

Summary of the conclusions of the IFRS Foundation Trustees' meeting

July 2014, London

Introduction

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

Report of the Trustees' Executive session

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

In relation to the IFRS Foundation **Monitoring Board**, the Trustees received a report of Michel Prada's attendance at the latest meeting of the IFRS Foundation Monitoring Board held on 13 June in Madrid. At that meeting, Michel had presented to the Monitoring Board on the Foundation's governance and compliance developments, together with an overview of its internal control and corporate governance arrangements, with which the Monitoring Board members were content.

This was the first meeting of the Monitoring Board that was attended by the new members from Brazil and Korea. Following the expansion of its membership to incorporate these new members, the Monitoring Board had to update its Charter and Memorandum of Understanding (MoU) with the Foundation. The Trustees considered, and approved, a proposed revision to the MoU, to reflect the expanded membership and the potential for further members to join the Monitoring Board.

The Trustees discussed a number of **protocols of co-operation**. Given the importance of consistent application of IFRS, in September 2013 the Foundation had signed a *Statement of Protocols for Co-operation on IFRS* with the International Organization of Securities Commissions (IOSCO). The Trustees received a positive report on how the co-operation between the Foundation and IOSCO was working out. The Foundation had also been working to develop a Statement of Protocols with the European Securities and Markets Authority (ESMA) and, at this meeting, the Trustees approved the text of the Statement. The text had also been approved within ESMA and would be published shortly after the meeting¹.

The Trustees received a report on the work of the Investor Liaison team on its efforts to further focus the Foundation's **investor outreach and engagement**. The team had been looking at ways to fundamentally change the nature of the relationship between the IASB and the largest users of its materials, creating a more collaborative framework for engagement that would offer a robust platform for the development of Standards in the future.

Under the Foundation's *Constitution*, the Trustees had to undertake a **review of the structure and effectiveness of the organisation** every five years. Previous reviews had been labelled as a 'Constitution Review' and the Trustee had also in the past undertaken a number of Strategy Reviews. The Trustees considered and discussed a paper from the staff setting out preliminary themes for the next review, which would commence during 2014 and be conducted over the course of 2015, including a public consultation.

¹ The text of the *Statement of Protocols with ESMA* can be accessed at: <http://www.ifrs.org/Use-around-the-world/Documents/ESMA-IFRS-Foundation-Statement-of-Protocols-July-2014.pdf>.

Linked to the review, there was a discussion of the conduct and timing of the Trustees' next **self-evaluation** exercise. The Trustees agreed to initiate the 2014 process after this meeting, with a timetable that should allow the output of the evaluation to be discussed by the Trustees in October 2014, with any appropriate actions being implemented as part of the 2015 review.

The Trustees discussed a number of **IFRS international developments**, taking the opportunity to meet with the memberships of the Foundation's Regional Stakeholder Engagement Committees that had been established following the consideration of the organisation's communication strategy at the April 2014 meeting. The discussions covered:

- **Europe** – where there were a number of significant developments to report that the Foundation was monitoring closely, including –
 - the first plenary session of the new European Parliament (EP) following the May 2014 elections and the new composition of the Economic and Monetary Affairs Committee (ECON);
 - the European Commission's review of the IAS Regulation, where an informal expert group had been established to assist in the review. The expert group's first meeting would take place on 15 July;
 - the restructuring of the European Financial Reporting Advisory Group (EFRAG), in line with the recommendations of the 2013 Maystadt Report. The Trustees noted that a call for nominations for membership of the new EFRAG Board had now been made and that the new EFRAG structure was scheduled to come into place on 31 October 2014. The Foundation was paying particular attention to this reform, given the importance of its relationship with EFRAG; and
 - the forthcoming change in the European College of Commissioners, with the terms of office of the current Commission expiring on 31 October 2014;
- **Americas** –
 - the Trustees reviewed a current assessment of the US environment and the Foundation's approach in the US. An announcement on IFRS was still awaited from the US Securities and Exchange Commission (SEC), but there had been some encouragement from comments made by SEC Chair Mary Jo White in a speech on 20 May that considering whether to incorporate IFRS into the US financial reporting system remained a priority for her;
 - the Trustees noted the importance of Mexico, in particular as Mexico moved to take over the leadership of the Group of Latin-American Standard-Setters (GLASS). It was very timely that the Trustees' next meeting would be held in Mexico City in October;
 - the Trustees noted that there was a need for the Foundation to consider how it could improve relationships with GLASS and its constituent jurisdictions;
- **Asia-Oceania** – the Trustees discussed latest developments across the region, noting the challenge that it covered no less than 70 jurisdictions, which in itself presented the Foundation with engagement challenges. The Trustees were updated on the work of the Asia-Oceania office in Tokyo, with two new secondees having joined the staff, and discussed a number of ways in which better use could be made of the office. A number of

