

# AGENDA PAPER

IFRS Advisory Council Meeting

LONDON 23 February 2016

**Agenda ref 3**

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TOPIC IFRS Foundation Trustee activities

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PRESENTERS Michel Prada, Yael Almog, David Loweth, Joanna Perry

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## Cover note

As a background for the Trustee discussion, the following pages include a summary of Trustee meeting in London in January 2016.

## Summary of the conclusions of the IFRS Foundation Trustees' meeting

January 2016, London

### 1 Introduction

The latest meeting of the Trustees of the IFRS Foundation, chaired by Michel Prada, was held in London on 26-28 January 2016.

### 2 Report of the Trustees' Executive session

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

#### 2.1 Review of structure and effectiveness of the IFRS Foundation

The Trustees devoted a substantial amount of time in reviewing the progress of the review of structure and effectiveness of the IFRS Foundation (the Foundation). This included considering summaries of the comments received on the Request for Views (RfV) consultation document on the review that had been issued in July 2015; and the outreach that had been conducted during the consultation period.

The Trustees were reminded that the review was focussing on three particular areas:

- the first was to ensure that the relevance of IFRS Standards (the Standards) was maintained – including considering developments in wider corporate reporting as well as developments in technology;
- the second area was to seek views on what the Foundation and the International Accounting Standards Board (the Board) were currently doing to support the consistent application of IFRS Standards and whether there was anything more that the organisation could and should be doing in this area, taking account of its limited resources; and
- the third area was to seek views on the Foundation's governance and financing and proposals for improvements.

The Trustees were informed that a total of 97 comment letters had been received, all of which were publicly available on the Foundation's website<sup>1</sup>. The Trustees considered and discussed some of the key themes raised in the feedback from respondents as well as a number of initial staff recommendations and potential next steps.

#### *Relevance of IFRS Standards*

In the first area, the relevance of the Standards, the Trustees discussed and decided the following:

- first, that the Board's remit should not be expanded to encompass financial reporting standards for the public sector. A large majority of respondents agreed with this view, notably given the recent, positive changes to the governance of the International Public Sector Accounting Standards Board;
- responses were rather more mixed on whether the Board's remit should be expanded to encompass financial reporting standards for the private, not-for-profit sector. While the

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<sup>1</sup> The comment letters can be accessed at: <http://www.ifrs.org/About-us/IFRS-Foundation/Oversight/Trustees/Pages/Comment-letters.aspx>.

majority of respondents did not favour such a move, there was a substantial minority largely from within the not-for-profit sector that expressed support. The Trustees wanted more time to reflect on this and asked the staff to conduct further analysis on the issues and potential consequences, including on resources and other priorities;

- respondents generally supported the Foundation's strategy for wider corporate reporting. The Trustees reaffirmed the view they took in the RfV document that the Board should play an active role in wider corporate reporting, with some modest staff resource dedicated to this area;
- the Trustees noted that respondents generally supported the Foundation's strategy for the IFRS Taxonomy. The Trustees also received a 'refresher' presentation from the staff to assist them in considering how to handle the feedback received in the areas of the Taxonomy and technology. As a result, the Trustees reaffirmed the Foundation's strategy for the IFRS Taxonomy and tasked the staff to take up an offer by Committee C1 of the International Organization of Securities Commissions (IOSCO) to discuss how the Foundation might best support regulators in their efforts to improve digital access to general purpose financial reports; and
- finally on relevance, the Trustees agreed that the staff should take forward further work on the proposal that the Foundation should establish a network of experts to provide advice on technological developments and its potential impact on the Standards. This was another area where respondents were generally supportive of the Foundation's plans.

### *Consistent application*

The RfV document asked respondents for their views on what the Foundation was doing to encourage the consistent application of the Standards, and whether there was anything more it should be doing in this area.

Respondents generally supported the Foundation's current efforts to encourage consistent application and made a number of helpful suggestions. The Trustees did not make any decisions in this area, which was one where the staff would need to consider the responses on the review in conjunction with those to the Board's separate RfV on its *2015 Agenda Consultation*. That RfV had sought views on whether the Board and the Interpretations Committee (IFRIC) were providing the right mix of implementation support to meet stakeholders' needs and whether that support was sufficient.

