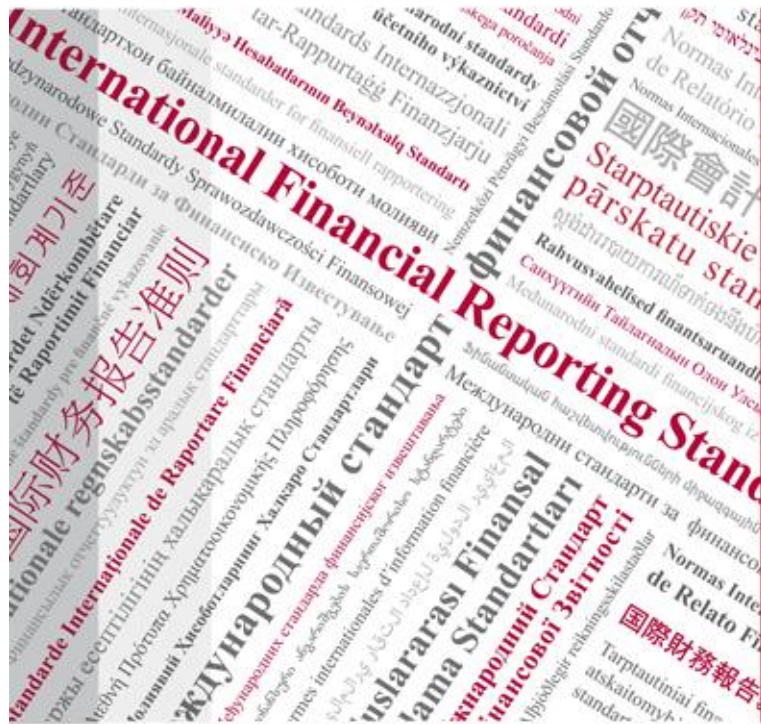


# International Financial Reporting Standards



## IASB Update a Board Member Perspective

Philippe DANJOU

Paris 13 Octobre 2015 – IMA France

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

## Financial reporting standards for the world economy

*“Our mission is to develop International Financial Reporting Standards (IFRS) that bring **transparency**, **accountability** and **efficiency** to financial markets around the world. Our work serves the public interest by fostering trust, growth and long-term financial stability in the global economy.”*

# Global adoption of IFRS

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# Progress towards global standards

Afghanistan	Chile	Hungary	Mongolia	South Africa
Albania	China	Iceland	Montserrat	Spain
Angola	Colombia	India	Myanmar	Sri Lanka
Anguilla	Costa Rica	Indonesia	Nepal	St Kitts and Nevis
Antigua and Barbuda	Croatia	Iraq	Netherlands	St Vincent and the Grenadines
Argentina	Cyprus	Ireland	New Zealand	Suriname
Armenia	Czech Republic	Israel	Nicaragua	Swaziland
Australia	Denmark	Italy	Niger	Sweden
Austria	Dominica	Jamaica	Nigeria	Switzerland
Azerbaijan	Dominican Republic	Japan	Norway	Taiwan
Bahamas	Ecuador	Jordan	Oman	Tanzania
Bahrain	Egypt	Kenya	Pakistan	Thailand
Bangladesh	El Salvador	Korea (South)	Panama	Trinidad & Tobago
Barbados	Estonia	Kosovo	Paraguay	Turkey
Belgium	European Union	Latvia	Peru	Uganda
Belarus	Fiji	Lesotho	Philippines	Ukraine
Belize	Finland	Liechtenstein	Poland	United Arab Emirates
Bermuda	France	Lithuania	Portugal	United Kingdom
Bhutan	Georgia	Luxembourg	Romania	United States
Bolivia	Germany	Macao	Russia	Uruguay
Bosnia and Herzegovina	Ghana	Macedonia	Rwanda	Uzbekistan
Botswana	Greece	Madagascar	Saint Lucia	Venezuela
Brazil	Grenada	Malaysia	Saudi Arabia	Vietnam
Brunei	Guatemala	Maldives	Serbia	Yemen
Bulgaria	Guinea-Bissau	Malta	Sierra Leone	Zambia
Cambodia	Guyana	Mauritius	Singapore	Zimbabwe
Canada	Honduras	Mexico	Slovakia	
Cayman Is.	Hong Kong	Moldova	Slovenia	

