
Response to G20 conclusions

(updated November 2011)

In 2009, the G20 published a report - *Declaration on Strengthening the Financial System* – assessing the progress against each of the 47 actions set out in the *Washington Action Plan* that formed part of their commitment to reform the financial sector. The progress report included a range of reforms to be undertaken by regulators, credit rating agencies and standard-setters. The G20 called on the standard-setters to work with others to improve standards on valuation and provisioning and achieve a single set of high quality global accounting standards.

At subsequent summits in Pittsburgh (2009), Toronto (2010), Seoul (2010) and Cannes (2011) the G20 leaders reaffirmed their support for a single set of global accounting standards and for the completion of convergence of international and US accounting standards in pursuit of that objective.

Furthermore, the G20 leaders called on the IASB to further enhance cooperation with stakeholders, with particular emphasis on support for emerging economies and within the context of their independent standard-setting framework.

Summary of response

Consistent with the G20 recommendations, the IASB has;

- Completed its review of off balance sheet financing, resulting in amendments to IFRS 7 *Financial Instruments: Disclosure* and the issuance of three new standards, IFRS 10 *Consolidated financial statements*, IFRS 11 *Joint arrangements* and IFRS 12 *Disclosure of interests in other entities*.
- Completed its reform of fair value measurement requirements, resulting in a new standard, IFRS 13 *Fair value measurement*.
- Completed the first phase of the reform of financial instruments accounting by issuing IFRS 9 *Financial instruments* addressing classification and measurement, introducing additional disclosure requirements for financial assets and financial liabilities subject to offsetting arrangements and is mid-way through completing the phases addressing impairment and hedge accounting.
- Completed the majority of projects described by its Memorandum of Understanding with the FASB, and prioritised the completion of the three remaining MoU projects and the joint Insurance Contracts project to a high standard.
- Significantly enhanced its outreach and stakeholder engagement activities, with particular reference to the needs of emerging economies.

The pages that follow describe these activities in more detail. The document will be updated on a periodic basis.

Off balance sheet activities and valuation uncertainty

G20 recommendations

- Improve accounting standards for provisioning, off balance sheet exposures and valuation uncertainty.

Response

The IASB has now completed its comprehensive reviews of off balance sheet financing and fair value measurement.

IFRS 7 *Financial instruments: Disclosures*: AMENDED, 2010

- [IFRS 7](#) has been amended to require additional information on transfer transactions of financial assets, including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments require additional disclosures if a disproportionate amount of such transactions occur around the end of a reporting period, to help identify potential 'grooming' activities.

IFRS 10 *Consolidated financial statements*: COMPLETED, 2011

- [IFRS 10](#) builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

IFRS 11 *Joint arrangements*, COMPLETED, 2011

- [IFRS 11](#) provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities.

IFRS 12 *Disclosure of interests in other entities*: COMPLETED, 2011

- [IFRS 12](#) is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

IFRS 13 *Fair value measurement*: COMPLETED, 2011

- [IFRS 13](#) is a fully converged standard with the FASB that provides a single definition of fair value measurement. It provides enhanced transparency by requiring additional disclosure about fair values derived using models and offers clearer and more consistent guidance on the application of fair value measurement in inactive markets.

Financial instruments

G20 recommendations

- Reduce the complexity of accounting standards for financial instruments.
- Strengthen accounting recognition of loan-loss provisions by incorporating a broader range of credit information.

Response

In 2009, the IASB accelerated its work to replace IAS 39, its existing financial instruments accounting standard with an entirely new standard, IFRS 9 *Financial Instruments*.

IFRS 9, phase 1: Classification and Measurement: COMPLETED, 2010

- **Assets:** Significant simplifications to the classification and measurement of financial assets. Measurement categories are reduced to two (amortised cost and fair value) with a single impairment model. Tainting rules are eliminated and embedded derivatives are no longer required to be separated from their financial asset host contract.
- **Liabilities:** Volatility in profit or loss resulting from fair value measurement of a company's own debt are addressed by requiring such gains and losses to be recorded within Other Comprehensive Income (OCI).

