

# AGENDA PAPER

IFRS Advisory Council

London

23 February 2015

Agenda paper 2

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## Memorandum

**To:** IFRS Advisory Council

**From:** Hans Hoogervorst

**Date:** 2 February 2015

**Re:** Report of the IASB Chairman

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## Introduction

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

## Technical work plan overview

2. The IASB continues to work intensively on our final round of redeliberations on two major projects: Leases and Insurance Contracts.
3. With respect to Leases, which is a joint project with the FASB, the two Boards have reached tentative decisions on almost all aspects of the project. In particular, both Boards decided to require lessees to recognise assets and liabilities for all leases (other than short-term leases and, for the IASB, leases of small assets). However, the Boards came to different conclusions on the recognition and presentation of lease expenses in a lessee's income statement. They decided to leave existing lessor accounting essentially unchanged. It is currently expected that the IASB will complete redeliberations, together with the FASB, in Quarter 1 of 2015. We remain on target to issue the Standard in 2015.
4. With respect to Insurance Contracts, the IASB has continued to engage extensively with interested parties. The IASB has largely concluded its tentative decisions relating to non-participating contracts. However, it continues to consider the accounting model for contracts with participating features. As a consequence of the complexity of the issues

relating to such contracts, the IASB has decided to extend its original timetable to allow it to consider the issues in detail, and to engage further with interested parties. As a result, the IASB will continue deliberations during 2015. It does not expect to issue the Standard before the end of 2015.

5. The IASB has now finalised redeliberations on the *Conceptual Framework*. The *Conceptual Framework* sets out the concepts that underlie the preparation and presentation of financial statements. It identifies principles for the IASB to use when it develops and revises its Standards. It is anticipated the ED will be published in Quarter 1 of 2015.
6. We are making good progress with our Disclosure Initiative. The Disclosure Initiative is a portfolio of projects being undertaken with the aim of improving the effectiveness of disclosures in financial reporting, including both implementation and research projects. One of the implementation projects included *Disclosure Initiative* (Amendments to IAS 1), which the IASB issued on 18 December 2014. The amendments clarify existing requirements in IAS 1 *Presentation of Financial Statements* and encourage the use of judgement.
7. The Discussion Paper *Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging* was published in April 2014, with a comment period of 180 days, ending on 17 October 2014. The staff intends to bring the comment letter analysis to the IASB in Quarter 1 of 2015, before asking it to consider the next steps for the project.
8. The Discussion Paper *Reporting the Financial Effects of Rate Regulation* was published on 17 September 2014, with a comment period of 120 days, which ended on 15 January 2015. The staff intends to provide a preliminary analysis of comments to the IASB at its meeting in February 2015 and discuss with its consultative group in March, before asking the IASB to decide on the next steps for the project.
9. Finally, our Research Programme is going well. The IASB has eight high-priority projects, three medium-priority projects and four longer-term projects. This includes Macro Hedging, Rate Regulation and elements of the Disclosure Initiative. Although this may seem like a large pool of projects, we envisage that some will be completed quickly and will not lead to standard-setting activity. They also vary in size and complexity, which means that they will reach major milestones at different times.

10. We discuss the technical agenda in more detail in Agenda Paper 2A: Technical Update.

## Engagement strategy

11. 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 and analysts).
12. In December 2014, we launched the first phase of the *Investors in Financial Reporting* programme. Created with the support of some of the world's leading asset managers and owners, the programme is designed to foster greater investor participation in the development of IFRS. The *Investors in Financial Reporting* programme has been developed to further extend investor participation in our outreach activities by specifically encouraging greater involvement from the buy-side community.
13. Central to the *Investors in Financial Reporting* programme is a mutually agreed Statement of Shared Beliefs, with which:
- (a) the IASB and the investment community highlight the importance of high quality, transparent reporting for building trust in the capital markets and for making investment decisions.
  - (b) the IASB publicly reaffirms its commitment to continue to seek and consider investor views in the development of new accounting standards.
  - (c) leading representatives from the global investment community make visible their commitment that, as responsible investors, they will contribute to the development of high quality financial reporting standards. That commitment involves working with the IASB to ensure that the investor perspective is articulated clearly and is considered in the standard-setting process.
14. Participants in the launch phase of this important initiative are Allianz Global Investors, APG Asset Management, AustralianSuper, BlackRock, Fidelity Worldwide Investment, Henderson Global Investors, Hermes Investment Management, Nomura Asset Management, PGGM Investments and UniSuper. We are interacting with each of these organisations individually, not as a group.
15. We have had a positive reaction to this initiative, with support from the investment community and other stakeholders. We will review the programme at the end of the first

year, and over the coming months will be considering when to bring in the next phase of the programme.