Red = countries that require the use of IFRS for all or most publicly listed companies, based on survey of 138 countries, representing 97% of worldwide GDP

# Progress towards global standards

Region	Number of jurisdictions in the region	Number of jurisdictions that require IFRS for all or most domestic publicly accountable entities	Number of jurisdictions that require IFRS as % of total jurisdictions in the region	Number of jurisdictions that permit or require IFRS for at least some domestic publicly accountable entities, but not for all or most entities	Number of jurisdictions that neither require nor permit IFRS for any domestic publicly accountable entities	Total
Europe	42	41	97.6%	1	0	42
Africa	20	16	80.0%	1	3	20
Middle East	7	6	85.7%	1	0	7
Asia-Oceania	32	24	75.0%	3	5	32
Americas	37	27	73.0%	8	2	37
Totals	138	114	82.6%	14	10	138

# Endorsement around the world

<b>No endorsement required</b>	64 jurisdictions
<b>European Union process</b>	33 jurisdictions
<b>Endorsement solely by professional accounting body</b>	11 jurisdictions
<b>Endorsement solely by government agency</b>	15 jurisdictions
<b>Involves both professional body and government</b>	6 jurisdictions
<b>IFRS not yet adopted for any domestic or foreign companies</b>	10 jurisdictions

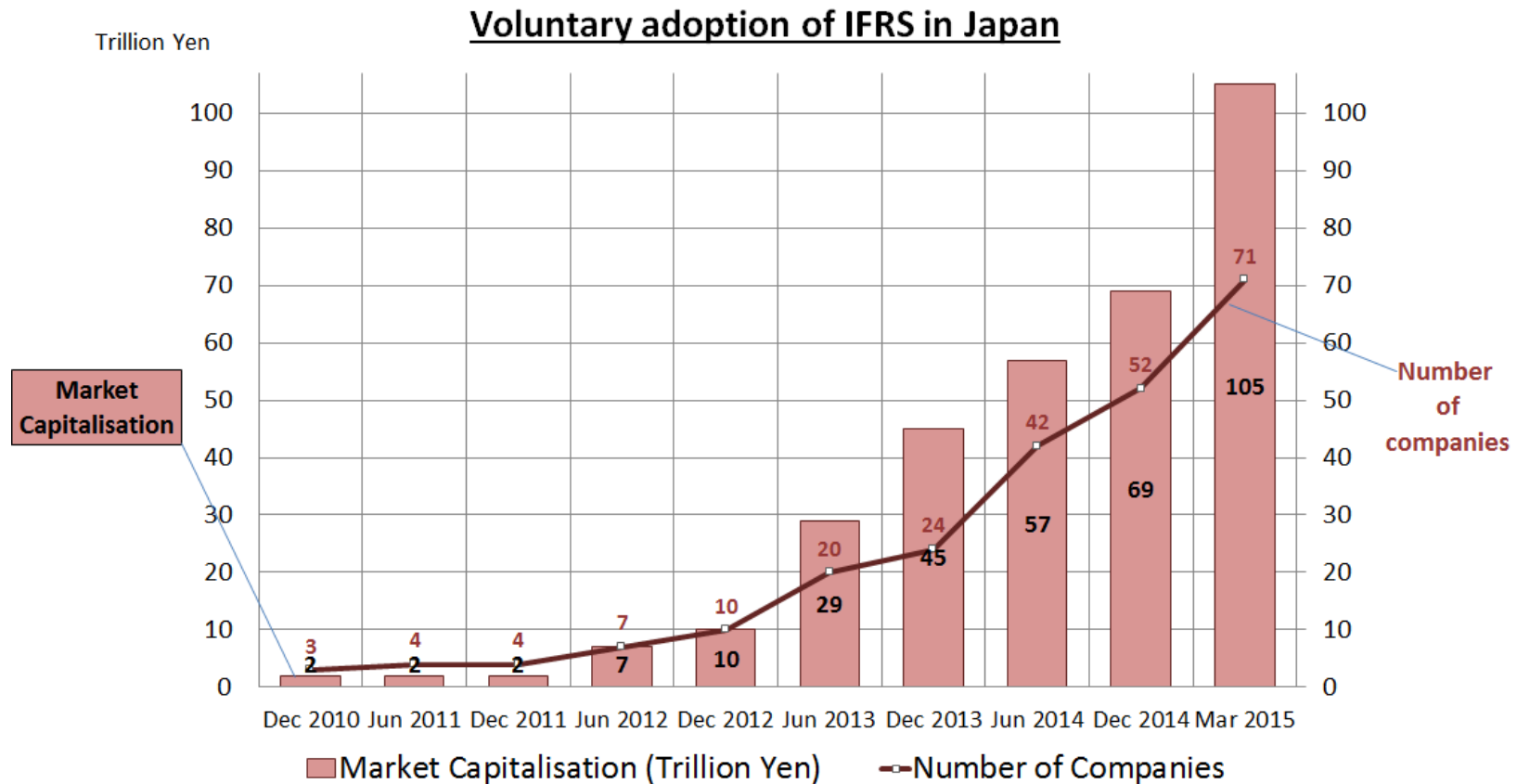
- Ind AS is replacing existing Indian Accounting Standards.
- Ind AS is similar to IFRS, compared with the existing Indian Accounting Standards.
- However, the new Ind AS will not be the same as IFRS. The current proposals contain two major and several minor differences. Minor differences are optional.
- Currently, Indian companies using IFRS as issued by IASB account for more than 20 % of market capitalisation in the Indian stock index ( Nifty 50).

