

Summary of the conclusions of the IFRS Foundation Trustees' meeting

January 2014, Milan

Introduction

The latest meeting of the Trustees of the IFRS Foundation, chaired by Michel Prada, was held in Milan on 27-28 January 2014.

Report of the Trustees' Executive session

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

Meeting with the Monitoring Board

The Trustees met with the Monitoring Board of the IFRS Foundation. A separate transcript of the meeting will be provided by the Monitoring Board in due course.

The Monitoring Board provided an update on the progress made in implementing the recommendations of its 2012 report on the review of the IFRS Foundation's governance. The Trustees were informed that the Monitoring Board had agreed to expand its membership with the addition of two new permanent members representing Brazil and Korea¹. Further appointments were still in the process of being considered. As for the assessment of current members against the Monitoring Board's membership criteria, a peer review process was being developed.

The Trustees updated the Monitoring Board on several topics:

- **Implementation of the Trustees' Strategy Review and the Monitoring Board's governance review** – the Trustees noted that they had addressed most of the recommendations set out in both reviews, highlight a number of important initiatives, such as the creation of the Accounting Standards Advisory Forum (ASAF), the closer working with the International Organisation of Securities Commissions (IOSCO) on consistent application of IFRS, and the separation of the role of Executive Director of the IFRS Foundation and the Chair of the IASB;
- **International developments: G20** – the Trustees and the Monitoring Board discussed the continuing dialogue with the G20 and the Financial Stability Board (FSB) on the mission of a single set of global accounting standards;
- **Use of IFRS around the world: jurisdiction profiles** – the *Strategy Review* had also recommended that there should be greater clarity on the use of IFRS. The Monitoring Board received a presentation from Paul Pacter, who was leading a project on developing jurisdiction profiles on the use of IFRS around the world. The presentation summarised the main messages from the 122 jurisdiction profiles that had been developed to date;
- **IFRS Foundation financial situation** - the Monitoring Board was updated on the improved situation, with increased revenues in 2013 compared to 2012 and lower operating expenses compared to budget, which resulted in increase in reserves towards the target set by the Trustees to further stabilise the financial standing of the Foundation;
- **IFRS funding** – the Monitoring Board was updated on the progress made in a number of jurisdictions in meeting their share of the Foundation's funding and the efforts being made

¹ The announcement can be accessed at: http://www.iosco.org/monitoring_board/pdf/Press20140128-1.pdf.

by the Trustees to secure additional funding from the accounting profession (on a temporary basis) and from self-generated income. There remained challenges with some jurisdictions and the Monitoring Board offered what support it could within its remit;

- **Review of operational efficiency** – the Monitoring Board noted that the Foundation had carried out an internal Operational Review to identify whether the organisation’s costs were controlled appropriately and whether any improvements in processes could be identified. The Operational Review demonstrated that the Foundation had an effective financial control environment. That said, the Trustees recognised that, as an organisation that worked in the public interest, the Foundation should put out a tender for an external review of expenditure and current practices to be undertaken in the next few months in order to provide an independent assessment as to whether the Foundation’s operations were run in a cost-effective manner and are effectively managed;
- **Review of the structure and effectiveness of the Foundation** - the Monitoring Board was informed of the decision taken by the Trustees at their October 2013 to defer the start of the next review of the structure and effectiveness of the Foundation (until now, usually referred to as a Constitution Review) until 2015. The Trustees had undertaken a far-reaching Strategy Review, and the Monitoring Board a review of the Foundation’s governance, the reports of which had been published in February 2012. The Trustees had discussed whether it was appropriate to conduct a further Constitution review so soon after the publication of these reports, given that these reviews had addressed many areas of the Constitution and the recommendations were still being implemented. There was also a risk of consultation fatigue among constituents. The Trustees had therefore agreed to defer the start of the next review until 2015, which would also have the benefit of aligning the timing of the proposed review of the ASAF and with the Monitoring Board’s governance reviews.

Executive session

The Trustees discussed **key international developments**. With regard to **Europe**, there had been extensive discussions in recent months, given the range of initiatives in place during 2013 (including the Maystadt review on how to reinforce the European Union’s contribution to IFRS, that had resulted in proposals to transform the European Financial Reporting Advisory Group, EFRAG; the debate on the EU’s further contribution to the funding of the Foundation; the European Commission’s forthcoming review of the International Accounting Standards, IAS, Regulation; and the Commission’s Green Paper on long-term financing). It was noted that 2014 would be a year of change in the EU and that the Foundation would continue to work hard to maintain good relationships with the main decision-making bodies in Europe. On **China**, the Foundation continued to maintain close contacts with the Chinese authorities. It was noted that Michel Prada, Executive Director Yael Almog and IASB member Wei-Guo Zhang had made a very fruitful visit to China in November 2013.

The Trustees reviewed and discussed the current and future arrangements for the **funding** of the IFRS Foundation. The financial position for 2013 was encouraging but the Foundation was seeking to consolidate that position and to build up its financial reserves. The Foundation was continuing its work to stabilise the system of jurisdictional funding, maintaining the use of GDP as the determining

factor². The Trustees were also looking at ways in which the Foundation could increase its commercial income, while not losing sight of its public interest mission.

