

Summary of the conclusions of the IFRS Foundation Trustees' meeting

October 2014, Mexico City

Introduction

The latest meeting of the Trustees of the IFRS Foundation, chaired by Michel Prada, was held in Mexico City on 7-9 October 2014.

Report of the Trustees' Executive session

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

The Trustees reviewed the Foundation's long-term **funding arrangements** in different parts of the world. In particular, the Trustees discussed the need to encourage all jurisdictions that benefit from the use of IFRS to contribute towards the costs of its development. This would be a particular feature of the Foundation's work in the coming months.

In line with corporate governance best practice, the Trustees periodically carried out a **self-evaluation** exercise. At this meeting, the Trustees discussed feedback received from the latest self-assessment exercise, which had been carried out over the summer of 2014. The Trustees had a very good and candid exchange of views. It was a very useful exercise that resulted in several helpful ideas for the Trustees to improve their own effectiveness as a body, in terms of both organisational and strategic issues for the Foundation. The Trustees tasked the staff to detail a list of the issues and conclusions emerging from the exercise for decisions to be taken at their next meeting in Zurich in February 2014.

Some of the ideas would inform the forthcoming **review of the structure and effectiveness of the organisation**. Under the Foundation's *Constitution*, the Trustees had to undertake such a review every five years. Previous reviews had been labelled as a 'Constitution Review' and the Trustees had also in the past undertaken a number of Strategy Reviews. The Trustees continued their discussions from the July meeting on the themes for the review. In procedural terms, the Trustees agreed that the Executive Committee would serve as the Review Committee for the conduct of the review. The Trustees also considered an indicative timetable, which would incorporate at least one round of public consultation during 2015.

The Trustees also discussed terms of reference and the process, including an indicative timetable, for the upcoming **review of the Accounting Standards Advisory Forum (ASAF)**. When establishing the ASAF in 2013, the Foundation committed to have such a review after two years. While the ASAF had been very successful, the Foundation would be receptive to ideas about how to enhance the effectiveness of this important group. The Foundation would seek input from ASAF members and others on this review during the remainder of 2014 and early 2015. In order to provide the necessary time to complete the review, the Trustees agreed that the terms of the current members of ASAF should be extended for a further period beyond April 2015.

The Trustees discussed a number of **IFRS international developments**. The discussions covered:

- **Europe** – in particular, the Trustees considered the consultation being undertaken by the European Commission on Europe's experience of IFRS. The Trustees agreed that the

Foundation should submit a response to the consultation and considered a draft of a response, making a number of helpful suggestions, in particular on the overall messages to convey to the Commission of the benefits that IFRS had brought, and could bring in the future, to the European Union. In particular, the Trustees emphasised the fact that global accounting standards would play an important role in Europe's desired objective of creating a European Capital Markets Union. Academic evidence had shown that investors' familiarity with a high-quality set of accounting standards was an important feature in encouraging foreign investment and investor confidence. This was the role of IFRS. The Trustees looked forward to working with Jonathan Hill as the new European Commissioner, as well as with the new European Parliament;

- **United States** – the Trustees reviewed a current assessment of the US environment and the Foundation's approach in the US, where an announcement on IFRS was still awaited from the US Securities and Exchange Commission (SEC). The Trustees welcomed the appointment of Jim Schnurr as Chief Accountant at the SEC;
- **Asia-Oceania** – the Trustees discussed latest developments in a number of jurisdictions in the region:
 - o **Japan:** the Trustees continued to see positive developments in Japan. The number of Japanese companies adopting IFRS on a voluntary basis was continuing to increase, having more than doubled in the last 12 months to a total of 48 either applying IFRS or having announced an intention to do so, including some of Japan's largest multinational companies;
 - o **China:** the Trustees heard that in addition to Chinese Accounting Standards being similar to IFRS, a significant number of large Chinese companies – around 250 - were also preparing IFRS financial statements because of their dual listings in Hong Kong;
 - o **India:** the Trustees heard about positive discussions with the Indian authorities regarding their plans to introduce Indian standards based on IFRS but with some exceptions. Those discussions were seeking to limit the number of exceptions to IFRS, or to eliminate them completely. Importantly, the Indian securities regulator was still continuing to provide Indian companies the option to voluntarily adopt full IFRS;
 - o **Asia-Oceania office:** as the use of IFRS continued to spread throughout the Asia Oceania region, the Foundation had enhanced the ability of the IFRS Foundation Asia-Oceania office based in Tokyo to support the region, including having recruited two new staff members.

The Trustees received a report from Joanna Perry, the Chair of the IFRS **Advisory Council**, setting out her initial thoughts on the role of the Council and the importance of maintaining its relevance.

The Trustees also received a presentation from Hans Hoogervorst, the Chairman of the IASB, providing an update on the **work of the IASB** on the Leasing and Insurance projects and the strategic issues arising on them.

