

# Report

## IFRS Advisory Council Meeting

LONDON 13–14 October 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.

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### **Public report of the IFRS Advisory Council Chairman to the Trustees and the IASB on the October 2014 Advisory Council meeting**

1. The Council met on 13th and 14th October.

- The main non standing topics for discussion were a consideration of the risks the IFRS Foundation faces and the opportunities they create, the IASB research project on materiality and further discussion on the future of corporate reporting. The Council also considered progress on the IASB's Disclosure Initiative, the approach to the review of the structure and effectiveness of the IFRS Foundation, consideration of the implications for the Conceptual Framework of long term investing, and a briefing on the developments of IFRS Content Services.
- The Council said farewell to 13 members including the two vice chairs.
- The Council was pleased to have Trustees Michel Prada and Sir Callum McCarthy, and 11 IASB Members in attendance at various times during the meeting.
- Overall feedback of the meeting was very positive, from Trustees, IASB board members and Foundation staff as well as from Council members. The agenda struck the right balance and the Council were able to provide valuable strategic advice both to the IASB and to the Trustees.

2. Members received an update from the IASB Vice Chairman (the Chairman had sent his apology) and staff members on recent IASB activities. The Council commended the IASB team for the good transparent strategic papers presented to the Council. The focus of the matters discussed by Council members were the progress, difficulties and complexities of the insurance project and the consideration of the notion of ‘long term investing’ in IFRS. Members also received an update from the Chairman of Trustees and Foundation staff on recent Trustee activities including the approach to the upcoming review of the structure and effectiveness of the Foundation.
3. The Council received an update on the progress to date on the Disclosure Initiative. The Council provided commentary and feedback:
  - provided positive support for the initiative
  - noted that globally there were already a number of constituent initiatives to improve disclosure effectiveness ie to reduce immaterial/make more relevant disclosures. Council members noted that these initiatives reflected a behaviour change and that they tended to be initiated by larger preparers who have more resources available to make changes to disclosure in their financial reports. Council members encouraged IASB staff to enquire of those that had already initiated change, with a view to understanding the rationale for, and experience with, undertaking such change
  - careful consideration was required as to how non-IFRS information fitted within the Disclosure Initiative’s Principles of Disclosure project
  - careful consideration of the scope of the proposed Principles of Disclosure discussion paper was required to ensure both clarity of what is being covered and that the project is not extended too widely.
4. The Council received a presentation on the future of Corporate Reporting and addressed the question of whether the current IASB role within various initiatives, particularly the Corporate Reporting Dialogue, was appropriate. The Council was generally very supportive of the current role and emphasised that in Members' views

the IASB must stay at the forefront of such discussions as they are very important to ensure the future relevance of the IASB's work. This matter was raised again during the discussion on risks.

5. The Council had a long, robust discussion, both in plenary session and in breakout groups about the Materiality project. Although arguably a technical matter, the Council Agenda Committee had considered Materiality to be so pervasive to financial reporting at a strategic level that it lent itself to a discussion by the Council. The breakout groups were broadly sorted by type of participant (investor, standard setter, preparer and regulator); however the main themes and messages were clear and consistent across the groups:

- support for the IASB considering the concept of materiality as means to improve the effectiveness of disclosures in financial reporting
- the basic definition of materiality should continue to be part of IFRS and should emphasise the disclosure of relevant information
- acknowledgement that disclosure of too much immaterial information can obscure relevant information
- changing the way materiality is applied by our constituents will require a behaviour change and the IASB has a clear role in creating or facilitating a financial reporting framework to foster that behaviour change
- education is required - the IASB can and should provide educational support, engage with auditors and regulators. The type of educational support would vary depending on the audience.

There were also a number of specific matters that were raised for consideration by the IASB project team.

6. The Council received an update on the IASB's investor liaison strategy. Feedback was provided by the Council noting in particular:

- a request was made for the team to further consider how the Council could help, for example, how individual Council members/organisations could be involved and add value to investor liaison
  - preparer members of the Council have considerable contact/relationships with the analysts of their organisations and that such relationships could be leveraged
  - the importance of the IASB continuing to have focused outreach with investors to get their feedback on technical projects, and continuing to report it as transparently as possible, in line with due process requirements
  - a reminder that the IFRS Foundation should also consider costs to preparers when speaking to investors
  - the importance of understanding the barriers to investor engagement in order to try to determine how to effectively overcome them
  - suggested consideration of how the success of the investor liaison programme is measured given the limited IFRS Foundation resources
  - consideration of including more investor perspective on the IASB's technical staff.
7. The Council considered, largely in breakout groups, what members considered to be the biggest risks facing the Foundation and in addition what opportunities these presented for the Foundation.
8. There was insufficient time allocated to traverse fully the opportunities at this meeting, however it was agreed that an agenda item would be included for the February meeting to identify further opportunities.
9. The Council received an update on the consideration of long term investing on the Conceptual Framework. Members noted:
- Standards should be neutral and not biased in any way towards any form of investment

- Standards should focus on fostering transparency and allowing investors to make informed decisions
- Some have concerns about volatility reported in financial statements
- A report<sup>1</sup> used by the B20 group indicating that accounting standards are not considered a hindrance to long term investing

10. In conjunction with the Council meeting breakfast meetings were held with specific focus on, respectively, investors and emerging markets.

11. I, personally, would like to thank departing Council members and in particular Charles and Christoph as vice chairs for their tremendous contribution and support to the cause of the IFRS Foundation over the last few years.

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<sup>1</sup> A report *Unlocking Investment in Infrastructure – is current accounting and reporting a barrier*, issued in June 2014 by the B20 Panel of six international accounting networks B20 group concludes that for the most part, changes to accounting principles would not increase the attractiveness of long-term infrastructure investments. However, the Panel supports the International Accounting Standards Board's (IASB) ongoing work to improve financial reporting, and recommends that the IASB should continue working with priority on the issuance of a global standard on insurance contracts in the near future and to avoid accounting mismatches between insurance contract liabilities and related assets; and give further consideration to performance reporting as part of the Conceptual Framework and Disclosure Initiative projects.