

AGENDA PAPER

IFRS Advisory Council

London

9 June 2014

Agenda
Paper

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Memorandum

To: IFRS Advisory Council

From: Hans Hoogervorst

Date: 30 May 2014

Re: Report of the IASB Chairman

Introduction

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

Work plan overview

2. In the last quarter we have focused on the finalisation of the impairment and classification and measurement chapters of IFRS 9 *Financial Instruments*. These represent the final elements of the IASB's response to the global financial crisis. We are now in the completion phase of the project and we expect to issue the revised Standard in July.
3. We have just issued our new, converged Revenue Recognition Standard and have published a Discussion Paper on addressing the accounting for dynamic risk management (macro hedging).
4. As we close the accounting chapter on the financial crisis we are also working intensively on our final round of redeliberations on two further major projects: Leases and Insurance Contracts. We expect to complete our deliberations of the feedback on these two projects this year and issue the Standards in 2015.
5. The comment period for the Discussion Paper on the Conceptual Framework closed

The IFRS Foundation promotes the adoption of IFRSs and is the oversight body of the IASB

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on 14 January 2014 and has elicited numerous high quality and thoughtful responses. In March 2014 we discussed a summary of the comment letters received and we will commence redeliberations of the proposals in the Discussion Paper shortly. I am sure the IASB will have some interesting discussions as we develop the Exposure Draft. We look forward to discussing the project with you at a separate session at this meeting.

6. Our research agenda is really starting to take shape, featuring a number of important projects that have the potential to deliver substantial improvements to the quality of financial reporting. We will report to you on progress in this area in a separate session.
7. Finally, we are making progress with our Disclosure Initiative. Early last year, we held a forum to encourage the various participants in the financial reporting supply chain to discuss what can be done, collectively and individually, to improve the quality and usefulness of financial disclosures. Building on these discussions, in June last year I set out a 10-point plan to encourage material, meaningful improvements in this area and we are making good progress in the implementation of this plan.

Engagement strategy

8. As part of our strategy to develop a single set of high quality, understandable, enforceable and globally accepted International Financial Reporting Standards it is important that we have an effective engagement strategy with all stakeholders of the financial reporting community, including investors. We have devoted additional resources at the end of 2013 and the first quarter of this year to reviewing our engagement strategy with investors and improving our discussions on feedback received from these stakeholders. For example, as discussed with you at the last meeting, the staff will summarise investor feedback received and post these summaries to our website. When the IASB makes significant project decisions, the staff will also follow up with the investors that have provided feedback on their projects. This will help investors to better understand how their views have been considered, in turn increasing the transparency of our process as well as improving relationships with investor stakeholders.
9. The Accounting Standards Advisory Forum (ASAF) 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. In March 2014 we had a productive meeting with the ASAF on a broad range of key issues.
10. The next ASAF meeting will take place on 2-3 June 2014. The agenda will include

items from both the IASB's major projects and research projects. ASAF will spend some time considering the Conceptual Framework project, where it acts at the advisory group to the project team. ASAF will also receive an update on the research agenda. As the major projects enter their completion phase ASAF will focus its discussions on the research projects

11. The Council has an important role to play in our engagement strategy and we look forward to discussing how best to shape the Council's communications role during this meeting.

Use of IFRS globally

12. As we discussed with the Council on several occasions, we have made an important step in assessing our progress towards the goal of globally accepted accounting standards by developing profiles about the use of IFRSs in individual jurisdiction profiles¹. In the last quarter we have updated seven of our existing profiles, including Japan where 40 companies have either started to use IFRS or have publicly announced their intention to do so. These 40 companies represent 12% of the total market capitalisation of the Tokyo Stock Exchange. The revised profile also explains that in October 2013, to encourage further application of IFRS in Japan, the Japan Financial Services Agency broadened its criteria for use of IFRS. As a result, the number of companies eligible to apply IFRS was increased from 621 to 4,061, covering virtually all listed companies and those planning to list.

Consistency in the application of IFRS globally

13. We have also continued to take steps to ensure IFRSs are applied and enforced on a globally consistent basis.
14. 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 Council received an update on the Education Initiative's activities at its February meeting.
15. In March, the IFRS Foundation and the International Valuation Standards Council (IVSC) announced a joint statement of protocols for co-operation on International Financial Reporting Standards and International Valuation Standards (IVS).
16. The aim of the agreement is to ensure that both organisations are able to co-operate effectively in this important area with each organisation continuing to assume sole responsibility for its own Standards. We discussed this with the Council in 2013.

