

**Chairman's Report
IFRS Advisory Council
March 2019**

1. The Advisory Council met on 19 and 20 March 2019. In addition to the Advisory Council members, the meeting was attended by the new Chair of the Trustees of the IFRS® Foundation, Erkki Liikanen, and fellow Trustee Michel Madelain, as well as eight International Accounting Standards Board® members and many technical and operational IFRS Foundation staff.
2. The significant items on the agenda were the discussion and provision of advice in relation to:
 - global economic trends and their challenges and threats for the IFRS Foundation and for regulatory bodies;
 - balancing the needs of investors and other users of financial statements with those of preparers in the disclosure of corporate sensitive information;
 - the strategic alliances of the IFRS Foundation;
 - the scope of the *IFRS for SMEs Standard*; and
 - the self-review of the IFRS Advisory Council.
3. The Advisory Council received a very insightful presentation from economist Ian McCafferty CBE, who discussed global economic trends and their implications for policy makers and regulators. In summary, Mr McCafferty noted that the economic outlook throws up both economic challenges (such as, economic (in)stability; living standards and inequality; constrained government revenue) and political challenges (such as, the loss of trust in government and business; nationalism and populism; the backlash against globalisation) that threaten the global liberal order.

The presentation was followed by a Panel discussion which specifically considered both the challenges and threats to the IFRS Foundation arising from these global economic trends and what needs to be done to mitigate those challenges and threats. The panellists were Ian McCafferty, Michel Madelain (a Trustee) and Sue Lloyd, IASB® Vice Chair.

Feedback from the Panel and Advisory Council members included that the IFRS Foundation might wish to consider how:

- to promote the value of global standards without globalisation;
- to promote the value of IFRS Standards in a world where there is less trust in a standard - setter;
- IFRS Standards could help businesses who are now being encouraged to say “we are one of the good guys”; and
- to counteract governments without political will in some areas.

There were a number of possible mitigating factors identified that might address these various challenges and threats.

4. Advisory Council members considered, and discussed in breakout sessions, balancing the needs of investors and other users of financial statements with those of preparers in the disclosure of corporate sensitive information.

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- There were mixed views on what constitutes sensitive information; the different perspectives of preparers, investors and regulators were highly visible.
 - Despite the mixed views on what constitutes sensitive information, there was a general recognition by Advisory Council members of the importance of trust and transparency in financial statements and most were therefore supportive of the disclosure of sensitive information
 - Most Advisory Council members seemed to support the requirement to disclose sensitive information, while acknowledging that in rare circumstances this may not be appropriate. In those cases, Advisory Council members supported the view that there should be a requirement to explain why disclosure was not appropriate. Advisory Council members noted that by doing this it would appropriately send a “red flag” to the users of the financial statements.
5. In breakout sessions, Advisory Council members considered with whom the IFRS Foundation should consider strategic alliances. The Advisory Council members also considered what criteria might help to determine whether an organisation merits a strategic alliance and how to measure the success of strategic alliances.

Advisory Council members’ advice included:

- questioning whether, in fact, the IFRS Foundation needed to pursue any strategic alliances;
- whether strategic relationships are different from strategic alliances; and
- if strategic alliances are formed, there should be a cautious view of how numerous those alliance should be.

The members also commented:

- In any strategic alliance the IFRS Foundation should take care not to jeopardise its brand.
- If strategic alliances are formed, the two entities must have aligned strategic objectives.
- Managing strategic alliances well is very difficult and time consuming.
- Successful strategic alliances involve senior people from each organisation.
- Successful strategic alliances include clearly identified and monitored KPIs.

6. The IFRS Advisory Council considered the pros and cons of extending the scope of the *IFRS for SMEs Standard* to incorporate some publicly accountable entities. There were mixed views amongst IFRS Advisory Council members. Aspects of the advice included:
- Those members who had direct experience of working in emerging economies were more supportive than others of changing the scope.
 - The Foundation should consider allowing national jurisdictions to make the decision on who would be allowed to apply the Standard.
 - Whatever the conclusion, there did not appear to be much support for “expanding” the actual requirements or regularity of review of the *IFRS for SMEs Standard*.
 - Future consideration of whether or not the *IFRS for SMEs Standard* is a stepping stone for applying full IFRS Standards—and what effect that has on the need to keep the *IFRS for SMEs Standard* more aligned with full IFRS Standards.
 - Future consideration of whether there are brand issues of two frameworks within one brand.

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7. IFRS Advisory Council members considered the information provided to them on the outcomes of their own self-review. Overall there was no further feedback than had been already summarised in the agenda paper.
8. As well as receiving an update on recent activities of the Trustees, the Advisory Council received an insightful introduction from Erkki Liikanen, as the new Chair of the Trustees, on his joining the IFRS family and, in particular, noted his reference to the utilisation of IFRS Standards in “non capital market” situations highlighting the importance that IFRS Standards play in the world of trust. He referred to donor requirements in relation to the International Red Cross and to the investor requirements of certain African companies.
9. The Advisory Council received an update on recent activities of the Board and the IFRS Foundation. Particular items of note were:
 - feedback on the application of Advisory Council advice over the last eighteen months; and
 - the technology projects being undertaken within the Foundation.

Advisory Council members gave support for further reports on the application of Advisory Council advice. Advisory Council members also provided words of caution around some of the “commercial” applications of the digital world that may not be applicable to the IFRS Foundation.

10. I thank all of those who were part of the meeting for their preparation and contribution to the lively, value-adding debates.