

# AGENDA PAPER

IFRS Advisory Council Meeting

LONDON	23–24 February 2015	Agenda ref 7
TOPIC	IFRS Education Initiative	
PRESENTERS	Mike Wells	
CONTACT	mwells@ifrs.org	

This paper has been prepared for discussion at a public meeting 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.

## IFRS Education Initiative – Cover note

1. The attached slides summarise activities of the IFRS Education Initiative (EI) as well as considerations for its ongoing strategic review.
2. During the session, we would like to receive advice from the Advisory Council on the EI strategy, considering the following questions:
  - Q1. Is developing multimedia IFRS tools a most effective way for our EI to contribute further to the consistency with which IFRS is applied?
  - Q2. To be most effective in satisfying the aims (support rigorous and consistent application, reduce IFRS adoption barriers as set out on slide 21) which audiences do you believe EI multimedia tools should target?
  - Q3. Are you aware of particular multimedia formats/platforms that you believe would be most effective for delivering EI multimedia tools?
  - Q4. Do you have any other advice for our EI?

## International Financial Reporting Standards



## IFRS Foundation Education Initiative

Mike Wells, Director

The views expressed in this presentation are those of the presenter,  
not necessarily those of the IASB or IFRS Foundation.

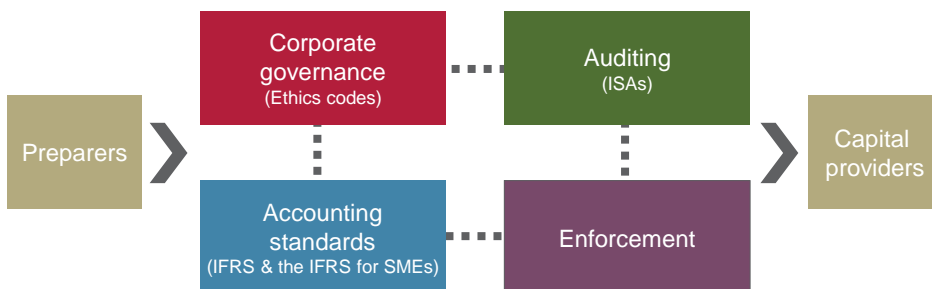
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## Information supply chain

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Education underpins competence across the information chain



Education underpins competence across the information chain



## IFRS implementation challenges

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- Mindset change: **investor-focused** reporting (not tax, not government statistics, not prudential regulation, not...)
- Skillset change: make **judgements** and estimates to apply IFRS (principle-based standards)
- Capacity issues: underdeveloped accounting profession in many jurisdictions

Implementation problems can affect adoption by others

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## IFRS Foundation/IASB implementation activities

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- Content Services (eg translation and licencing)
- **Education Initiative** (the subject of this presentation)
  - the Education Initiative's medium-term plan (Plan 2012–2016) is available at <http://www.ifrs.org/Use-around-the-world/Education/Documents/Plan%202012%e2%80%932016%20%28Updated%20October%202012%29.pdf>
- IFRS Interpretations Committee
- International Activities
- SME Implementation Group
- XBRL



## Getting it done with few resources: leverage—working with others

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- Plan together (internal + external advisory groups)
- Develop + deliver together. For example,
  - Education Initiative writes education material
  - experts review (internal + external)
  - development agencies (DAs) fund translations and DAs, regional professional and academic accounting associations organise workshops
- Multiplier effect ‘train the trainers’

Education Initiative delivers  $\pm 50$  events each year



## Example multiplier effect ‘train the trainers’

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- 3-day *IFRS for SMEs* ‘train the trainer’ workshops
  - Kuala Lumpur and Hyderabad in January 2010
  - 85 trainers from 15 countries
  - organised by CAPA
  - funded by Asian Development Bank
  - IFRS Foundation material + facilitators
- Multiplier effect: next 6 months 50+ workshops train +4,500 people (source: CAPA 2010 annual report)

