

The path to global standards

2001

IASB begins work
Announces initial programme of nine technical projects

2002

European Union passes regulation to adopt IFRSs for listed companies from 1 January 2005
IASB and FASB announce initiative to achieve convergence of financial reporting standards and to co-ordinate future work programmes
After extensive consultation with the Standards Advisory Council, national accounting standard-setters, regulators and other interested parties, IASB announces new programme of technical projects

2003

IASB issues first new standard – IFRS 1 *First-time Adoption of International Financial Reporting Standards*
Australia, Hong Kong, New Zealand and South Africa committed to adopt IFRSs
IASB begins broadcasting its meetings over the Internet

2004

IASB completes stable platform of IFRSs
IASB enhances its due process to achieve broader stakeholder engagement
IASB concludes a convergence agreement with the Accounting Standards Board of Japan

2005

In Europe nearly 7,000 listed companies in 25 countries simultaneously switch to IFRSs
US SEC Chief Accountant publishes 'roadmap' describing steps towards the removal of the reconciliation requirements by 2009
First IFRIC Co-ordinator appointed

2

IASB

Financial reporting for global capital markets

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2006

IASB and FASB agree Memorandum of Understanding for advancing convergence of IFRSs and US GAAP

China adopts accounting standards substantially in line with IFRSs – ultimate goal of full convergence

2007

Brazil, Canada, Chile, India, Japan and Korea establish time lines to adopt or converge with IFRSs – over 100 countries now require or permit the use of IFRSs

US SEC removes reconciliation requirement for non-US companies reporting under IFRSs, and consults on IFRSs for domestic companies

2008

Israel, Malaysia and Mexico to adopt IFRSs

US publishes 'roadmap' for IFRS adoption

IASB pursues comprehensive response to the financial crisis

2009

IASB issues *IFRS for SMEs*

As part of its work to address the recommendations of the G20 and others, the IASB concludes the first part of its project to replace IAS 39 *Financial Instruments: Recognition and Measurement*

Japan approves a roadmap for the adoption of IFRSs

Report of the Chairman of the IASB

In the past year the IASB made good progress towards achieving globally accepted financial reporting standards and completing the first phase of our project to improve and simplify the accounting for financial instruments.



SIR DAVID TWEEDIE
CHAIRMAN OF THE IASB

Our comprehensive response to the financial crisis has continued to dominate the work of the IASB. From its outset, we have worked on a defined programme with time lines to address issues related to financial reporting. Several official bodies, including the Group of 20 (G20), the Financial Stability Board, the European Commission, and other international groups of stakeholders have asked us to respond to specific issues they have identified.

On 9 November we met our commitment to conclude the first phase of the replacement of IAS 39 *Financial Instruments: Recognition and Measurement* by issuing IFRS 9 *Financial Instruments*. We remain committed to issuing standards that present a comprehensive and improved solution to this complex and contentious area and provide international comparability.

Global financial reporting standards

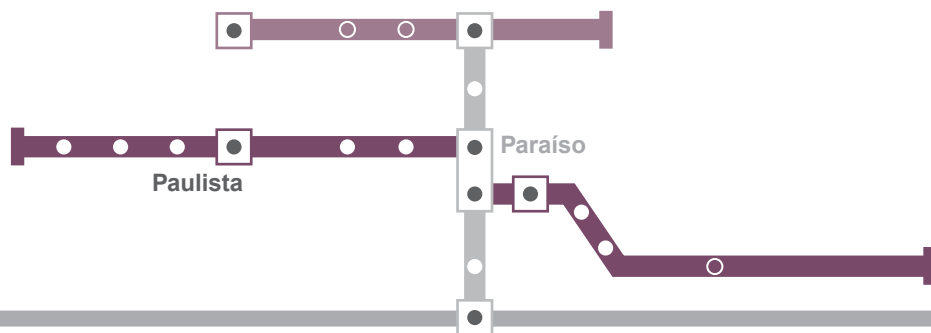
The financial crisis has highlighted the importance of global financial reporting requirements. I was delighted that a roadmap for the adoption of IFRSs in Japan was approved by the Japanese

Financial Services Agency in June 2009. The roadmap permits early adoption of IFRSs by listed companies for fiscal years beginning 1 April 2009. Brazil adopted IFRSs from 2010, and in the next two years Argentina, Canada, India, Indonesia, Korea, Malaysia, Mexico and Singapore will also be adopting IFRSs.

On 24 February 2010 the US Securities and Exchange Commission (SEC) voted unanimously to issue a statement affirming its support for IFRSs and confirmed its long-held plan to make a decision in 2011 on whether to incorporate IFRSs into the financial reporting system for US public companies.

The IASB's technical agenda

We continue to have an ambitious and challenging technical agenda. In 2009 we published 13 exposure drafts and one discussion paper. Out of those documents, five contained proposals on major projects (eg our projects on derecognition, fair value measurement, financial instruments – classification and measurement and amortised cost and impairment – and the discussion paper on lease accounting).



We continued our work on a more general project that will shape the way the financial statements are presented. We were also working on our projects to make narrower but important improvements to the reporting of pensions, and joint ventures.

Our agenda will continue to be dominated by projects that are included in the Memorandum of Understanding (MoU) with the US Financial Accounting Standards Board (FASB). The MoU projects will overhaul financial reporting in IFRSs and US GAAP for financial instruments, revenue recognition, the liability/equity distinction, and leases.

Our agenda also includes other projects that are important to many jurisdictions that are applying, or intending to apply, IFRSs. Those projects include insurance, emissions trading schemes and non-financial liabilities.

Working with the FASB

In October 2009 we produced a comprehensive plan, which we are updating every quarter, that outlines how we expect to complete each of the MoU projects. We also committed ourselves to hold meetings with the FASB

‘Our primary focus remains on making significant improvements to financial reporting.’

every month, rather than three times a year. These extra meetings help us to understand the thinking processes when the boards reach different conclusions and to address those differences.

The importance of June 2011

Our work programme is focused on substantially completing the MoU projects, and insurance, by 30 June 2011. Some commentators have suggested that the scale of the programme and the timetable are too ambitious. While I agree that the programme is ambitious, it is certainly achievable.

The G20 have urged us to complete our work by that date and many major economies have selected 2011 or 2012 as the year to adopt IFRSs on the basis of a completed programme.

I want to emphasise that our primary focus remains on making significant improvements to financial reporting. The Board will not issue a new standard

unless it is an improvement over its current requirements. As we have shown with IFRS 9 *Financial Instruments* we can finish expeditiously a high quality standard, with significant outreach work included, that garners respect internationally.

Indeed, I believe that defined targets and deadlines impose discipline and enable us to deliver much needed improvements sooner rather than later. We also know that the appetite for constant and major changes to IFRSs would be tested if we extended the timetable.