The staff planned to come back to the Trustees in May 2016 with more detailed analysis and proposals, taking into account the feedback from both consultations.

### *Governance and financing*

The Trustees held their first consideration of the feedback received to the governance and financing issues raised as part of the review. This was the area to which the Trustees would need to pay particular attention in the coming months and they tasked the staff to develop further an analysis of the issues and proposals for the Trustees to consider.

That said, the Trustees were pleased to note that respondents were overall supportive of the Foundation's three-tier governance structure in providing for the Board's independent standard-setting within a framework of oversight by the Trustees and public accountability to the Monitoring Board. Many respondents took the view that no substantive changes to that structure were necessary.

Nevertheless some respondents did make comments about the Monitoring Board, which as a separate body was not formally part of this review, which the Trustees communicated to the Chair of the Monitoring Board in one of the sessions at this meeting.

A substantial body of opinion among the respondents made comments relating to the adoption of the Standards, the funding of the Foundation and representation on the Foundation and its bodies. The comments had implications for the proposals made by the Trustees in the RfV about the geographical distribution of the Trustees, and both the geographical distribution and size of the Board, which would require careful thought. The Trustees had an initial discussion but made no decisions on these issues at this meeting.

### *Next steps*

On next steps, the staff would continue work on the responses and would prepare more detailed analyses of the issues and proposals to present to the Trustees at their next meeting in May 2016, with at least one meeting of the Trustees' Executive Committee in the interim.

## **2.2 Strategic Plan 2016**

As discussed at previous meetings, the Trustees had set the review of structure and effectiveness and the work of the Foundation in the context of the organisation's *Strategic Overview* for the period 2015 to 2017. At this meeting, the Trustees considered the strategy and work plan for 2016. As the Trustees had agreed previously, this 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 the Standards.
- Goal number 3: to support the consistent application and implementation of the Standards globally.
- Goal number 4: ensuring the continued independence, stability and accountability of the Foundation.

At this meeting, the Trustees considered the specific actions and activities for 2016, together with a consideration of the success metrics to be employed. The Trustees acknowledged that this was challenging, not least in trying to measure how the Board might be perceived as a successful standard-setter and the evidence that might be gathered to make such an assessment.

The Trustees also made pertinent comments about how the efficiency of the Board might be measured and the very careful and difficult balance that sometimes had to be made between completing Standards on a timely basis and the need to develop high-quality Standards. To help inform this consideration, the Trustees received a very interesting presentation from the staff reviewing the standard-setting process for the Leases Standard that had been issued during January 2016, a project which had taken 10 years in total. The presentation set out for the Trustees where the time on the project had been spent as well as articulating some lessons for the future in three main areas: (1) strategic, (2) operational and (3) communications.

The Trustees made some helpful and constructive comments in relation to all four of the strategic goals

referred to above, which the staff would consider in their further work on the strategy and work plan.

### 2.3 Working with National Standard-Setters and regional bodies

As part of their consideration of the strategy and work plan for 2016, the Trustees considered a proposal from the staff setting out a strategy for engagement with National Standard-Setters (NSS) and regional bodies. This was above and beyond the effective relationships that existed already with the membership of the Accounting Standards Advisory Forum (ASAF).

The Trustees acknowledged that NSS and regional bodies were important partners for the Foundation and the Board in support of the strategic goals above. With that in mind, the Trustees discussed and agreed three specific goals:

- the first goal was to maintain effective relationships and communication with NSS and regional bodies;
- the second was to encourage NSS and regional bodies to foster consistent application; and
- the third goal was that the Board worked in collaboration with NSS and regional bodies in the Technical Work Programme.

In the context of this engagement strategy, the Trustees also discussed the importance of maintaining an effective relationship with the US Financial Accounting Standards Board (FASB) on maintaining convergence and how that might be achieved.

### 2.4 Other issues

The Trustees also discussed a number of other issues, including the following:

- reviewing developments in IFRS Standards around the world, taking the opportunity to meet with the regional Board members and staff responsible for those regions;
- noting the progress that had been made by the staff in negotiating a revised *Statement of Protocols* with IOSCO which should enhance what was already a very good relationship and co-operation between the two organisations;
- an initial consideration of the potential locations for Trustee meetings in 2017;
- a forward look to the next meeting in May 2016 and some suggested agenda items for that occasion; and
- reviewing a pre-launch version of a video providing a high-level introduction to the Standards as part of the Foundation's Communications Strategy.