IFRS 9, phase 2: Impairment (provisioning): ONGOING, jointly with the FASB

- The IASB and the FASB are continuing to address the main criticism of an incurred loss impairment model highlighted during the financial crisis. The boards are jointly developing a more forward-looking 'expected loss' approach to impairment (also known as loan loss provisioning). The IASB published an initial [exposure draft](#) of proposals in 2009. The IASB and the FASB subsequently published supplementary [joint proposals](#) in 2011.
- The boards are pursuing a model in which the overall objective is to reflect the deterioration in the credit quality of financial assets. The boards are developing principles that would underpin the measurement attribute of the credit allowance for financial assets when they are originated and a principle and indicators for when recognition of lifetime expected losses becomes appropriate. The boards believe that

robust disclosures will be critical to support the principle-based impairment model and to ensure comparability between entities.

- The boards are working towards substantially completing their decision-making by the end of 2011 and publishing a joint proposal in the first half of 2012. The boards have been consulting widely with, amongst others, prudential supervisors and the IASB's Expert Advisory Panel of credit risk experts who provide guidance on the operational considerations of proposals. The delays caused by the need to develop a new proposal have frustrated the boards. However, this project is of the highest importance to the boards and they have had to balance its urgency with the need to ensure that any new financial reporting requirements are operational, will be applied consistently and produce high quality information. The broad consultation has shown that current practices diverge widely and that any solution will cause significant changes for at least some major participants in the financial sector.

IFRS 9, phase 3: Hedge Accounting: ONGOING

- In 2010 the IASB published an [exposure draft](#) of a proposed general hedge accounting model that significantly reduces the complexity associated with hedge accounting and improves the information provided about risk management activities. A final standard will be issued in the first half of 2012.
- The IASB is currently developing proposals to address risk management strategies referring to open portfolios (macro hedging) that are not dealt with by the general hedge accounting model. The Board expects to publish an exposure draft of proposals in the first half of 2012.

IFRS 9, other matters: ONGOING

- **Asset and liability offsetting:** The IASB and the FASB have been working together to align how assets and liabilities are presented in the statement of financial position. The boards published an [exposure draft](#) of proposals in 2011 that focused on netting on the basis of the ability and intention to offset payments on a day-to-day basis. This is closer to the requirements in IFRSs than to US GAAP, which, for derivatives, gives primacy to bankruptcy. The FASB voted not to support finalising the proposal but instead to align their disclosure requirements to allow comparability between financial statements prepared in accordance with IFRSs and US GAAP. The new disclosure requirements are expected to be finalised before the end of 2011.
- **Effective date of IFRS 9:** In 2011 the IASB published an [exposure draft](#) of proposals to defer the mandatory date of IFRS 9 from 2013 to 2015 (early adoption is permitted). The purpose of the deferral is to allow sufficient time for the IASB to complete the remaining phases of the project, to permit sufficient time for jurisdictions to endorse the new standard and sufficient time for companies to prepare for transition.

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- **Convergence with US GAAP:** The IASB and the FASB are working in close cooperation to achieve a converged outcome to financial instruments accounting requirements. However, different imperatives have resulted in the boards following different timetables. The boards recognise the importance of seeking a converged outcome and are working to eliminate the differences in approach where possible.

Convergence in accounting standards

G20 recommendations

- Increase efforts to achieve a single set of high quality accounting standards within the context of the independent standard-setting process
- Complete the Board's convergence programme with the FASB by 2011

Response

Global acceptance of IFRSs

- The Constitution of the IFRS Foundation states that high quality global accounting standards are the organisation's primary objective.
- More than 100 countries already require, permit or are in the process of implementing IFRSs, including the majority of G20 members.
- The IASB is working with relevant authorities in those remaining G20 economies to encourage adoption of IFRSs within those jurisdictions. Many of these jurisdictions including India, Japan and the United States are expected to decide shortly if and how to incorporate IFRSs into their own financial reporting regimes.
- The IASB continues its outreach efforts working with national standard-setters to promote global adoption of IFRSs.

Completion of the convergence programme with the FASB

- The boards have continued their efforts to achieve a single set of high quality, global accounting standards, within the context of an independent standard-setting process.
- The main focus of those efforts has been the boards' MoU which sets out a convergence programme.
- The MoU was issued in 2006 and identified the short-term and longer-term projects that the boards agreed would bring the most significant improvements to IFRSs and US GAAP.

- The boards updated the MoU in 2008. In 2010, with the support of the international community, the boards set priorities for the projects that would make the most significant improvements to IFRSs and US GAAP. Of the longer-term projects there are only three for which the boards have yet to finalise the technical decisions.
- Most of the short-term projects required one of the boards to revise its requirements to align them with those of the other board—eg the IASB revised segment reporting to align it with US GAAP. Other projects, such as share-based payments, required both boards to issue revised standards.

