

# AGENDA PAPER

IFRS® Advisory Council meeting

London 27 June 2016

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TOPIC Vice Chairmen's report from the June 2016 Advisory Council meeting

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## **Report of the IFRS Advisory Council Vice-Chairmen to the Trustees of the IFRS Foundation and the International Accounting Standards Board (the Board) subsequent to the June 2016 Advisory Council (the Council) meeting**

1. The Council met on 13–14 June 2016. Unfortunately, due to an unforeseen emergency, Council Chairman, Joanna Perry, could not be present and the meeting was jointly chaired by Gavin Francis and Goro Kumagai, the Council's Vice-Chairs (Vice-Chairs). The Council was pleased to have Trustees Michel Prada, Maria Helena Santana and Sir Callum McCarthy, and 8 Board members in attendance at various times during the meeting as well as a number of both technical and operational IFRS Foundation staff. The significant topics on the agenda were:
  - a. feedback on the proposed changes to the IFRS Foundation's Constitution (the Constitution) following the Trustees *Review of Structure and Effectiveness*;
  - b. the draft work plan and related communications following the 2015 Agenda Consultation (the Agenda Consultation); and
  - c. the proposed social media strategy.
2. In addition to the presentations from the staff of the IFRS Foundation, the Council also welcomed an external presentation, which considered the technological disruption to financial reporting and two Council members shared details of the activities of their representative organisations in the arena of IFRS Standards.
3. The Council noted that there were some common themes to emerge from the meeting, namely:
  - a. the communications around the research program being an integral part of the standard-setting process;
  - b. the importance of evidence-gathering at the start of projects;
  - c. the need to have more detailed resource plans and timings for delivery of the work program available for constituents than has historically been necessary;
  - d. the communications about the IFRS taxonomy and its role in standard-setting;

- e. the implications of technological developments and their relevance to standard-setting.
4. Members of the Council received an update from the Chairman of the Board and staff members provided details of recent activities of both the Board and the IFRS Foundation, as well as an update on the progress on the strategic work plan for 2016. The Council discussed the progress of the Disclosure Initiative and the risk of a gap between expectations for the project, and actual delivery. It was noted that the risk of this could increase as a result of the implementation of new standards and associated disclosures – for example IFRS 9 *Financial Instruments* with the associated disclosures in IFRS 7 *Financial Instruments: Disclosures*. There were also suggestions made which related to the ongoing work around formalising the relationship with the Basel Committee.
5. The Chairman of Trustees provided an update on the activities of the Trustees and, in particular, the Trustees meeting that took place in Jakarta in May 2016. The Council members then received a presentation on the Trustees' conclusions made after the review of structure and effectiveness and consideration of the proposed changes to the Constitution. There was general support expressed for those conclusions, and the Council members provided the following advice in relation to the proposed changes to the Constitution:
  - a. there might be questions regarding the need for flexibility in the number of appointments to the Board and the circumstances in which the 14th Board member would be appointed;
  - b. there is a need to ensure that a 'professional backgrounds' balance is maintained, specifically to ensure that the Trustees can obtain continued solid investor representation; and
  - c. the minimum number of Council meetings to take place in a year could be reduced to two, but there should be a review as to whether the Council should revert to three meetings after trialling this in 2017.
6. The Council members discussed in depth the draft work plan that the Board had developed in the light of messages received during the Agenda Consultation. The Council expressed overwhelming support for the emphasis placed on implementation support activities. However, it cautioned the Board against making reference to a future period of calm in its feedback on the Agenda Consultation given the significant implementation exercise that was underway by preparers. Instead, Council members suggested that the Board refer to a time when it would be focusing on support to implementation activities.
7. There was general support for the draft work plan and for the Board's intention to give priority to fewer projects. Council members suggested that the Board should:
  - a. provide a clearer explanation about how research forms an integral part of its technical activities;
  - b. explore how it can measure the success of those technical activities;
  - c. set a realistic scope for its activities to ensure projects are achievable;

- d. clarify the process for starting work on projects that are in the research pipeline;
  - e. consider how emerging issues will be dealt with and resourced;
  - f. consider whether some difficult topics, such as pensions and intangible assets, should be addressed, and if so whether this should be in-house or by way of using the national standard-setters network; and
  - g. do further work on messaging relating to the IFRS Taxonomy.
8. The IT Faculty of the Institute of Chartered Accountants of England and Wales, presented to the Council on the topic of technological disruption. The Council members then discussed, in groups, how technology is changing the preparation and use of accounting standards and the effect of such changes on the IFRS Foundation. There was no consensus on exactly how technology might affect the Foundation's work but a number of topics were discussed including:
- a. how IFRS financial statements are used, with a particular focus on data analysis;
  - b. how the interactions between investors, preparers and regulators might change; and
  - c. how IFRS Standards are developed and delivered.
9. The members encouraged the IFRS Foundation to continue these discussions, and to seek input from other relevant parties.
10. The Council received, in a private session, a presentation on the IFRS Foundation social media strategy. There was general support for expanding the IFRS Foundation social media activities, and key elements of the feedback provided were:
- a. a clear purpose and targets for social media activities is important, as well as making sure the strategy is integrated with overall communications and organisation-wide strategic objectives;
  - b. support for limiting the number of channels used, with some support for communicating in different languages;
  - c. think carefully about internal processes and controls and ensure thorough monitoring and archiving of content; and
  - d. actively manage risks arising, including from implied endorsement of other social media users.
11. The Council members, depending on the social media policies of their organisations, offered further social media collaboration, whether using public or private channels. They also suggested that a review of the strategy, and its implementation, be undertaken in due course.
12. Council members received a presentation about the timeline for the development of IFRS 16 *Leases* and the lessons learned from the project. They noted the long time it had taken to develop the Standard. Nonetheless, in general, Council members also thought that the project needed to have gone through its various stages to ensure that the final Standard was of high quality and therefore it would be more likely to be readily accepted by

stakeholders. Members emphasised a number of best practice points learned from the project, including:

- a. presenting evidence of the need for change in an accessible way is a powerful tool to gain acceptance and is best done from the early stages of a project;
  - b. seeking to identify the contentious issues at the early stages of a project; and
  - c. the need for extensive stakeholder dialogue, including analysis of the effects of any alternative views, even if this results in the use of additional time.
13. The Council received presentations from members Anne Molyneux, of the International Corporate Governance Network and Goro Kumagai, of the Securities Analysts Association of Japan, about their respective member organisations and how they work with IFRS Standards.
  14. In conjunction with the Council meeting, breakfast meetings were held with specific focuses on, respectively, investors and emerging markets.
  15. We thank all those that were part of the meeting—Council members, Board members, Trustees and the Foundation staff for their lively and passionate contributions.