

Summary of the conclusions of the IFRS Foundation Trustees' meeting

February 2015, Zurich

Introduction

The latest meeting of the Trustees of the IFRS Foundation, chaired by Michel Prada, was held in Zurich on 2-3 February 2015.

Report of the Trustees' Executive session

Michel Prada noted that the Trustees had addressed a number of issues at this meeting.

Meeting with the Monitoring Board

The Trustees met with the Monitoring Board of the IFRS Foundation¹. This was the first occasion that the Trustees as a whole had met with the expanded membership of the Monitoring Board, with representatives of the capital markets authorities from Brazil and Korea having joined in 2014.

The Monitoring Board provided an update on the progress made in implementing the recommendations of its 2012 report on the review of the IFRS Foundation's governance, in particular their on-going efforts to expand the membership of the Monitoring Board in line with the recommendations of their last review of the Foundation's governance.

The Trustees updated the Monitoring Board on several topics:

- **Strategic planning** – the Trustees presented an update on the Foundation's strategic planning, setting out the four primary goals for the organisation to pursue in its Strategic Plan for 2015-17 (see below for more details).
- **Governance developments** – the Trustees reported progress on a number of issues, including the progress on the Foundation's reviews of (i) the structure and effectiveness of the organisation, and (ii) the Accounting Standards Advisory Forum (ASAF) (again, see below for more details), together with an update on other internal control, compliance and governance developments.
- **Use of IFRS around the world: jurisdiction profiles** – the Monitoring Board received a presentation from Paul Pacter, the leader of a project on developing jurisdiction profiles on the use of IFRS around the world². The results showed that, of the 138 jurisdictions profiled, no less than 114 (83% of the profiles) required IFRS for all or most domestic publicly accountable entities (listed companies and financial institutions). Most of the remaining 24 jurisdictions that did not yet require IFRS for all or most domestic publicly accountable entities already permitted IFRS for at least some of those entities. The figures demonstrated the extraordinary progress made in the global adoption of IFRS since the establishment of the IASB in 2001.
- **IFRS Foundation financial situation** - the Monitoring Board was updated on the improved situation, with increased revenues and lower operating expenses in 2014 compared to the budget, which resulted in an increase in reserves towards the target set by the Trustees to

¹ Separate minutes of the meeting will be provided by the Monitoring Board in due course.

² The presentation is available on the IFRS Foundation website at:
http://www.ifrs.org/Meetings/MeetingDocs/Trustees/2015/February/MBP3%28i%29%20MB_UseofIFRSSlides.pdf.

further stabilise the financial standing of the Foundation. The Trustees provided an update on the results of an independent review of the cost effectiveness of the organisation's expenditure undertaken in 2014. That report, conducted by Baker Tilly, confirmed that the Foundation was a cost-effective organisation. A small number of improvements were identified which the Foundation was implementing and on which the Trustees would report further to the Monitoring Board.

- **IFRS funding** – the Monitoring Board was updated on the progress made in a number of jurisdictions in meeting their share of the Foundation's funding and the efforts being made by the Trustees to secure additional funding. There remained challenges with some jurisdictions and the Monitoring Board offered what support it could within its remit.

Executive session

The Trustees reviewed and agreed four primary goals for the Foundation in the context of a **Strategic Plan 2015-17**. The goals were as follows:

- Goal number 1: to develop in the public interest a single set of high quality, understandable enforceable and globally accepted financial reporting standards based upon clearly articulated principles, as outlined in the Foundation's Constitution.
- Goal number 2: to pursue the goal of global adoption of IFRS. This was in line with the recommendation of the Trustees in their Strategy Review in February 2012 that the Foundation must remain committed to the long-term goal of the global adoption of IFRS as developed by the IASB.
- Goal number 3: to support the consistent application and implementation of IFRS globally.
- Goal number 4: ensuring the continued independence, stability and accountability of the IFRS Foundation.

The Trustees considered a draft of a **Mission Statement** for the organisation. The Mission Statement was designed to provide a clear, concise and appealing narrative that would help a wider audience understand the importance of the organisation's work to the capital markets and the broader world economy. The Trustees welcomed the initiative and made some helpful suggestions on the document, which would be finalised in the very near future.

