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**Trustees and DPOC Meeting Summary**

November 2017

**Trustees of the IFRS® Foundation**

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This paper reports on a meeting of the Trustees of the IFRS® Foundation, the oversight body of the International Accounting Standards Board (Board). The Trustees are responsible for governance of the IFRS Foundation and for delivery of the IFRS Foundation's objectives as set out in the IFRS Foundation *Constitution*. Consequently, this paper does not reflect the views of the Board or any individual Board member. Board technical decisions are made in public and reported in the IASB *Update*. Comments on the application of IFRS Standards do not purport to set out acceptable or unacceptable application of IFRS Standards.

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## 1. Introduction

The IFRS Foundation (Foundation) Trustees met in Sao Paulo 8-9 November 2017. Michel Prada chaired the meeting.

## 2. Report of the Trustees' executive session

### 2.1 Report of the Directors

The Trustees received a report for the Directors on the highlights of the IFRS Foundation over the last four months.

Trustees discussed:

- A presentation on the work underway to assess the results of the Reputation Survey. This had been commissioned from Ebiquity and presented to the Trustees at their May meeting. The Trustees noted that the report had been published in July and that staff had shared the results with the Foundation's advisory groups as well as Board members and staff. They also noted that the findings were generally very positive and that the proposed action plan would focus on more consistent project management disciplines; better communication about outreach activity; and better engagement with key stakeholders.
- An update on the licensing of the IFRS Taxonomy for translation and adoption in the EU. The Trustees agreed the proposed approach to licensing the taxonomy, and the staff's strategy for the Taxonomy and the EU waiver.
- Updates on the review of the licensing arrangements with the major accounting firms and on progress with the Foundation's Continuing Professional Development programme. Trustees also discussed the Foundation's organisational investment programme, and agreed that

the Memorandum of Understanding with the International Integrated Reporting Council should be updated and renewed.

- An update on the work to address the risks to the Foundation of the UK's decision to leave the EU (Brexit).

## **2.2 The Foundation's location**

The Trustees received a presentation on the work on the Foundation's location and approved the proposed lease, timetable and project costs.

## **2.3 Committee reports**

The Trustees received reports from a number of Committees.

- The Audit and Finance Committee reviewed the September 2017 results against budget, the financial forecast for the year to 31 March 2018 and the three-year plan. They noted that the surplus for the year was forecast to exceed budget because of staff vacancies and foreign exchange gains, and reserves would now exceed the target of 12 months expenditure. They also agreed a proposal to increase the technical staff headcount, and noted that the risks to the Foundation of Brexit, potential relocation and updates for IT systems would require the Foundation to increase reserves. The Committee also received updates on the work of the Risk Group and approved the Letter of Engagement and timetable for the annual statutory audit.
- The Human Capital Committee discussed a number of human resource issues.
- The Nominating Committee discussed a number of appointments that are in progress. Proposals for membership and chairs of the Trustees' committees from 1 January 2018 were also approved.
- The Due Process Oversight Committee met in public and a summary of the meeting is attached. Trustees were updated on the complaint about due process that had been submitted to the Due Process Oversight Committee and noted the Committee's conclusion that Due Process had been followed.

## **2.3 IASB Investor Engagement**

Sue Lloyd, the Vice-Chair of the Board, presented an overview of the Board's investor engagement strategy. Trustees commended the work being done on this, and reinforced the importance of seeking investors' views on standard setting activities.

## **2.4 Review of the Accounting Standards Advisory Forum (ASAF)**

The Trustees approved the scope and timetable for the 2018 review of the ASAF.

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

Hans Hoogervorst, the chair of the International Accounting Standards Board (Board) reported on its recent technical activities.