When the IASB, FASB, SEC and European Commission agreed on which projects would be covered by the MoU they were addressing the areas where the most substantial improvements in financial reporting were needed, both in IFRSs and US GAAP. By their nature, most of those projects are difficult and, potentially, contentious. But that makes their successful completion all the more worthwhile.

‘We remain committed to issuing financial instruments standards by the end of 2010 that will present a comprehensive and improved solution.’

Managing transition

We know that our technical agenda will put pressure on some entities, and on jurisdictions that must pass IFRSs into law, as we expose proposals for comment and complete our projects. Recognising these concerns, the Board decided to limit the dates when new requirements take effect to two points during any given year – 1 January and 1 July. The Board also decided that major projects completed in 2010 will not take effect before 1 January 2012 and those completed in 2011 will not be mandatory before 1 January 2013. It is possible that some IFRSs will have an even later effective date. We will be consulting the IFRS community in 2010 about steps we can take to make the transition to new IFRSs easier.

Enhanced stakeholder engagement

In developing a high quality and broadly accepted solution regarding the classification and measurement of financial assets (now IFRS 9 *Financial Instruments*), we conducted a consultation process that was unprecedented in its global outreach during a period of four months (for more details see our case study on page 32). As part of these

activities we have developed a range of new outreach tools, many of which we have now added to our other projects.

Investors

We have taken additional steps to engage with investors. We have appointed an Investor Relations Manager to work with the investor and analyst communities. At meetings of the IFRS Advisory Council we have special sessions to meet Council members from the investor community.

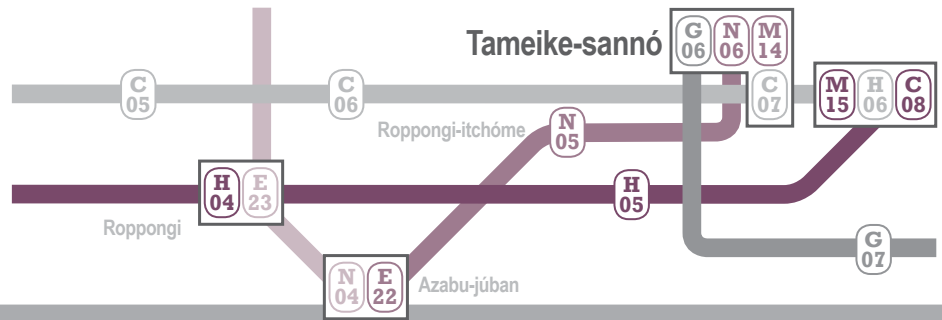
Prudential supervisors, market regulators and other stakeholders

In line with the G20’s recommendations, we are, in drafting our proposals, taking account of the Basel Committee’s guiding principles and the report of the Financial Crisis Advisory Group (FCAG). While recognising our commitment to investors as the primary users of financial information, we have, amongst other actions, already established an enhanced technical dialogue with prudential supervisors, market regulators and other stakeholders. This dialogue will ensure their deeper input in the development of new standards. We continue to have regular meetings with the Basel Committee and we are a member of the Financial Stability Board, where financial reporting issues are discussed regularly.

The national standard-setters are our partners in seeking to remove differences in accounting, worldwide. Although we meet the FASB more frequently than we meet any other standard-setter, that does not diminish the importance of other national standard-setters. We hold two joint meetings with the Accounting Standards Board of Japan, alternating between London and Tokyo. We have strengthened our interaction with the Chinese Ministry of Finance and will hold formal meetings at least twice a year. Board members also attend meetings with the European Financial Reporting Advisory Group (EFRAG) and other national standard-setters, including those of Australia, Canada, France, Germany, New Zealand, South Africa and the UK. Board members also attend regional conferences, including the recently formed Asia-Oceania Standard Setters Group as well as meeting national standard-setters in Europe, Asia and South America.

Acknowledgements

We are an international organisation that depends on the contributions and efforts of many people and many other organisations around the world. I and my fellow Board members greatly appreciate the help and advice we



receive from the many volunteers and well-wishers who give so generously of their time and expertise to the Board. We are particularly grateful for the extraordinary time given by members of our working and advisory groups.

The way the technical staff have responded to the demands placed on them has been exceptional. They know how challenging the months leading up to June 2011 will be but they are committed to the process of improving financial reporting globally.

Alan Teixeira (Technical Activities), Gavin Francis (Capital Markets), Peter Clark (Research), Michael Stewart (Implementation Activities), Wayne Upton (International Activities) and Paul Pacter (Standards – SMEs) form the team of directors who lead the development of the technical agenda. They have worked tirelessly over the last year, and they know they still have much to do.

Of course the technical team does not work in isolation. The infrastructure team that supports the technical activities feels the same pressures and has responded equally well. I am supported by a strong operations team led by our Chief Operating Officer Tom Seidenstein. Tom’s strategic leadership

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The number of days on which the IASB met in 2009.

has been critical over the last year. Tom’s team has been instrumental in shaping many changes to our operating systems and, importantly, the development of an *Investors in People* programme. I am grateful for the continuing support I receive from the operational directors Michael Butcher (Editorial), Mark Byatt (Communications), Miranda Corti (Finance and Resources), Ken Creighton (IFRS Content Services), Olivier Servais (XBRL Activities) and Mike Wells (Education Initiative).

Closer to me are my personal assistant Janet Smy, the executive assistants, Kathryn McArdle, Ailie Burlinson and Jill Robinson and the project administrators Fiona Dunne, Katherine Maybin and Jennifer Wilson. Between them they provide me, the Board members and the technical staff with tireless support. I hope they, and all of

the staff, realise how grateful I am for their efforts.

I must also thank my fellow Board members. I was saddened to have to bid farewell to Tom Jones and Mary Barth, who both retired from the Board after completing two terms. Tom has had a particularly long association with international standards and was instrumental in establishing the IASB. He has served so loyally as my deputy and, more importantly, as an adviser and friend. In their place, we welcomed Patrick Finnegan and Patricia McConnell, together with Amaro Luiz de Oliveira Gomes, our first Board member from South America.

To conclude, I want to record my special thanks to Gerrit Zalm, as Chairman of the Trustees, and to the other Trustees for their support, encouragement and advice.

Sir David Tweedie
Chairman of the IASB

Report on the technical activities of the IASB

In 2009, much of the technical work of the IASB continued to focus on issues related to the global financial crisis. The IASB continued to concentrate its work on areas addressed by the G20 in the conclusions of their Washington (November 2008) and London (April 2009) summits.



An overview of the technical work undertaken in the related areas is given below.

Fair value measurement

In May 2009, the IASB published an exposure draft on fair value measurement. The objectives of the project are to:

- clarify the definition of fair value;
- establish a single source of guidance;
- enhance disclosures about fair value measurements; and
- increase convergence between IFRS and US GAAP.

To ensure consistency between IFRSs and US GAAP, the proposals incorporated recent guidance on fair value measurement published by the US Financial Accounting Standards Board (FASB), and are consistent with a report of the IASB's Expert Advisory Panel published in October 2008 on fair value measurement in illiquid markets. Since then, the Board has continued to liaise with the panel as part of its consideration of comments received in relation to the exposure draft.