- China has already made the transition to Chinese Accounting Standards, which are very similar to IFRS.
- More than 250 Chinese companies, which represent 30 per cent of the total domestic market capitalisation in China, report using full IFRS for the purpose of their listings in Hong Kong, to attract foreign investors.
- The Hong Kong Stock Exchange allows both IFRS and Chinese Accounting Standards, however, most of the Chinese companies listed in Hong Kong are choosing IFRS for their listing in Hong Kong.



# Voluntary Adoption in Japan

In Japan, the IFRS adopters and their market capitalisation are growing rapidly.



- Le GDP (PNB) total des juridictions qui appliquent les IFRS de façon obligatoire s'élève à US\$ 40trn, plus de 50% du PNB mondial
- L'Union Européenne représente un PNB total de US\$ 17trn; les juridictions IFRS en dehors de l'UE totalisent US\$ 23trn de PNB

# Current and future work plan of IASB

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- The IASB's published work plan classifies projects into three main categories:
  - major projects;
  - research projects; and
  - implementation projects.
- The IASB's agenda is influenced by interpretation issues as well as by post-implementation reviews.
- In addition, the IASB is required to undertake an Agenda Consultation every three years. The IASB has recently published its second Agenda Consultation.

- Final version of IFRS 9 *Financial Instruments* issued in July 2014:
  - Replaces previous versions of IFRS 9
  - Brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39
- Mandatory effective date - 1 Jan 2018 with early application permitted.
- EU Endorsement status – good progress !
- Basel Committee working on document that sets out their views on quality application.

- Impairment Transition Resource Group (ITG)
  - second meeting to be held in September
  - not receiving a large volume of questions
  - life of the group: seeking to balance support and stability

# The IASB's major projects at 30 September 2015

Due process stage	Project
Upcoming Standards	Insurance Contracts
	Leases
Published Exposure Draft	Conceptual Framework
Upcoming Exposure Drafts	Disclosure Initiative—Changes in Accounting Policies and Estimates
	Disclosure Initiative—Materiality Practice Statement
Published Discussion Papers	Dynamic Risk Management
	Rate-regulated Activities
Upcoming Discussion Paper	Disclosure Initiative—Principles of Disclosure

## Insurance contracts

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- Objective – to provide a single principle-based Standard that would increase comparability and transparency of entities that issue insurance contracts.
- Timelines:
  - IASB issued revised Exposure Draft in June 2013.
  - Redeliberations started in March 2014.
  - Final Standard is expected in 2016.
- So far, the IASB has completed its discussions on the model for insurance contracts without participation features, and is now developing proposals for the application to the general model to contracts with participation features.



## Insurance contracts and IFRS 9

- Some entities that issue insurance contracts will be significantly affected by both the new Insurance Contracts Standard and IFRS 9 (“mismatch”).
  - The mandatory effective date of the new Insurance Contracts Standard will be after 1 January 2018, the mandatory effective date of IFRS 9. Endorsement of IFRS 9 in Europe is recommended by EFRAG, ECB etc. subject to finding a solution for insurance entities
  - Some stakeholders are requesting a deferral of IFRS 9 for entities that issue insurance contracts. Any such deferral would be complex and require extensive analysis and due process.
- The IASB has discussed and resolved this issue at the September Board meeting. One option is the so-called “**overlay approach**”; a **deferral for certain entities** (“with predominant insurance activities”) will also be proposed. ED to be issued.