The Trustees received an excellent presentation from Jorge José Gil and Felipe Pérez Cervantes, respectively President and Vice-President of the **Group of Latin-American Standard-Setters (GLASS)** on the Latin American perspectives on IFRS. The Trustees were impressed with the tremendous progress that GLASS had made in the three years since its establishment and the support for IFRS. That said, the presenters were open in the concerns that GLASS had and the ways in which they

believed relationships could be improved with the Foundation, as well as technical issues in IFRS, which the Foundation undertook to consider carefully.

The Trustees agreed a number of **Committee chair appointments**: Ron Arculli as Chair of the Human Capital Committee, Sheila Fraser as Chair of the Nominating Committee, Harvey Goldschmid as Chair of the Due Process Oversight Committee and Joji Okada as Chair of the Audit and Finance Committee. This was as a consequence of the impending retirement at the end of 2014 of four long-standing Trustees: Aki Fujinuma, Bob Glauber, Scott Evans and Clemens Börsig. The Trustees paid tribute to the outstanding service that all four had provided to the Foundation. In terms of their replacements, the Trustees' Nominating Committee was still handling the process for a number of Trustee appointments as from 1 January 2015.

The Trustees also decided to establish an **Alumni Network**, to continue to benefit from the expertise and support of former Trustees and staff once they had left the organisation.

The Trustees received reports from a number of Committees:

- the **Education and Content Services Committee** – the Committee had been updated on the imminent launch of the redesigned eIFRS. The Committee was also updated on the progress of the work being undertaken by the IASB's Education Initiative. In addition, the Committee was updated on certain matters relating to the IFRS Taxonomy; and
- the **Audit and Finance Committee** – following a review by the Committee, the Trustees were updated on the Foundation's latest financial results against budget, together with a forecast update for 2014 and a preliminary three-year plan. Despite the continuing funding challenges, the Foundation's current financial situation was sound. The Trustees were also updated on the results of an independent review of the cost effectiveness of the organisation's expenditure. That report, conducted by Baker Tilly, confirmed that the Foundation was a cost-effective organisation. The results would be sent to the Monitoring Board and the Foundation intended to publish the findings of the review once that had been completed.

Report of the Vice-Chair of the IASB

Ian Mackintosh, Vice-Chair of the IASB, provided the Trustees with an update on a number of the IASB's activities.

With regard to the IASB's **technical Work Plan**, it was noted that the Board continued to have a full agenda. In the period since the last Trustees' meeting in July 2014, the IASB had issued a number of documents, most notably the publication of IFRS 9 *Financial Instruments*. This represented the finalisation of a major project, with the package of improvements in the Standard covering a logical model for classification and measurement; a single forward-looking 'expected loss' impairment model; and a substantially reformed approach to hedge accounting.

In terms of the active agenda, a number of projects were highlighted:

- on **leases**, which was a joint project with the US Financial Accounting Standards Board (FASB), the Trustees were reminded that the two Boards were united on the balance sheet approach for lessees. The Trustees highlighted the importance of emphasising that the two

Boards were agreed on this, which was the most important aspect of the project. It was noted, however, that they had come to different conclusions on the recognition and presentation of lease expenses in a lessee's income statement. That said, the two Boards would continue their joint redeliberations. While there was support from investors and some preparers, the proposals remained controversial with much of the industry and concerns were still being raised. The IASB would continue the dialogue with constituents on those concerns. The IASB was targeting the issue of a Standard in the first half of 2015;

- on **insurance contracts**, the Board was continuing its redeliberations, including on the accounting for contracts with participating features, which remained one of the most difficult and contentious outstanding issues. The IASB had received many conflicting views from the industry, given the range of different business models in place, and was still seeking to achieve a balance between completing the project and the need to maintain the quality of its decision-making process in dealing with such a challenging issue. The IASB was continuing its dialogue with interested parties and was seeking to meet various concerns that had been expressed about the proposals, but acknowledged that this was making the proposed Standard more complex. The Board would, at some stage, need to step back and consider the cumulative impact of all the tentative decisions it had made and would make. The IASB still planned to issue an IFRS in 2015;
- on the **conceptual framework**, the IASB was working hard to keep in line with the ambitious timetable on this project and was planning to issue an Exposure Draft (ED) in early 2015. Some of the more substantive recent discussions by the IASB had focussed on what the *Conceptual Framework* should say about measurement, and the distinction between profit and loss and Other Comprehensive Income (OCI);
- on **macro-hedging**, it was noted that the comment period on the Discussion Paper (DP) issued by the IASB in April 2014 would end on 17 October. While there had been strong support from constituents on the IASB addressing the topic, it was too early to determine whether there was consensus on the accounting approach explored in the DP;
- the IASB had a consultative group on **Sharia-compliant instruments and transactions**. The group had met in September and had explored three issues relating to the classification and measurement of financial instruments under IFRS 9 when applied to instruments used in Islamic Finance and whether there might be diversity in practice. Another meeting would be scheduled for early 2015, after which the IASB would need to consider whether it, or the Interpretations Committee, would need to take any actions in relation to the treatment of such contracts and transactions;
- the comprehensive review of the **IFRS for Small and Medium-sized Entities (SMEs)** was continuing, and the IASB at its October meeting was scheduled to start discussing the issues raised in the responses to the ED on the review that had been issued in October 2013;
- progress was noted on the **research programme**, for example with the issue of a DP on rate-regulated activities and the IASB starting to consider the feedback to an ED on amendments to IAS 1 *Presentation of Financial Statements*, as part of the **Disclosure Initiative**. On research, the IASB was seeking to engage much more with the academic community and, earlier in October, had hosted a successful Research Forum at the Saïd Business School, University of Oxford.

