

# AGENDA PAPER

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TOPIC IFRS Foundation: Update on Strategic Planning for 2015-17

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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.

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## Introduction

1. The purpose of this paper is to update the Advisory Council on the four primary goals for the IFRS Foundation to achieve its mission, and the steps that have been taken, or will be taken, to ensure the achievement of that mission. The Trustees presented this update to the IFRS Monitoring Board at their meeting on 2 February 2015 and, at their own meeting on 3 February, reviewed and agreed these primary goals in the context of a Strategic Plan for the Foundation covering the period 2015-17.

## Background

2. In February 2012, the Trustees published the conclusions of their Strategy Review ‘IFRS as the Global Standards: Setting a Strategy for the Foundation’s Second Decade’. The Trustees have sought to implement the recommendations of this review in full. They have also committed themselves to implementing a corresponding Governance Review by the IFRS Foundation Monitoring Board, which was completed in parallel.
3. In addition to making the necessary structural and operational reforms, the IFRS Foundation has sought to ensure that these recommendations flow through to the day-to-day operational activities of the organisation. The Trustees have also ensured that the function of each member of staff can be clearly shown to match the outcomes that the reviews had called for.

## **Goal number 1: Develop in the public interest a single set of high quality, understandable enforceable and globally accepted financial reporting standards based upon clearly articulated principles:**

- First, the IASB must ensure that IFRS is a complete and comprehensive set of accounting Standards. During 2014, the IASB finalised two major new accounting Standards (IFRS 9 *Financial Instruments* and IFRS 15 *Revenue Recognition*), and introduced a research

capability to initiate projects on topics for which there are known to be gaps in IFRS literature. Between 2015 and 2017, the IASB intends to finalise two further improvements to IFRS (new Standards on *Lease Accounting* and *Insurance Contracts*). The IFRS will also review its research plan and its priorities for its future programme of work.

- Second, the IASB must continue to develop, monitor and maintain IFRS. The IASB last carried out a consultation on its agenda during 2012, and a further agenda consultation will take place during 2015. Between 2015 and 2017, the IASB intends to complete several further amendments to its Standards.

This will include completing the reviews of the *Conceptual Framework*, the *IFRS for SMEs*, the accounting for Cash Balance Pension Plans, Uncertain tax positions and any other topics that the IASB may hear about during the agenda consultation and that it takes onto its work programme.

- Third, the IFRS Foundation must ensure that its stakeholders have a high degree of confidence in the due process followed by the IASB when developing new IFRS. Our due process is underpinned by the principles of accountability, transparency, and full and fair consultation.

(a) **Accountability:** during 2013, we introduced further enhancements to the IASB's due process, which was already highly comprehensive. The Trustees' Due Process Oversight Committee (DPOC) also began to conduct full, end-to-end life cycle reviews of the due process that the IASB follows before it authorises a new Standard to be issued. In 2014, in consultation with other accounting standard-setters and interested parties, we developed a regular methodology for field testing and effect analysis. Later on, we will consider further enhancements to the DPOC's activities and will benchmark the IASB's due process against that used by similar organisations.

(b) **Transparency:** the IASB already has very high levels of transparency. For example, during 2014 the IASB published all Board papers without redaction as observer notes. Summaries are now provided of feedback received from meetings with investors and analysts, while the functionality and content of the project sections of the IFRS website has also been enhanced. The DPOC conducts an annual review of the transparency of Board papers. The IASB will also extend its recently introduced practice of providing more timely feedback on its rationale for decisions in the form of mid-project updates (which was first introduced in the Leasing project).

- (c) **Full and fair consultation:** following the 2012 *Strategy Review*, we have significantly enhanced the IFRS Foundation's interaction with many important stakeholder groups. In 2013, we established an Accounting Standards Advisory Forum (ASAF) to deepen co-operation with representatives of the international accounting standard-setting community. ASAF is widely regarded as a success, and has received positive feedback from most stakeholders. We have begun a review of ASAF, which we expect to complete before the end of 2015. Furthermore, the introduction of the research programme has provided a framework for enhanced technical co-operation with other accounting standard-setters. Finally, during 2015 we will develop a new programme to strengthen our relationships with the wider standard-setting community.
- (d) Another important stakeholder group is the investor community. In the last few years, the IASB has increased the number of staff involved in our investor liaison and outreach activities. During 2014, the IASB launched a major new initiative to deepen co-operation with the buy-side investor community. The initiative, known as the *Investors in Financial Reporting* programme, was created with the support of some of the world's leading asset managers and owners. The participants in the launch phase of the programme were Allianz Global Investors, APG Asset Management, AustralianSuper, BlackRock, Fidelity Worldwide Investment, Henderson Global Investors, Hermes Investment Management, Nomura Asset Management, PGGM Investments and UniSuper. During 2015 we will broaden the membership of the programme to include additional buy-side investors, and we will conduct a review to ensure the programme is achieving its stated goals.
- Fourth, existing problems with IFRS must be correctly defined and assessed before a project is added to the IASB's agenda. In 2014, the IASB introduced a new research phase to its standard-setting process. All new major projects must first pass this research phase, which in turn will reduce the potential for later difficulties in the standard-setting process that would require Amendments or Interpretations to remedy them. During 2015, the IASB will further develop its research skills and processes.
  - Finally, the IASB must ensure that in developing and maintaining IFRS, it does so within the context of broader developments in corporate reporting. The IASB already has a Memorandum of Understanding with the International Integrated Reporting Council (IIRC). That agreement was extended in December 2014 and representatives from the IASB now participate in the IIRC's Corporate Reporting Dialogue. Furthermore, the IFRS Foundation has now fully integrated the development of the IFRS Taxonomy into its technical standard-setting activities. The Trustees will continue to monitor the