The Trustees also considered their interaction with the **IFRS Advisory Council**. The Trustees noted that the Advisory Council had carried out a self-assessment survey during 2013 and while the results highlighted general support for the current level and extent of interaction between the Advisory Council and the Trustees, a concern had been raised that the Trustees might not be making as much proactive use as possible of the Advisory Council. The Trustees confirmed the value they placed on the work of the Advisory Council and their willingness to improve communications and relationships between the two bodies. The Trustees noted that Michel Prada would be leading a session on this interaction at the Advisory Council meeting being held in February 2014.

The Trustees also considered and agreed their **strategic priorities for 2014**, focusing on the five strategic areas as set out in the annex to this summary.

Report of the Chairman of the IASB

Hans Hoogervorst, Chairman of the IASB, provided the Trustees and the Monitoring Board at their joint meeting with an update on the IASB's activities.

Progress was reported on the main projects on the IASB's technical agenda. On **financial instruments**, the main phases of the project were nearly complete. In November 2013, the IASB had published that part of IFRS 9 *Financial Instruments* that brought into effect a substantial overhaul of hedge accounting that would allow entities to better reflect their risk management activities in their financial statements. At its January 2014 meeting, the IASB had substantially completed its redeliberations on the proposed limited amendments to IFRS 9 on the classification and measurement of financial instruments, which would bring into effect improvements to the Standard and a better interaction with the forthcoming IFRS on insurance contracts. At that same meeting, the IASB had also substantially completed its redeliberations on expected credit losses (impairment). The IASB believed that the package delivered significant improvements in the accounting requirements for financial instruments. The revised IFRS 9 would also resolve a number of issues highlighted by the financial crisis, notably the 'too little, too late' criticism on the recognition of impairments, and addressing the so-called 'own credit' issue. It was noted that convergence with the US Financial Accounting Standards Board (FASB) was unlikely. This situation had been discussed in recent meetings of the FSB, which now accepted that there would not be convergence on impairment, but wanted to see the proposals in place as soon as possible.

On **leases**, another joint project, a summary of the comment letters and outreach activities on the 2013 Exposure Draft (ED) had been presented to the IASB and FASB at their joint meeting in November 2013. The summary revealed support from the majority of users of financial statements for the proposal to recognise lease assets and liabilities on the balance sheet. Investors knew that there was hidden leverage and at present made their own adjustments that often over-estimated the extent of leverage in the balance sheet. But while there was praise for the boards' efforts to respond to concerns regarding the 2010 ED, there remained considerable concern about the cost

² Following the meeting, the US Financial Accounting Foundation (FAF) announced that it would be making a non-recurring contribution to the Foundation of up to US \$3 million. The FAF announcement is at: http://www.accountingfoundation.org/cs/ContentServer?c=FAFContent_C&pagename=Foundation%2FFAFContent_C%2FFAFNewsPage&cid=1176163774653.

and complexity of the proposals in the second ED issued in 2013. The boards had started their redeliberations in January 2014, considering the issues raised with regard to the lessor model, the lessee model and any possible scope implications, with the aim of reaching decisions on these important issues in March 2014. A theme of the redeliberations would be to decide on the appropriate cost-benefit balance of the proposals, as well as considering an appropriate implementation date.

On **insurance contracts**, the IASB had issued a revised ED in late June 2013, targeted on five specific areas. The comment period had ended on 25 October 2013 and a total of 194 comment letters had been received. The IASB had also undertaken extensive outreach and detailed fieldwork, which had revealed a high level of diversity in current practice. While there was broad support for the proposals, there remained some significant areas of concern, in particular around complexity and accounting mismatches. The IASB would be analysing the comments received carefully and acknowledged that there was still a lot of work to be done. There was a clear need for an IFRS on insurance contracts to bring more uniformity around the world and to improve transparency, but finalising the Standard would be challenging, given the range of business models currently in place.

On the **conceptual framework** project, it was noted that the IASB had received over 200 comments to the DP that had been issued in July 2013. The IASB had also carried out extensive outreach, including holding a number of public roundtables, and had consulted its advisory groups, in particular the ASAF, which was acting as the consultative group on the conceptual framework project.

Report of the Chairman of the Due Process Oversight Committee

Scott Evans, Chairman of the Due Process Oversight Committee (DPOC) reported (a) to the Trustees and the Monitoring Board at their joint meeting on the recent activities of the DPOC and (b) to the Trustees on the Committee's January 2014 meeting with the leadership and directors of the IASB.

In recent months, the DPOC had focused its attention on gaining assurance that the projects on the IASB's Work Plan were following the provisions outlined in the February 2013 *Due Process Handbook*. The DPOC had also been monitoring all the consultative groups established by the IASB to assess whether each group continued to be effective. The DPOC's latest annual review, carried out in July 2013, confirmed that all existing groups were reported to be operating effectively. The DPOC had also been paying close attention to the IASB's continuing efforts to improve the transparency of reporting from outreach and fieldwork, in line with the principle that any feedback should be reported as transparently as possible while respecting requests for confidentiality.

