

Meeting of the IASC Foundation Trustees

Beijing, Thursday 9 October 2008

(The portion of the meeting on 10 October 2008 was not open to public observation)

The notes below represent one person's observation of the meeting and do not represent official minutes of the IASC Foundation. Since much of the discussion is based on papers this observer was not privy to, the information below should not be relied on.

The Trustees of the IASC Foundation (IASCF), under which the IASB operates, met at the Westin Grand Hotel, 9b Financial Street, Xicheng District, Beijing 100032, China in public session on 9 October 2008.

Opening of Meeting

IASCF Chairman Gerrit Zalm opened the meeting at 10:00am.

Report of Chairman of the Trustees

The IASCF Chairman thanked retiring Trustees Max Dietrich Kley and Junichi Ujiie for their service on the board and for their strong advocacy of IFRSs. He also thanked Nelson Carvalho, whose three-year term as Chairman of the Standards Advisory Council will end on 31 December 2008.

Mr Zalm noted that this is a 'special' meeting of the Trustees in that some issues of major consequence will be discussed, including the credit crisis, the IASB-FASB memorandum of understanding, the SEC's roadmap toward adoption of IFRSs in the United States, and the Constitution Review.

Approval of the July Minutes

The Trustees approved the minutes of the 8-9 July 2008 IASCF meeting.

IASB Chairman's Report: IASB Response to the Credit Crisis

IASB Chairman Sir David Tweedie noted that the IASB's response involves a number of technical issues including the following:

- Consolidation. The Board plans to publish an exposure draft (ED) in November 2008 as the initial comment document in this project, rather than a discussion paper. The ED will retain 'control' as the basic principle for consolidation but will improve on the definition of control currently in IAS 27 *Consolidated and Separate Financial Statements*, particularly as it applies to special purpose entities and structured investment and securitisation vehicles. Other issues addressed in the ED will include:
 - assessing whether reputational risk is an appropriate basis for consolidation; and
 - guidance in relation to control with less than a majority of the voting rights; potential voting rights; veto rights; economic dependence; and applying the control concept to fiduciaries.
- Enhanced disclosures about consolidation. These will include:
 - judgements made by management when reaching decisions to consolidate or not;
 - the nature and financial effect of restrictions on assets and liabilities resulting from legal entity boundaries that exist within the reporting group; and
 - the nature of, and risks associated with, the reporting entity's significant involvement with legal entities that it does not consolidate.
- Derecognition. This project addresses when assets should be removed from the balance sheet of an entity. The Board is accelerating this project by proceeding directly to an ED. The initial focus will be on securitised financial assets and treatment of servicing contracts. The IASB Chairman noted that the staff's current thinking is that if the transferor has any continuing involvement with the transferred asset, it should not derecognise the asset. Staff is considering whether to propose presentation in the statement of financial position that shows the asset with a deduction for the liability 'as if sold'.
- Guidance on valuation of financial instruments in illiquid markets. The Board has formed an Expert Advisory Panel in this area. The Panel meetings suggest that the

requirements and guidance about fair value measurement in IAS 39 *Financial Instruments: Recognition and Measurement* are generally clear and well understood, and that there is much consistency in the approaches, and thought processes, used to arrive at a fair value measurement. But more guidance is needed on valuations when markets are not active, and better disclosures are needed. The Panel has prepared some recommendations in this area that are posted in draft form on the IASB's website. The staff will finalise the document after the next Panel meeting in October 2008 and post it on the IASB website as a guidance document.

- Enhanced IFRS 7 disclosures. The Board is developing amendments to IFRS 7 *Financial Instruments: Disclosures* as a matter of urgency. The enhanced disclosures would:
 - clarify the fair value hierarchy in IFRS 7, most likely by introducing the US GAAP level 1-2-3 type hierarchy,
 - require disclosures about assumptions when level 3 is used,
 - recommend tabular format for quantitative disclosures, and
 - require a reconciliation from period to period for fair value measurements using unobservable inputs.

The Board expects to publish the ED within the next month with a 120 day comment period. The final revision to IFRS 7 would be issued in 1Q 2009. The ED will propose an effective date of 1 January 2010.