The Trustees were updated on a number of other significant **developments**:

- **Investor engagement strategy** – the IASB was continuing to review its strategy for engagement with investors and to improve interactions with them;
- **Use of IFRS globally** – the use of IFRS was growing, with advances continuing to be made in major economies such as Japan, China and India (as noted above). Ian Mackintosh reported that he would be paying a further visit to India during November; and
- **Consistent application of IFRS** – it was noted that the first meeting of the Transition Resource Group (TRG) for Revenue Recognition, which had been established jointly with FASB, had been held in July 2014. A further meeting was scheduled for 31 October. The first meeting of the TRG for Impairment of Financial Instruments had yet to be scheduled. The Trustees were reminded that the TRGs were not decision-making groups. Any proposals for amendments to Standards or Interpretations would need to be referred to the Board and/or the Interpretations Committee. It was also stressed that the two TRGs should not be viewed as implying that such groups would be established for all new Standards.

Report of the Chairman of the Due Process Oversight Committee

Scott Evans, Chairman of the Due Process Oversight Committee (DPOC) reported to the Trustees on the Committee's October 2014 meeting with the leadership and directors of the IASB.

At its meeting, the DPOC covered the following:

- a review of the IASB's current **technical activities**. The DPOC had considered all the major projects on the IASB's Work Plan, including Insurance Contracts, Leases, the IFRS for SMEs, Conceptual Framework, the Discussion Paper on macro-hedging, Disclosure Initiative, the IFRS Taxonomy and the research agenda;
- at this meeting, the DPOC paid particular attention to the progress on the **leases** project, in particular considering the concerns raised by some stakeholders and the comments about the project that had been referred to by the Chair of the UK Financial Reporting Council (FRC) in his presentation to the Trustees at their July 2014 meeting. Following discussion, the IASB committed to review its public disclosure of the rationale used to reach tentative decisions and conclusions, with special attention to issues that received substantial debate in the exposure process. The DPOC requested that the technical staff demonstrate that the IASB had publicly disclosed the rationale for its actions in relevant public documents throughout the entire life of a project, from discussion paper to final issuance of a new or revised IFRS or Interpretation. In addition, the technical staff agreed to review and, as necessary, improve the completeness of the Project Work Plan report to the Committee, in order to provide a more complete snapshot of anticipated project time lines;
- on the **IFRS Taxonomy**, the technical staff agreed to ensure that the due process trials, which were designed to give the IASB comfort as to its role in the approval of the content of the Taxonomy, should be regarded as a priority. This was in line with the DPOC's view that the trial run process should be completed as soon as possible;
- with these comments, the Committee was satisfied all the due process requirements as set out in the *Due Process Handbook* were being met;

- the Committee reviewed and was content with the near-final draft of the report of the **Effects Analysis Consultative Group (EACG)**. At present, it appeared that all the proposals in the report fell within the existing framework of the *Due Process Handbook*, but the DPOC would consider any changes if they were thought to be necessary. The Committee was appreciative of the considerable work of the EACG, which will disband upon publishing its report. The DPOC agreed that it was important that the report was finalised and published as soon as possible, so that the proposals could be embedded into the IASB's process as quickly as possible, to the extent that they were not already reflected in the due process;
- the DPOC noted the latest progress on the work of the IASB's **consultative groups** and the forward schedule of meetings of those groups; and
- on **correspondence**, DPOC considered a letter of 29 September 2014 that had been received from Hans van Damme, the Acting Chair of the Supervisory Board of the European Financial Reporting Advisory Group (EFRAG). The letter proposed that a public 'fatal flaw' review prior to finalising a new Standard or major amendment should be included as a formal step in the IASB's due process. At present, the *Due Process Handbook* included as an option making public a draft for editorial review. The suggestion repeated a comment made by EFRAG in its response in 2012 to the review of the *Due Process Handbook*. The staff and the IASB undertook to review the suggestion and to revert to the DPOC with advice as to whether events of the past few months had altered the current stance that such publication should be optional. Other than this, no new matters had been received since the July 2014 meeting.

Stakeholder event

As part of the Trustees' meeting, the Foundation, together with the Consejo Mexicano de Normas de Información Financiera (CINIF) and the Comisión Nacional Bancaria y de Valores (CNBV) hosted a stakeholder event. Presentations were given by Michel Prada, Ian Mackintosh, Jaime González Aguadé (President of the CNBV), and Roberto del Cueto (Deputy Governor of the Bank of Mexico), with closing remarks provided by Felipe Pérez Cervantes. The event provided the opportunity for a good exchange of views with Mexican stakeholders.