2012–2015 >70 workshops participants from all IFRS countries



## Education projects today



### Support consistent IFRS application by:

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Flagship project: supporting the development of:  
(i) a cohesive understanding of IFRS; and  
(ii) capacity to make/audit/regulate/analyse IFRS judgements

**New IFRS implementation project**

**Investor-focused project**

## ‘Flagship’ project: IFRS judgement capacity building

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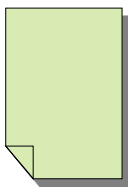
- Aim: support rigorous and consistent IFRS application—by developing **cohesive IFRS understanding** and capacity to make/audit/regulate/analyse **IFRS judgements**
- How:
  - comprehensive teaching material for CA/CPA (or equivalent) stream and MBA stream IFRS teachers
  - development agencies and others fund translation into all widely spoken languages
  - facilitate regional in-person training workshops for teachers, adopting jurisdiction preparers and auditors, regulators, etc
  - member of influential education advisory groups



## Framework-based approach...

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- focuses on the objective of IFRS reporting
- relates IFRS requirements to underlying concepts
- develops **cohesive understanding** of IFRS
- develops ability to make **IFRS judgements**



Concepts



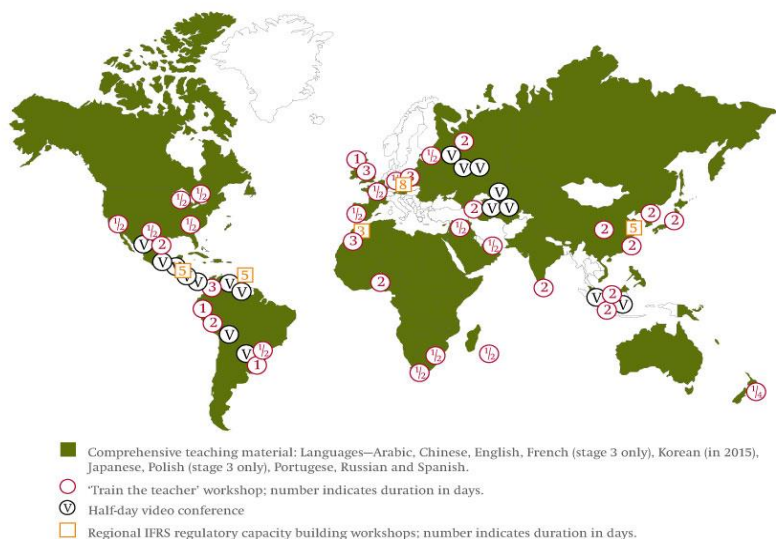
Principles



Rules



Framework-based approach IFRS material language map and workshops



Stages in developing capacity to make IFRS judgements

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Stage 1: awareness	Stage 2: understanding	Stage 3: competence—ability to make judgements
Examples: i. 1 <sup>st</sup> CPA stream IFRS course; ii. 1 <sup>st</sup> phase of adopting jurisdiction workshops	Examples: i. course mid-way to qualifying as CPA; ii. 2 <sup>nd</sup> phase of adopting jurisdiction workshops	Examples: i. course just before qualifying as CPA; ii. 3 <sup>rd</sup> phase of adopting jurisdiction workshops

## Examples

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At the February 2014 IFRS Advisory Council meeting I illustrated **IFRS judgement** capacity building using interesting fact patterns including: elephant-back photographic safaris, mushroom farming and commercial space travel.

Today, let's consider another aspect of the flagship project—developing a **cohesive understanding of IFRS**—by considering some interesting measurement related cross-cutting issues.