- Reclassification of financial instruments. Some have contended that European banks are 'disadvantaged' vis a vis US banks because US GAAP permits entities, in rare circumstances, to reclassify financial instruments that are in the form of securities from their trading portfolio (measured at fair value with changes through the income statement) to 'held to maturity' (measured at amortised cost and subject to testing for impairment). IAS 39 does not currently permit such transfers. Also US GAAP permits some loans that are not securities to be transferred from 'held for sale' (measured at lower of cost or market with changes through the income statement) to 'held for investment' (measured at amortised cost and subject to testing for impairment). IAS 39 does not currently permit such transfers. The IASB Chairman said that IASB intends to assess (at its October 2008

Board meeting next week) any inconsistencies in how IAS 39 and US GAAP practice address the issue of reclassifications and decide whether to amend IAS 39 to eliminate any differences. He described this as a ‘very fast track’ project (for example, possibly a one-week comment period), so that the revised accounting would be available for use in third quarter 2008 financial reports.

- US SEC study on mark-to-market accounting. This study is mandated by the recent US ‘bailout bill’ with a 90-day deadline for a report to the US Congress. The IASB has offered to assist the SEC in this study.

At this point, the Chairman of the IASC Foundation Trustees asked the Trustees to comment on the IASB’s proposed approach and, in particular, whether they support suspending the IASB’s normal due process to enable it to address the reclassification issue immediately and swiftly. During the discussion, several Trustees expressed concern about reports that some in Europe feel that mark-to-market accounting for financial instruments should be greatly relaxed if not suspended entirely, possibly by action of the European Commission or the European Parliament. The Trustees expressed strong support for the IASB’s approach, including expedited due process, and for the independence of the IASB, and they voted to issue a press release saying so.

Report of the IASB Chairman – Other issues

On 11 September 2008, the IASB and FASB jointly published an update of their 2006 Memorandum of Understanding (MoU). The update focuses on what can be completed by 30 June 2011, which takes into account (a) the possibility that the SEC will permit or require US registrants to use IFRSs starting in 2013 or 2014 and (b) the completion of the terms of many of the current IASB members on or before that date.

The IASB Chairman noted that, at their July meeting, the Trustees reviewed the IASB’s strategy to complete the remaining active items on its convergence programme with the FASB. Trustees noted that new items would not be added to the convergence agenda described by the IASB-FASB MoU. The Trustees encouraged the IASB to set, and make public, defined targets for the completion of MoU projects. The IASB Chairman said that release of the update achieves both of those objectives.

The IASB chairman noted that a number of the items in the MoU progress report are part of the IASB's response to the credit crisis. These projects have high priority on the IASB's agenda.

The Chairman noted that, because of the tight time deadline, the MoU projects are focusing on the core principles. In some cases, standards addressing some of the details may not be completed by 2011.

Recent publications

The IASB Chairman noted that recent publications included final standards on business combinations and amendment to IAS 39 for certain hedge accounting transactions. Also, five discussion papers (DP) or exposure drafts (ED) have recently been issued or are soon to be issued, as follows:

- Financial statement presentation. Joint IASB-FASB DP to be issued shortly. The key conclusion is that the three basic financial statements should have cohesion by dividing what each reports into operating, investing, and financing activities, and by reconciling the income statement and the cash flow statement. The Chairman described this as the IASB's 'flagship project' because it will affect many other projects.
- Discontinued operations. Joint IASB-FASB ED was issued;
- Earnings per share. FASB and IASB EDs were issued;
- First-time adoption of IFRSs: ED issued; and
- Annual improvements. Amendments to IFRSs were completed for the 2007 improvements; an ED for the 2008 improvements has been issued; the Board is working on developing an ED for the 2009 improvements.

New agenda items

The two new agenda items since the last Trustees' meeting are:

- Financial Instruments with Characteristics of Equity (liabilities and equity). The Board has already issued a DP on this project, wrapping around a FASB proposal. Both Boards are considering the comments and will decide how to proceed. The Boards are trying to develop a clear principle, rather than a set of rules, for identifying what is equity.