Project	Status	Milestone
Share-based payments	Completed	Converged standards issued in 2004.
Segment reporting	Completed	IFRS 8 <i>Segment Reporting</i> issued in 2006.
Non-monetary assets	Completed	FASB converged the treatment of certain nonmonetary exchanges to require recognition at fair value unless the transaction lacks commercial substance in FAS 153, <i>Nonmonetary Assets</i> issued in 2004.
Inventory accounting	Completed	FASB converged the treatment of excess freight and spoilage in FAS 151, <i>Inventory Costs</i> issued in 2004.
Accounting changes	Completed	FASB converged the treatment of voluntary changes in accounting policy by requiring retrospective application in FAS 150, <i>Accounting Changes and Error Corrections</i> issued in 2005.
Fair value option	Completed	Fair value option introduced into US GAAP in 2007.
Borrowing costs	Completed	Revised IAS 23 <i>Borrowing Costs</i> in 2007.
Research and development	Completed	US GAAP amended for acquired R&D, as part of business combinations, in 2008.
Non-controlling interests	Completed	Mezzanine presentation eliminated from US GAAP, as part of business combinations, in 2008.
Joint ventures	Completed	IFRS 11 <i>Joint Arrangements</i> issued in 2011. Establishes principles for the financial reporting by parties to a joint arrangement.
Income tax	Reassessed as a lower priority project. No immediate action.	Joint exposure draft published in 2009. The IASB may consider a fundamental review of the accounting for income taxes in 2011.
Investment properties	In process.	The FASB is developing proposals to align US GAAP with IFRSs.

- The MoU was updated in 2008, at which time the boards narrowed down the programme to focus on ten longer-term projects. The boards set a target completion date of 2011 for all MoU convergence.
- The boards have worked successfully to complete most of the projects in the updated 2008 MoU:

	Project	Status	Milestone
1	Business combinations	Completed	Joint requirements for business combination accounting and non-controlling interests issued in 2008.
2	Derecognition	Completed	Each board has introduced reforms substantially aligning the disclosure requirements and bringing US GAAP requirements closer to IFRSs.
3	Consolidated financial statements (including disclosure of off balance sheet risks)	Completed	IFRS 10 <i>Consolidated Financial Statements</i> and IFRS 12 <i>Disclosure of Interests in Other Entities</i> issued in April 2011.
4	Fair value measurement	Completed	FASB Statement No. 157 <i>Fair Value Measurements</i> issued in 2006. IFRS 13 <i>Fair Value Measurement</i> issued in 2011.
5	Post-employment benefits	Completed	Amendments to IAS 19 <i>Employee Benefits</i> issued in 2011.
6	Financial statement presentation—OCI	Completed	Amendments to IFRSs and US GAAP for presentation of OCI issued in 2011.
7	Financial instruments with characteristics of equity	Reassessed as a lower priority project.	Joint discussion paper published in 2008.
8	Investment entities	IASB published proposals in August 2011. Comment period ends January 2012. The FASB has released similar proposals.	These proposals would exempt entities whose primary activity is investing in businesses with the intention of selling them from consolidating any such entities they control. Instead, they would measure those investments at fair value, with any changes in fair value recognised in profit and loss.

- Today there are only three longer-term projects for which the boards have yet to finalise all of the technical decisions—**financial instruments**, **revenue recognition** and **leases**. The timelines on revenue recognition and leases were extended at the request of many stakeholders to ensure that their interests could be given full consideration. Although the MoU projects have been given primacy, the boards have also been working together on much-needed improvements to the accounting for **insurance contracts**.

	Project	Status	Milestone
1	Leases	In process	Having exposed joint proposals in August 2010, the boards will publish revised proposals in the first quarter of early 2012 that respond to the extensive consultation undertaken. The boards are aiming to complete the project in 2012.
2	Revenue recognition	In process	Having exposed joint proposals in June 2010, the boards will publish revised proposals in November 2011 that respond to the extensive consultation undertaken. The boards expect to complete the project in 2012.
3	Financial instruments	Phase 1 completed,	Described elsewhere.
4	Insurance contracts	In process	The boards expect to proceed to their next publication in the first half of 2012. The IASB is considering whether they should publish another ED. Doing so would align the boards' consultative processes because the FASB has yet to publish an ED.