### 2.5 Committee reports

The Trustees received reports from a number of Committees:

- the **Audit and Finance Committee** – among other things, the Committee was updated on the Foundation's near-final financial results for 2015, which showed a healthy further contribution to the organisation's reserves. This was in line with the Trustees' stated goal of increasing reserves to the equivalent of one year's operational expenditure. The Committee also reviewed the timetable for the external audit of the 2015 financial statements, as well as the 2016

budget and three-year plan for 2016-18, which were recommended to the Trustees for approval;

- the **Human Capital Committee** – the Committee’s agenda included an update on the context for the Foundation’s 2016 annual pay review, and a discussion of the evaluation processes in relation to the Board and the Interpretations Committee; and
- the **Nominating Committee** – which considered progress and latest developments on appointments and re-appointments.

### **3 Report of the Chair of the IASB**

Hans Hoogervorst, Chair of the IASB, provided the Trustees with an update on a number of the Board’s technical activities.

#### **3.1 Leases**

The new Leases Standard, IFRS 16, had been published on 13 January 2016. The Standard had received a good deal of publicity, which had been mostly positive. The Standard would provide more transparency with all leases being recognised as assets and liabilities by lessees. The accounting would better reflect the underlying economics.

An extensive effects analysis report (over 100 pages long) had been prepared and published alongside the Standard. The preparation of such an analysis had been advocated for some time by a number of constituents, including the European Union. That effects analysis had revealed that, under current accounting requirements, over 85 per cent of leases were labelled as operating leases and were *not* recorded on the balance sheet, even though it was clear that they created real liabilities. The report also assessed the effects of the changes to lessee accounting by industry sector, the effects on the financial statements, as well as other effects such as on debt covenants.

While there would be costs in updating systems to implement the new Standard, leases would remain attractive as a flexible source of finance. The real business benefits of leasing would not change as a result of the new Standard. The Board expected the benefits of the new Standard to greatly outweigh its costs. The new visibility of all leases would lead to better informed investment decisions by investors, and to more balanced lease-versus-buy decisions by management. IFRS 16 would lead to improved capital allocation.

#### **3.2 Insurance Contracts**

The Trustees were informed that, at its January 2016 meeting, the Board completed its planned technical decisions on the project. For its February meeting, the technical staff planned to ask the Board to confirm that it did not need to re-expose the proposed new Standard and – subject to that confirmation – to review the due process steps taken in developing the proposed Standard and to ask the Board for its permission to start the balloting process.

There was a pressing need for the Standard, given the current tremendous diversity of practice in accounting for insurance contracts. Some insurance companies had argued that the Board’s proposals did not reflect their business models, but the aim of the Standard was to improve transparency and comparability, and to bring a clearer view of the risks.

The process of drafting the Standard would be a challenging one and the Board would take a careful

and considered approach, including consulting interested external parties. The Standard would also be accompanied by a detailed effect analysis.

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

The Trustees were reminded that some stakeholders had expressed concerns regarding the possible accounting consequences of the different effective dates of IFRS 9 *Financial Instruments* and the new Insurance Contracts Standard, including the additional temporary volatility in profit and loss. The Board had made proposals to address this issue, with the publication in December 2015 of an Exposure Draft (ED) of proposed amendments to the current IFRS 4 *Insurance Contracts*. The ED outlined two proposed approaches to address the issue:

- the overlay approach - an option for all entities that issued insurance contracts to adjust profit or loss to remove any additional accounting volatility that might arise from qualifying financial assets; and
- the deferral approach - an optional temporary exemption from applying IFRS 9 for entities whose predominant activity was issuing insurance contracts.

The comment period on the ED closed on 8 February 2016. There were indications that some stakeholders did not favour the overlay approach, as they thought it might be costly to run parallel systems, and some wanted a wider range of companies to have the ability to apply the deferral approach. The Board would, in the coming months, be considering the issues and the arguments raised in the responses to the ED, acknowledging the challenges in reaching an acceptable solution.