significant developments in individual countries in the region were covered by Hans Hoogervorst in his report (see below).;

- **Africa and the Middle East** – the Trustees received a report of developments, progress and challenges across Africa and the Middle East, covering some 60 jurisdictions. The Trustees noted that the stakeholder engagement across these areas had focused on three areas: (1) education, which was of prime importance; (2) encouraging participation; and (3) working with others in order to get more leverage, notably the World Bank. The importance of language zones across these regions was highlighted. For example, while IFRS had made significant progress across English-speaking Africa, the situation in Francophone Africa presented more challenges. Across these regions in particular, the importance of Islamic investment vehicles and finance was noted, and the Trustees were informed of the work that the IASB was doing on these issues.

The Trustees received a report on the outcomes of the June 2014 meeting of the IFRS **Advisory Council** from the Council's Chair, Joanna Perry. The Trustees considered, and approved, a proposal from the Council to amend its terms of reference in relation to its secondary objective, moving the focus from promotion and adoption of IFRS to one of the Council encouraging broad participation in the development of IFRS. With many Council members now being appointed in a representative capacity, this was thought to be more appropriate. The change in the terms of reference would be made with immediate effect. A broader look at the Council would be considered as part of the forthcoming review of the structure and effectiveness of the organisation. As part of this review, the Trustees confirmed that the Council's advice would be an important input.

The Trustees received a presentation from Sir Win Bischoff, the recently appointed Chairman of the **UK Financial Reporting Council (FRC)**, on the FRC's perspective of financial reporting issues in general, and IFRS in particular. The presentation gave the Trustees some excellent food for thought and it was followed by a good, and candid, exchange of views with Sir Win and Melanie McLaren, Executive Director for Codes and Standards at the FRC.

The Trustees were informed that, following approval by the Monitoring Board, a number of **Trustees' reappointments** had been finalised. Ronald Arculli, Chandu Bhave, Callum McCarthy, Marco Onado, Michel Prada and Jim Quigley had all been reappointed for a further term, effective from 1 January 2015, expiring on 31 December 2017. The Trustees' Nominating Committee was still handling the process for a number of Trustee appointments as from 1 January 2015.

The Trustees also discussed updates to the Foundation's policy on conflicts of interest, the Code of Conduct for IASB members and staff, and an anti-bribery policy, all of which were approved.

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 also on the work being undertaken by the IASB's Education Initiative. Approval was also given to amendments to the terms of reference of the Education Advisory Group; and
- the **Audit and Finance Committee** – following a review by the Committee, the Trustees were updated on the Foundation's latest financial results against budget, together with a forecast

update for 2014. The Trustees were also updated on the progress of the operational expenditure review undertaken by Baker Tilly.