The Trustees' Executive Committee received an update on the progress of the **review of structure and effectiveness of the IFRS Foundation** and gave its views on next steps, including a draft of a possible public consultation document on the review. The members of the Executive Committee gave their suggestions and comments on the draft and asked the staff to prepare a revised version, taking account of their views, which would be considered by the full Board of Trustees at their meeting in April 2015.

During 2014 the Trustees carried out a **self-evaluation exercise** which had resulted in a number of helpful ideas for the Trustees to improve their own effectiveness as a body, in terms of both organisational and strategic issues for the Foundation. At this meeting, the Trustees noted the actions that have been taken following the self-evaluation and decided on a number of further actions to be taken forward. For example, making more efficient use of the time available during Trustees meetings, and providing greater continuity in the discussions between those meetings.

The Trustees were updated on the progress of the **review of the Accounting Standards Advisory Forum (ASAF)**. The Trustees were informed that, in November 2014, a questionnaire had been circulated to ASAF members to seek their views on all aspects of ASAF's operations. At the same time, a separate questionnaire had been made available on the website for all members of the national accounting standard-setting community to submit their views. The Trustees noted that, overall, the responses to the questionnaires had been positive, with respondents agreeing with the objectives and scope of ASAF activities as set out in the group's 2013 Terms of Reference and Memorandum of Understanding (MoU) with the IASB. There were some differences of views in terms of issues such as membership and size of the group, plus some communications issues between ASAF members and other National Standard-Setters in their region. The preliminary feedback suggested that there were some areas where improvements or further investigation was needed, which would be examined.

The Trustees confirmed that, on next steps, the staff should seek the views of IASB members and technical staff, and input from the Advisory Council, before discussing the findings and any proposals for change with the ASAF at its meeting in March 2015. Subject to these discussions, the plan was for the Trustees to consider a draft review report at their meeting in April, as well as issuing a call for nominations for the next cycle of ASAF members, with the aim of ASAF holding its first meeting with a revised membership in July 2015.

The Trustees reviewed the latest position with regard to **jurisdictional funding contributions**. While there was an increase in contributions received in 2014 compared to the previous year, there remained challenges with some jurisdictions. As in previous meetings, the Trustees discussed the need to encourage all jurisdictions that benefitted from the use of IFRS to contribute towards the costs of its development. The Trustees also discussed the Foundation's overall funding structure.

The Trustees discussed developments in the **United States**, and welcomed the opportunity to have a useful exchange of views with Jim Schnurr, the recently-appointed Chief Accountant at the Securities and Exchange Commission (SEC). Mr Schnurr provided an update on the SEC's on-going consideration of the domestic use of IFRS, and the latest proposal, being the so-called '4th alternative'. While the details of this were still to be worked out, the Trustees understood that this foresaw the SEC permitting US companies to voluntarily provide supplementary IFRS disclosures in addition to their US GAAP reporting. The Trustees appreciated that Mr Schnurr was exploring ways forward on IFRS so early on in his tenure and looked forward to seeing how this work progressed. The discussion also covered the growing shortfall in the US contribution to the funding of the IFRS Foundation and the Trustees asked the SEC to continue to explore options for placing the US funding arrangements on a more durable basis.

At this meeting, the Trustees considered a number of other matters, including:

- approval of a revised Memorandum of Understanding with IFAC, the International Federation of Accountants;
- an update on the Foundation's *Investors in Financial Reporting* programme, which was designed to improve the IASB's engagement with the buy-side investors' community. The first phase of the programme had been launched successfully in December 2014, with participation by ten of the leading global asset managers and asset owners;

- an update on a review of the Foundation’s Intellectual Property (IP) and proposals for the conduct of the review. This was a complex issue which the Trustees would continue to explore at future meetings;
- the membership of Trustee Committees for 2015³;
- an activity plan for 2015 for the Foundation’s Asia-Oceania office; and
- a first discussion on the locations for meetings of the Trustees in 2016.

Report of the Chairman of the IASB

Hans Hoogervorst, Chairman of the IASB, provided the Trustees and the Monitoring Board at their joint meeting with an update on the IASB’s activities.

During 2014, the IASB had issued two major new Standards: IFRS 15 *Revenue from Contracts with Customers*; and IFRS 9 *Financial Instruments*.

