

Summary of the IFRS Foundation Trustees' meeting

October 2015, Beijing

Introduction

The latest meeting of the Trustees of the IFRS Foundation, chaired by Michel Prada, was held in Beijing on 14-15 October 2015.

Report of the Trustees' Executive session

Michel Prada noted that the Trustees had held a very productive meeting, discussing a number of important strategic issues.

Meeting with Assistant Minister Bohua Dai

Michael Prada informed the Trustees that, whilst in Beijing, he, together with Hans Hoogervorst, Wei-Guo Zhang and Yael Almog, had taken the opportunity to meet with Assistant Minister of Finance Bohua Dai. The meeting had been very encouraging. Among other things, discussions covered the excellent progress made since the signing of the original Beijing Agreement in 2005 between the Chinese Ministry of Finance and the IASB. In particular, substantial convergence had been achieved between Chinese Accounting Standards and IFRS. The discussions also covered China's generous and committed support for the Foundation and its work as well as consideration of some options as to how to further enhance the co-operation and relationship in the future.

Strategic Overview 2015-17

The Trustees' received an update on the organisation's *Strategic Overview* for the period 2015 to 2017, which had discussed and agreed at their earlier meetings in 2015. As a reminder, the *Strategic Overview* set out four primary goals for the Foundation as follows:

- Goal number 1 was 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.
- 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.

At this meeting, the Trustees' discussion focused on a presentation by the staff of a proposed framework and suggested success metrics for measuring the Foundation's performance in pursuit of the above four goals. In preparing the proposals, the staff had sought advice from the IFRS Advisory Council and taken the Council's views into account.

The Trustees commended the staff's efforts in developing the proposals and success metrics, in what was acknowledged a very challenging area, not least given the fact that many metrics could not be quantified. The Trustees also acknowledged that the staff's proposals focused on seeking to develop measures of the organisation's effectiveness, in essence to try and measure success towards achieving the outcomes as set out in the Foundation's *Mission Statement*. But the Trustees stressed the need to also look at measures of the organisation's efficiency, as well as looking at the resources and inputs available to the Foundation.

The Trustees accepted that this is an important initiative and offered a number of helpful comments and suggestions to the staff as they took forward work on this issue.

Funding: progress on performance metrics

At this meeting, the Trustees also held a discussion of the progress that had been made by the Foundation in ensuring that it had sufficient funding through contributions and self-generated income.

With regard to contributions, the Trustees were pleased to note that, over the past 5 years, a total of 8 additional jurisdictions had started to fund the Foundation. A number of other jurisdictions had increased their contributions. That said, the Trustees recognised that there remained issues with a number of jurisdictions that either funded below the contribution that might be expected for the size of the economy, as was the case for the US in particular, or did not fund the Foundation at all. The Trustees acknowledged that the situation with regard to the US remained a particular challenge, but agreed to maintain their efforts to encourage a resolution of this issue.

The Trustees also acknowledged and appreciated the efforts that had been made by the Foundation to increase the organisation's reserves towards the target of a full year's expense level over the next few years.

The Trustees also noted the achievements and the actions planned by the Foundation to increase the organisation's self-generating income.

Communications Strategy

The Trustees also received and considered a presentation from the staff on how the Foundation might better align its communications and stakeholder engagement activities with the strategic goals as set out in the *Strategic Overview*. The Trustees agreed that this was an important area to review and refresh and expressed their appreciation for the communications efforts that had been and were being carried out, as well as those in the pipeline, notably a project to update and improve the Foundation's website.

The Trustees offered some helpful comments and advice to the staff in this initiative. The Trustees looked forward to seeing the progress that was planned to be made.

International developments

At the meeting, Trustees discussed developments in IFRS in a number of the world's major economies.

Asia-Oceania

The Trustees received and discussed a presentation on the progress made on IFRS adoption in Japan and sharing the lessons learned from the positive experience. There was continuing encouraging progress of the voluntary adoption of IFRS by Japanese companies, with over 100 companies already using IFRS or planning to adopt IFRS – representing almost a quarter of the total market capitalisation of companies listed on the Tokyo Stock Exchange.