- Status: IASB has completed redeliberations (except effective date)
- Main decisions:
  - 1) Lessee:
    - **All leases on-balance sheet** <sup>1</sup>
    - Interest and amortisation presented separately in income statement
  - 2) Lessor: Little change to existing lessor accounting
- Substantial convergence with the FASB
  - Recognition of leases on-balance sheet; lease definition; liability measurement; little change to lessor accounting
  - Main difference: recognition of lease expenses and cash flows
- Next steps: Publication of final standard expected Q4 2015
  - Board presently reviewing ballot drafts and basis for conclusions

<sup>1</sup> With the exception of short-term leases and leases of small assets

- <http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/Documents/Leases-Project-Update-February-2015.pdf>
- <http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/Documents/Practical-implications-Leases-Standard-Project-Update-March-2015.pdf>

# The Conceptual Framework Exposure Draft

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It underpins the decisions made by the IASB when setting Standards

- It will affect future Standards developed by the IASB

It is a practical tool that assists:

- the IASB to develop Standards
- preparers to develop consistent accounting policies
- others to understand and interpret IFRS

It addresses fundamental issues:

- What is the objective of financial reporting?
- What makes financial information useful?
- What are assets, liabilities, equity, income and expenses, when should they be recognised and how should they be measured, presented and disclosed?

It is not a Standard and does not override Standards

# What does the Conceptual Framework Exposure Draft propose?

## Fill gaps

- Measurement guidance
- Role of profit or loss and use of OCI
- Presentation and disclosure guidance
- Derecognition
- The reporting entity

## Update

- Recognition criteria
- Definitions of income and expenses

## Clarify

- Definitions of assets and liabilities
- Role of prudence, stewardship and measurement uncertainty in financial reporting

## Disclosure Initiative

Completed projects

Ongoing activities

Implementation projects

Research projects

Amendments to IAS 1

Digital reporting

Proposed amendments to IAS 7 'debt reconciliation'

Distinction between a change in accounting policy and estimate

Materiality

Principles of Disclosure

Standards level review of disclosures / Drafting guide

# Principles of Disclosure (POD) project

## Why

- Requests for the IASB to develop presentation and disclosure principles that apply across IFRS
- A better 'disclosure framework' in IFRS will result in improved disclosures because it will help:
  - the IASB set better disclosure requirements in IFRS; and
  - entities make better judgements about what and how to disclosure information.

## Output

- Discussion Paper
  - Overall principles and specific issues
  - Ultimate goal is to produce a disclosure standard (IFRS) dealing with the basic structure and content of financial statements
  - Redevelop parts of IAS 1 *Presentation of financial statements*
- Education guidance – communication/formatting

- Separated from IFRS 9 project in 2012.
- DP *Accounting for Dynamic Risk Management – a Portfolio Revaluation Approach to Macro Hedging* published in 2014
  - Outlined the Portfolio Revaluation Approach, which aims to better reflect the risk management of open portfolios in entities
  - Comment letters highlighted significant diversity in views on project objectives among stakeholders
- Tentative decisions to date:
  - To first consider the information needs of stakeholders and subsequently recognition and measurement
  - To prioritise dynamic *interest* rate risk management