The Board has agreed a timetable with the FASB that should see the boards finalise common requirements for the

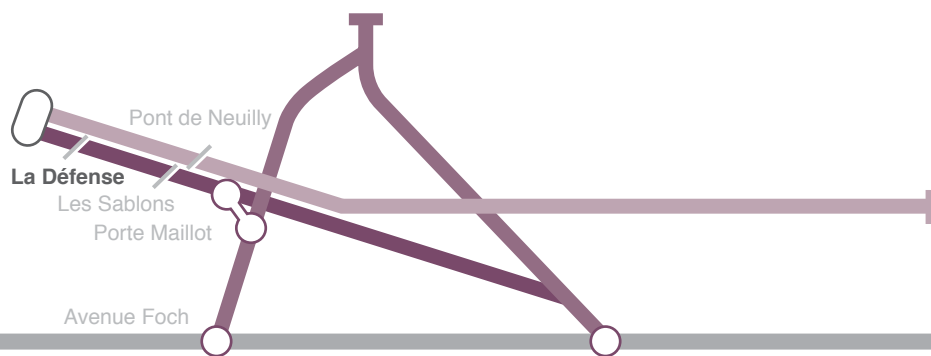
measurement of fair value in the second half of 2010. The boards are considering the comments received jointly, and the FASB has committed itself to amend US GAAP to ensure that IFRSs and US GAAP are aligned.

Accounting for off balance sheet items

The G20 emphasised the importance of improving the transparency of accounting related to off balance sheet items. The Board published proposals related to off balance sheet items (Consolidation in December 2008, and Derecognition in March 2009) which were discussed at round-table meetings in June 2009 in Toronto, Tokyo and London.

Consolidation

The IASB's proposals are aimed at strengthening and improving the requirements for identifying which entities a company controls, together with disclosure proposals regarding an entity's exposure to risks from its involvement with special purpose vehicles. Since the end of the comment deadline in March 2009, the IASB has discussed the project in four board meetings. The FASB agreed to develop new consolidation requirements, and to review the requirements that it recently



issued in relation to variable interest entities, with the objective of aligning IFRSs and US GAAP. As a consequence, the IASB is delaying finalising its consolidation standard until the second half of 2010, so that the FASB can expose similar proposals to those developed by the IASB. The boards will consider comments received jointly and expect to develop requirements that are aligned.

Derecognition

The IASB's proposals are aimed at addressing the complexity of the current requirements and at providing more useful information about the ongoing risks related to off balance sheet assets. The comment deadline for the derecognition proposals closed in July 2009. Comments received indicated qualified support for an alternative derecognition model, which was published as part of the proposals.

Disclosures related to risk

In March 2009, the IASB published improvements to the disclosure requirements about fair value measurements, and reinforced existing principles for disclosures about the liquidity risk associated with financial instruments.

The consolidation and derecognition proposals also included proposals for disclosures about risks not related to financial instruments of the entity reporting. The IASB expects to put those new requirements in place towards the end of 2010.

Reducing complexity of accounting for financial instruments

At the April 2009 summit, the G20 leaders called for accounting standard-setters 'to reduce the complexity of accounting standards for financial instruments'. The IASB had already made a commitment to achieve that objective, but the call for a common global approach from the G20 provided impetus to those efforts.

In order to be able to achieve that ambitious goal, the Board decided to split the project into three phases:

- classification and measurement;
- impairment; and
- hedge accounting.

This approach allowed the IASB to fulfil its commitment to the EU Finance Ministers and other international stakeholders to issue a final standard related to the prioritised portion of

'The G20 emphasised the importance of improving the transparency of accounting related to off balance sheet items.'

IAS 39, the classification and measurement of financial instruments, in time for use in 2009 year-end financial statements.

Classification and measurement (phase 1)

The Board accelerated its work and as a result published an exposure draft in July 2009. Driven by the wish not to compromise on consultation, despite the tight timetable, the IASB undertook unprecedented outreach efforts during the development of the final standard that were widely recognised (see case study on page 32). Many of these measures have come to be what the IASB considers best practice for its outreach efforts, and will be used for other major projects. As a result of the broad consultation and the intensive work, the IASB fulfilled its commitment and on 12 November 2009 it issued



IFRS 9 *Financial Instruments* on the classification and measurement of financial assets.

Financial liabilities and fair value changes related to own credit risk.

In June 2009, the Board published an Invitation for Comment on the issue of the effects of fair value gains arising from changes in a company's own credit risk.

The Board then included proposals for the accounting for financial liabilities and fair value changes related to own credit risk, as part of proposals for what became IFRS 9. However, the Board decided not to change the requirements for the classification and measurement of financial liabilities when it issued IFRS 9.

The Board expects to finalise its requirements for financial liabilities in the second half of 2010.

Ensuring embedded derivatives are assessed and separated if financial assets are reclassified.

In March 2010, the IASB published an IFRS clarifying that all embedded derivatives should be assessed and,

if necessary, separately accounted for in financial statements. This was in response to requests from participants in the credit crisis round tables that the IASB held in December 2008, who asked the IASB to act in order to prevent any diversity in practice developing as a result of the amendments made to IAS 39 *Financial Instruments: Recognition and Measurement* in October 2008 that permitted the reclassification of some financial assets in particular situations.

Impairment (phase 2)

On 5 November 2009, the Board published for public comment an exposure draft on provisioning. The proposals followed an initial *Request for Information* on the practicalities of moving to an expected loss model that was published in June 2009.

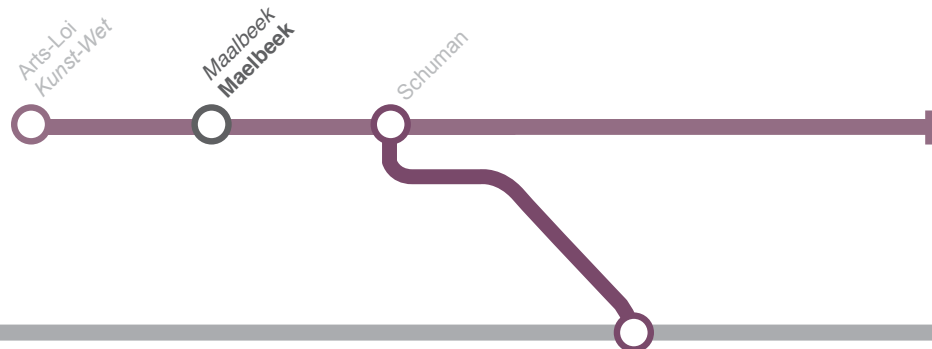
The exposure draft proposes to switch from an incurred loss model to an expected loss model. This switch would avoid the front-loading of interest revenue that occurs under the incurred loss model before a loss event is identified, and would better reflect the lending decision. Consequently, under the proposals, a provision against credit

losses would be built up over the life of the financial asset. Extensive disclosure requirements were proposed to provide investors with an understanding of the loss estimates that an entity judges necessary.