¹ As at the date of writing we have completed 130 jurisdiction profiles.

Co-operation with Regional and national standard-setting bodies

17. Regional and national standard-setting bodies are important participants in the IASB's standard-setting process. They are a source of information and a sounding board for the IASB when developing IFRSs and also assist in developing designated projects. Their input helps the IASB to ensure that IFRSs reflect, and are appropriate for, regional and country-specific financial reporting needs. Moreover, they 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.
18. 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).
19. 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.
 - 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.

Effects analysis

20. The Effects Analysis Consultative Group was formed in 2013 in response to the Trustees' strategic plan and had its first meeting in May 2013.
21. The Advisory Council discussed Effects Analysis at its meeting in October 2013. At that meeting the IASB staff shared some of the themes emerging from the meetings held by the Effects Analysis Consultative Group.
22. The Council members provided helpful input to the effects analysis group. In particular, members emphasised the importance of ensuring the scope of the analysis is consistent with the objectives of financial reporting as set out in the Conceptual Framework. The IASB should encourage interested parties to undertake their own analysis of the relevant effects and, in that regard, may act as a facilitator without assuming responsibility for such efforts. By way of example, if a regulatory body is charged with monitoring financial stability it is important that that body undertake its

own analysis.

23. The IFRS Foundation Trustees met in Frankfurt immediately after the Council's October meeting. Alan Teixeira provided the Trustees with a verbal update of the messages conveyed by the Council. Members of the DPOC expressed similar views to those of Council members.
24. The Effects Analysis Consultative Group has met twice since then, by conference call on 7 November and face-to-face on 18 November. The feedback and advice of the Council and Trustees was conveyed to members of the consultative group. The report of the group will take into consideration, and reflect, this input.
25. I think 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. We will discuss progress in the work of the group at a separate session during this meeting.

Technical Agenda

26. Since our last report to the Council in February 2014 we have issued our interim standard, IFRS 14 *Rate-regulated Activities* and IFRS 15 *Revenue from Contracts with Customers*. We have also published:
 - Discussion Paper: Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging;
 - The 2014 *IFRS Taxonomy*;
 - Exposure Draft: Disclosure Initiative *Proposed amendments to IAS 1*;
 - Narrow-scope amendments to IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations*; and
 - Narrow-scope amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortisation*.
27. The IASB expects to issue revised IFRS 9 Financial Instruments in July 2014.
28. We discuss the technical agenda in more detail in paper 1A Technical Update.

IFRS Taxonomy Due Process

29. The strategic review of IFRS Taxonomy activities undertaken in 2013 led to a review of the IFRS Taxonomy Due Process. This review was initiated in 2013 and focused on the following three aspects of IFRS Taxonomy due process: a) advisory structure b) timing of public consultation and c) involvement of the IASB.

30. At their 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. This approach is consistent with the advice the Advisory Council provided in 2013.
31. At the same meeting, the DPOC also agreed that public consultation on proposed changes to the IFRS Taxonomy should, with immediate effect, take place at the time new or amended IFRSs are published. Up to then public consultation had only taken place for the annual IFRS taxonomy. Further it was decided that the IASB should review and approve changes to the content of the IFRS taxonomy.
32. A new document called the *IFRS Taxonomy Update* will support the proposed new process. A draft version will accompany an exposure draft and a final version will accompany an IFRS. The document will have the same status as Illustrative Examples accompanying a Standard. The IASB will be asked to provide assurance that the IFRS Taxonomy content does not conflict with or interpret IFRSs and that electronic reporting considerations are duly reflected.
33. The DPOC reviewed the proposed due process amendments and agreed for the IASB staff to proceed with the next steps. These include educating the IASB so that they are in a position to approve changes to the IFRS Taxonomy, as well as informing and seeking feedback from the ITCG and the IFRS Advisory Council. Additionally, the IASB staff are preparing draft amendments to the existing IASB Due Process Handbook to incorporate the revised IFRS Taxonomy Due Process. Subject to approval by the DPOC, it is expected that these proposed amendments will be released for public consultation in Q2 2014.