IFRS 15 was converged with its US GAAP equivalent, which the US Financial Accounting Standards Board (FASB) had issued concurrently with the IASB. The Standard, which would be effective from January 2017, would improve the financial reporting of revenue and improve comparability of in the financial statements of companies reporting under IFRS and US GAAP. The two Boards had established a joint Transition Resource Group (TRG) in order to aid the transition to the new Standard, by providing a forum for potential implementation issues that could arise. Such issues were being raised in the US in particular. The TRG had met twice in 2014 and was expected to meet four times in 2015. The TRG did not issue guidance, but could refer issues to the two Boards. Accordingly, the IASB would consider what, if any action it could or should take on those issues. In doing this the IASB would need to balance maintaining convergence with the FASB and the principle-based objective of IFRS 15. The IASB and the FASB were scheduled to have a joint discussion in February on a number of the issues raised and whether to propose any changes to the Standard in the pre-implementation period. It remained to be seen whether the two Boards remained converged on revenue recognition.

IFRS 9 contained a package of improvements, including a logical model for classification and measurement of financial instruments, a single, forward-looking ‘expected loss’ impairment model and a substantially-reformed approach to hedge accounting. The Standard would come into effect from January 2018. Despite significant efforts, the IASB and FASB had not been able to agree on a converged solution to the accounting for financial instruments. The IASB’s efforts were now focused on supporting the consistent application of the new impairment requirements via a TRG, which had yet to hold its first substantive meeting.

Progress was reported on the main projects on the IASB’s technical agenda. 2015 was going to be a challenging year, with two major new Standards due for completion. On **leases**, which was a joint project with the FASB, the two boards had reached converged tentative decisions on almost all aspects of the project, the most important of which was the requirement for lessees to recognise assets and liabilities for all leases (other than short term leases and, for the IASB, leases of small assets such as laptops and office furniture). The two Boards, however, had reached different conclusions on the recognition and presentation of lease expenses in a lessee’s income statement.

³ Details of the memberships can be accessed at: <http://www.ifrs.org/About-us/IFRS-Foundation/Oversight/Trustees/Pages/Committees.aspx>.

The Boards had tentatively decided to reaffirm the proposed definition of a lease in the 2013 ED, but with various changes to the accompanying guidance to address requests to clarify that guidance. The current expectation was that the two Boards would complete their redeliberations later in the first quarter of 2015.

On **insurance contracts**, the IASB had issued a revised Exposure Draft (ED) in late June 2013, targeted on five specific areas. The comment period had ended on 25 October 2013 and a total of 194 comment letters had been received. The IASB had also undertaken extensive outreach and detailed fieldwork, which had revealed a high level of diversity in current practice. While there was broad support for the proposals, there remained some significant areas of disagreement, in particular about performance reporting, and concerns about excessive complexity. During its redeliberations, the IASB had maintained extensive dialogue with all interested parties and continued to consult its advisory bodies.

The IASB had made tentative decisions on the four targeted proposals in the ED that related to non-participating contracts (unlocking the contractual service margin, recognising the effects of changes in the discount rate in Other Comprehensive Income, insurance contracts revenue, and transition). The IASB was continuing to consider the fifth targeted proposal, namely the accounting for contracts with participating features, which was one of the most difficult and contentious issues in the 2013 ED. The IASB was continuing to engage closely with the insurance industry on this issue and was in a position to develop its proposals, which it was hoped would address many of the concerns expressed by the industry. This engagement and the careful consideration of the issues had extended the IASB's original timetable and, as a result, the IASB did not expect to issue the Standard on Insurance Contracts before the end of 2015.

On the **conceptual framework** project, the IASB had completed its redeliberations of the Discussion Paper (DP) that had been issued in July 2013. At its October 2014 meeting, the IASB had confirmed that it was satisfied that sufficient due process steps had been undertaken and instructed the staff to begin the balloting process on an ED. It was anticipated that the ED would be published at the end of Quarter 1 of 2015. At its meeting in October 2014, the IASB had considered the comment period for the ED and agreed on a comment period of 150 days, which was longer than the normal comment period of 120 days.

Report of the Chairman of Trustees on the Due Process Oversight Committee

Michel Prada, on behalf of Harvey Goldschmid, Chair of the Due Process Oversight Committee (DPOC) reported on the Committee's February 2015 meeting with the leadership and directors of the IASB.