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 Trustees were updated on a number of significant **developments in major Asian economies**:

- **Singapore** – on 29 May, the Singapore Accounting Standards Council (ASC) had announced that Singapore-incorporated companies listed on Singapore Exchange (SGX) would apply a financial reporting framework 'identical' to IFRS in 2018. The hope was that Singapore's lead would be followed by other members of the Association of Southeast Asian Nations (ASEAN);
- **India** – in his speech presenting the Federal Budget on 10 July, the Indian Finance Minister had made a specific reference of the need for India to align with international accounting standards. Indian companies would apply Indian Accounting Standards (Ind AS), which were substantially converged with IFRS, from 2016-2017, with voluntary adoption permitted from a year earlier. This was a very encouraging development and it was timely that Ian Mackintosh, the Vice-Chair of the IASB, would be visiting India later in the month; and
- **Japan** – further progress was noted in the number of Japanese companies voluntarily adopting IFRS. A policy statement issued by the Japanese Government in June 2014 had referred to the further promotion of voluntary use of IFRS in Japan by the Cabinet to increase the number of IFRS adopters. The Japanese Financial Services Agency was scheduled to prepare a report summarising early adopters' experience of implementing IFRS for use by other companies that would follow suit.

The IASB was taking steps to ensure the **consistent application** of IFRS, in particular through working with IOSCO. The Trustees noted that, in June 2014, a number of IASB members and senior staff had attended meetings in Tokyo with IOSCO's Committee 1 to discuss matters in support of consistent application. In addition, the IASB had recently established a joint Transition Resource Group (TRG) for revenue recognition with the US Financial Accounting Standards Board (FASB) and had issued a call for nominations for a TRG on Impairment. These groups would look at potential implementation issues that could arise as organisations looked to implement the new Standards.

With regard to the IASB's **technical Work Plan**, three projects were highlighted:

- on the **conceptual framework**, the IASB was working hard to keep in line with the ambitious timetable on this project, with the aim of publishing an Exposure Draft (ED) by the end of 2014. Redeliberations of the July 2013 Discussion Paper (DP) in the light of comment letters received were continuing. The IASB had made a number of tentative decisions at its May 2014 meeting on a number of aspects contained in the Objective and Qualitative Characteristics chapters of the *Conceptual Framework* that were published in 2010, in particular the treatment of prudence and stewardship. The IASB's original intention had been not to fundamentally reconsider these chapters, but had done so following views

expressed by many constituents. It was hoped that the tentative decisions would address the concerns expressed and represented proof that the IASB was listening to concerns;

- on **insurance contracts**, the most difficult and contentious outstanding issue was the accounting for contracts with participating features. The IASB had received many conflicting views from the industry, given the range of different business models in place. The IASB was proceeding in a measured way and was seeking to achieve a balance between completing the project and the need to maintain the quality of its decision-making process in dealing with such a challenging issue; and
- on **leases**, which was a joint project with the FASB, it was noted that while the two Boards were united on the balance sheet approach for lessees, they had come to different conclusions on the recognition and presentation of lease expenses in a lessee's income statement. While there was support from investors, the proposals remained controversial with much of the industry and concerns were still being raised. The IASB would continue the dialogue with constituents on those concerns and was planning to consider some of the more sensitive issues again with the Accounting Standards Advisory Forum (ASAF) at its September 2014 meeting.

Presentation on IFRS 9

Kumar Dasgupta, Technical Director, gave a presentation on the forthcoming publication of the revised IFRS 9 *Financial Instruments*² highlighting the major elements of the package: the limited amendments to classification and measurement; the revised impairment provisions; and a revised model for hedge accounting. The improvements to financial reporting that would result from the revised Standard were emphasised and welcomed by Trustees.

