

AGENDA PAPER

IFRS Advisory Council

London 13 October 2014

Agenda
Paper 1

Memorandum

To: IFRS Advisory Council
From: Hans Hoogervorst
Date: 18 September 2014
Re: Report of the IASB Chairman

Introduction

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

Work plan overview

2. In July, we completed the final elements of our comprehensive response to the financial crisis by issuing IFRS 9 *Financial Instruments*. The package of improvements introduced by IFRS 9 included a logical model for classification and measurement, a single, forward-looking ‘expected loss’ impairment model and a substantially-reformed approach to hedge accounting. The new Standard will come into effect on 1 January 2018 with early application permitted. The new Standard will enhance investor confidence in banks’ balance sheets and the financial system as a whole.
3. The new expected credit loss model for the impairment of financial instruments under IFRS 9 will represent a fundamental change to current practice. The changes will have significant implications from an implementation as well as a systems perspective, particularly in the financial services sector. As a result the IASB has announced the formation of the IFRS Transition Resource Group for Impairment of Financial Instruments (ITG). The ITG will provide a discussion forum to support stakeholders on implementation issues that may arise as a result of the new impairment requirements under IFRS 9.

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

4. We continue to work intensively on our final round of redeliberations on two major projects: Leases and Insurance Contracts. In August we issued a document to update stakeholders on the status of the Leases project, which we also shared with you. We also continue to publish regular updates on the Insurance project. We remain on target to issue both Standards in 2015.
5. We have had a few months of intense Board discussions on the *Conceptual Framework*. Discussions continue and the Exposure Draft is planned to be issued early in 2015. We are bringing one of the related topics—long-term investing—to this meeting of the Council.
6. The comment period for the Discussion Paper *Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging* ends on 17 October. On the basis of the outreach performed so far, the DP is perceived by most constituents as a step in the right direction that deals with dynamic risk management issues in a comprehensive manner. It is currently too early to determine whether there will be a consensus on the accounting approach explored in the DP.
7. Our research work is going well: the Discussion Paper on Rate-Regulated Activities was published on 17 September and our other projects are being discussed with the Board and stakeholders. By the time of the Council's meeting we will also have held our first Research Forum at the Saïd Business School at Oxford University.
8. Finally, we are making good progress with our Disclosure Initiative against the 10-point plan we laid out in June last year. We look forward to discussing this with the Council during a separate session.

Engagement strategy

9. As part of our strategy to develop a single set of high quality, understandable, enforceable and globally accepted accounting standards, it is important that we have an effective engagement strategy with all stakeholders, especially the primary users of financial statements (ie investors). As you may recall, we have been reviewing our engagement strategy with investors, especially the buy-side, and are working to improve our interactions with them—especially because of their inherent hesitancy to

participate via the comment letter process. Our strategy includes developing better relationships with senior management of these organisations, offering investor education, and improving documentation of discussions on feedback received. 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 these stakeholders.

10. Council members play an important role in our engagement strategy by fulfilling an education-type role with their networks in line with the Council's recently revised secondary communications objective.
11. 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 June we had productive meetings with the ASAF on a broad range of key issues and we have a full agenda for the forthcoming September meeting. We have started thinking about the upcoming ASAF review and look forward to discussing it with the Council at a future meeting.

Europe

12. In August, the European Commission launched a public consultation on the impact of IFRS in the European Union, with a particular interest in the extent to which the adoption of IFRS has improved the efficiency of EU capital markets by increasing the transparency and comparability of financial statements. With the support of the Commission, we are encouraging stakeholders to respond to this consultation and have issued a Staff Paper with perspectives on the issues discussed in order to contribute to the debate.
13. Soon after our last meeting in June, the EFRAG General Assembly approved the revised EFRAG Statutes and Internal Rules that will enable the implementation of the Maystadt Recommendations. These include the creation of a new EFRAG Board, which will be appointed on 31 October. We look forward to continuing our strong relationship with EFRAG.
14. Consistently with arrangements we have in place to support other regions, we have now dedicated a staff member to support and co-ordinate our engagement with European stakeholders.