The lessons learned from the Japanese experience provided the Trustees with some useful pointers to consider in terms of strategies for IFRS adoption with other jurisdictions.

The Trustees were also updated on the activities and impact of the Foundation's Asia-Oceania office, with the continuing support received from the Japanese Financial Services Agency, the Financial Accounting Standards Foundation and the Accounting Standards Board of Japan.

Europe

The Trustees discussed the latest developments in Europe, including a summary of the European Commission's review of the IAS Regulation, published in June 2015, noting the overall positive conclusions of that report. The Trustees also noted the Commission's action plan following the feedback received on the financial reporting issues referred to in its Green Paper on building a Capital Markets Union in Europe and looked forward to discussing these issues further with the Commission.

The Trustees were updated on latest position of the endorsement of IFRS in the EU, in particular the progress of the endorsement process of IFRS 9 and the positive endorsement advice submitted to the Commission by the European Financial Reporting Advisory Group (EFRAG), albeit with a caveat regarding the potential impact for insurance businesses of the interaction between this Standard and the forthcoming Standard on insurance contracts.

The Trustees were also updated on the organisation's stakeholder engagement with major European constituents, notably the Commission, EFRAG and the European Parliament, where the Economic and Monetary Affairs Committee had established an IFRS Working Group.

The Trustees were pleased to note the recent proposal by the European Securities and Markets Authority to mandate the use of the IFRS Taxonomy for certain companies as part of the development of a European Single Electronic Format.

Americas

The Trustees discussed the on-going situation with regard to the USA, which remained a challenging one. In addition, the Trustees talked about the status of technical discussions between the IASB and the US Financial Accounting Standards Board (FASB). As noted above, the Trustees observed again that the continuing shortfall in the US contribution to the funding of the IFRS Foundation remained a major issue.

Other issues

The Trustees considered a number of other issues, including:

- the possibility of the Foundation undertaking or commissioning a survey of the impact of IFRS in investment, lending and other capital allocation decisions. The Trustees offered useful feedback to the staff on whether and, if so, how such a survey might be conducted; and
- further issues relating to the Trustees' review of structure and effectiveness (noting that the proposals in a Request for Views document on the review were still out for comment)

Committee reports

- The Trustees also received reports from a number of Committees:
 - the **Audit and Finance Committee** – among other things, the Committee was updated on the Foundation's latest financial results and forecast for 2015. The Committee also considered the Foundation's budget for 2016 as well as a three-year plan covering the period 2016-18. The Committee also noted the proposed timetable for the external audit of the Foundation's financial statements for 2015. Finally, the Committee confirmed that no whistleblowing matter had been received;
 - the **Education and Content Services Committee** – the Committee was updated on the Foundation's activities in relation to Content Services. As well, the Committee received an update of the progress made by staff in its review of licensing arrangements, together with an update on translations challenges;
 - the **Human Capital Committee** – where the Committee received an update on the annual pay review for 2015 and started its consideration of the economic context for the 2016 annual pay review. The Committee was also updated on the latest evaluation of IASB members, together with the progress of proposals to introduce an evaluation process for members of the

IFRS Interpretations Committee. Finally, the Committee considered a number of staff benchmarking metrics; and

- the **Nominating Committee** – where among other things the Committee discussed progress relating to a number of appointments and reappointments relating to the Trustees, IASB Board, Advisory Council and Interpretations Committee.

Report of the Chair of the International Accounting Standards Board (IASB)

Ian Mackintosh, Vice-Chair of the IASB, provide the Trustees with an update on a number of the IASB's technical activities, on behalf of Hans Hoogervorst, Chair of the IASB.

Technical work plan overview

The Trustees were updated on the intensive work the IASB was conducting to finalise two major projects: insurance contracts and leases.