### **3.1 Technical work overview**

- The Board issued IFRS 17 *Insurance Contracts* on 18 May 2017, and has since undertaken a wide range of activities to support its implementation, including education activities with a wide range of investors across the globe, and establishing a Transition Resource Group that will be a key element of implementation support. The Trustees discussed the work of supporting, endorsing and implementing the Standard and the role that they could play in promoting this.
- In October 2017, the Board issued a narrow scope amendment to IFRS 9 *Financial Instruments*. This addressed the measurement of prepayable financial assets with negative compensation features. It is a good example of the Board taking timely action to respond to issues arising during implementation.
- The Board has published two documents as part of its work on better communication in financial reporting. In September, it published Practice Statement 2 *Making Materiality Judgements* and in October a report *Better Communication in Financial reporting – Making disclosures more meaningful*. This shows how companies from around the world have improved communication in their IFRS financial statements.
- The Board plans to issue the revised *Conceptual Framework* in the first quarter of 2018.
- The Board is continuing work finalising a Discussion Paper on *Financial Instruments with the Characteristics of Equity*.

### **3.2 Supporting implementation**

The Trustees were updated on the work of the Board on supporting implementation of new and existing Standards. They noted the materials (a leaflet and short video) that had been published in September in support of this, and were updated on recent activities of the IFRS Interpretations Committee.

### **3.3 IFRS 17 Insurance Contracts – Lessons learned**

Sue Lloyd presented an analysis of the history of IFRS 17 and the challenges of completing a project on this scale. Trustees discussed the risks to implementation of the standard and the steps that were being taken to address these.

### **3.4 Better communication in financial reporting**

Hans Hoogervorst made a presentation to the Trustees on the Board's work on better communication. He noted that the Board expects to consider feedback to the Discussion paper *Principles of Disclosure* in the first quarter of 2018. It has also continued discussions on Primary Financial Statements. The Trustees discussed the

project, and in particular the importance of engaging with securities regulators on the issues.

#### **4. Meetings in Sao Paulo**

During their meeting the Trustees received a presentation from Mr Alexandro Broedel from the Comit  de Pronunciamentos Contabeis in Brazil, about the approach taken in Brazil to implementing IFRS Standards and promoting convergence of national GAAP. They also met with Mr Joaquim Levy, Managing Director and World Bank Group Chief Financial Officer.

Following the meeting, Trustees held a very successful stakeholder event and dinner entitled *Economic development and the Capital Markets – IFRS, Transparency and Financial Stability*.

## Report of the IFRS Foundation® Due Process Oversight Committee meeting

November 2017

This meeting of the DPOC was open to the public, and the recording is available on the IFRS Foundation website. The key issues in the public session were as follows.

### 1. Update on technical activities

The DPOC received an update on technical activities, and a report on the due process actions for International Accounting Standards Board (Board) projects. They noted in particular that in October the Board had issued the narrow-scope amendment to IFRS 9 *Prepayment features with Negative Compensation*, for which the DPOC had approved a comment period of no less than 30 days at its January 2017 meeting. The Board had confirmed in its meeting in July that it had complied with all due process requirements on this amendment.

The Basis for Conclusions on this amendment to IFRS 9 also records the Board's conclusion that no standard setting is required in connection with the accounting under IFRS 9 for a modification or exchange of a financial liability measured at amortised cost that does not result in the derecognition of the financial liability. The DPOC discussed the interaction between the Board and the IFRS Interpretations Committee (Committee) on this matter. The DPOC had been informed at its May 2017 meeting that the Board had not supported the Committee's original proposal to develop a draft IFRIC Interpretation, and discussed subsequent decisions of both the Committee and the Board at this meeting (see also item 2 below).

The DPOC discussed the Work plan set out in Appendix D of the report, and suggested that steps be taken to address delays that arose because of staff availability.

The DPOC confirmed that it was satisfied that all projects are proceeding in a manner consistent with the requirements of the *Due Process Handbook*.