Stakeholder involvement in standard-setting

G20 recommendations

- Improve the involvement of stakeholders, including prudential regulators and emerging markets

Response

1. Deeper interaction with emerging market economies

- The IASB established the Emerging Economies Group (EEG) in 2011, chaired by Wayne Upton, IASB Director of International Activities with the secretariat being provided by the Chinese Ministry of Finance. The first meeting of the EEG took place in Beijing in July 2011, with representation from Brazil, China, India, Indonesia, Republic of Korea, Malaysia, Russia and South Africa. The meeting Communiqué, approved by all participants, noted “The establishment of the EEG by the IFRS Foundation will further enhance the influence of emerging economies in the development process of IFRSs, and is a pragmatic move of the IASB to respond to the recommendation of the G20 to introduce more involvement from emerging economies.”
- In 2010 the IFRS Foundation Trustees’ concluded the second part of their constitution review. The Constitution was amended to provide improved language to take account of a broad range of stakeholders, both by type and location. The review confirmed the constitutional requirement for one Trustee to be appointed from Africa and one from South America (Trustees from emerging market economies currently include Brazil, China, Korea, India and South Africa). Similar requirements are in place for maintaining geographic balance in the membership of the IASB. Geographic balance is also maintained across the staff of the Foundation and the IASB (around 130 staff from almost 30 countries) as well as the IFRS Advisory Council (around 50 members from 20 countries, including emerging economies). Furthermore, the IFRS Foundation Trustees meet in different parts of the world to encourage international adoption of IFRSs. Since 2009, the Trustees have met in Brazil, China, India, Japan, Korea, Europe and the United States.
- The IFRS Foundation consults with emerging market economies on policy matters. In June 2011, an IFRS International Policy Forum was held in Indonesia. Participants across the Asia-Oceania region included representatives from constituent bodies of accounting standards setters, central banks, money market regulators, tax regulators, government and stock exchanges.

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- The 21 jurisdictions included representatives from Malaysia, China, Hong Kong, Singapore, Korea, Pakistan, Cambodia, India, Indonesia, Philippines, Iraq, Macau, Myanmar, Brunei Darussalam, Thailand and the Maldives.
 - In September 2011, the IASB hosted the World Standard-Setters conference. More than 100 delegates from 59 countries attended, with the majority coming from emerging market economies. Furthermore, the IASB is an active participant in meetings of the Asia-Oceania Standard-Setting Group (AOSSG) and has been instrumental in the formation of the Group of Latin American Standard-Setters (GLASS).
 - The IASB, in conjunction with development agencies including the World Bank, has developed a programme of ‘train the trainer’ workshops to support the implementation of the IFRS for SMEs within emerging market economies. In the last 12 months, the IASB has hosted workshops in Panama, Kazakhstan, Singapore, Turkey, The Gambia, Saint Kitts and Nevis, Belarus, Ukraine, Argentina, Myanmar and Dubai. Further workshops are planned for Barbados, Kenya, Bosnia and Herzegovina and Brazil.

2. Enhanced dialogue with private sector stakeholders

- The IASB has a well-established due process that ensures that the IASB consults with a wide range of stakeholders—including public exposure and consideration of comment letters on proposed new standards, working groups and public roundtables. The IASB supplements these steps with additional outreach activities to make sure that the dialogue with stakeholders is meaningful and representative of the wide range of interests using IFRSs.
- The IASB increased its outreach and stakeholder communication activities to inform and educate, to explain and clarify our proposals and to provide opportunities for interested parties to discuss and debate them with us. These outreach activities are designed to achieve a dialogue. Among the activities that the IASB has introduced, to inform interested parties and to supplement the formal comment letter process, are:
 - project-specific email alerts (more than 200,000 registrants).
 - live webcasts, with interactive question and answer sessions.
 - podcast summaries of Board meetings (over 14,000 subscribers), and project-specific podcasts and webinars.
 - Discussion Forums
 - individual meetings with organisations or representative bodies (see below).
 - the publication of *Investor Perspectives*—blog-style postings written for the investor community.
 - online surveys targeted at the investor and analyst community.