## Rate-regulated activities

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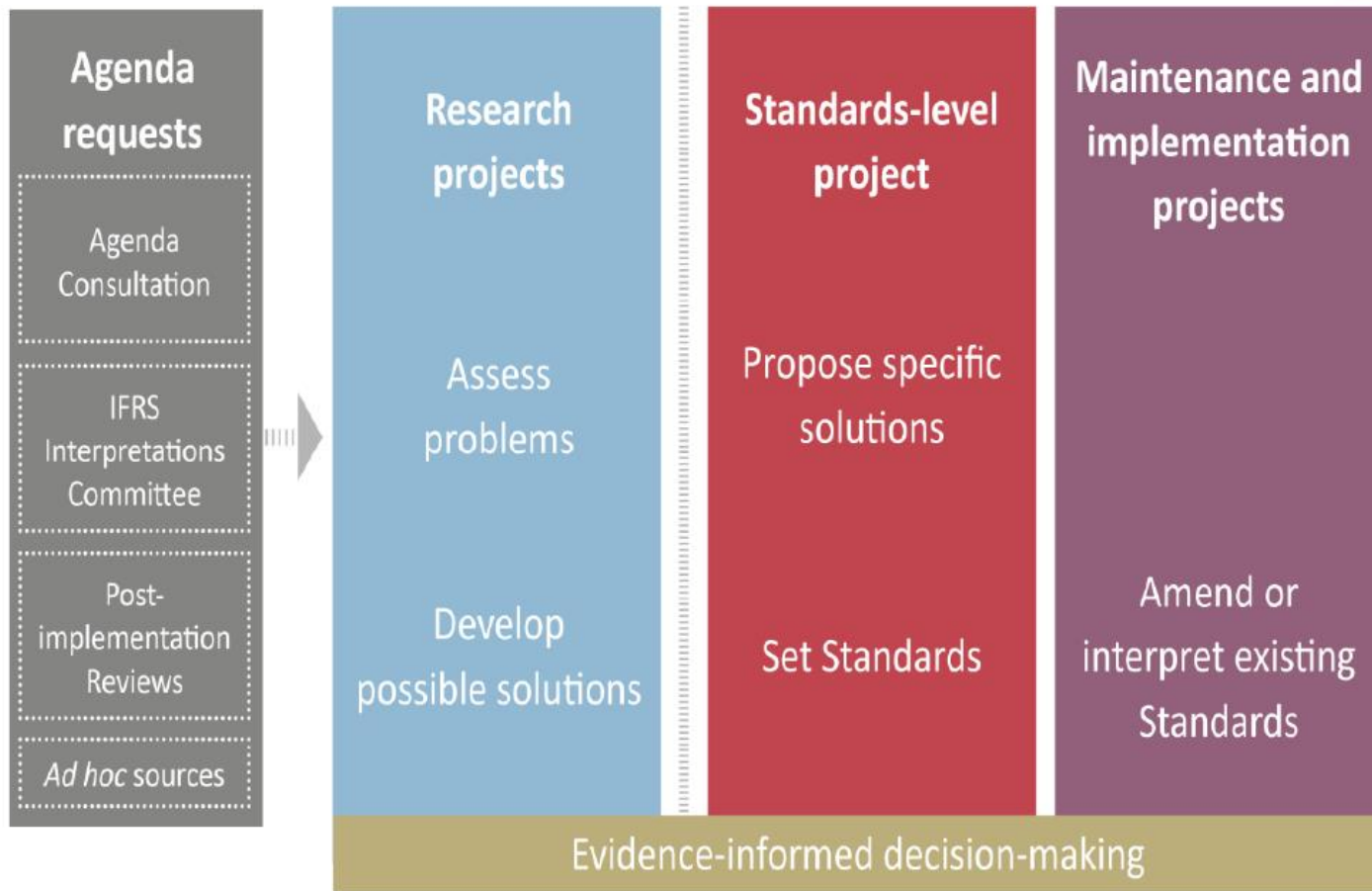
- IFRS today has no comprehensive standard for rate-regulated activities
- Interim relief for first-time adopters of IFRS
  - Issued IFRS 14 *Regulatory Deferral Accounts* in Jan 2014
  - Permits grandfathering of previous GAAP accounting practices for recognition, measurement, impairment and derecognition
  - Enhanced presentation and disclosure matters
  - Effective date is 1 Jan 2016, early application is permitted
- Current project
  - Discussion Paper published September 2014
  - Support for recognising at least some regulatory deferral account balances, focusing on a revenue-based approach
  - Currently developing an accounting model to propose within a further Discussion Paper (expected early 2016)

# The IASB's research projects at 31 July 2015

- The research programme is a portfolio of projects of varying breadth, scope and complexity, and at various stages of completion.
- The research programme responds to calls for a more “evidence-based” approach to standard setting.
- Most of the projects now on the research programme were added in response to the feedback received in the 2011-2012 Agenda Consultation.