The Board is aware of the significant practical challenges of moving to an expected loss model. For this reason, it established in December 2009 an Expert Advisory Panel (EAP) comprising experts in credit risk management to advise the Board. The Board also set an eight-month comment period to allow adequate time for entities to consider the impact of such a change within their organisation. In concluding its work on this part of the project, the IASB will build on the unprecedented level of outreach activity that was undertaken in developing IFRS 9, and will also co-operate closely with the FASB with a view to agreeing a common approach to the impairment of financial assets.

Hedge accounting (phase 3)

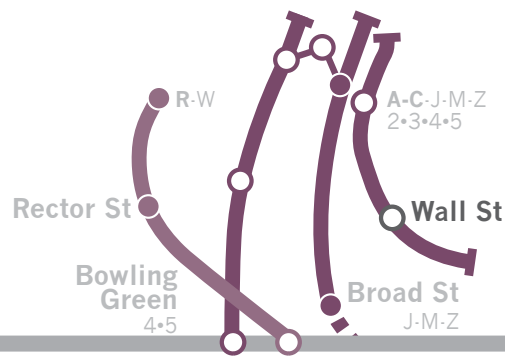
The IASB expects to publish an exposure draft on improving and simplifying hedge accounting in the second half of 2010.



Overview of other MoU projects

Project	Objective	Update
Financial statement presentation	To provide a clearer presentation in financial statements and so make it easier for users of financial statements to follow the flow of information through the statements.	<p>October 2008 – April 2009: comment period on the joint IASB/FASB discussion paper. The IASB received 220 comment letters.</p> <p>July 2009 – March 2010: the Board and the FASB considered, in nine board meetings, the comment letters and the results of field tests.</p> <p>November 2009: the boards decided to consider, as a separate proposal, to remove the option of being able to present Other Comprehensive Income on a separate schedule. The boards think that this change would make a significant contribution to the comparability of financial statements.</p>
Revenue recognition	The proposals are intended to improve existing practice by clarifying the principles for revenue recognition, and by ensuring that similar types of activities are accounted for in a similar way, whatever the industry in which those activities take place.	<p>December 2008 – June 2009: comment period on the joint IASB/FASB discussion paper. The IASB received 221 comment letters.</p> <p>July – ongoing: by December 2009 the project had been discussed in five board meetings.</p> <p>December 2009: the boards conducted several workshops to test the proposals and received encouraging feedback.</p>
Leases	The objective is to develop a new improved accounting model by 2011. The discussion paper presented preliminary views on the main components of a lessee accounting model.	<p>March – July 2009: comment period on the joint IASB and FASB discussion paper. The IASB received 295 comment letters.</p> <p>September – ongoing: the Board discussed the project in four meetings up to December 2009. In response to many comments received, the boards decided to develop proposals for accounting for leases from the perspective of both, the lessor and the lessee.</p>
Post-employment benefits (including pensions)	The project aims to address key issues in the current accounting for post-employment benefits through targeted improvements by 2011.	<p>March – September 2009: discussion paper comment period. The IASB received 150 comment letters.</p> <p>The discussion paper contained proposals on recognition and presentation for all defined benefit plans. However, to meet its commitment to deliver improvements to the accounting for pensions by mid-2011, the Board decided not to address contribution-based promises.</p> <p>May 2010: exposure draft published.</p>

Project	Objective	Update
Financial Instruments with characteristics of equity (liabilities and equity)	The objective is to replace IAS 32 <i>Financial Instruments: Presentation</i> and the extensive literature in US GAAP.	The boards have begun developing an exposure draft for a proposed standard using existing IFRS as a starting point.
Income taxes	The objective is to improve the accounting for income tax by eliminating exceptions from the basic model common to both IAS 12 <i>Income Taxes</i> and SFAS 109 <i>Accounting for Income Tax</i> .	<p>March – July 2009: exposure draft comment period. The IASB received 167 comment letters.</p> <p>As a result of the input received, both boards decided not to proceed with the proposals in their current form.</p> <p>The IASB is aware of the need to address what many perceive to be weaknesses in the current requirements in relation to those jurisdictions that do not tax capital gains on the disposal of real property.</p> <p>The Board is assessing how best to address these concerns.</p>
Joint ventures	The project objective is to improve the accounting for, and the quality of, the information being reported about, joint arrangements – which include joint ventures and joint operations.	April 2008 – December 2009: the Board undertook additional outreach and discussed the project in three board meetings.
Conceptual framework	The project aims to create a sound foundation for future accounting standards to ensure that they are principle-based and internally consistent.	The boards are close to finalising the first two chapters of the new <i>Conceptual Framework</i> , dealing with the <i>objective</i> and <i>qualitative characteristics</i> , and have published an exposure draft on the reporting entity concept.



Overview of other joint projects

Project	Objective
Insurance contracts	The Board is developing an IFRS to replace the interim standard, IFRS 4 <i>Insurance Contracts</i> , to provide a basis for consistent accounting for insurance contracts. In October 2008 the FASB joined the IASB on the project.
Emissions trading schemes	The project focuses on the accounting for emissions trading schemes. Carbon schemes have been high on the agenda of the G20 and the boards reinvigorated the project in 2009.

Other improvements and research projects

Project	Improvements
Discount Rate for Employee Benefits (Amendments to IAS 19)	Responses to the exposure draft published in August 2009 indicated that the proposed amendment raised more complex issues than were justifiable for a short-term project. The Board therefore decided not to proceed with the amendment.
Rights Issues	The project addressed the issue that the application of IAS 32 could lead to large accounting losses for a successful capital raising when the rights are issued in a foreign currency. October 2009: amendments published.
Related Party Disclosures	The amendments simplify the definition of a related party and clarify what related party disclosures are appropriate when the state has a controlling or significant investment in the reporting entity. November 2009: amendments published.
Employee Benefits	The amendment applies in the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset. November 2009: amendments to IFRIC 14, which is itself an interpretation of IAS 19 <i>Employee Benefits</i> published.