strategic relevance of our work and will encourage further dialogue with other international organisations that have responsibility for other aspects of corporate reporting.

## **Goal number 2: Pursue the goal of global adoption of IFRS:**

- First, we will encourage continued support for the objective of a single set of high quality, global accounting standards. The objective of a single set of high quality global accounting standards was given to the IFRS Foundation by the national, regional and international bodies that participated in the restructuring of the International Accounting Standards Committee (IASC) into the IASC Foundation (now the IFRS Foundation) and the IASB. Today, this mission has the support of all relevant international organisations, as well as nearly all (128 of 138) jurisdictions that were surveyed for the IFRS profiles. The IFRS model, and the consistent application of its Standards depends, on continued support for this objective. We will continue to work with world leaders and relevant international, regional and national organisations to explain the importance of their continued support for this mission. In addition, we will enhance our communications materials to explain the importance and relevance of this mission to the global economy and to the health of the financial markets.
- Second, we will continue to promote and support adoption of IFRS as the best way to achieve the stated goal of a single set of high quality, global accounting standards. We continue to see good progress with IFRS adoption in many parts of the world. In recent years, Argentina, Bangladesh, Canada, Malaysia, Mexico, Nepal, Russia and Singapore have all adopted IFRS or announced plans to do so. The IFRS Foundation has established an Adoption Committee to co-ordinate resources and efforts in support of IFRS adoption. The Adoption Committee has overseen the development of educational products and services to support the adoption of IFRS, and those resources will be further developed and extended to new countries such as Colombia, India and Indonesia. Furthermore, the Asia-Oceania office is providing specific support to jurisdictions across that region, with a particular focus on supporting Japanese stakeholders with the aim of increasing the use of IFRS in Japan.
- Third, we will work with existing IFRS jurisdictions to ensure timely endorsement of new Standards. The jurisdictional profiles indicate that the jurisdictions that have already adopted IFRS are complying very closely with existing IFRS. The steps that we have already described for deepening the involvement of jurisdictions in the development of new Standards, and the enhanced feedback mechanisms that we have put in place, reduce the risk of lax and undisciplined endorsement. We will continue to develop and enhance

relationships with those involved in endorsement decisions in order to ensure that their endorsement decisions are rigorous and whole-hearted.

- Fourth, we will continue our co-operation with jurisdictions that have yet to adopt IFRS, to support of their eventual transition to IFRS.
  - (a) In China, we are continuing to support the Ministry of Finance in its work to maintain ‘continuous convergence’ between Chinese GAAP and IFRS. In addition, we will continue to support capacity-building and other educational activities in China by working alongside the Chinese National Accounting Institutes. Finally, we intend to encourage the use of IFRS for cross-border listings.
  - (b) In India, the IASB has worked with the relevant authorities to support India’s transition to IndAS—to ensure that carve-outs from IFRS are kept to a minimum and to encourage the Indian authorities to retain the option for companies to report using IFRS. During 2015, we will host, jointly with KPMG, an IFRS conference in Mumbai and will consider other capacity-building events in India.
  - (c) In Indonesia, we are supporting the relevant authorities with capacity-building activities, with the ultimate aim of seeing Indonesia make significant progress towards adoption of IFRS.
  - (d) In the United States, the IASB is approaching the completion of its convergence programme with the Financial Accounting Standards Board (FASB). We will encourage the IASB to seek opportunities for further convergence between IFRS and US GAAP, and to protect the existing level of convergence achieved on joint standards. In addition, we will extend our outreach to US stakeholders to encourage their involvement in the development of IFRS. We will also continue our dialogue with relevant parties in the United States to explore ways to encourage US consideration of IFRS for domestic purposes, and to identify a durable solution for US funding of the IFRS Foundation.
- Finally, we will seek to protect the IFRS brand through contractual arrangements regarding the use and translation of IFRS and our other intellectual property. In 2013 we published on our website a Translations, Adoption and Copyright Policy. Since then, we have introduced Licence to Use and Waiver Agreements with a number of countries. Our intention is to have in place completed contractual arrangements with all countries.