# The standard-setting process

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# The IASB's research projects at 31 July 2015

Project stage	Project
<b>Assessment stage</b>	Definition of a Business
	Discount Rates
	Goodwill and Impairment
	Income Taxes
	Pollutant Pricing Mechanisms (formerly Emissions Trading Schemes)
	Post-employment Benefits (including Pensions)
	Primary Financial Statements (formerly Performance Reporting)
	Provisions, Contingent Liabilities and Contingent Assets
	Share-based Payments

# The IASB's research projects at 31 July 2015

Project stage	Project
Development stage	Business Combinations under Common Control
	Disclosure Initiative—Principles of Disclosure
	Dynamic Risk Management
	Equity Method
	Financial Instruments with Characteristics of Equity
Inactive	Extractive Activities/Intangible Assets/Research and Development (R&D)
	Foreign Currency Translation
	High Inflation

- Implementation projects reflect the ‘repairs and maintenance’ that the IASB and the IFRS Interpretations Committee carry out on the Standards.
- Implementation projects include:
  - IFRIC Interpretations
  - Narrow-scope amendments
  - Annual Improvements
- Implementation activities also include Post-implementation Reviews, most recently in respect of IFRS 3 *Business Combinations* and IFRS 8 *Segment Reporting*.

- IFRS 15 *Revenue from Contracts with Customers* issued concurrently with the FASB in May 2014
  - A single, principle-based revenue standard for IFRS and US GAAP
  - Genuinely global standard
- Revenue Transition Resource Group supporting implementation
  - 37 submissions discussed at 4 meetings; 5 topics subsequently considered by IASB and FASB
  - IASB published in July an ED of targeted clarifications to 3 topics in IFRS 15 plus additional practical expedients for transition
- In July 2015 the IASB confirmed the deferral of IFRS 15 by one year to 1 January 2018.

## Projects suspended pending further research

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- Application questions relating to the Equity Method of accounting
- Measuring quoted investments in subsidiaries, JV and associates at fair value



- The IASB has recently published its second Agenda Consultation. The Request for Views (RFV) is open for public comment until **31 December 2015**.
- The RFV seeks input on the strategic direction, balance and priorities for the work plan from mid-2016 until mid-2020.
- The RFV seeks input only on the technical work plan. It does not seek input on matters such as education, the IFRS Taxonomy, technology and the consistent application of IFRS.
  - Those matters are being considered in a separate review of structure and effectiveness by the Trustees of the IFRS Foundation. This has also recently been published and is open for public comment until **30 November 2015**.

# IFRS/US convergence – a never ending story?

## 2000 to 2008 – a period of growing interest in IFRS in the United States:

- 2000 SEC Concept Release on IFRS
- 2002 Five former SEC chairmen publicly support IFRS for domestic US companies
- FASB-IASB convergence projects
- 2007 SEC roadmap toward IFRS plus another Concept Release, pushed by Chairman Cox
- **2007 SEC elimination of reconciliation**
- 2008 FASB Chairman and FAF support IFRS
- 2008 SEC new roadmap to requiring IFRS

### 2009 onward – a period of declining interest in IFRS in the United States:

- 2009 New SEC chairman expresses reservations to Congress
- 2009 FASB-FAF response to second SEC Roadmap: “Wait and study”
- 2011 SEC staff reports on IFRS shortcomings
- 2012 SEC staff work plan: many reasons not to adopt IFRS were cited. Perhaps convergence, but not adoption.
- 2014 Cox now has doubts about IFRS in US

# Convergence: substantial achievements but not total success

- MoU had great ambitions, many realised
  - 20 completed (FASB still working on financial instruments)
  - 2 in process (leasing, insurance)
  - 2 dropped (debt-equity, income taxes)
  
- Progress on all projects even when full convergence not achieved
  - Offsetting: disclosure to allow comparison
  - Leasing: lease obligations to be recognised on balance sheet
  - Financial instruments: expected loss (vs incurred loss) approach for impairment
  
- Convergence process has a range of outcomes
  - Some virtually identical (revenue, business combinations, fair value measurement)
  - Some closely aligned (segment reporting, investment entities, share-based payments)
  - Diverging requirements eliminated and scopes aligned (eg interest capitalisation)
  
- Convergence was means to an end (US adoption), not the end goal

- Any expansion of use by US domestic entities?
    - Adoption, condorsement, option, disclosure...
  - More work on convergence?
    - Seem to have hit point of diminishing returns – maintenance only? Parallel projects? New joint projects?
  - Interaction with strategy review?
    - Mixed messages re: goal of a single set of standards/ convergence
    - Allocations, participation, funding?
- ➔ What is the framework for answering these questions?