Project	Improvements
Liabilities (revision to IAS 37)	<p>This is a project to revise IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>, the IASB’s general standard on uncertain liabilities (sometimes known as provisions).</p> <p>January 2010: the Board reached its decisions on most aspects of the project. However, because the Board decided to change the way it described how to measure this type of liability in January 2010 the Board invited additional comments on this one aspect of the original proposals (ie a re-exposure).</p>
Management Commentary	<p>The Board thinks that guidance that sets out a framework for the preparation of management commentary and establishes principles for its structure, content and presentation will benefit those jurisdictions that do not have any requirements or guidance for the preparation of management commentary (or MD&A as it is called in some jurisdictions).</p> <p>June 2009: exposure draft published.</p>
Rate-regulated Activities	<p>The project aims to clarify the circumstances in which rate regulated activities should cause an entity to recognise a liability (or an asset) as a result of rate regulation by regulatory bodies or governments.</p> <p>July 2009: exposure draft published.</p>
Extractive Activities	<p>April 2010: The IASB published a discussion paper written by representatives from the national standard-setters of Australia, Canada, Norway and South Africa outlining ways in which the IASB could develop an IFRS to supersede IFRS 6 <i>Exploration for and Evaluation of Mineral Resources</i>.</p> <p>The Board will use the feedback it receives to help it assess whether it should add this project to the list of topics to be added to the Board agenda after June 2011.</p>

Tailored to the needs and capabilities of smaller businesses around the world: the IFRS for SMEs

After nearly six years of work the IASB issued the *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)* in July 2009. It is a self-contained, 230-page standard tailored to the needs and capabilities of smaller businesses around the world.



PAUL PACTER, DIRECTOR,
STANDARDS – SMES, CHAIRMAN,
SME IMPLEMENTATION GROUP*

The standard aims to facilitate SMEs' access to capital markets by ensuring the provision of comparable, transparent and high quality financial reports.

Compared with full IFRSs and many sets of national accounting standards, the *IFRS for SMEs* is simplified in a number of ways: it omits topics not relevant to SMEs, limits accounting policy choices, simplifies the principles for recognition and measurement, and requires fewer disclosures. Any jurisdiction can decide to adopt the *IFRS for SMEs* regardless of whether it has adopted or is converging with full IFRSs. In the nine months after it was issued, over 60 jurisdictions have decided to adopt it or have publicly stated an intention to do so.

Paul Pacter, the IASB's Director of Standards for SMEs*, has shepherded the project throughout the six years, including outreach activities involving over 140 round tables and presentations. He will also chair the new SME Implementation Group responsible for implementation questions raised by users of the *IFRS for SMEs*.

To facilitate the adoption and the implementation of the *IFRS for SMEs*, the IFRS Foundation's Education Initiative, headed by Mike Wells, is developing comprehensive self-study training materials that are freely available for download on the IASB's website, and is organising regional 'train-the-trainers' workshops, primarily in emerging markets.

'In the nine months after the IFRS for SMEs was issued, over 60 jurisdictions have decided to adopt the standard or have publicly stated an intention to do so.'

* Paul Pacter was appointed as a member of the IASB in April 2010 and will begin his term in July 2010.

Case study *Financial Instruments: Classification and Measurement*

The project

At the request of many international stakeholders, the IASB accelerated its reform of financial instruments accounting with a view to completing the first phase of this work in time for optional use for 2009 year-end financial statements.

This first phase of the project dealt with the classification and measurement of financial assets. Subsequent phases deal with the classification and measurement of financial liabilities, loan-loss provisioning and hedge accounting.

In undertaking the reform of financial instruments accounting the IASB is also seeking to provide comparability internationally in the accounting for financial instruments through its convergence work with the FASB.

The outreach

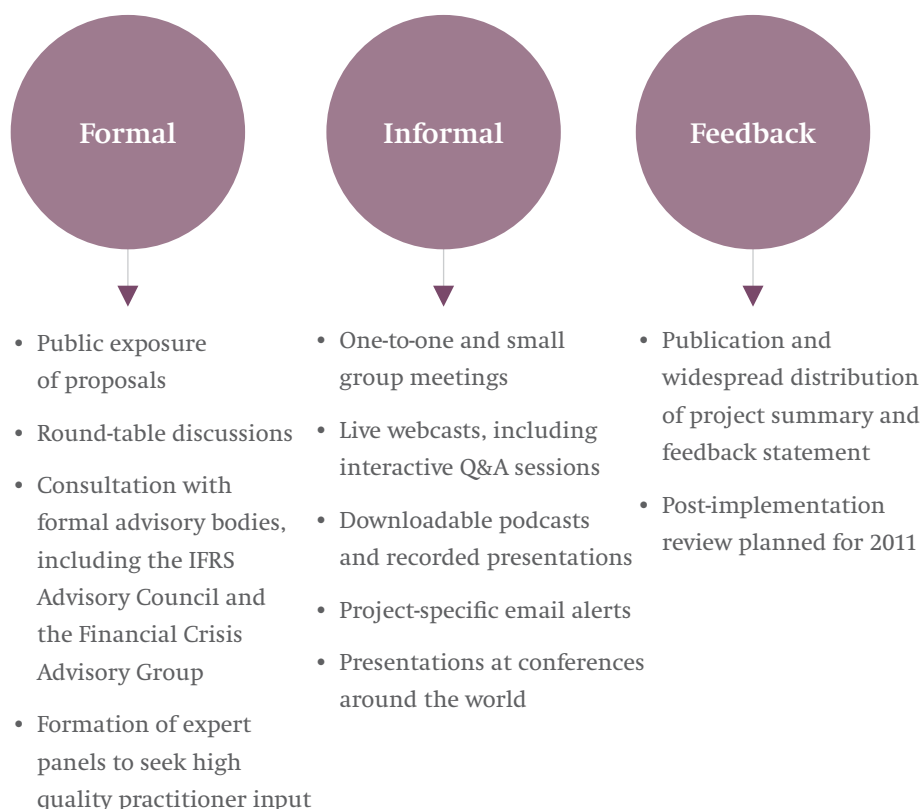
The IASB undertook an extensive programme of stakeholder outreach in order to develop a high quality IFRS in a timely manner but also one that has been subjected to rigorous and extensive due process.

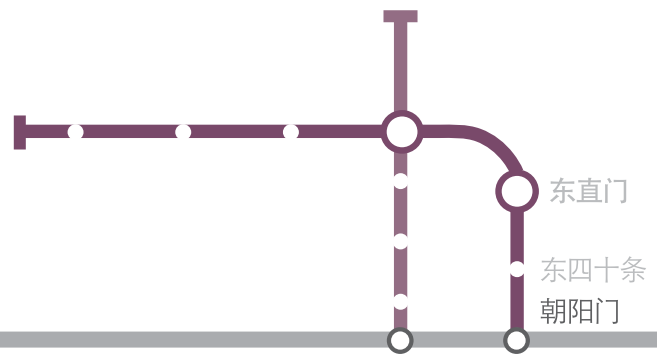
The outreach programme built upon the existing due process normally followed by the IASB in developing standards, but was further enhanced to keep interested parties informed and to ensure that consultations were extensive and broad-based.

To achieve this, the IASB made use of a range of formal and informal outreach activities, as well as introducing new ways to seek the views of interested parties.

Many of these innovations are now routinely used for outreach activities supporting other major projects.

