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January 2012

IFRS public policy briefing.

IFRS Foundation Chairman and Trustees appointed

The IFRS Foundation has appointed Michel Prada, a former Chairman of the Executive and Technical Committees of the International Organization of Securities Commissions (IOSCO), and a highly-respected advocate of investor protection and independent standard-setting, as Chairman of the IFRS Foundation Trustees. Mr Prada was a member of the Nominating Committee that appointed the initial Trustees in 2000 and subsequently served as a member of the Financial Crisis Advisory Group (2008-10). He served as chairman of the French Autorité des Marchés Financiers (formerly Commission des Opérations de la Bourse) between 1995 and 2008. Commenting shortly after his appointment, Mr Prada committed himself "to the collective effort of promoting the goal of the global adoption of IFRSs as issued by the IASB. This includes the process of convergence, which is a tool for dealing with transition towards full adoption rather than being an end point in itself."

The IFRS Foundation has also announced the appointment of Yong Li and Marco Onado as Trustees for an initial three-year term. Mr Yong is President of the Chinese Institute of Certified Public Accountants and a Vice Minister to the Ministry of Finance of the People's Republic of China and Mr Onado is a Senior Professor of Financial Institutions at the Bocconi University in Milan, Italy.

Deloitte view

Mr Prada's appointment is welcomed and ends a year during which the IFRS Foundation was led by its two vice-chairmen following the sudden death of Tommaso Padoa-Schioppa. His experience as a securities regulator and in standard-setting at the very highest level, provide him the skills necessary to strengthen further the IFRS Foundation and work closely with the IASB. This experience will be critical as the Trustees seek the delicate balance between independence, legitimacy and effective oversight of the IASB and effective engagement with the IFRS Monitoring Board.

IASB Agenda Consultation

The IASB is now considering input from constituents about its future Agenda. This was the first formal public agenda consultation by the IASB and is part of an enhanced interaction by the Board with the diverse constituencies to whom it is accountable.

Deloitte view

In our comment letter, we stated that the overall strategic priority of the IASB as it determines its agenda and assigns priorities to the various topics should be the development of high-quality financial reporting standards based on clear principles and in the context of a comprehensive, open due process. However, as an immediate priority, the Board must dedicate all necessary resources to completion of the projects on revenue from contracts with customers, leases, insurance contracts and financial instruments. Given the scale of these four projects, a realistic allocation of significant resources to other projects can be made only once they have been completed.

The IASB and many constituents have already highlighted the importance of continuing to develop and refine the *Conceptual Framework for Financial Reporting (2010)* as critical to providing a clear set of principles to underpin individual standards. We agree with this assessment, but would add that the development of a clear framework for disclosures in financial statements is critical and urgent. This should be undertaken separately from, and with more urgency than, any project on financial statements presentation.

We also support the IASB's programme of post-implementation reviews of recently-issued IFRSs. The IASB intends to initiate reviews of IFRS 8, Operating Segments, and IFRS 3, Business Combinations (2008) within the next calendar year.

Read Robert Bruce's commentary on the IASB's Agenda Consultation here and our comment letter here.

Towards Integrated Reporting

The International Integrated Reporting Council (IIRC) released a Discussion Paper: *Towards Integrated Reporting – Communicating Value in the 21st Century* in September 2011. The Discussion Paper is the first step in the development of an 'International Integrated Reporting Framework' and seeks to build on existing developments in reporting such as the international convergence of accounting standards, guidance published by organisations such as the Global Reporting Initiative, and the IASB's IFRS Practice Statement Management Commentary. The IIRC intends that its Framework will support an organisation in addressing, in a clear and concise manner, the material issues affecting its ability to create and sustain value in the short, medium and longer term.

The scope of an integrated report would be comprehensive, including an organisational overview and a discussion of the business model; the operating context, including risks and opportunities; the organisation's strategic objectives and strategies to achieve those objectives; the organisation's governance and remuneration; performance (financial and non-financial); and its future outlook. This comprehensive scope reflects the belief that organisations are responsible for a range of 'capitals': financial, manufactured, human, intellectual capital, social and natural.

The IIRC believes an Integrated Report should be an organisation's primary reporting vehicle. Under the IIRC's vision, much information currently produced (including detailed financial reporting information, operational data and sustainability information) would move to an online environment enabled by technology, reducing clutter in the primary report so that report can focus only on the matters the organisation considers most material to long-term success.