- Derecognition. This project is part of the Board's response to the credit crisis.

Other MoU projects

- Fair value measurement guidance. IASB plans to hold roundtables and publish an ED in 2009. This project will address 'how to do it, not when to do it'. The IASB Chairman noted that the IASB's proposals in this project may be different from the principles in FASB Statement 157 *Fair Value Measurements*.
- Income taxes. The IASB expects to publish an ED of a replacement for IAS 12 *Income Taxes* by the end of 2008.
- Leases. IASB and FASB will publish a joint DP in 4Q 2008 addressing lessee accounting only. The preliminary view is that all rights and obligations under leases should be reflected on the balance sheet (that is, no more operating lease accounting).
- Post-employment benefits (including pensions). IASB has issued a DP and is currently reviewing comments. Goal is an ED in 2H 2009 and a standard by mid 2011. The IASB Chairman said that the IASB will likely 'remove the ability to hide pension deficits by deferrals of losses'.
- Revenue recognition. The chairman noted that both IASB and FASB favour measuring the obligations in a contract by reference to the transaction price in the contract (the 'customer consideration' model). Generally this approach is similar to the approach under IFRSs and in many existing revenue recognition standards. Goal is a DP by the end of 2008.
- Joint ventures. The Board is currently redeliberating its 2007 ED and expects to issue a final standard in the second quarter of 2009.
- Financial instruments (simplification - replacement of existing standards). The IASB's DP *Reducing Complexity in Reporting Financial Instruments* explores possible intermediate solutions. The comment deadline was 19 September 2008. The Board will consider moving the project from the research agenda to the active agenda in the fourth quarter of 2008.

Other non-MoU projects

The IASB's work plan includes the following projects, which are not on the memorandum of understanding:

- Emissions trading schemes. ED expected in 2H 2009.
- IFRSs for private entities (formerly IFRS for SMEs). Target is final standard in 1Q 2009.
- Insurance contracts. The Board is reviewing comments on the DP with a view to developing an ED.
- Liabilities (revision to IAS 37). The Board plans to issue a revised *IAS 37 Provisions, Contingent Liabilities and Contingent Assets* early in 2010.
- Management commentary. The Board plans an ED in 4Q 2008. The final document will not be a mandatory IFRS but, rather, best practices guidance.
- Related party disclosures. Based on comments received on the ED, the Board has greatly simplified the proposed disclosures relating to state-controlled entities (SCEs). The new approach would still require SCEs to disclose the fact that they have transactions with other entities controlled by the same state and would exempt them from providing detailed disclosures about those transactions. The Board intends to publish an ED of the new approach before the end of 2008. The ED will not request further input on the definition of a related party.
- Share-based payment: group cash-settled transactions. The Board to issue final amendments to IFRS 2 *Share-based Payment* and IFRIC 11 *IFRS 2 Group and Treasury Share Transactions* in 1Q 2009.
- Conceptual framework. This is a joint project with FASB. The Boards expect to complete phase A (objectives and qualitative characteristics) in 1H 2009, with the publication of the first two chapters of the new framework. They also expect to publish an ED for phase D (reporting entity) in 2H 2009.
- Extractive industries. This is currently a research project which the Board is doing with the help of a project team of national standard setters. IASB plans to publish a DP around the end of 2008 that will set out the project team's preliminary views.

IFRIC

The IASB Chairman reported that since the last Trustees' meeting, IFRIC has published two interpretations:

- IFRIC 15 *Agreements for the Construction of Real Estate*
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*

IFRIC is currently working to finalise two interpretations based on the following drafts published in January 2008:

- D23 *Distributions of Non-cash Assets to Owners*
- D24 *Customer Contributions*

Trustees' questions to the IASB Chairman included:

- Some projects seem to be leading to differences with US GAAP. Is this a problem? The IASB Chairman's response was that while some will lead to differences, on many of the fundamental projects the two Boards have the same answers. Examples include liabilities, distinction between liabilities and equity, revenue recognition, and leases.
- Are there enough resources including Board time to achieve the targets? The IASB Chairman noted that in 2008 the IASB hired 10 new technical staff, and 5 more will be hired in 2009. He said that many staff are somewhat inexperienced, and he asked the Trustees to consider keeping on one or more of the Board members whose terms end next June 30 to help the staff draft standards.
- What is the status of the IAS 39 carve-out in Europe? The IASB Chairman said that the IASB has met with European bankers and asked them to be specific on what they feel is need to eliminate the carve-out. To date no reply has been received. He indicated that the IASB may seek the help of the European Commission because the Commission's view is that the carve-out should be eliminated.

Report on IFRS for Private Entities (SMEs)

The IASB's Director of Standards for Private Entities presented an update on the project and invited comments of the Trustees. He summarised the Board's goals for the project, described

the proposals in the exposure draft, highlighted some of the key issues in the Board's re-deliberations, discussed potential use of the final IFRS around the world, and reviewed the steps that remain for issuing a final standard.

Trustees expressed strong support for completing this project because of its potential to improve financial reporting by millions of companies around the world. They congratulated the Board on the rapid progress the project is making.

Relationship with the International Valuation Standards Committee

Recently, the International Valuations Standards Committee (IVSC) has asked the IASB about greater cooperation between the two organisations and potentially formal recognition of such cooperation by the IASB. The IASB Chairman noted that the IASB has relationships with a number of bodies concerned with valuations, including the IVSC and others. Establishing a single formalised relationship with just the IVSC could have unintended consequences. Other standard-setting organisations, such as Basel Committee, the International Auditing and Assurance Standards Board, and actuarial, engineering, and scientific bodies (among others), would inevitably seek similar arrangements.

Therefore, the Board is asking the Trustees to consider the matter of formalised cooperation with non-accounting standard-setting bodies in general as a question to be asked as part of the second phase of the Constitution Review.

In general, the views expressed by Trustees during discussion were that a formal relationship should not be established with the IVSC or other such organisations, but that a question should be asked in Phase 2 of the current Constitution Review.

Report of the Standards Advisory Council Chairman

The retiring SAC Chairman made a number of suggestions to the Trustees based on his three years of working with the SAC. Topics included:

- Improvements to the SAC member nomination process
- Organising a formal 'introductory welcome session' for new SAC members
- More attendance and involvement by Trustees at SAC meetings
- Seek guidance of SAC more often, such as on education materials

- At each SAC meeting, discuss implementation of IFRSs by region
- Improve the process for feedback to the IASB of views expressed at SAC meetings
- Identify roles for SAC members between meetings
- More interaction of SAC members and IASB staff
- Consider giving the SAC Chairman the right to speak at IASB meetings

Report of the Due Process Oversight Committee

On 15 September 2008, representatives of the Trustees' Due Process Oversight Committee (DPOC) held the first of a planned series of meetings with IASB representatives with the goal of enhancing the Trustees' oversight role without compromising the IASB's independence. An important goal of the meetings is for the Trustees and the IASB to keep the other informed of various outreach activities and issues that have arisen. Issues discussed at the 15 September meeting included:

- The IASB's response to the credit crisis and other related IASB projects. DPOC members supported the urgent priority that the IASB has given to this issue. They encouraged the IASB to keep its constituents aware of what it is doing in this area. IASB indicated that they intend to do that via press releases and their website. The DPOC asked whether the IASB intended to keep its Expert Advisory Panel in place going forward. The IASB representatives responded that the plan is for the Financial Instruments Working Group to provide counsel to the IASB in this area after the Expert Advisory Panel has completed its final report.
- Future recruitment of IASB members. The IASB and the Trustees discussed the process for selecting future IASB members in the light of the significant turnover between 2009 and 2012. The DPOC emphasised the need to move swiftly. To that end, the Trustees have engaged a recruitment firm to assist in the process. The DPOC recommends that candidates should have not only strong technical expertise but also an understanding of the IASB as an institution and the environment in which it operates.
- Updating the due process handbook. The DPOC and the IASB had a brief discussion regarding the proposed changes of the Due Process Handbook. A number of IASB

members made suggestions. Both the DPOC and IASB representatives noted the importance of developing a formal relationship between the IASB and national standard setters, and the DPOC recommends that the Trustees should formalise such a system. The group also discussed concerns in some Asian jurisdictions that they do not have adequate channels for communicating with the IASB. The DPOC felt that this is being addressed in the current Constitution Review.