IASB consultation methods

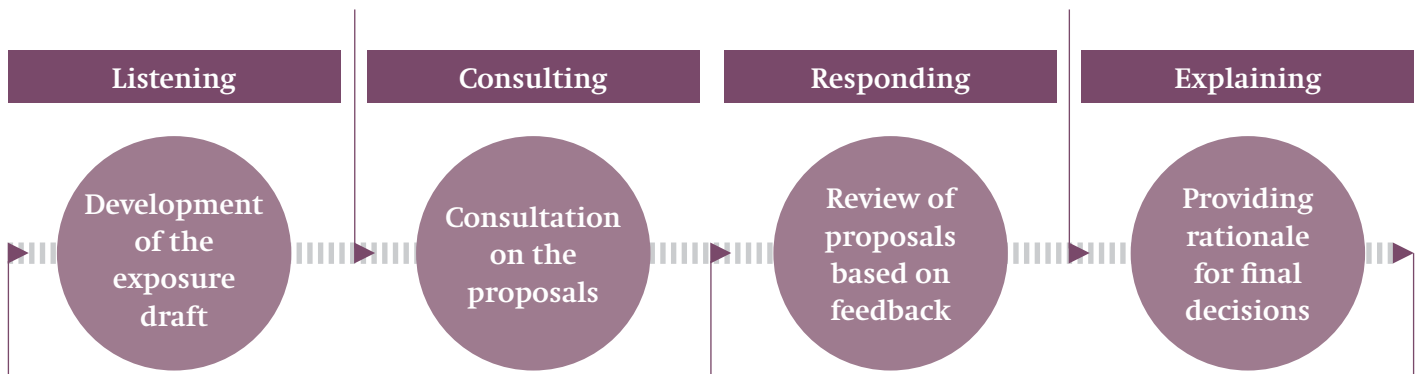




The milestones

July 2009 Publication of ED *Financial Instruments: Classification and Measurement*

November 2009 IFRS 9 – *Financial Instruments Classification and Measurement* issued



April 2009 IASB announces phased approach to the replacement of IAS 39

September 2009 End of comment period, start of Board discussions

Critical areas are subject to review two years after implementation

The facts

The outreach

- 2982 subscribers to a special email alert
- 6000+ participants across ten live webcasts
- 245 comment letters from organisations and individuals in over 18 countries
- 100+ one-to-one small group discussions
- 100+ participants in just one of the analyst conference calls
- 33 hours of Board discussions on the feedback received
- 3 public round-table discussions in Japan, the UK and the US

The changes

After considering the feedback received the IASB enhanced its original proposals, it:

- **enhanced** the importance of an entity's business model for deciding how to classify financial instruments
- **separated** consideration of the classification and measurement of financial liabilities from the proposals
- **required** the reclassification of financial instruments when the business model changes

The IFRS

IFRS 9 enhances the ability of investors and other users to understand the accounting of financial assets and reduces complexity by:

- reducing the number of classification and measurement categories
- introducing a classification that provides useful information about future cash flows
- eliminating complex and rule-based requirements for embedded derivatives
- establishing a single impairment method

Report of the Chairman of the IFRS Interpretations Committee

The IFRS Interpretations Committee* had a productive year. It met five times, considered a total of 42 issues, and completed two interpretations.



ROBERT GARNETT
IASB MEMBER AND CHAIRMAN OF THE
IFRS INTERPRETATIONS COMMITTEE

IFRIC 18 *Transfers of Assets from Customers* addressed an issue in the utilities industry. IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* addressed the accounting for certain loan restructurings, commonly known as ‘debt for equity swaps’, that had become more prevalent in the current economic climate.

Among the other issues considered, two were related to the financial crisis. The first, accounting for rights issues, was ultimately dealt with by the Board as an urgent amendment to IAS 32 *Financial Instruments: Presentation*. The second issue arose from an urgent need for guidance for assessing when an impairment charge should be recognised for some financial assets. Exceptionally, the Interpretations Committee provided this guidance through IFRIC *Update*, after a period for public comment.

In 2009 the Board asked the Committee to take a larger role in the development of amendments to IFRSs through the annual improvements process from January 2010. Members of the Interpretations Committee are in a good position to identify whether small improvements suggested to the Board are, in fact, necessary. However, the Board

retains responsibility for considering and approving any improvements that the Committee recommends should be made.

During 2009 Ken Wild, a member since 2002, retired and was replaced by Laurence Rivat, a partner at the national office of Deloitte France, who was appointed for a three-year term beginning on 1 July 2009. Three members were reappointed for an additional three-year term — Sara York Kenny, Takatsugu Ochi and Ruth Picker. On the staff side, we said farewell to Tricia O’Malley, who was appointed Chair of the Canadian Accounting Standards Board. Michael Stewart succeeded her as Director of Implementation Activities.

My thanks go to Ken and Tricia for their contributions, and to the members of the Interpretations Committee and staff for their continued hard work and enthusiasm in addressing the many and varied issues we receive.

Robert Garnett
IASB Member and Chairman of the IFRS
interpretations Committee

* Previously called IFRIC, the Committee’s name was changed to IFRS Interpretations Committee as part of the Constitution Review in January 2010.

Report of the Chairman of the IFRS Advisory Council

I am pleased to submit my first report of the reconstituted IFRS Advisory Council*. Council members represent some 50 major organisations, including users, reporting entities, auditors, regulators, academics and standard-setting bodies from Africa, Asia/Oceania, Europe and North and South America.



PAUL CHERRY
CHAIRMAN OF THE IFRS
ADVISORY COUNCIL

This broad representation provides for diverse and widespread feedback on strategic issues relating to the major projects and priorities and the application and implementation of IFRSs.

Another role of the Council is to be effective ambassadors for the promotion of IFRSs. Various channels have been introduced to harness this potential, including interactive web-based software, conference calls and questionnaires to enable us to provide our views on a timely basis. To assist us in promoting IFRSs, optional education sessions on major technical projects have been introduced which brief Council members on the technical issues. Representatives of user organisations also meet separately, recognising the importance of involving users in standard-setting. Another session focuses on the special needs of emerging markets. Additional staff resources have also been put in place to support our work.

In 2009, the Council monitored progress against the IASB's current work plan. We are concerned about the burden it places on staff and constituents and have cautioned that the quality and integrity of the standards should not be compromised for the sake of speed.

We have also monitored and supported the IASB's response to the financial crisis, in particular praising the exceptional outreach efforts. The Council is, however, disturbed that the IASB and FASB might disagree on this critical topic. We also provided our views on certain aspects of the Constitution Review, in particular urging a more formal process, including periodic public consultation, on the IASB technical agenda in which the Council would play a central role. Members also expressed the view that, even in crisis situations, due process should include a reasonable opportunity for all constituents to provide input.

* Previously called SAC, the Council's name was changed to IFRS Advisory Council as part of the Constitution Review in January 2010.

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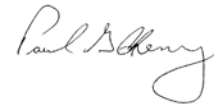
The current number of members of the IFRS Advisory Council.

Looking ahead, we have begun exploring the strategic considerations that should drive the technical agenda after 2011. We envisage a shift in emphasis from convergence per se to adopting IFRSs, allowing constituents to successfully integrate and apply the numerous major new and revised standards coming into effect in the next few years. We will continue this discussion with the Board and Trustees next year.