The IIRC has initiated a two-year programme of pilot projects to 'try and test' the principles and practicalities of Integrated Reporting. About 40 organisations have been invited to participate in the first pilot, which will be for reporting cycles ending between October 2011 and September 2012.

Deloitte view

We agree that the current corporate reporting model can be improved and that action to explore its improvement should go beyond traditional financial reporting participants and involve a wider set of international stakeholders. Furthermore, we agree that the principle of stewardship should encompass value creation and the costs incurred to create that value across all the resources and capitals used by an entity. A review of corporate reporting is timely as many existing corporate reporting regulators and standard-setters reconsider the length of annual reports and what should and should not be included.

We support coordinated international action in this area to avoid duplication of initiatives and regulatory requirements around the world. Such an approach is critical to ensure that any revised business reporting model has appropriate authority. The insight to be gained from the Pilot Programme will assist in developing the integrated reporting concepts further. This period of innovation and experimentation is an important element in developing and refining integrated reporting and identifying significant issues that potentially stand in the way of its ultimate global success.

Read Robert Bruce's commentary on the IIRC Discussion Paper here and our comment letter here.

Still awaiting a decision about IFRSs in the US

The financial community is waiting for the US Securities and Exchange Commission to decide whether and how the Commissioners will integrate IFRSs into financial reporting for US domestic issuers.

In November 2011, two reports were issued as part of the SEC staff's work plan: one from the Division of Corporation Finance – *An Analysis of IFRS in Practice*, and another from the Office of the Chief Accountant – *A Comparison of US GAAP and IFRS*. The reports were objective and identified no critical issues. The Division of Corporation Finance's report observed that "the transparency and clarity of the financial statements in the sample could be enhanced" and that "diversity in the application of IFRS presented challenges to the comparability of financial statements across countries and industries."

Speaking at the AICPA's annual financial reporting conference in December 2011, James Kroeker, SEC Chief Accountant, noted that the SEC staff are continuing to execute the work plan agreed in 2010, but that the final report would take a 'few additional months' to complete. He also stated that he remained 'encouraged about the potential prospects of IFRS incorporation' into US financial reporting.

Deloitte view

The object of the SEC staff's work plan is to provide the Commissioners with enough information so that they could make a decision on whether and how IFRSs could be incorporated into the US financial reporting system. The details of any SEC staff recommendation remain unclear, but indications are that the staff will support a gradual incorporation of IFRSs into the US financial reporting system, as articulated in the May 2011 SEC staff paper.

If the SEC were to decide upon a gradual incorporation of IFRSs, it is unclear as to whether they would allow certain US domestic issuers the ability to adopt IFRSs voluntarily before an incorporation process was completed.

In recent comments to the SEC, Deloitte recommended that US domestic issuers should be permitted to adopt IFRSs as issued by the IASB early. This would allow multinational companies that are most affected by the movement towards IFRSs globally to benefit from using a single financial reporting standard for both global and local reporting purposes. This would improve the comparability among companies within industries that are more global in nature and help the SEC to gain experience from US issuers' adoption of IFRSs. Such an approach would allow the US and global infrastructure to continue to develop and would facilitate investor education, auditor effectiveness, regulatory enforcement, and the willingness of US market participants to make judgments under IFRSs.

Read Robert Bruce's commentaries on this issue here and here.

ESMA issues Public Statement on Sovereign Debt in IFRS financial statements

The European Securities and Markets Authority issued a Public Statement on Sovereign Debt in IFRS Financial Statement that included a formal Opinion on the IFRS accounting treatment of holdings in Greek Sovereign Debt. The Opinion arose out of ESMA research into the accounting for Greek Sovereign Debt at 30 June 2011. The observations included in the Opinion are also relevant for the accounting for Greek Sovereign Debt at the year ending 31 December 2011. The Public Statement also discusses the accounting issues relating to sovereign debt in IFRS annual financial statements that will be relevant for the year end. These include the IFRS requirements in considering whether there is evidence of impairment, the measurement requirements of sovereign debt as well as stressing the importance of disclosures.

The Opinion follows a private letter from Hans Hoogervorst, IASB Chairman, to Steven Maijoor, ESMA Chairman giving Mr Hoogervorst's views on the appropriate application of current IFRSs after noting inconsistent approaches by some financial institutions in impairing Greek sovereign debt. The letter was released publicly after it had been leaked by a third party. Mr Hoogervorst noted that the IASB and ESMA had "a mutual interest in ensuring the highest quality in the application of IFRSs."