- The review of IASB working groups. The DPOC is conducting a review of IASB working groups (WGs) in conjunction with the IASB. Focus is on how the IASB uses WGs in developing standards and whether any improvements are needed to the operation of WGs so that they might play a more active and contributory role. The DPOC has sent a survey questionnaire to WG members, inviting comments on a confidential basis on, among other things, matters relating to the composition of the WG, the chairmanship, staff support, and the cooperation of the IASB. Deadline for responses was 30 September 2008. Currently, the IASCF staff is interviewing individual IASB members and technical staff to get their feedback on the questionnaire. The results of the questionnaire and interviews will be summarised by the end of November 2008 and forwarded to the DPOC for consideration. Final proposals will be drawn up for referral to the Trustees at their January 2009 meeting.

Update to the IASB Due Process Handbook

At the Trustees' July 2008 meeting, the Trustees agreed to update the IASB Due Process Handbook, last updated in 2006. This update would reflect certain enhanced IASB due process procedures that have already been implemented, including:

- the introduction of post-implementation reviews,
- feedback statements,
- effect analyses, and
- improved website summaries.

Because the foregoing enhancements broadened (rather than reduced) the approved due process, Trustees concluded that solicitation of public comments was not required.

At this meeting IASCF staff presented a revised draft of the Handbook for consideration by the Trustees. Staff noted that the IASB and members of the Due Process Oversight Committee had the opportunity to review the Handbook in conjunction with their joint meeting in September. Staff has incorporated their comments into the Handbook. Staff also noted that a question about elements of the IASB's due process will be included in the discussion document for the second part of the Constitution Review.

Several IASB Board members commented on a provision in the draft Handbook that would require the Board to prepare formal, quantified cost-benefit assessments for each pronouncement or amendment. They noted that often this is not possible, and such a requirement would cause an 'expectation gap'. Trustees agreed to amend this.

After discussion, the Trustees approved the revisions to the Handbook.

Report on XBRL

The IASCF XBRL Director briefed the Trustees on recent XBRL events relating to IFRSs:

- The final version of the IFRS Taxonomy 2008 was released in June 2008. The IASCF does not plan any further updates in 2008.
- A first (non public) draft of the IFRS Taxonomy 2009 will be circulated to the XBRL Quality Review Team (XQRT) in December for a three-week review, followed by a public release for comment in January 2009. Final release of the 2009 IFRS Taxonomy is planned for April 2009.
- In August 2008, the IASCF XBRL team released the *IFRS Taxonomy Guide 1.00 - All you need to know about the IFRS Taxonomy as a preparer, supervisor, software developer*. The guide addresses both the accounting and technology aspects of the IFRS Taxonomy.

The IASCF XBRL team currently has four full-time staff, plus a temporary secondee. In addition there are three vacant positions to be filled.

The Trustees approved the appointment of Liv A Watson, member of the Board of Directors of IFIS Business Services, as a member of the IASCF's XBRL Advisory Council. Trustees also

approved Gavin Marais from South Africa [affiliation not indicated] as a member of the XBRL Quality Review Team.

Report on Educational Activities and Publications

Education plan

The Chairman of the IASCF Education and Publications Committee presented a report on the Foundation's education initiative. He noted that a year-by-year education plans through 2011 were approved by the Trustees in January 2007. He noted that the Committee reviewed the 8-month report on 1 September 2008 and expressed satisfaction with progress of the 2008 plan.