Use of IFRS globally

15. As we discussed with the Council previously, 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 IFRS in individual jurisdiction profiles. In the last quarter we have updated several country profiles, including profiles on the use of IFRS in Singapore to reflect the joint announcement by the Accounting Standards Committee and the Singapore Stock Exchange (SGX) that Singapore-incorporated companies listed on the SGX will apply a new financial reporting framework identical to IFRS starting in 2018. The current differences between Singapore Financial Reporting Standards and IFRS will be eliminated.
16. 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 was published in July. The book, *IFRS as global standards: a pocket guide*, was released in conjunction with the Tommaso Padoa-Schioppa Memorial Lecture delivered on 9 July 2014 by Mario Draghi, President of the European Central Bank.
17. 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 online.
18. All Council members should have received a copy of the guide and further copies are available at this meeting. We encourage you to share this within your networks.
19. To complement the IFRS Jurisdictions Profiles, work has now also started on gathering data on the use of the IFRS Taxonomy. A pre-survey was launched in August asking national standard-setters to comment on the general filing requirements for IFRS financial statements within their jurisdiction. A survey was also sent to four regulators in Asia asking questions about their usage of the IFRS Taxonomy. The staff expect to publish the first IFRS Taxonomy Jurisdictions Profiles on the IFRS website early in 2015.

20. Finally, I visited Japan in September and I was encouraged to see that more and more companies have decided to use IFRS—the number of IFRS adopting companies in Japan has more than doubled from 20 to 45 over the past year. That is encouraging, because the use of IFRS is not mandatory in Japan; instead, it is based on business decisions made by each preparer.

Consistency in the application of IFRS globally

21. We have continued to take steps to ensure IFRSs are applied and enforced on a globally consistent basis.
22. Since our last meeting we have held the first meeting of the Joint Transition Resource Group for Revenue Recognition. The group discussed a number of issues and we think it should prove to be useful in aiding entities to make a smooth transition to the new Standard. The next meeting will be on 31 October and four meetings are currently planned for next year.
23. As mentioned earlier, we have also announced the membership of the Transition Resource Group for Impairment of Financial Instruments.
24. In July, the IFRS Foundation and the European Securities and Markets Authority (ESMA) announced the agreement of a joint Statement of Protocols to serve as the basis for future co-operation in areas of mutual interest.
25. The Statement of Protocols reaffirms the existing high levels of co-operation between the IFRS Foundation and ESMA, as well as describing additional areas of co-operation, including electronic reporting, the implementation of new Standards and other emerging financial reporting issues.

Effects analysis

26. The Effects Analysis Consultative Group was formed in 2013 in response to the Trustees' strategic plan and held its first meeting in May 2013.
27. The group has met several times and obtained input from the Council as well and is now finalising the drafting of its report.

28. 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.

Technical Agenda

29. Since our last report to you we have:
- continued to focus on finalising our redeliberations of the Insurance Contracts and Leases projects following feedback to the Exposure Drafts published in 2013;
 - progressed our redeliberations of the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting*; and
 - progressed our work which is part of the Disclosure Initiative.
30. In the period June to September 2014 we have issued:
- IFRS 9— *Financial Instruments*;
 - IAS 41— *Agriculture: Bearer Plants*;
 - IAS 27— *Separate Financial Statements: Equity Method in Separate Financial Statements*; and
 - narrow-scope amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*.
31. We have also published:
- Discussion Paper: *Reporting the Financial Effects of Rate Regulation*;
 - Exposure Draft: *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value* (Proposed amendments to IFRS 10, IFRS 12, IAS 27, IAS 28 and IAS 36 and Illustrative Examples for IFRS 13);
 - Proposed Interim Release 2 to the IFRS Taxonomy 2014; and
 - IAS 12— *Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*.
32. We discuss the technical agenda in more detail in Agenda Paper 1A *Technical Update*.