

Report

IFRS Advisory Council Meeting

LONDON 9–10 June 2014

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This paper has been prepared by the Chairman 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 Chairman to the Trustees and the IASB on the June 2014 Advisory Council meeting

1. The Council met on 9th and 10th June with me, Joanna Perry, chairing my first meeting. The main non standard topics for discussion were a consideration of the use of judgement and consideration of the role of the Council with respect to communication and advocacy (the latter was a closed session). 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*. The Council was pleased to have Trustees Michel Prada and Bob Glauber, and six IASB Members in attendance.
2. After welcomes and an acknowledgement of the passing of Jerome Haas, I commenced the public meeting with a brief introduction of me and my perceptions of the current environmental platform on which the Council sits and what I saw as some of the challenges and opportunities for the Council to add value to the IFRS Foundation objectives.
3. Members received an update from the IASB Chairman and staff members on recent IASB activities. There was considerable discussion and interest in the Disclosure project and its strategic importance. Members also received an update from the Chairman of Trustees, Nominating Committee chair and Foundation staff on recent

Trustee activities. Particular note was made of the value the Council had provided to the Trustees in relation to its advice on the IPSASB oversight consultation paper.

4. The Council members received an update on the progress to date on the Conceptual Framework. The Council members provided commentary and feedback:
 - supported the importance of the project and the time line proposed; however some members noted that the time line should not be the primary driver - it is important that significant issues are properly dealt with.
 - generally provided support for the tentative decisions on the scope, purpose and status of the Conceptual Framework. Council members encouraged the IASB to consider carefully the interaction between the Conceptual Framework and the Standards.
 - accepted and understood the rationale for the reintroduction of the concept of prudence; however cautioned the IASB to ensure that its reintroduction did not conflict with neutrality.
 - acknowledged that the framework is fundamental and generally supported the proposed purpose as articulated. However, whilst acknowledging that this is not a new issue, encouraged the IASB to consider carefully the transparency around its status versus the accounting standards themselves and how it might be adopted in different jurisdictions.
 - some other specific individual comments were provided.
5. The Council had a long, robust discussion, both in plenary session and in breakout groups about the use of judgement in financial statements. The discussion was focused around 3 key questions posed to the Council. The Council provided feedback:
 - overall there is strong support for principles-based accounting. It was also recognised that there will always be a need for some additional guidance; although noting that such additional guidance should ideally be explaining the principle.

- noted that it is reasonable to expect financial reporting stakeholders to exercise judgement.
 - expressed the view that the accounting standards do not always clearly articulate the principles and urged the IASB to pay continuing attention to this.
 - accepted that some diversity in practice on the part of preparers is reasonable, and where this arises adequate disclosure is imperative to explain how conclusions had been reached.
 - most, but not all, felt that the IASB should NOT include bright lines and anti-abuse provisions in accounting standards.
 - recognised cultural differences which can impact the use of judgement and the important role the education plays in encouraging a principles-based approach, encouraging the IASB to continue its education activities through Education Initiative.
6. The Council received a presentation on and considered the approach to implementation support groups and provided feedback:
- support for the proposed impairment implementation support group
 - any future group should be tailored for its particular purpose - not a case of one size fits all
 - need to ensure that there is transparency about the objective of any group and its process - also need to manage stakeholder expectations (not encompass issuing guidance or a helpline)
 - a new group shouldn't automatically be formed for each new major standard (eg leases, insurance)
 - the effectiveness of the revenue and impairment groups should be reviewed before proceeding with others
 - some called for greater transparency about how members are selected

7. The Council had a long, robust discussion, both in closed plenary session and in breakout groups about the role of the Council with respect to communication and advocacy. In particular Members considered the secondary objective set out in the Council's Terms of Reference of supporting the IASB in the promotion and adoption of IFRSs throughout the world. This was considered in light of the need for the Council to remain independent and objective in order to achieve its primary objective - to provide advice to both the IASB and the Trustees, and assist with supporting the legitimacy of the IASB. Members also considered what role it could play in communications and specifically what it could do and what assistance it needed. The Council provided comment and feedback:

- the secondary objective as currently articulated can be perceived as contradicting the requisite independence and objectivity required of the Council and its members. Some members also felt that it went beyond the remit or purpose of their respective organisations.
- a secondary objective for the Council is appropriate; however it should more reflect a communication and education role rather than an advocacy role.
- a recommendation that the Trustees consider amending the Terms of Reference as soon as possible to reflect a revised secondary objective.
- each organisation and individual Member is in a different situation; however, there was consensus that all Members can assist in some form in the education in relation to IFRS and the standard setting process.
- the Council members agreed to use their own networks to facilitate broader engagement in and understanding of the work of the Foundation and the IASB.
- IASB Members and staff and Trustees are encouraged to reach out more to Council Members to mobilise the power of the global network. Examples given included seeking advice between Council meetings; using Members in

geographies that IASB Members or Trustees are visiting as well as using members in geographies where there is no IASB Member or Trustee.

- A "toolkit" would be useful and should be prepared, acknowledging the limited resources of the Foundation, to assist Members to undertake the proposed communications role, and to do so in a consistent manner.
 - Members should share information about communication initiatives on the Council Sharepoint site.
 - Foundation staff are encouraged to consider some specific plans to instigate the Council's suggestions.
8. The Council received a presentation on and provided feedback on the approach to consideration of research activities within the IASB:
- fulsome support for ensuring that the problem is properly defined up front;
 - support for the flexible use of documents coming out from the research programme; however Members cautioned the IASB to be wary of confusion about the status of the documents used (for instance using the term 'Discussion Paper' for different types of documents can be confusing, and so can having many different types of documents) and also about response fatigue;
 - suggested the IASB includes a possible solution in any documents as this encourages stakeholder engagement; and also to consider shorter more focused documents, again with the caution of response fatigue;
 - suggested the IASB consider the following matters in determining the priority of research topics:
 - i. the needs of the primary users of financial statements;
 - ii. the materiality/pervasiveness/newness of the topic; and
 - iii. the importance of research within the whole IASB work programme.

- suggested that the IASB ensure it is leveraging external resources (e.g. National Standard Setters and academics) when considering research activities.
9. The Council received an update on the findings of the Effects Analysis Consultative Group and provided some suggestions to consider in the implementation of the recommendations.
10. The Council received an update on the progress of Post-implementation Review of IFRS 3 *Business Combinations*. The Council encouraged the IASB to continue to work to keep convergence, leveraging Accounting Standards Advisory Forum to achieve this.
11. In conjunction with the Council meeting optional education sessions were also held on the Conceptual framework and IFRS for SMEs and breakfast meetings were held with specific focus on, respectively, investors and emerging markets. These breakfast meetings provide IASB staff the opportunity to seek strategic advice around how to deal with particular issues relating to these stakeholders.