need for improved disclosures about an entity's debt, and the changes in that debt during the period, to assist them in verifying their understanding of cash flows.

Principles of Disclosure—review of IAS 1, IAS 7 and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

A20. The objective of Principles of Disclosure project is to improve disclosure effectiveness in IFRS through identifying and developing a set of principles for disclosure in IFRS. The efforts in this project aim to set the basis for replacing three of our current Standards: IAS 1, IAS 7 and IAS 8. The project may also affect the review of disclosure requirements and guidance of other IFRSs.

Materiality

A21. The IASB is researching how materiality is applied in practice with the aim of deciding whether further guidance is needed.

Review of disclosures in existing Standards

A22. The IASB is undertaking a research project to review disclosure in existing Standards to identify and assess conflicts, duplication and overlaps.

The Research Programme

A23. The IASB is moving to more evidence-based standard-setting, through the whole of the development cycle for Standards. The research-phase projects demonstrate the importance of understanding a financial reporting problem before resources are committed to developing new financial reporting requirements. We are also undertaking more field work to assess the likely effects of new proposals.

Business Combinations Under Common Control (BCUCC), Discount Rates, Equity Method, Financial Instruments with the Characteristics of Equity

A24. We have begun work on Business Combinations Under Common Control (BCUCC), Discount Rates, Equity Method and Financial Instruments with the Characteristics of Equity. The IASB has considered the scope of these projects and the methodology to be adopted in evaluating the financial reporting problem since we last reported to the DPOC.

Rate-regulated Activities

- A25. The short-term objective of the Rate-regulated Activities research project is to develop a Discussion Paper (DP) to consider whether the general requirements of IFRS should be amended to reflect the effects of rate regulation. Our work is informed by *A Request for Information Rate Regulation* that was published in March 2013.
- A26. The DP will aim to identify which features(s), if any, of rate regulation create special economic conditions for which a specific accounting model might need to be developed. The IASB expects to publish the DP later in the third quarter of 2014.

Implementation projects

- A27. We anticipate issuing the following amendments either in June 2014 or in the third quarter of 2014:

Bearer Plants—IAS 41

- A28. The objective of this amendment is to include bearer plants within the scope of IAS 16 *Property, Plant and Equipment* rather than 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. The Exposure Draft will be issued on 30 in June 2013.

Equity Method in Separate Financial Statements—IAS 27

- A29. The objective of this amendment to IAS 27 *Separate Financial Statements* is to allow an entity to account for its investments in subsidiaries, joint ventures and associates at cost or at fair value in its separate (parent only) financial statements. The Exposure Draft was issued in December 2013.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture—IFRS 10 and IAS 28

- A30. The objective of the project is to address the acknowledged inconsistency between the requirements in IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011), in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture.

- A31. We have the following Exposure Draft out for comment:

Investment Entities: Applying the Consolidation Exemption

- A32. In June 2014, we published an Exposure Draft of proposed narrow-scope amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. The proposals are designed to clarify three issues about the application of the requirements.

A33. We anticipate publishing the following Exposure Drafts in 2014:

Clarification of Classifications of Share-based Payment Transactions

A34. On the basis of advice from the IFRS Interpretations Committee, we will publish three proposed amendments to IFRS 2 *Share-based Payment* in an Exposure Draft *Clarifications of Classification and Measurement of Share-based Payment Transactions*. These three issues are:

- Measurement of cash-settled share-based payment transactions that include a performance condition;
- Modification of a share-based payment from cash-settled to equity-settled; and
- Share-based payments settled net of tax withholdings.

Classification of liabilities

A35. The Exposure Draft will propose clarifications to the requirements in IAS 1 *Presentation of Financial Statements* on when liabilities should be classified as current and when they should be classified as non-current. The objective of this narrow-scope amendment is to make clearer when the right to roll over or refinance a loan should lead an entity to classify that loan as non-current.

Elimination of gains arising from transactions between an entity and its associate or joint venture

A36. The Exposure Draft will propose a narrow-scope amendment to IAS 28 *Investments in Associates and Joint Ventures* clarifying the accounting for a ‘downstream’ transaction between an entity and its associate or joint venture, when the gain from the transaction exceeds the carrying amount of the entity’s interest in the associate or joint venture.

Fair Value Measurement: Unit of Account

A37. The Exposure Draft will propose narrow-scope amendments to IFRS 13 *Fair Value Measurement* clarifying the unit of account of equity investments in subsidiaries, associates and joint ventures and their corresponding fair value measurement.

Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

A38. The Exposure Draft will propose amendments to IAS 12 *Income Taxes* to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.

IFRS for SMEs

A39. When the IASB issued the International Financial Reporting Standard for Small and

Medium-sized Entities (*IFRS for SMEs*) in July 2009, it stated that it would undertake an initial comprehensive review of the Standard. Following a Request for Information, an Exposure Draft of proposed amendments to the *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.

A40. The ED closed for comment on 3 March 2014 and the IASB will redeliberate the proposals during 2014.

Post-implementation Review (PIR)

A41. 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.

A42. The first phase of the review resulted in the publication of a Request for Information (RFI). The RFI was published in January 2014 and closed for comment on 30 May 2014. We have received 91 comment letters. We will consider a summary of the comment letters in the third quarter of 2013.