At its January 2014 meeting, the DPOC covered the following:

- A review of the IASB's current **technical activities**. The DPOC had considered all the major components of the financial instruments project, leases, revenue recognition, insurance contracts, the Conceptual Framework, as well as narrow-scope projects. The DPOC was satisfied that all the due process requirements as set out in the *Due Process Handbook* were being met.
- A report on the full lifecycle of the project on of interim Standard on **regulatory deferral accounts**. Since the interim Standard would create an inconsistency in reporting

requirements until such time as the comprehensive project on rate-regulated activities was completed and a new IFRS was published, the DPOC emphasised the importance of completing the comprehensive project as quickly as possible. The IASB committed to come back to the DPOC with specific objectives on project timing for the rate regulated activities project. In the meantime, the DPOC was satisfied that the required due process steps had been taken and that the IASB could proceed with the issue of the interim IFRS.

- A consideration of the IASB's proposals on changes to the due process and consultative arrangements for the **IFRS Taxonomy**. The DPOC agreed to the changes to due process such that: (a) interim IFRS Taxonomy releases would be the primary document for public consultation; (b) the annual IFRS Taxonomy would be a physical compilation of previous interim releases and would not be issued for public consultation; and (c) the proposed change would be effective immediately and applied to the 2014 annual IFRS Taxonomy (to be issued in February 2014) and all subsequent IFRS taxonomy releases. The DPOC also agreed to the proposal to establish an IFRS Taxonomy Consultation Group.
- On **consultative groups and DPOC engagement**, the Committee continued its interest in engagement with major each consultative group in order to ensure that each body was functioning as intended. All groups observed during the period were seen to be working well. The DPOC was content with the proposal to update the terms of reference and operating procedures for the SME Implementation Group to take account of the revised procedure for its Question and Answer (Q & A) programme.
- On **outreach and fieldwork**, the DPOC received a report on the progress made by the technical staff in improving the transparency of feedback from outreach meetings and fieldwork, and looked forward to further discussions on this topic.
- On **correspondence**, no new matters had been received since the October 2013 meeting.

Regional outreach activity

As part of the Trustees' meeting, the IFRS Foundation hosted a successful joint event with the Organismo Italiano di Contabilità (OIC) at which the Trustees and the leadership of the IASB met with representatives of key stakeholders to discuss issues under the theme *Market confidence: the challenge for IFRS*.

IFRS Foundation: Strategic Priorities for 2014

1. **International:** to continue to engage with the G20 and the FSB to ensure continuing support for the mission of a single set of high-quality global accounting standards.
2. **Adoption:**
 - i. to ensure that jurisdictions that have fully adopted IFRS remain committed to adoption of IFRS in full, without modification and that other jurisdictions in the G20 and beyond, that have still to fully adopt IFRS, are encouraged and supported in their transition to full IFRS adoption;
 - ii. to continue monitoring developments in Europe and to develop relationships with all formal and informal stakeholders relevant to EU policy issues;
 - iii. to develop a strategy on IFRS in the US given the uncertainties of their policy towards IFRS adoption;
 - iv. to support convergence projects that are endorsed for use by all major jurisdictions. With strategic direction from the Board's Adoption Committee, we will continue to engage with G20 jurisdictions who have not yet fully adopted IFRS. In 2013 senior level visits were made to China, Indonesia, Japan and Saudi Arabia. We intend to continue working with these countries in the course of 2014. Senior level visits to India are a strategic priority for early 2014. The key objective will be to encourage an announcement on a roadmap for full convergence with IFRS; and
 - v. to continue to report transparently on the status of IFRS adoption around the world, in particular through the maintenance and development of the IFRS Jurisdictional Profiles.
3. **IASB oversight:** to support the IASB in completing the outstanding projects on its convergence agenda with the FASB, so enabling the Foundation and the IASB to implement fully the move to the multilateral approach to standard-setting managed through the Accounting Standards Advisory Forum (ASAF), where co-operation is deepened with national standard-setters and regional bodies as they contribute to the development of IFRS or seek to align their respective standards to IFRS.
4. **Implementation:** to continue to emphasise the importance of ensuring consistent application of IFRS and to develop relationships with others, in particular the International Organisation of Securities Commissions (IOSCO) as well as regional and national enforcers, to promote the goal of consistent application;
5. **Funding and corporate governance:**
 - i. to secure a broad and sustainable funding regime that enables the Foundation to operate effectively, efficiently and independently;

- ii. to strengthen relations with the members of the IFRS Foundation Monitoring Board;
- iii. to continue to undertake a programme of improvements in processes and procedures in a way that prepares the ground for the Foundation's next review of its structure and effectiveness that is scheduled to start in 2015 and for the 2015 review of the Accountancy Standards Advisory Forum (ASAF).