### **Goal number 3: Support consistent application and implementation of IFRS globally:**

- First, we will continue to maintain a timely and responsive interpretations process, while nevertheless protecting the principle-based nature of IFRS. Following the completion of the Strategy Review, the IFRS Interpretations Committee was provided with a broader range of ‘tools’, enabling it to be more responsive to requests. As a consequence, the Interpretations Committee has increased its use of agenda decisions as a mechanism to respond to submissions, as well as continuing to refer issues to the IASB when this is appropriate. The Interpretations Committee will continue with this approach and will develop it further by raising the awareness of our stakeholders of these new or more widely used alternatives.
- Second, we will provide implementation support to IFRS adopters. In 2013, the IFRS Foundation agreed a joint Statement of Protocols with IOSCO, whereby the two organisations agreed to co-operate in order to enhance consistency in the implementation of IFRS globally. In 2014, the IFRS Foundation entered into a similar agreement with the European Securities and Markets Authority (ESMA). Other initiatives that are under way to encourage greater consistency in the application of IFRS include the creation of an IASB Implementation Steering Committee, the creation of Transition Resource Groups for some new Standards, Post-Implementation Reviews of Standards two years after their effective date as well and other programmes that are led by the IASB’s Education Initiative. It is intended that the review of the Structure and Effectiveness of the IFRS Foundation will seek feedback on what steps the IFRS Foundation and the IASB can undertake to further encourage consistency in the application and implementation of IFRS globally.

### **Goal number 4: Ensuring the continued independence, stability and accountability of the IFRS Foundation**

- First, we will maintain and develop the governance structure of the IFRS Foundation to ensure its continued independence and accountability. The 2012 Strategy and Governance Reviews undertaken independently by both the Trustees and the Monitoring Board further enhanced the independence and accountability of the IFRS Foundation. During 2015, the Trustees will consider further enhancements as part of the planned review of the Structure and Effectiveness of the IFRS Foundation.
- Second, we will seek to ensure sufficient funding through outside contributions and self-generated income.

- (a) **Contributions:** the IFRS Foundation has gone to great lengths to ensure that jurisdictions and organisations that benefit from IFRS also provide financial support to cover its costs. As part of these efforts Israel, Saudi Arabia and Taiwan have begun to make financial contributions, while other jurisdictions such as Malaysia and Russia have increased their support. Further efforts are under way to obtain funding from Argentina, Chile, Indonesia, Mexico, Thailand, Turkey and the United Arab Emirates. We are also seeking to ensure continued financial support from the jurisdictions and organisations that are already providing existing financial contributions, and we will seek financial support from accounting firms that are already contributing and from those that are not yet doing so.
- (b) **Self-generated income:** as well receiving contributions, the IFRS Foundation also seeks to cover part of its operational costs through self-generated income. This income can include sales of publications (in both print and online format), licensing arrangements, education conferences, speaker fees and other channels. During 2014, we made a concerted effort to increase the proportion of our budget that is covered by self-generated income, while not forgetting our mission to operate in the public interest. For example, we have introduced a new version of eIFRS and tightened up on the charging of speaking fees. During 2015 and beyond, we will investigate potential new avenues for increasing revenue from our content services activities, including undertaking a systematic review of all our products and services as well as our intellectual property contracts. We are also considering upgraded education products and will seek external advice on how best to further monetise our intellectual property.
- Third, we will continue to seek ways to improve our operational efficiency. In the last two years, we have undertaken both an internal and an external review (undertaken by Baker Tilly) of our operational expenditure efficiency. Although each review identified some small areas for improvement, both reviews concluded that the IFRS Foundation is run on an operationally efficient basis. We will continue to maintain tight control over our costs and to seek ways to further enhance our operational efficiency.
  - Fourth, we will ensure compliance and best practices: As a public interest organisation, the IFRS Foundation has always sought to maintain the highest levels of compliance and best practice. During 2014, in response to an observed lapse in the timely reporting of information, the IFRS Foundation significantly upgraded its monitoring and oversight of all compliance functions.

- Finally, we will ensure that the IFRS Foundation attracts, develops and retains high performing staff. We already have in place programmes to develop staff capabilities through skills and management training. This work has been externally assessed, and in 2013 the IFRS Foundation was awarded the prestigious *Investors in People* accreditation. We will continue to nurture the potential of our staff in technical skills management and leadership. We will also further develop the effectiveness of our recruitment procedures and ensure that all policies and recruitment is in line with the overall strategy of the Foundation.