

Summary of the conclusions of the IFRS Foundation Trustees' meeting

April 2015, Toronto

Introduction

The latest meeting of the Trustees of the IFRS Foundation, chaired by Michel Prada, was held in Toronto, Canada on 14-16 April 2015.

Report of the Trustees' Executive session

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

The Trustees considered the consultation being undertaken by the European Commission in a Green Paper **Building a Capital Markets Union** (CMU) that had been issued in February 2015. The Trustees focused on the implications for the IFRS Foundation and the International Accounting Standards Board (IASB) of the issue raised in the Green Paper as to whether there was "value in developing a common EU level accounting standard" for small and medium-sized entities (SMEs) listed on certain trading venues (Multilateral Trading Facilities). The Trustees acknowledged that this was a sensitive and important issue. The IASB currently differentiated the financial reporting requirements for entities not by size, but on the basis of whether or not an entity had public accountability. If an entity had public accountability, it should apply the full suite of IFRS. If it did not, the IFRS for Small and Medium-sized Entities (SMEs) developed by the IASB might be used where permitted by jurisdictions. The question in the Green Paper raised implications for the IASB's current position.

The Trustees considered whether the Foundation should submit a response to the consultation. They agreed that it should. The Trustees considered a draft of such a response and offered a number of helpful suggestions which would be incorporated into a revised draft. Among other things, the response would specify the Foundation's willingness to co-operate with the European Commission as it considered this issue further.

The Trustees received an update on the progress of the **review of structure and effectiveness of the IFRS Foundation** and gave their views on next steps, including a draft of a possible public consultation document on the review. The Trustees agreed that the review should be set in the context of the Foundation's **Strategic Plan 2015-17** that had been agreed at their February 2015 meeting in Zurich, with the four primary strategic goals being as follows:

- Goal number 1: 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 IFRS. This was in line with the recommendation of the Trustees in their Strategy Review in February 2012 that the Foundation must remain committed to the long-term goal of the global adoption of IFRS as developed by the IASB.
- Goal number 3: to support the consistent application and implementation of IFRS globally.

- Goal number 4: ensuring the continued independence, stability and accountability of the IFRS Foundation.

The Trustees gave their suggestions and comments on what should be included in the forthcoming consultation document. The Trustees noted that the plan was to discuss a pre-publication draft with the Advisory Council at its meeting in June 2015, and for approval to publish the consultation document to be sought at the London Trustees' meeting, also in June 2015.

The Trustees were updated on the progress of the **review of the Accounting Standards Advisory Forum (ASAF)** and considered the recommendations proposed by the staff from the findings of the review. The Trustees were reminded that the feedback from ASAF members, other members of the national accounting standard-setting community, and IASB members and staff had overall been very positive, with respondents agreeing with the objectives and scope of ASAF activities as set out in the group's 2013 Terms of Reference and Memorandum of Understanding (MoU) with the IASB. That said, the Trustees agreed a number of enhancements to ASAF in the light of the findings. First, they agreed that ASAF's activities could also facilitate technical discussion at ASAF of jurisdictional standard-setting issues, not just issues directly related to the IASB's work plan. The Trustees also agreed that the Foundation's objectives in establishing the ASAF should be reiterated in the Feedback Statement on the review. In addition, the Trustees agreed with the staff recommendation that consultation with the ASAF should not be embedded as a mandatory step in the IASB's due process.

On membership, the Trustees agreed that the current complement of twelve members was appropriate and that the current geographical balance should remain. Rotation of members should remain, but be staggered, so as to have some stability of membership. The Trustees also agreed that the terms of membership should be extended from two to three years.

On next steps, there would be a call for nominations for the next cycle of ASAF members, with the aim of ASAF holding its first meeting with a revised membership in July 2015.

The Trustees discussed developments in the **United States**, and were updated on the recent meetings Michel Prada and Yael Almog had held with the Securities and Exchange Commission (SEC), the US Treasury and a number of other parties. The situation in the US remained a challenging one. The details had yet to be published of the SEC's on-going consideration of the domestic use of IFRS, and the so-called '4th alternative' proposal under which it was understood that the SEC would permit US companies to voluntarily provide supplementary IFRS disclosures in addition to their US GAAP reporting.

The Trustees also discussed the status of discussions between the IASB and the US Financial Accounting Standards Board (FASB). In addition, the Trustees noted that the continuing shortfall in the US contribution to the funding of the IFRS Foundation remained a major issue.

The Trustees received a presentation from Kevin Nye, Chair of the **Canadian Accounting Standards Oversight Council (AcSOC)** and Linda Mezon, Chair of the **Canadian Accounting Standards Board (AcSB)**, on the Canadian perspective of financial reporting issues in general, and IFRS in particular. The presentation gave the Trustees an excellent insight into Canada's decision to move to IFRS and

the very effective way in which the transition was managed. The Trustees were pleased to hear of Canada's continuing commitment to IFRS.