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## Purchase NCI

### **extract 1** [emphasis added]

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Warren Buffett's letter to Berkshire Hathaway Inc. shareholders 2013 (see <http://www.berkshirehathaway.com/letters/2013ltr.pdf>)

"Last year we invested \$3.5 billion in the surest sort of bolt-on: the purchase of additional shares in two wonderful businesses that we already controlled. In one case – Marmon – our purchases brought us to the 100% ownership we had signed up for in 2008. In the other instance – Iscar – the Wertheimer family elected to exercise a put option it held, selling us the 20% of the business it retained when we bought control in 2006. **These purchases added about \$300 million pre-tax to our current earning power and also delivered us \$800 million of cash.** Meanwhile, the same **nonsensical accounting rule** that I described in last year's letter required that we **enter these purchases on our books at \$1.8 billion less than we paid, a process that reduced Berkshire's book value.** (The charge was made to "capital in excess of par value"; figure that one out.) This **weird accounting**, you should understand, **instantly increased Berkshire's excess of intrinsic value over book value by the same \$1.8 billion.**"

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## Purchase NCI

### **extract 2** [emphasis added]

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UBS Research Footnotes Compendium issued by Dennis Jullens, former UBS Accounting and Valuation Analyst (8 December 2010)—

“In 2009, Swiss company Roche increased its stake in US group Genentech from 56% to 100% by buying out the minority interest. As Roche already fully consolidated Genentech, the transaction from the accounting perspective was viewed as a transaction between shareholders that does not give rise to goodwill.

In the case of the Roche/Genentech transaction, the difference between purchase price and net asset value of minority interest of CHF 43.8bn was charged to Roche’s shareholders’ equity.

This **accounting adjustment** caused return on equity to increase from 17% in 2008 to 119% in 2009... (p68) However, the principal reason for Roche’s return on equity is **accounting rather than underlying economics**. (p71)

The rationale here is that the wealth generating ability of business assets is unaffected by the acquisition of the minority interest. That is to say, the parent is not investing in more or new assets. It is simply acquiring more rights to income from the assets it already controls, but to which non controlling interests previously had rights...” (p68)

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## Purchase NCI

### **extract 3** [emphasis added]

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Alan Teixeira (2014): The IASB and Evidence-Informed Standard-Setting, Accounting in Europe, DOI: 10.1080/17449480.2014.900269.

“When the IASB developed IFRS 3 *Business Combinations* we faced significant opposition from lobby groups. **One of the issues was the proposed treatment when non-controlling (minority) interests were acquired by the controlling interest. Opponents claimed that most of the equity of listed European companies would be wiped out.** As part of the effects analysis for this Standard, I examined reported equity for the largest 600 European and the largest 600 US-listed entities (IASB, 2008). The analysis found that less than 1% of these entities had economically significant non-controlling interests. An analysis of the individual cases provided the IASB with evidence that non-controlling interests were less economically significant than had been asserted by our detractors. And the reasons for the high proportion of non-controlling interests in the few cases we did observe made economic sense. We also ran a series of calculations to estimate the likely effect on financial reports of various buy-out scenarios. **The analysis suggested that the assertions and claims against us were without foundation.**”

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## Framework-based approach for applying IFRS

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- What are the **economics** of the phenomenon (eg transaction or event)?
- What information about the phenomenon is **relevant** for informing resource allocation decisions by **existing and potential investors and lenders who cannot require information directly** and that can be **faithfully represented**?
- Which elements (eg asset, liability), if any, exist?
- Then consider IFRS requirements
- Make **judgements** to develop accounting policy
- Make **judgements** and estimates to apply the requirements with rigour and consistency

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## Another focus: Supporting implementation of new IFRSs

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- Aim: support informed adoption + rigorous and consistent application of IFRS.
- How:
  - conferences: 2015 tentatively in Berlin, Cartagena, Hong Kong, London, Mumbai, Paris and Port Louis
  - 72 workshops and implementation sessions on new IFRSs in 2012–2015:
    - IFRS 9 = 23; IFRS 10–12 = 15; IFRS 13 = 12; IFRS 15 = 14
  - education material on new IFRSs, for example:
    - 35 comprehensive *IFRS for SMEs* training modules
    - CPD/CPE ppt files on IFRSs 9–13, 15 and to support 3 days training on the *IFRS for SMEs*