On insurance contracts, the IASB was continuing to engage extensively with interested parties, notably on the proposed accounting model for contracts with participating features. The IASB's redeliberations on this issue were planned to continue until the end of 2015, after which it was hoped that the drafting of the forthcoming Standard could start, with the Standard itself being issued later in 2016.

The IASB's decision to extend its original timetable for the Insurance Contracts Standard meant that the mandatory effective date for the Standard would be later than that for IFRS 9, which would apply for accounting periods beginning on or after 1 January 2018. Given this, some stakeholders had expressed concerns about the implications of this and had urged the IASB to find a solution. In response, the Trustees were updated on the IASB's proposals to address this issue in a forthcoming Exposure Draft (ED) of amendments to IFRS 4 outlining two proposed approaches (the overlay approach and the deferral approach), which were designed to provide transition relief on initial application of the Insurance Contracts Standard. The IASB planned to issue the ED later in 2015.

On leases, the forthcoming Standard was being drafted and would be published before the end of 2015.

The Trustees were also updated on a number of other projects, notably on the conceptual framework, the Disclosure Initiative, the research programme and the Agenda Consultation.

Engagement strategy

The Trustees were updated on the IASB's strategy to engage with the primary users of financial statements (investors and analysts), in particular through the Investors in Financial Reporting programme that had been launched in December 2014. The programme had

received positive reactions, with support from the investment community and others, and would be reviewed at the end of 2015.

Use of IFRS globally

The Trustees were updated on the latest situation with regard to jurisdictional profiles on the use of IFRS, noting that – out of the 140 profiles completed – 116 jurisdictions required the use of IFRS for all or most domestic publically accountable entities.

Consistency in the application of IFRS globally

On this issue, the Trustees were informed of the progress of the work of the Transition Resource Groups (TRGs) on revenue recognition and the impairment of financial instruments. The Trustees were reminded that it was not the IASB's intention to always establish a TRG when a Standard was published, but to consider the need for such a group on a case-by-case basis.

Report of the Chair of the Due Process Oversight Committee (DPOC)

Jim Quigley, Chair of the DPOC reported on the Committee's October 2015 meeting with the leadership and senior staff of the IASB.

Update on technical activities

The DPOC was presented with a report that outlined the due process activities for all projects on the IASB's current agenda. The staff focused on updating the Committee on a number of key issues.

On the conceptual framework project, the DPOC noted that an ED had been issued in May 2015 with a 150 day comment period. The IASB had set a comment period in excess of the normal 120 days because of the length and nature of the issues in the ED. However, a number of stakeholders had encouraged the IASB to further extend the comment period. In response to those calls, the DPOC was informed that the IASB had decided to extend the comment period by a further 30 days, with the comment deadline now being 25 November 2015. The DPOC was comfortable with the decision that the Board had taken. In discussion, the DPOC heard that the Board was still determined to complete the conceptual framework project in as timely a manner as possible.

The DPOC questioned the IASB representatives on a number of other projects, in particular: dynamic risk management, materiality, the research project on discount rates, and one on high inflation.

In considering the work plan overall, the DPOC at its meeting confirmed its view that all projects were proceeding in a manner consistent with the requirements set out in the Due Process Handbook.

Different effective dates of IFRS 9 and the new Insurance Contracts Standard

The DPOC was updated on the IASB's discussions regarding the possible accounting consequences of the different effective dates of IFRS 9 and the new Insurance Contracts Standard, as referred to above in the report of the Chair of the IASB.

The DPOC was briefed on the IASB's proposals to address this issue in the forthcoming ED outlining the proposed approaches to providing transition relief (the overlay approach and the deferral approach referred to above). The DPOC noted in particular that the views of Board members were very split on proposing the deferral approach, but that there are sufficient votes from the Board to push ahead with the ED. The DPOC also noted that the deferral approach proposal included a 'sunset' clause, which would send out a strong signal that the IASB was determined to complete the insurance contracts project.