The Trustees reviewed the position with regard to the Foundation's plans to explore further **commercial opportunities**.

The Trustees received reports from a number of Committees:

- the **Human Capital Committee** – the Committee had been updated on the outcome of the Foundation's annual pay review round, which had been completed within the overall guidelines agreed by the Trustees; and
- the **Audit and Finance Committee** – following a review by the Committee and its recommendation, the Trustees had approved both the UK sterling and US dollar financial statements for 2014 and for the formal signing of the statements to take place on 16 April. The letters of representation were also agreed. The Trustees noted that the external auditors had again commented on how smoothly the audit had taken place. Publication of the 2014 Annual Report would take place shortly.

At this meeting, the Trustees considered a number of other matters, including:

- further allocations of Trustees to membership of Trustee Committees for 2015¹, including the appointment of Jim Quigley as Chair of the Due Process Oversight Committee (DPOC) and the appointments of Alan Beller to the DPOC and Nominating Committees and Kurt Schacht to the Education and Content Services and Audit and Finance Committees;
- agreement on the locations for meetings of the Trustees in 2016, which would be held in London, New Delhi and Sao Paulo;
- proposals for developing future Trustee stakeholder events.

Report of the Chairman of the IASB

Hans Hoogervorst, Chairman of the IASB, provided the Trustees with an update on the IASB's activities.

Technical Work Plan Overview

The focus of the report was to outline the progress on the **leases** project, which was a joint project with the FASB. The Trustees were informed that, in recent months, the two boards had concentrated on finalising the redeliberations on the 2013 Exposure Draft (ED) and, in particular, had made tentative decisions on the disclosure requirements that accompanied the lessee accounting model and on transition requirements. On the majority of topics, the IASB and the FASB had reached converged decisions, including – most importantly – on the requirement for a lessee to recognise assets and liabilities for its leases (other than short-term leases and, for the IASB, leases of small assets such as laptops and office furniture). But it was noted that the two Boards had reached different decisions on a number of issues, most notably on the lessee accounting approach for existing operating leases. Different stakeholders had taken different views on the priority of

¹ Details of the memberships can be accessed at: <http://www.ifrs.org/About-us/IFRS-Foundation/Oversight/Trustees/Pages/Committees.aspx>.

maintaining convergence between the two Boards, but the balance of opinion canvassed from stakeholders by the IASB emphasised that, while convergence was important, the quality of the final Standard was even more important.

The Trustees also noted that the IASB had considered the due process steps at its March 2015 meeting and concluded that it had completed all of the mandatory and optional due process steps required (as noted below, at this meeting the DPOC carried out a lifecycle review of the due process undertaken on this project).

The IASB had instructed the staff to proceed to drafting and balloting the *Leases* Standard, which would be published later in 2015. The IASB was preparing an extensive effects analysis that would be presented with the Basis for Conclusions and published with the Standard.

Consistent application of IFRS

The focus of this update was on the progress of the work of the **Transition Resource Groups (TRGs)**. On the Revenue TRG (RTRG), which was a joint group with the FASB, the Trustees noted that, in the light of the issues brought to the RTRG, the FASB was planning to make a few amendments to the revenue Standard. The IASB was planning to propose some limited clarifications to the revenue Standard, which it would expose for comment, together with any other clarifications it might consider necessary from discussions at its forthcoming meetings, in a single ED, to be approved at its meeting in June 2015.

It was likely that there would be differences in the extent and detail of any further guidance proposed by each Board, although the Standards would remain largely converged.

In addition, at its meeting on 1 April 2015, the FASB had decided to propose a one-year delay in the effective date of the revenue Standard for public companies, from 2017 to 2018, with adoption in 2017 permitted. The IASB was scheduled to discuss the topic at its meeting in April 2015.

The first meeting of the TRG for Impairment of Financial Instruments was scheduled to hold its first substantive meeting on 22 April 2015.

Engagement strategy

The Trustees were updated on the Chairman's recent successful visits to Korea and Japan.

Report of the Chairman of Trustees on the Due Process Oversight Committee

Michel Prada reported on the Committee's April 2015 meeting with the leadership and directors of the IASB.

The DPOC reviewed the IASB's current **technical activities**. The DPOC heard progress reports from staff on the IASB's current technical agenda, including on accounting for insurance contracts, leases, macro-hedging, rate-regulated activities, the conceptual framework and the disclosure initiative. The DPOC was also updated on the progress of the research programme, the trials to assess the staff proposals to amend the IFRS Taxonomy due process, the forthcoming second Agenda Consultation and the implementation projects being undertaken. On this last point, the focus of the DPOC

discussion was on the progress of the Revenue Transition Resource Group and the challenges that it raised.