At its meeting, the DPOC covered the following:

- A review of the IASB's current **technical activities**. The DPOC heard progress reports from staff on the IASB's current technical agenda, including on accounting for insurance contracts, leases, the conceptual framework, macro-hedging, rate-regulated activities and the disclosure initiative. The DPOC was also updated on the progress of the research programme, the IASB's on-going efforts to develop a research capability, the Post-Implementation Review on IFRS 3 Business Combinations, the trials to assess the staff

proposals to amend the IFRS Taxonomy due process, and the implementation projects being undertaken.

- The DPOC was also updated on the work of the Transition Resource Group (TRG) that had been set up on **revenue recognition**, which was discussing issues that were emerging on the implementation of the Standard *Revenue from Contracts with Customers*. The DPOC was reminded that the TRG was a discussion group and not a decision-making one. Any potential implementation issues that arose would be referred to the IASB and the FASB.
- The DPOC was satisfied that all projects were proceeding in a manner consistent with the requirements set out in the Due Process Handbook.
- The DPOC received a report setting out a lifecycle review of the due process undertaken on the project to comprehensively review **the IFRS for Small and Medium-sized Entities (SMEs)**. The project had been initiated in 2012 and had included two major rounds of public consultation: a Request for Information in 2012, and an Exposure Draft in 2013. Throughout the project, the IASB had made use of its specialist advisory body, the SME Implementation Group, as well as seeking input from the IFRS Advisory Council. The DPOC was satisfied that all the necessary due process steps on the project had been completed and the Committee confirmed that its review of due process was complete. The balloting process was now underway and the revised Standard would be issued later in the first half of 2015.
- With regard to **reporting on projects**, the DPOC received a report of planned improvements that the IASB would employ to improve its public disclosure of the rationale used to reach its tentative decisions and conclusions. This followed earlier discussions at a number of DPOC meetings held in 2014, as a result of which the IASB committed to review its public disclosure of the rationale used to reach tentative decisions and conclusions, with special attention to issues that received substantial debate in the exposure process. The technical staff were being encouraged to include the basis for the IASB's main tentative decisions as part of the IASB's feedback to stakeholders via its website (such as the project update issued in August 2014 for the Leases project). Supporting material (such as the project Snapshot) would be issued alongside the due process documents setting out the basis for the IASB's decisions. The IASB was also improving communications with its main advisory bodies, including providing those bodies with better feedback on how the advice that they provided was considered by the IASB.
- On **consultative groups and DPOC engagement**, the Committee was updated on the latest activities of a number of the IASB's consultative groups and noted the forward schedule of meetings.
- On **correspondence**, the DPOC continued its discussion, begun in October 2014, of a letter from the European Financial Reporting Advisory Group (EFRAG), which had proposed that a public 'fatal flaw' review prior to finalising a new Standard or major amendment should be included as a formal step in the IASB's due process. At present, the *Due Process Handbook* included as an option making public a draft for editorial review. The IASB had reviewed the issue and made proposals for improvements to both the internal processes for drafting Standards and amendments to Standards, and the external reviews that already took place. Following a discussion, the DPOC concluded that pursuing these improvements and monitoring their effectiveness, while retaining the current flexibility to make drafts available publicly for editorial review, was a more beneficial course of action than amending the *Due Process Handbook* to require a public fatal flaw review. The Chair of the DPOC would reply to

EFRAG on this basis. Other than that, no new matters had been received since the October 2014 meeting.

Regional outreach activity

As part of the Trustees' meeting, the IFRS Foundation hosted a successful joint event with Treuhand-Kammer, the Swiss Institute of Certified Accountants and Tax Experts, at which the Trustees and the leadership of the IASB met with representatives of key stakeholders to discuss issues under the theme *IFRS in Continental Europe*. Opening remarks were provided by Dominik Bürgy, the President of Treuhand-Kammer, after which Hans Hoogervorst, the Chair of the IASB, presented a keynote speech⁴.

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⁴ The speech is available on the IFRS Foundation website at: <http://www.ifrs.org/Alerts/Conference/Pages/Speech-Hans-Hoogervorst-Switzerland-and-IFRS-February-2015.aspx>.