# What is the long-term outlook for IFRS in the US?

- American investors have vast holdings of foreign securities, most of which report under IFRS. At Dec 2013 US investors held:
  - US\$6.5 trillion of foreign corporate equity securities
  - US\$2.7 trillion of foreign corporate debt securities
  
- On the other hand, at June 2014 foreign investors held:
  - US\$6.4 trillion of US corporate equity securities
  - US\$9.2 trillion of US corporate debt securities
  
- Numbers like these suggest that the United States will, at some point, revisit the issue of use of IFRS by domestic US companies.

# IFRS Foundation: Review of Structure and Effectiveness

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- The starting point: the Strategic Overview 2015-17 which contains four primary strategic goals for the organisation as follows:
  - (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;
  - (2) to pursue the global adoption of IFRS;
  - (3) to support the consistent application and implementation of IFRS globally; and
  - (4) to ensure that the IFRS Foundation, as an organisation, is independent, stable and accountable.
- Consultation document takes each of the four goals in turn, outlining what the review cover and what it does not, given achievements to date following previous Constitutional and Strategy reviews.

# Areas for review: relevance of IFRS (Strategic goal 1)

- Consultation covers:
  - Which entities should the IASB's work cover? Public sector (proposal: no, given IPSASB); private not-for-profits (seeking views).
  - Boundaries of financial reporting: non-IFRS, Alternative Performance Measures (proposal: technical issues for IASB's current agenda and Agenda Consultation).
  - IASB's place re wider corporate reporting (proposal: active role, but not at the forefront).
  - IFRS Taxonomy (seeking views on Taxonomy strategy).
  - Technological developments in the context of general purpose financial reporting (seeking views).

# Areas for review: consistent application of IFRS (Strategic goal 3)

- Two secondary strategic goals as follows:
  - a. develop timely and responsive interpretation process while considering principle-based nature of IFRS;
  - b. provide implementation support to IFRS adopters.
- Even if prime responsibility rests with others, inconsistent application of IFRS poses a risk for the Foundation.
- Focus in the consultation is to seek views on what we do now to support consistent application, and whether there is anything more the Foundation could and should be doing, including:
  - scope for enhancing co-operation with others;
  - enhancing work of Education Initiative in this area.

# Areas for review: governance structure (Strategic goal 4)

- Trustees' view is that the three-tier structure of Monitoring Board, Trustees and IASB remains appropriate.
- Strong support for the structure expressed by stakeholders in Strategy Review and Monitoring Board Governance Review reports issued in 2012. No case to change the structure.
- But Trustees are seeking views from stakeholders as to how the functioning of that structure might be improved.

# Areas for review – governance & other aspects (Strategic goal 4)

- Seeking views on overall geographical distribution of Trustees, including increasing number of ‘at large’ appointments within the total number of 22.
- Changing the focus and frequency of reviews of the Foundation, so as to cover:
  - a review of **strategy** and effectiveness;
  - with each review commencing, at the latest, five years after the previous review has been completed.
- Reducing the size of the IASB from 16 to 13 members.
- Flexibility on other aspects of membership of the IASB:
  - balance of backgrounds – emphasis on members as a group representing “the best available combination of technical expertise and diversity of international business and market experience”;
  - terms of appointment should be to five years initial plus up to five years’ re-appointment.

# Areas for review: funding (Strategic goal 4)

- Trustees' view is that the Foundation's current funding model remains appropriate, but seeking views as to how its functioning can be improved, given the on-going challenge in securing funding from some jurisdictions;
- Request for views emphasises:
  - continuing on a transitional basis to raise contributions from the accounting firms, pending the achievement of fully securing publicly sponsored contributions (while emphasising that this does not comprise the organisation's independence); and
  - the proposal that the Foundation should look to explore the potential to increase the proportion of income from self-generated sources to strengthen independence (while maintaining an appropriate balance with the organisation's public interest mission).

# Questions and next steps

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- Any questions or comments on the proposals?
- Deadline for responses 30 November 2015.
- Respond via: <http://www.ifrs.org/About-us/IFRS-Foundation/Oversight/Trustees/Pages/Review-of-Structure-and-Effectiveness-Request-for-Views-and-Comment-Letters.aspx>.
- Comment letter summary scheduled to be presented to the Trustees at their January 2016 meeting.
- Feedback analysis and issues, including proposals for Constitutional changes and any further due process, scheduled for the Trustees' May 2016 meeting.