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 July 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 projects on the IASB's Work Plan, including Financial Instruments (with the imminent publication of IFRS 9 and the Discussion Paper on macro-hedging), Insurance Contracts, Leases, Revenue Recognition (with the establishment of the Transition Resource Group), Conceptual Framework, Disclosure Initiative, and narrow scope projects. The DPOC noted that the proposals on a number of major projects, insurance contracts and leases, remained controversial and the Committee was informed of the IASB's on-going outreach and dialogue with stakeholders to achieve good outcomes. Overall, the Committee was satisfied all the due process requirements as set out in the *Due Process Handbook* were being met.
- An update on the activities of the **Effects Analysis Consultative Group (EACG)**, including consideration of a near-final draft of the group's report. The DPOC was supportive of the constructive dialogue fostered by this group, and would examine carefully any recommendations that suggested adjustments to the *Due Process Handbook*. The DPOC

² The presentation can be accessed at:
http://www.ifrs.org/Meetings/MeetingDocs/Trustees/2014/July/AP2A%20Public_IFRS9.pdf.

welcomed the staff's proposals for the follow-up to the report and the need to ensure that it was implemented in a sensible and meaningful way and which fulfilled the desire of the EACG for the report to be of practical help to the IASB.

- An update of the IASB's proposals on changes to the due process for the **IFRS Taxonomy**. While disappointed that the proposals were not yet ready for public comment, the DPOC was pleased by the direct involvement of the IASB board in a number of trial runs of the process in order that the Board could feel comfortable with the proposed new process. The DPOC was reassured that the running of the trials would not affect the amendments to the IFRS Taxonomy that the Committee approved in January. The DPOC looked forward to the successful conclusion of the trial run in December 2014 and the proposals to take forward an Invitation to Comment on the proposed new process as soon as practicable after that time.
- The DPOC conducted its annual review of **consultative groups**. The Committee was pleased with the smooth functioning of most groups. It noted that a call for nominations had been issued for the proposed new TRG for Impairment of Financial Instruments, following the DPOC's agreement in principle to the establishment of such a group at its April 2014 meeting. The DPOC approved the IASB's proposals to disband several groups that had reached the natural end of their lifecycle, including the Financial Instruments Working Group, the Expert Advisory Panel on Impairment, and (upon release of its upcoming report), the EACG.
- The DPOC received an annual report on general due process matters including the transparency of comment letters and IASB papers, and the level of dialogue with securities regulators and other financial regulators. The Committee was pleased with the consistent adherence to the due process requirements during the year. The DPOC suggested that the transparency of this report could be further enhanced by including summaries of outreach meeting discussions in next year's annual report.
- On **correspondence**, no new matters had been received since the April 2014 meeting.

Tommaso Padoa-Schioppa lecture

As part of the Trustees' meeting, the Foundation, together with the European University Institute, hosted an excellent and important event, namely the first Tommaso Padoa-Schioppa Memorial Lecture, in honour of the former Chairman of Trustees. Mario Draghi, President of the European Central Bank, gave a keynote speech on Europe, arguing that, in the Euro area, there is a case for establishing rules on structural reform at the EU level. Professor Richard Portes provided the vote of thanks. While President Draghi's speech focused on European issues, he also made mention of the global growth of IFRS and his "trust that the momentum will be kept, and in particular that European policy-makers will progress swiftly in the adoption of IFRS 9"³.

The event was well-attended, with around 200 senior stakeholders present, which helped to give the Memorial Lecture series an excellent start.

The Foundation took the opportunity of the Tommaso Padoa-Schioppa lecture to launch a pocket-sized book providing details of the 130 jurisdictional profiles that the Foundation had compiled of the use of IFRS across the globe. Authored by former IASB Board member, Paul Pacter, the book,

³ The speeches and a video recording of the event can be accessed on the website at: <http://www.ifrs.org/Features/Pages/ECB-President-delivers-inaugural-Tommaso-Padoa-Schioppa-Memorial-Lecture-July-2014.aspx>.

titled *IFRS as global standards: a pocket guide*, provided a comprehensive picture of exactly where and how IFRS was used globally⁴.

⁴ Details of the guide and how to obtain a copy are at: <http://www.ifrs.org/Alerts/Publication/Pages/IFRS-Foundation-publishes-IFRS-as-Global-Standards-a-Pocket-Guide-July-2014.aspx>.