### 2. Correspondence – Report on complaint about breach of due process

The DPOC received a report on an anonymous complaint about a breach of due process that had been investigated and reported to the DPOC in accordance with the requirements of Section 8 of the *Due Process Handbook*. The DPOC noted that the complaint had been posted on the DPOC pages on the Foundation's website and suggested that the proposed review of the *Due Process Handbook* (see item 7 below) should include consideration of the status of complaints that were kept entirely anonymous.

The complaint expressed concern about the two paragraphs included in the Basis for Conclusions on the recent amendments to IFRS 9 *Prepayment Features with Negative Compensation* relating to a modification or exchange of a financial liability measured at amortised cost that does not result in the derecognition of the financial liability. The report set out the Board's and the Committee's respective discussions on the topic of modifications or exchanges of financial liabilities (including their

consideration of comment letters received); analysed whether the due process requirements were met; and highlighted the oversight the DPOC provided throughout the process.

The DPOC concluded that the due process requirements relating to the amendments to IFRS 9 had been followed. They discussed the staff report and agreed with the analysis of the issues (set out in paragraphs 20 to 26 of that report). In particular, the DPOC agreed that the Board has not established new requirements for modifications and exchanges of financial liabilities that do not result in derecognition, and noted that throughout the process both the Board and the Committee agreed, and were clear on, the accounting required by the existing requirements in IFRS 9. The DPOC also agreed that it was an appropriate use of the Basis for Conclusion on IFRS 9 for the Board to record its decision not to undertake standard setting and, in explaining its rationale, to confirm the relevant accounting required by IFRS 9. They noted that these paragraphs in the Basis for Conclusion address in a timely manner any uncertainty regarding the requirements of IFRS 9 and avoid the potential for diversity in practice.

In summary, the DPOC concluded that there has been no breach of due process and, hence, that no further action is required. They agreed that a letter should be sent to the complainant explaining the process and decision, and that the letter should be posted on the DPOC pages on the Foundation's website.

### **3. Implementation activities for the Insurance Contracts Standard**

The DPOC received an update on the Board's activities supporting the implementation of IFRS 17 *Insurance Contracts* since the DPOC's May meeting. They noted the steps taken to establish a transition resource group (TRG), which will provide a public forum that will support implementation of the Standard and inform the Board of emerging implementation questions. They were informed of the process followed to identify and appoint TRG members and noted that the membership had been increased to 15 from the original planned 13 members. In discussion, the DPOC was informed that the TRG did not include an investor because the TRG would focus on detailed questions arising as companies begin implementing the Standard. However, the DPOC noted the extensive activities already undertaken with investors and analysts and that these would continue.

### **4. Reporting Protocol: general reports**

The DPOC received a report on the annual reviews required by the *Due Process Handbook* of the receipt of comment letters; availability of board papers; and the Board's dialogue with securities and prudential regulators. The DPOC agreed that the requirements of the Handbook had been met, and that there had been a good level of engagement with stakeholders.

### **5. Consultative Groups – Annual Review and DPOC Engagement**

The DPOC received a report on the annual review of consultative groups that is required by the *Due Process Handbook*. They noted that the Valuation Expert Group and the Insurance Working Group had been disbanded during the year, as approved

last year, and agreed that a further assessment should be undertaken of the Education Advisory Group as it had not met since 2014.

#### **6. Education material – due process**

The DPOC received a report on the annual review of the education material developed and under development by the IFRS Foundation to support the implementation and application of IFRS Standards. They noted that the objective of the review was to ensure that educational materials were not used as a surrogate for standard setting, and agreed that the requirements of the *Due Process Handbook* had been met.

#### **7. Proposal for a review of the *Due Process Handbook***

The DPOC agreed a staff proposal to conduct a review of the *Due Process Handbook* to ensure that it is still fit for purpose, and agreed that a paper setting out the broad scope of the work and the planned timetable should be brought to the next DPOC meeting.

#### **8. Correspondence**

It was confirmed that no correspondence requiring the DPOC's attention had been received other than the letter discussed in item 2 above.