I am greatly encouraged by the reports of Council members on progress in adopting IFRSs and the development of infrastructure, including regional bodies, to foster the consistent interpretation

and application of IFRSs. Council members will do what we can to assist these important initiatives.

Finally, I would like to express my sincere appreciation to my fellow Council members for their assistance and support, especially my Vice-Chairmen, Charles Macek and Patrice Marteau, and the staff.



Paul Cherry
Chairman of the IFRS Advisory Council

Due process documents published in 2009

Exposure drafts	
January	Post-implementation Revisions to IFRIC Interpretations
March	Income Tax
March	Derecognition
May	Prepayments of a Minimum Funding Requirement
May	Fair Value Measurement
June	Management Commentary
July	Financial Instruments: Classification and Measurement
July	Rate-regulated Activities
August	Classification of Rights Issues
August	Discount Rate for Employee Benefits
August	Improvements to IFRSs
November	Financial Instruments: Amortised Cost and Impairment
November	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters
IFRSs and amendments to IFRSs	
March	Improving Disclosures about Financial Instruments
March	Embedded Derivatives
April	Improvements to IFRSs
June	Group Cash-settled Share-based Payment Transactions
July	IFRS for SMEs
July	Additional Exemptions for First-time Adopters
October	Classification of Rights Issues
November	IAS 24 Related Party Disclosures
November	IFRS 9 Financial Instruments: Classification and Measurement
November	Prepayments of a Minimum Funding Requirement

Discussion paper	
March	Leases – Preliminary views, joint IASB/FASB DP
Draft Interpretation	
August	D25 Extinguishing Financial Liabilities with Equity Instruments
Interpretations	
January	IFRIC 18 Transfers of Assets from Customers
November	IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

Members of the IASB

At 31 December 2009

1 Sir David Tweedie
Appointed: January 2001
Term expires: 30 June 2011

2 Stephen Cooper
Appointed: July 2007
Term expires: 30 June 2012

3 Philippe Danjou
Appointed: July 2006
Term expires: 30 June 2011

4 Jan Engström
Appointed: May 2004
Term expires: 30 June 2014

5 Patrick Finnegan
Appointed: July 2009
Term expires: 30 June 2014

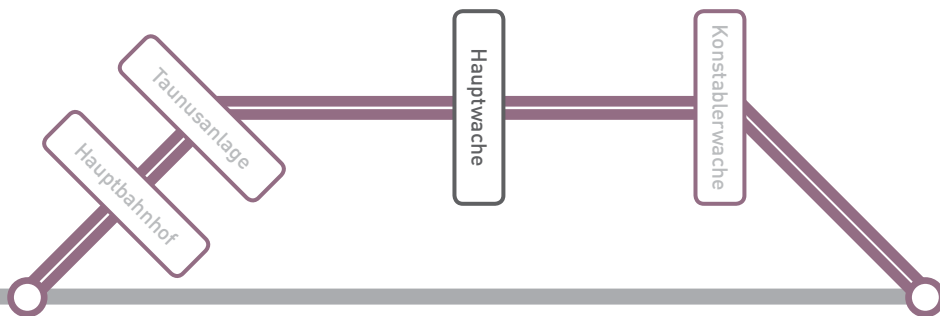
6 Robert P Garnett
Appointed: April 2001
Term expires: 30 June 2010

7 Gilbert Gélard
Appointed: January 2001
Term expires: 30 June 2010

8 Amaro Luiz de Oliveira Gomes
Appointed: 1 July 2009
Term expires: 30 June 2014

9 Prabhakar Kalavacherla ('PK')
Appointed: January 2009
Term expires: 30 June 2013





- 10 James J Leisenring**
Appointed: January 2001
Term expires: 30 June 2010
- 11 Patricia McConnell**
Appointed: July 2009
Term expires: 30 June 2014
- 12 Warren J McGregor**
Appointed: January 2001
Term expires: 30 June 2011

- 13 John T Smith**
Appointed: September 2002
Term expires: 30 June 2012
- 14 Tatsumi Yamada**
Appointed: January 2001
Term expires: 30 June 2011
- 15 Wei-Guo Zhang**
Appointed: July 2007
Term expires: 30 June 2012

Board members retiring during 2009

- 16 Thomas E Jones**
Appointed: January 2001
Term expired: June 2009
Vice Chairman 2001 – 2009
- 17 Mary E Barth**
Appointed: January 2001
Term expired: June 2009



Members of the IFRS Interpretations Committee*

At 31 December 2009

Name and affiliation	Term expires	Name and affiliation	Term expires
Luca Cencioni Senior Accounting Manager Eni S.p.A Italy	30 June 2011	Laurence Rivat Partner Deloitte & Associés (France) France	30 June 2012
Guido Fladt Partner PricewaterhouseCoopers Germany	30 June 2010	Darrel Scott Head of Group Finance FirstRand Banking Group South Africa	30 June 2010
Bernd Hacker Head of Standard Setter Liaison and Financial Instruments Accounting Policies Siemens Germany	30 June 2010	Margaret M (Peggy) Smyth Vice President, Controller, United Technologies Corp United States	30 June 2011
Sara York Kenny Principal Accounting Policy Advisor (retired) International Finance Corporation (member of the World Bank Group) United States	30 June 2012	Scott Taub Managing Director, Financial Reporting Advisors, LLC, United States, and former Acting Chief Accountant and Deputy Chief Accountant, US Securities and Exchange Commission United States	30 June 2011
Jean-Louis Lebrun Partner Mazars & Guerard France	30 June 2011	Andrew Vials Partner KPMG LLP United Kingdom	30 June 2010
Takatsugu Ochi General Manager, Planning and Administration Department Sumitomo Corporation Japan	30 June 2012		
Jean Paré Vice President, Financial Reporting Bombardier Canada	30 June 2011		
Joanna Perry Company Director and Current Chair Financial Reporting Standards Board New Zealand	30 June 2011		
Ruth Picker Partner – Technical Consulting Group, Global IFRS Ernst & Young Australia	30 June 2012		
		Non-voting Chairman	
		Robert P Garnett Member, International Accounting Standards Board	
		Official Observers	
		European Commission	
		The International Organization of Securities Commissions	

* The IFRIC was renamed the IFRS Interpretations Committee in January 2010.