The particular issue that the DPOC considered was whether the Committee was content with the staff recommendation to be discussed by the IASB at its meeting in the week beginning 19 October 2015 to have a shortened comment period of 60 days for the ED. The DPOC noted that the insurance contracts project had been in progress for many years, but took note of the staff's reasoning of the urgency of the issues raised in the ED, mainly the fact that with the effective date of IFRS 9 having been set for 2018, entities needed clarity as soon as practicable for their implementation plans. The DPOC was informed that the Accounting Standards Advisory Forum (ASAF) had been briefed on the issue at its latest meeting and that ASAF members recognised the urgency of the issue. On this basis, together with the fact that the proposals would affect a limited range of entities, the DPOC was content to approve a shortened comment period of 60 days.

Agenda Consultation

The DPOC received an update on the IASB's latest agenda consultation exercise, and the Request for Views document that the IASB had issued for comment in August 2015. The DPOC noted that the questions the IASB was asking in the Request for Views document were relatively open, but also acknowledged that the Board would have a challenge in considering the feedback and then prioritising those projects it decided to include in its forward agenda.

The DPOC considered what its role was, and should be, as part of this exercise, noting that the Foundation's *Constitution* gave the IASB complete responsibility for all technical matters. That said, the *Constitution* also provided that, among their duties, the Trustees should consider, but not determine, the IASB's agenda. On that basis, the DPOC asked that the IASB provided the Committee with a summary of the feedback received on the Request for Views and the IASB's proposals at its forthcoming meetings in January and May 2016.

IFRS Taxonomy due process

The DPOC received an update on the IASB's proposals for changes to the due process for the IFRS Taxonomy. This had been a regular issue on the DPOC's agenda for the past couple of years and at this meeting the Committee was informed of progress in taking this issue forward.

The Committee was presented with a draft of an Invitation to Comment document on proposals to amend the due process in respect of the Taxonomy and to integrate it more into the standard-setting process, as well as giving the IASB a specific role in approving IFRS Taxonomy updates. This was designed to meet the expectations expressed by regulators in particular that the Board should play such a role. The draft Invitation to Comment contained proposals to extend the current Due Process Handbook to incorporate a separate section or appendix on the taxonomy due process. When the proposals were finalised, the current XBRL Due Process Handbook would be withdrawn.

The DPOC noted that the Trustees' current review of structure and effectiveness contained questions related to the Taxonomy and the wider impact of technology on financial reporting and that the Trustees would consider these wider issues during the course of 2016. But in the meantime, the DPOC approved the issue of the Invitation to Comment on the Taxonomy due process, with a comment period of 90 days.

Consultative Groups

The DPOC noted the report of the activities of a number of the IASB's consultative groups, notably the Transition Resource Groups for revenue recognition and the impairment of financial instruments.

Correspondence

No new correspondence requiring the Committee's attention had been received since the June 2015 meeting.

Stakeholder event

As part of the Trustees' meeting, the Foundation, together with the Chinese Ministry of Finance and the Chinese Accounting Standards Committee, hosted an excellent stakeholder event.

Under the theme 'IFRS and China: Ever-changing Challenges and Opportunities', the Trustees were pleased and honoured that Yibin Gao, the Director General of the Accounting Regulatory Department in the Ministry of Finance, opened the proceedings and that Bohua Dai, the Assistant Minister of Finance, gave a keynote speech. Michel Prada also gave a speech, emphasising among other things the value placed on the contribution of China to

the Foundation and the IASB, through both generous funding and participating in the organisation's work.

The speeches were followed by a fascinating panel discussion, ably moderated by Yvonne Kam of PwC. The event was well-attended, with around 80 senior Chinese stakeholders present¹.

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¹ Michel Prada's speech and a video of the panel session can be accessed on the IFRS Foundation website at: <http://www.ifrs.org/Features/Pages/Promoting-IFRS-Standards-in-China-and-Hong-Kong.aspx>.