## **4 Report of the Chair of the Due Process Oversight Committee**

Michel Prada (on behalf of Jim Quigley) chaired the January 2016 meeting of the Due Process Oversight Committee (DPOC) with the leadership and directors of the IASB and reported on the main issues discussed.

### **4.1 Update on technical activities**

First, the DPOC was presented with a report that outlined the due process activities for all projects on the Board's current agenda. The staff focused on updating the Committee on a number of key issues, some of which were the subject of separate agenda items (as reported below).

#### *Revenue recognition*

The DPOC spent some time discussing the latest position on **revenue recognition**, following the publication of IFRS 15 *Revenue from Contracts with Customers*, in particular in relation to the Transition Resource Group (the TRG). The DPOC noted that the Board had recently completed its decision-making on its proposed clarifications to IFRS 15. These clarifications had arisen from a number of issues that had originally been discussed by the TRG and subsequently referred to the Board for its consideration. Having completed these deliberations, the Board had announced its view that stakeholders now needed stability and to be sure that they could continue their IFRS 15 implementation plans confident in the knowledge that the Standard would not be subject to further changes before it came into effect in 2018.

The Board had also announced that it did not plan to schedule further meetings of the IFRS

constituents of the TRG. The DPOC observed that the US FASB had, however, scheduled 3 further meetings of US constituents of the TRG, although those meetings might not take place if no further issues of substance were raised.

The DPOC observed that this announcement had caused some comment and a concern that this might result in a disconnect between the approaches taken by the Board and the FASB. The DPOC sought further explanations from the Board representatives on the rationale for the announcement and the potential implications.

The DPOC was given such explanations. The Board stressed the importance of giving stakeholders stability and certainty in their IFRS 15 implementation planning and the need to avoid the impression that the Standard remained a moving target. That said, the Board was keen to emphasise to the DPOC that the TRG has not been disbanded and further meetings might be held if deemed necessary. The Board and the staff would continue to monitor and observe any future activities of the FASB's TRG and would take any further action as deemed appropriate. The Board noted that, as has been the case since inception, TRG papers and discussions would be public and that all constituents would have the ability to keep up to speed with any developments and comment to the Board, as well as to the FASB, if they had any concerns or issues.

The DPOC considered whether there were any due process concerns or implications. The Committee noted that a TRG was a relatively new device, and one which was not contemplated at the time that the latest version of the *Due Process Handbook* was issued in early 2013. That said, the Committee also noted that the TRG was a forum established to consider and discuss issues, but it was not empowered to issue any authoritative guidance. The Board already had existing mechanisms in place to consider any implementation questions relating to a Standard post-publication and these remained unaffected.

The DPOC noted that there had been positive comments made about the TRG, not only in providing a forum for issues to be discussed, but also to educate constituents in the requirements of the Standard. The Board was again keen to emphasise to the Trustees that such educational and implementation support activities would continue.

Following a discussion, the DPOC expressed its support for the Board's emphasis on stability, but asked the Board to consider how it might also stress and better communicate the fact that its decision not to schedule any further TRG meetings did not mean that it was stepping back from its activities in supporting the implementation of IFRS 15. The Board agreed to do so.

#### *Agenda Consultation*

The DPOC was updated on the progress of the Board's Agenda Consultation, noting that the comment period on its RfV closed on 31 December and that over 100 comment letters had been received.

In terms of main messages, the Committee noted the encouragement from many constituents for completing the projects on insurance contracts and the Conceptual Framework. There was also support expressed for the Board's Disclosure Initiative and a project on Primary Financial Statements.

The staff were now reading through and starting to analyse the comment letters, with the aim of preparing a feedback statement and proposals in summer 2016. The DPOC took note of the latest developments and stressed the need to ensure that the proposed timetable allowed for discussion with the Trustees at their May 2016 meeting, including the Board's emerging proposals in the light of the feedback received. It was important that the implications of the agenda consultation for the



Trustees' review of structure and effectiveness, and *vice versa*, were taken into account.

### *Other projects*

The DPOC questioned the IASB representatives on a number of other projects, in particular:

- the **Disclosure Initiative**, where the centrepiece was the Principles of Disclosure, on which a Discussion Paper was anticipated in the second quarter of this year; and
- **Dynamic risk management**, also known as macro-hedging – where the DPOC asked for an update on progress. The DPOC noted the divergence of views between users and preparers that the Board had received in response to the Discussion Paper on this project and the difference of views on what should be the overall objective of the project. This presented a challenge for the Board in how it should proceed. The DPOC was informed that the IASB was approaching the issue by deciding to consider the information needs of users.