Members of the IFRS Advisory Council*

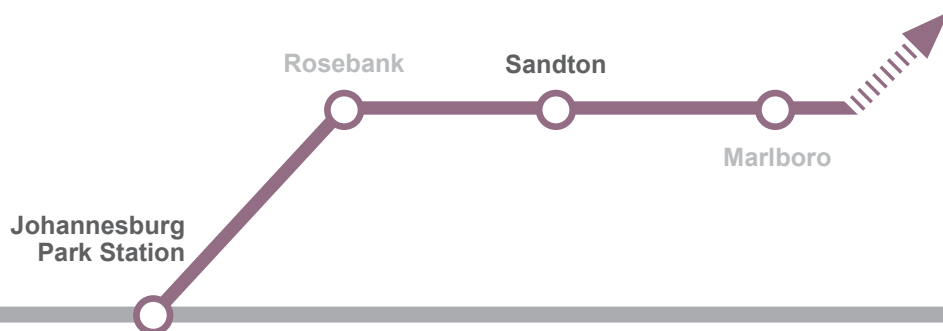
At 31 December 2009

CHAIRMAN	VICE-CHAIRMEN (appointed February 2009)
<p>Paul Cherry Consultant, Paul Cherry Professional Corp, former Chair, Canadian Accounting Standards Board</p>	<p>Charles Macek Non-executive Director, Wesfarmers Ltd Former Chairman, Australian Financial Reporting Council</p> <hr/> <p>Patrice Marteau Chairman, ACTEO and Chairman Accounting Committee, Business Europe</p>

Represented body	Name	Occupation
Associated Chambers of Commerce of India/The Stock Exchange, Mumbai	Narendra Sarda	Chairman, Deloitte Haskins Sells & Affiliates
Association of Banks in Singapore	Surya Subramanian	Director, Financial Reporting Oversight Division, Accounting and Corporate Regulatory Authority (ACRA)
Association of British Insurers/ Investment Management Association	Liz Murrall	Director, Corporate Governance and Reporting, Investment Management Association
Basel Committee on Banking Supervision	Sylvie Matherat	Director, Financial Stability Directorate, Banque de France; Chair of the Accounting Task Force, Basel Committee
BDO International	Andrew J Buchanan	Global Head of IFRS
Brazilian Association of Listed Companies	Geraldo Toffanello	Accounting Director, GERDAU Group
CFA Institute	Dane Mott	Executive Director, JP Morgan Securities Inc
Committee of European Securities Regulators	Richard Thorpe	Head of Capital Adequacy Policy Department and Accounting and Auditing Sector, UK Financial Services Authority
Corporate Reporting Users' Forum (International)	Norbert Barth	Executive Director Analyst, WestLB AG
Council of Institutional Investors (USA)	Gail L Hanson	Deputy Executive Director, State of Wisconsin Investment Board
Deloitte	Joel Osnoos	Global IFRS Leader, Clients & Markets Partner, Deloitte & Touche LLP
European Central Bank	Mauro Grande	Director, General Financial Stability
European Financial Reporting Advisory Group	Stig Enevoldsen	Chairman and CEO

* The SAC was renamed the IFRS Advisory Council in January 2010.

Represented body	Name	Occupation
European Insurance and Reinsurance Federation	Jacques Le Douit	Accounting Research and Development Senior Director, AXA
European Issuers/European Round Table of Industrialists	Christoph Hütten	Senior Vice President and Chief Accounting Officer, SAP AG
Ernst & Young	Leo van der Tas	Global Technical Director, IFRS
Fédération Internationale des Experts-Comptables Francophones	Benoît Atangana Onana	Former President, Institute of Chartered Accountants of Cameroon; Senior Partner and General Manager, African Consulting Enterprise; Member of National Education Private Sector
Financial Executives International (Canada)	Karyn Brooks	SVP and Controller, Bell Canada Enterprises
Financial Executives International (US)	Jamie Miller	Vice President and Controller, General Electric Company
Grant Thornton	April Mackenzie	Global Head of Public Policy and external affairs
Group of European national standard-setters (France, Germany, Italy and the UK). Representation rotates annually among the Group.	Piero di Salvo, Italy (for 2009)	Secretary General, Organismo Italiano della Contabilità
Group of 100 (Australia)	Judith Downes	Chief Financial Officer, Alumina Limited
Group of North American Insurance Enterprises (GNAIE)	Jerry M de St Paer	Executive Chairman
Hong Kong Institute of Certified Public Accountants	P M Kam	Chief Executive Officer, Financial Reporting Council
Institute of International Finance	Will Widdowson	Head of Group Accounting Policy and Group SOX Officer, UBS AG
International Actuarial Association	Francis Ruijgt	Deputy Chief Risk Officer, ING Insurance Benelux
International Association for Accounting Education & Research	Hollis A Skaife	Professor of Accounting, Wisconsin School of Business
International Association of Insurance Supervisors	Henning Goebel	Chief Accountant, Bundesanstalt für Finanzdienstleistungsaufsicht (Federal Financial Supervisory Authority)
International Corporate Governance Network	Gerben Everts	Manager Corporate Finance, Control & Risk Management APG All Pensions Group



Represented body	Name	Occupation
International Federation of Accountants	Jim Sylph	Executive Director, Professional Standards
International Monetary Fund	Kenneth Sullivan	Senior Financial Sector Expert
International Organization of Securities Commissions (IOSCO)	Sophie Baranger	Chief Accountant Autorité des Marchés Financiers <i>(Alternating with Christoph Ernst)</i>
	Christoph Ernst	Head of Accounting and Auditing Law Division Federal Ministry of Justice, Germany <i>(Alternating with Sophie Baranger)</i>
	Marcos Barbosa Pinto	Commissioner Securities and Exchange Commission of Brazil
Investment Company Institute (USA)	Donald J Boteler	Vice President, Operations
Investors' Technical Advisory Committee (USA)	Neri Bukspan	Chief Quality Officer and Chief Accountant, Standard & Poor's
Korea Accounting Standards Board	Chanhong Kim	Vice Chairman
KPMG	Mark Vaessen	Head of IFRS, KPMG Europe LLP
Ministry of Finance, People's Republic of China, China Accounting Standards Committee	Liu Yuting	Director-General of Accounting Regulatory Department of MOF, member of CASC
Nippon Keidanren (Japan)	Shozo Yoneya	Corporate auditor, Itochu Corporation
PricewaterhouseCoopers	Richard Keys	Leader, Global Accounting Consulting Services
Securities Analysts Association of Japan	Sei-Ichi Kaneko	Executive Vice President and Member of the Board
South Africa Accounting Practices Board	Moses Kgosana	Chief Executive, KPMG
South Asian Federation of Accountants (SAFA)	Reyaz Mihular	Chairman, Accounting and Auditing Standards Committee
World Bank	Charles McDonough	Vice President and Controller

OBSERVER ORGANISATIONS

European Commission

Japan Financial Services Agency

US Securities and Exchange Commission

Senior staff of the IASB

At 31 December 2009

Peter Clark

Director of Research

Gavin Francis

Director of Capital Markets

Paul Pacter*

Director, Standards — SMEs, Chairman of the SME
Implementation Group

Michael Stewart

Director of Implementation Activities

Alan Teixeira

Director of Technical Activities

Wayne Upton

Director of International Activities

* Paul Pacter was appointed as a member of the IASB in April 2010 and will begin his term in July 2010.