On the revenue recognition Standard, the DPOC was informed that the FASB had decided to propose a one-year deferral in the effective date of the Standard and was preparing to issue an Exposure Draft (ED) on the issue. The IASB was planning to discuss the effective date issue at its April meeting. If the IASB decided to propose a similar deferral to the effective date of IFRS 15, then it would also need to issue an ED on the issue. The DPOC discussed what might be an appropriate comment period for such an ED and agreed that the comment period could be shortened to 30 days, given the narrow scope. The DPOC's approval on this issue was in line with paragraph 6.7 of the *Due Process Handbook*. The IASB would report back to the DPOC the outcome of its discussion in April on this issue.

Overall, the DPOC was satisfied that all projects were proceeding in a manner consistent with the requirements set out in the *Due Process Handbook*.

The DPOC received a report setting out a lifecycle review of the due process undertaken on the **leases** project, together with a copy of the agenda paper that had been presented to the IASB at its March 2015 meeting. This agenda paper summarised the due process that had been taken in developing the Standard, analysed whether the IASB had complied with all necessary due process requirements, and sought the Board's permission to commence the balloting process.

The DPOC noted that the proposals on leases had always generated controversy and, among some stakeholders, continued to do so. The Committee reviewed the extensive due process that had been carried out on this project, with the publication of a Discussion paper (DP) in 2009 and two EDs (in 2010 and 2013). Throughout the life of the project, the two Boards had also carried out extensive outreach activities, including public roundtable meetings and setting up an advisory Leases Working Group.

On convergence, the DPOC was reassured that the IASB had reached different decisions from the FASB only after careful evaluation of the implications of reaching those different decisions and when, in its view, those decisions represented a higher-quality solution.

The DPOC had previously emphasised the importance to the IASB of the need to avoid being left exposed to claims that it had not followed due process and that it took steps to ensure that it disclosed publicly the rationale used to reach tentative decisions and conclusions, with special attention to issues that received substantial debate in the exposure process, including outside the comment letter consultation in response to the DP and the two EDs. The IASB highlighted the work that it had undertaken in this area on leases, including the publication of three *Project Updates* between August 2014 and March 2015. Those documents are available on the website².

The DPOC noted that – at its March 2015 meeting – the IASB considered whether or not to re-expose the proposals. The DPOC was content with the IASB's decision not to re-expose.

² The Project Updates can be accessed from the *Leases* project page at: <http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/Pages/Leases.aspx>.

In summary, the DPOC was satisfied that all the necessary due process steps on the project had been completed and the Committee confirmed that its review of due process was now complete. The balloting process was now underway and the revised Standard will be issued later in 2015.

The DPOC considered a report on the progress and findings of the **post-implementation review (PIR) of IFRS 3 Business Combinations**. As required by the *Due Process Handbook*, the PIR had been conducted in 2 phases, with the first phase involving an initial identification and assessment of the matters to be examined. This resulted in the issue of a public consultation in the form of a Request for Information. The second phase involved considering the feedback to the consultation, together with a review of the relevant academic literature. The IASB has discussed this feedback and decided to add a number of items to its agenda.

In discussion, the DPOC was content that all necessary due process steps had been followed and that its review of due process on the PIR was complete. The IASB would proceed with the finalisation of the report and feedback statement on the PIR, which was expected for publication later in the second quarter of 2015.

The DPOC was updated on the material that the **IFRS Education Initiative** was developing in 2015 and was satisfied that the level of review that was planned in each case was consistent with the requirements set out in the *Due Process Handbook*.

On **consultative groups and DPOC engagement**, the Committee was updated on the latest activities of a number of the IASB's consultative groups and noted the forward schedule of meetings. The DPOC discussed whether members should observe meetings of the major advisory groups at least once a year, but decided against having such a formal process. The DPOC received regular updates on the work of the groups and annually considered a report from the staff that reviewed the effectiveness of all groups. Observation of a meeting might be useful in particular for new Trustees, and a member could observe if in London, or via webcast for a number of groups.

On **correspondence**, no new matters had been received since the February 2015 meeting.

Regional outreach activity

As part of the Trustees' meeting, the IFRS Foundation hosted a successful joint event with the AcSOC, the AcSB and CPA Canada. The event was held in honour of one of the Vice Chairs of the Trustees, Harvey Goldschmid, who sadly passed away in February.

The theme of the event was ***IFRS and Global Standards: A Canadian perspective***. Linda Mezon, the Chair of the AcSB, gave the opening remarks, Hans Hoogervorst then presented a keynote speech, in which he launched the Foundation's Mission Statement, which was followed by a panel discussion³. Both the Mission Statement and Hans' speech can be accessed from the Foundation's website⁴.

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³ A video recording of the event can be accessed at: <http://www.ifrs.org/Features/Pages/IFRS-and-global-standards-A-Canadian-perspective.aspx>.

⁴ The speech and the Mission Statement are available on the IFRS Foundation website at: <http://www.ifrs.org/Alerts/Conference/Pages/IASB-Chairman-presents-new-mission-statement-April-2015.aspx>.