### *Overview*

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*.

## **4.2 Insurance Contracts Standard**

The DPOC was updated on the progress the Board has made on its insurance contracts project. As noted in the *Report of the Chair of the Board* above, the Board had completed its planned technical decisions on the project.

The staff presented to the DPOC a number of draft papers they planned to present to the Board in February 2016. One set out the background to the project, including a reminder of the urgent need for a new insurance contracts standard and the extent of consultation that had taken place. As for the other two draft papers:

- the first set out the criteria for re-exposure in the *Due Process Handbook*, together with the technical staff's assessment of where the current proposals for the forthcoming Standard stood against those criteria. The staff recommendation was that the tentative decisions reached were not of such a fundamental nature as to require re-exposure and those decisions also responded to feedback the Board had received. In addition, the Board's on-going engagement with constituents had not revealed any new issues. The draft paper also assessed weighing the costs of re-exposing against the benefits;
- the second paper reviewed all the due process steps taken in developing the new insurance contracts Standard (both mandatory and optional) and would contain a request to begin the balloting process for the new Insurance Contracts Standard.

The DPOC appreciated the opportunity for the DPOC to review the papers and to provide its comments before the papers go to the Board. Given the high profile of the project and controversial nature of at least some of the proposals, the DPOC stressed the importance of the Board having a defensible and credible case for not re-exposing again. The DPOC noted that the Board had already issued one Discussion Paper and two Exposure Drafts on the project, but acknowledged that there would be some parties who thought that the proposals should be re-exposed again whatever the situation.

In reviewing the position, the DPOC acknowledged that a case had been made for not having another

re-exposure. The Committee did, however, emphasise the need for careful and considered drafting process for the Standard, which would involve preparing drafts for editorial review with external parties as well as preparing an extensive effects analysis, as had been done for the Leases Standard.

Subject to the Board's decision at its February meeting, the DPOC would consider a full due process lifecycle review of the upcoming Standard at its meeting in May 2016.

#### **4.3 Leases: Quality control**

The DPOC received a presentation from the technical staff providing an insight into what happened in the process of finalising a Standard for issue from the time that the Board gave its permission to ballot and the DPOC carried out its due process lifecycle review to the time of publication.

In the drafting of the Leases Standard, the DPOC noted that the process had taken some 10 months, with the preparation of four different drafts: three internal and one issued to a group of external reviewers. The staff explained to the Committee how they had sought to tabulate, analyse and address all the comments received, and the process that had been followed with the Board as a whole and the Board member advisors on the leases project in particular. The staff also explained how they had handled the comments received from the external reviewers and assured the Committee that all of the comments had been considered carefully.

The DPOC also noted the extensive effects analysis that has been prepared and published with IFRS 16. This was the first effects analysis that had been issued that sought specifically to incorporate the recommendations of the November 2014 report of the Effects Analysis Consultative Group (the appendix to the agenda paper presented to the DPOC set out how the Group's recommendations had been reflected in the effects analysis). The DPOC noted the positive reaction that had been given to the issue of IFRS 16 in general and the effects analysis report in particular, which set a high benchmark for the Board to attain in assessing and analysing the effects on further major projects.

#### **4.4 Consultative Groups**

The DPOC noted the report of the activities of a number of the IASB's consultative groups, including a number of membership changes.

#### **4.5 Correspondence**

The DPOC was informed that no other correspondence requiring the Committee's attention had been received since its meeting in October 2015.

### **5 Investors in Financial Reporting event**

As part of the Trustees' meeting, the Foundation, together with the CFA Institute, hosted an excellent and important investor-focused event, in celebration of the first anniversary of the organisation's *Investors in Financial Reporting* programme

The theme of the event was *Changing global markets and the role of the Asian Infrastructure Investment Bank*. As the first president of the Asian Infrastructure Investment Bank and former Chairman of China's sovereign wealth fund, Foundation Trustee Jin Liqun led the discussion.

The event was well-attended, with around 80 senior stakeholders from the investor community present.

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