Deloitte view

ESMA has indicated that it will take action to enforce consistency of securities regulation across European Member States. As it is a relatively new organisation, it is not yet clear whether ESMA's intervention will be the start of a more public and active role in ensuring consistency of application of IFRSs compared with its predecessor organisation, CESR. Such a role may prove challenging as national regulators retain a high level of day-to-day responsibility and autonomy in the supervision of the EU's securities markets.

EFRAG celebrates 10 years

The European Financial Reporting Advisory Group (EFRAG) celebrated 10 years of operations in October 2011. From uncertain beginnings as an 'innovative' European body when it was proposed in the European Commission's Communication of June 2000, EFRAG has matured to be the European Commission's technical adviser on all matters related to IFRSs in Europe and a pro-active participant in the IASB's standard-setting activities. EFRAG's 'Proactive Accounting Activities in Europe' (PAAinE) programme has been effective in ensuring that there is a strong European voice as the IASB develops proposals.

Deloitte view

We continue to support and encourage the work that EFRAG does to promote IFRSs in Europe. From being viewed with mild suspicion by the IASB when it was founded, EFRAG is now an important IASB ally – not an uncritical one, but one with the same ultimate objective: high quality financial reporting in Europe and elsewhere. That is due in no small part to the work of Stig Enevoldsen, currently a partner in the Danish Deloitte member firm, and Chairman of EFRAG (2004-2010).

Read Robert Bruce's retrospective of EFRAG's ten years of achievement, **here** and an interview with Stig Enevoldsen, **here**.

Trustees complete their strategy review

During the October 2011 IFRS Foundation Trustees' meeting, the Trustees announced that they had completed their strategy review. They wished to release their final report so that it could be considered by the US Securities and Exchange Commission in advance of their expected decision on the use of IFRSs by US domestic issuers. However, with the delay in that decision, the Trustees now have the opportunity to coordinate the release of their report and the report and recommendations on IFRS Foundation governance being prepared independently by the IFRS Monitoring Board – as many constituents have requested and the two groups have committed to do.

Deloitte view

Both reports are important to constituents as it is hoped that they will provide a coherent framework for strong governance of the IFRS Foundation through the Monitoring Board and rigorous oversight of the IASB by the IFRS Foundation Trustees. At this critical time for global financial reporting, a coherent and consistent message from the IASB's governance bodies in this area is necessary and important.

Read Deloitte's comment letter on the Trustees' latest proposals **here**.

IASB: G20 Agenda topics

The IASB's latest work plan makes interesting reading. Significantly, it confirmed that the IASB will re-expose its proposals on Leases having already re-exposed its proposals on Revenue Recognition. The Impairment chapter of IFRS 9, *Financial Instruments*, will also be re-exposed and the issue of a 'review draft' is due shortly for the 'general hedging' chapter of IFRS 9. Review drafts are similar to an exposure draft, but without the formal invitation to comment. The IASB has issued amendments to IAS 32 on offsetting financial assets and liabilities in December 2011. Unfortunately, the IASB and FASB have reached different conclusions in this area, with extra disclosure being required to paper-over the differences. On insurance, the IASB has not decided whether to re-expose or choose the review draft/ extended outreach approach.

The redeliberation of these projects has often been difficult and seen alternative ideas investigated. Re-exposure of IASB proposals is not always required, but given the sensitivity of these proposed IFRSs, the additional assurance afforded by re-exposure and related outreach activities, should allow the IASB to test the quality of their proposals. Perhaps of even greater significance is that the IASB concluded in November 2011 that it would consider 'targeted' amendments of IFRS 9 with respect to classification and measurement of financial instruments in light of its commitment to expose the FASB's financial instruments proposals. Any reconsideration of IFRS 9 will likely be controversial, in that some entities outside of the EU have either already adopted IFRS 9 or have already dedicated significant time and resources to the Standard's implementation while others would be seeking significant changes.

Deloitte view

We welcome both the IASB and FASB spending significant time and resources to ensure that the standards in the key G20 areas are of high-quality. Re-exposing proposals on these key projects is necessary as the Boards have taken decisions as part of their deliberations that are in places significantly different to the original proposals that were exposed. However, resolving differences between the FASB and the IASB is proving difficult in some key areas. The clear split on offsetting of financial assets and financial liabilities, with its compromise of extended disclosure as well as the 're-opening' of IFRS 9, may indicate choppier waters to come.

Designed and produced by The Creative Studio at Deloitte, London. 16365A