## IFRS conferences and new IFRS implementation support sessions



● IFRS Foundation IFRS conferences (some held jointly with other organisations)  
● IFRS conferences co-branded by the IFRS Foundation

## Regional IFRS for SMEs 'train the trainer' workshops



## Latest project:

### Investor-focused IFRS education project

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- Aim: support rigorous and consistent application. Reduce IFRS adoption barriers.
- How:
  - material: Investor Briefing and Investors' Guide to new IFRSs
  - multimedia material: jointly with investor profession associations (eg CFA Institute)
  - half-day Investor Updates.



International Financial Reporting Standards

Strategic considerations  
Education Initiative



## Aim of the strategy review...

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- to increase the IFRS Education Initiative contributions to:
  - (i) supporting the adoption and consistent application of IFRS (primary aim); and
  - (ii) self-generated income (secondary aim).

Addressing these aims requires careful balancing of the aims themselves, together with the Foundation's public interest responsibilities.

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## External feedback IFRS Education Initiative

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- "... the Education Initiative is not just a powerful tool that the IASB is using to support the adoption of IFRS globally, but also an innovation in teaching accounting and reporting. Accounting firms and their clients are likely to greatly benefit from this initiative, both in terms of cost savings and more effective insights from professional accountants. Because of this, it is our opinion that the Education Initiative should be given full support by all players: companies, accounting firms, training institutions and academia". (RSM International, June 2013, p7)
- "“What framework-based teaching provides is a cohesive understanding of IFRSs, together with a basis for judgement in applying IFRSs. It also helps users to keep abreast of IFRS knowledge and competencies.” (Dr. Nurmazilah Dato' Mahzan, Deputy Dean (Undergraduate), Faculty of Business and Accountancy, University Malaya, Accountants Today, May/June 2013, p18).
- "Poland is working towards becoming possibly the first country globally to fully implement this approach." (World Bank Centre for Financial Reporting Reform Newsletter May 2014)



## External feedback continued IFRS Education Initiative

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- “This project is a timely focus on direct training in a manner that should have long-term benefits for the global financial reporting community” (IRZ, Heft 5 May 2013, p195).
- “The message to educators with regard to teaching IFRSs is that resources from the IFRS Education Initiative are available and specifically designed to enable students to become more capable in exercising the judgments needed for IFRS application” (*Issues in Accounting Education* Volume 28, No. 2, 2013, p217).
- “The ability to make reasoned, informed judgments and estimates is crucial to appropriate application of IFRS. Framework-based teaching is the best way to educate students to enable them to make those judgments and estimates. ... This is the approach I use to teach my students and highly recommend it to all teachers of IFRS.” (Professor Mary Barth, Stanford University).
- “Long term effects seem to be with the students as well... changed the attitude of many towards their major subject to the positive. One can vitally feel the change when entering the lecture room. Amazing. Thank you again for all your efforts...” (Prof. Dr. Gunther Meeh-Bunse, Hochschule Osnabrück - Lingen Campus, Germany)



## External feedback continued IFRS Education Initiative

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Our tools are effective but our delivery mechanisms are not.

For example, our capacity building for regulators is now only regional workshops arranged by development agency regulatory capacity building projects. New delivery mechanisms would:

- (i) enable providing continuing support to those that attend such workshops;
- (ii) extend IFRS judgement capacity building to regulators that are not supported in this way by development agencies; and
- (iii) provide an effective and efficient mechanism for supporting those world leading regulators that have recently expressed interest in exploring our judgement capacity building approach. Additionally that delivery platform will over time reduce the need for some in person services (eg, workshops).



## Recent advice of others...

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...develop multimedia IFRS capacity building tools and Applications designed for effective use on hand held devices.

However, developing and maintaining benchmark multimedia IFRS capacity building tools requires significant resources.

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## Advice of the members of the IFRS Advisory Council?

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