16. The Accounting Standards Advisory Forum (ASAF) is one of the IASB's advisory bodies and it 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 November 2014, the IFRS Foundation launched the review of the ASAF by assessing how it has performed in relation to its Terms of Reference and Memorandum of Understanding. We will discuss the review at a separate session during this meeting.

### **Use of IFRS globally**

17. We are continuing to assess our progress towards the goal of globally accepted accounting standards by developing individual jurisdiction profiles about the use of IFRS. In the last quarter of 2014 we updated several country profiles.
18. Currently, profiles are completed for 138 jurisdictions, including all of the G20 jurisdictions plus 118 others. Out of these, 114 jurisdictions require IFRS for all or most domestic publicly accountable entities
19. To complement the IFRS jurisdictions profiles, work has also continued on gathering data on the use of the IFRS Taxonomy. We expect to publish the first IFRS Taxonomy jurisdictions profiles on the IFRS website in Quarter 2 of 2015.
20. In December 2014, SEC Chief Accountant, James Schnurr, floated the possibility of keeping US GAAP for US public company financial reporting, but also allowing companies the option of reporting supplemental information in IFRS. It is too early to assess how many companies might be interested in taking up this option.

### **Consistency in the application of IFRS globally**

21. We have continued to take steps to ensure IFRS is applied and enforced on a globally consistent basis.
22. Since our last meeting, we have held, with the FASB, further meetings with our Joint Transition Resource Group for Revenue Recognition. The group discussed a number of implementation issues relating to IFRS 15 *Revenue from Contracts with Customers*, which was issued in May 2014, and we think it will continue to be useful in aiding entities to make a smooth transition to the new Standard. However, the work of the

group is also highlighting differences between the implementation environment in the US and many other jurisdictions. We will discuss this in a separate session.

23. We have also held a preliminary meeting with the Transition Resource Group for Impairment of Financial Instruments. At the meeting, the group discussed various administrative issues but not technical ones, because it had not received any submissions as of that date. The objective of this group is to provide a forum for stakeholders to discuss emerging implementation issues arising from the new impairment requirements set out in IFRS 9 *Financial Instruments*.

## **Education Initiative**

24. Since our meeting in October, the Education Initiative (EI) has:
- (a) facilitated IFRS capacity building workshops in Poland, Mexico and Nigeria;
  - (b) organised IFRS conferences in Mexico and London (a Financial Institutions conference jointly with the Institute of Chartered Accountants in England and Wales) that focus mainly on building capacity to implement IFRS 9 and IFRS 15; and
  - (c) co-branded PwC's Meet the Experts IFRS conference in London and AFRAC's IFRS conference in Vienna.
25. To support the implementation of IFRS 9, the EI developed a two-volume guide through the official text of the Standards dedicated to financial instruments. Volume 1 is prepared on the basis of no new Standards being applied early (ie the Blue Bound Volume); Volume 2 assumes all new Standards are applied early (ie the Red Bound Volume). Both volumes are heavily annotated with cross-references between the relevant Standards and the non-mandatory material that accompanies them. They also include the text of the IFRS interpretation Committee agenda decisions that remain relevant to the requirements; these are shown as footnotes. The text is scheduled for release in March 2015.
26. The EI has published, in collaboration with the CFA Institute, investor-focused multimedia presentations on a range of new Standards and developed, in collaboration with Imperial College Business School, multimedia presentations for use in MBA programmes on making IFRS judgements.

27. The EI also put into pre-publication review extensive EI-developed material on liabilities, financial instruments with characteristics of equity and forward contracts (including a number of case studies designed to develop capacity to make IFRS judgements).
28. During this meeting, we will have a separate session discussing the EI and its strategy.

## **Effects Analysis**

29. The Effects Analysis Consultative Group was formed in 2013 in response to the Trustees' strategic plan and held its first meeting in May 2013. The purpose of establishing the Consultative Group was to identify best practice in the assessment of the likely effects of a new Standard and, in doing so, to seek to enhance the confidence in, and efficiency of, the processes.
30. The Consultative Group published its [report](#) in November 2014. The report identified a series of recommendations related to general purpose financial reports, fieldwork and the reporting of likely effects. The Trustees will work with the IASB to implement the recommendations of the Consultative Group, which will further embed Effects Analyses within the IASB's due process.
31. The recommendations build upon our already extensive methodology for undertaking an Effects Analysis. It is important that this work enjoys the confidence of our stakeholders. We therefore intend to implement the recommendations in full.