On 1 September 2008, also, the Committee approved 2009 annual plan. That plan entails, among other things:

- Host three to four IFRS conferences around the world
- Arrange the world standard-setters conference
- Arrange five or so IFRS Teaching and Research sessions around major academic conferences to guide IFRS educators in teaching and researching IFRS
- Regarding the IFRS for Private Entities (PEs):
 - Develop IFRS for PEs training material
 - Plan the translation of the IFRS for PEs training material into many languages.
 - Plan implementation workshops for IFRS for PEs.
 - Develop a side by side comparison of IFRSs and IFRS for PEs.
- Update all existing education publications, and increase functionality and range of languages.
- Publish education guidance on additional standards.

Publications and translations strategy

The Trustees were asked to approve a proposal that would allow the European Commission's Directorate General Translation DGT to manage the production of the underlying IFRS translations in the 21 European languages thus controlling the style, grammar and linguistic

issues which are DGT's core business. The IASC Foundation would retain control of the expert review committees, and receive remuneration from the European Commission for the management of this stage, thus ensuring the translations are technically accurate and can be called IFRSs. The IASCF would retain control of the translation copyright outside of Europe.

The Trustees' Education and Publications Committee has reviewed the plan and recommends approval.

After discussion, the Trustees expressed support for the Committee's proposals.

Update on long term funding

The IASCF Director of Operations reported that for 2008, £14 million of funding has been raised out of a budget of £16 million. He noted that, due to the current global credit crisis, there is a risk of loss of funding to IASCF of approximately £500,000 due to attrition of donors.

The Director reported that South Africa is developing a levy for 2009, and Canada is considering a similar system.

He also noted inflation is an issue that the Trustees must deal with – how to increase contributions to match inflationary cost increases.

A Trustee from France noted that before the end of 2008 the French State Treasury will send invoices to public companies for contributions to the IASCF. Although companies will not be legally obliged to pay, the invoices are expected to have a favourable impact on contributions from France.

Constitution Review—First and Second Phases

In November 2007 the IASC Foundation began a review of the Constitution. In February 2008, the Trustees announced that the review would be conducted in two phases:

- An accelerated Phase 1 (to be completed by the end of 2008) addressing:
 - Creation of a 'monitoring group' of representatives of official organisations, including securities regulators, that would approve Trustee appointments and review Trustee oversight activities
 - Expansion of the IASB to 16 members from the present 14, and providing for geographical balance on the Board.

- A second phase that would address the remaining issues comprehensively beginning with a consultation document in the second half of 2008. The Trustees expect to complete the review by the end of 2009.

A consultation document on Phase 1 was issued in July 2008. Comment deadline was 20 September 2008.

Consideration of comments received to the Phase 1 consultation document

Sixty four comment letters were received, and comment letters are still arriving even after the comment deadline. IASCF Chairman Zalm indicated that because analysis is not yet complete, he recommends that the Trustees defer consideration of Part I. The Trustees agreed.

Consideration of Phase 2 of the Constitution Review consultation document and approval of approach

Phase 2 will involve two comment documents. The first (to be published within the next month or so) will be a discussion document inviting views on issues that should be included in Phase 2. The discussion document will identify some issues that the Trustees plan to include. No issue is excluded from consideration in Phase 2 (other than the Monitoring Group and Board size and composition being addressed in Phase 1).

The second comment document will be Trustees' proposals for specific changes to the Constitution, to be published in the second quarter of 2009.

The Trustees plan to hold meetings with interested parties on both discussion documents, possibly including public roundtables in addition to private meetings.

The Trustees discussed whether to begin Phase 2 now or wait until Phase 1 is completed. They decided Phase 2 should begin without waiting for completion of Phase 1. They also decided that the first comment document on Phase 2 should have a 120 day comment period.

The Trustees had a draft of the first discussion document that was not available to observers of the meeting. Based on the comments of Trustees at the meeting, the following are some of the issues that will be raised in the discussion document:

- Whether the IASB should develop standards for not-for-profit entities and the public sector, as well as valuation standards

- The terms of reference, composition, and operating procedures of the Standards Advisory Council
- Principles of a long-term funding system for the organisation
- Whether the objective of developing ‘principles-based financial reporting standards’ should be expressly included in the Constitution
- Whether the IASB should establish formal cooperative relationships with bodies that set standards other than accounting standard