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- These activities ensure that the dialogue with stakeholders is both deep and broad. For example, in early 2011 IASB staff and Board members undertook outreach activities in relation to hedge accounting in six continents, meeting over 2,500 people in small group meetings and discussion forums.
 - **Effect Analyses (also known as Impact Assessments):** In 2011 the IASB published *effect analyses* for three new IFRSs (Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities). These documents capture and communicate the extensive consultation undertaken by the IASB before the standards were finalised. The IASB has maintained an open dialogue, and met with, jurisdictions that have established endorsement processes to ensure that the effect analyses meet as far as possible the needs of those jurisdictions.
 - **Post-implementation Reviews:** In 2011 the IASB will begin its first post-implementation review, for the segment reporting standard. This is a new process for the IASB and involves an extensive review of the effectiveness of the standards being reviewed. The IASB has committed to undertake these reviews for all new standards and major amendments.
 - **Engagement with investors:** In May 2011, the IASB appointed Hilary Eastman (a CFA Charter-holder) to lead its investor liaison programme. This programme supplements the extensive dialogue between the IASB and the investor community through meetings of the IASB's Capital Markets Advisory Committee and the Investor Sub-committee of the IFRS Advisory Council. Board members and staff also attend meetings of the Capital Markets Advisory Committee and the Corporate Reporting Users Forum, and undertake project-related outreach activity in the development of new IFRSs.
 - **Engagement with national and regional standard-setting authorities:** The IASB has appointed a Technical Manager to improve the dialogue with national and regional standard-setting authorities, including the establishment of online resources for information sharing and collaboration between the IASB and the standard-setting community.
 - **Engagement with regional stakeholders:** The IASB has further extended the use of regional round-table discussions and third-party hosted discussion forums to deepen stakeholder participation around the world. In the last 12 months, 28 of these events have been held in 11 countries.
 - **Project-related engagement:** The IASB has introduced dedicated outreach managers for the convergence projects. These managers develop and execute outreach plans to ensure that the Board and staff have a thorough understanding of the impact of their proposals around the world.
 - **Improved analysis of feedback from stakeholders:** The IASB has also introduced a comment letter database that permits more detailed analysis of comment letters, including powerful tools to identify trends across feedback from different regions.

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- **Triennial Agenda Consultation:** The IFRS Foundation Trustees introduced a triennial review of the IABD work plan and agenda. In 2011 the IASB began consultations with its IFRS Advisory Council and published a *Request for Views* in August 2011. The agenda's consultation process has already involved several public meetings and dialogue with world standard-setters and includes consultation targeted at investors. The IASB has not previously undertaken a public consultation on its agenda.
 - **Re-exposure of proposed IFRSs:** The IASB, with the FASB, decided to re-expose their proposed standards for revenue recognition and leases. In doing so, the IASB took a conservative approach to the question of re-exposure to make sure that as broad a range of stakeholders had an additional opportunity to comment on the proposals.
 - **Review drafts and enhanced fatal flaw reviews:** The IASB has started a more open and comprehensive fatal flaw process for drafting of documents. The drafts of the *fair value measurement* and *consolidated financial statements* standards were made available on the IASB website for over six months before they were finalised. The IASB has decided that a review draft of the hedge accounting proposals will be available on its public website for at least three months to ensure that the proposals are robust.

3. Enhanced dialogue with public authorities

- The IASB maintains an enhanced technical dialogue with prudential supervisors and other market regulators. This includes:
 - regular meetings with the Accounting Task Force of the Basel Committee.
 - regular meetings and interaction with securities regulators, including the European Securities and Markets Authority, the International Organisation of Securities Commissioners and the US Securities and Exchange Commission. The IASB now includes securities regulators in its fatal flaw reviews.
 - regular meetings with senior banking regulators, such as the European Banking Authority (EBA), US Federal Reserve and US Banking regulators.
- In relation to impairment, the IASB has engaged directly with:
 - the EBA, US Federal Reserve and US Banking regulators
 - the European Banking Federation, the British Bankers Association, the American Bankers Association, the Institute of International Finance and the International Banking Federation.
 - the IASB Expert Advisory Panel included regulatory observers.
- In addition to technical dialogue, the IASB seeks to maintain effective dialogue with other public authorities and policymakers through formal and informal contact at Board and staff level.
- These activities include participation in the Financial Stability Board meetings and relevant meetings with the International Monetary Fund, the Organisation for Economic

Cooperation and Development, the United Nations Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting and Insurance regulators (such as the International Association of Insurance Supervisors).

4. Strategy and governance reviews, including enhancements to due process oversight

Trustees' strategy review

- In November 2010, the IFRS Foundation Trustees published a consultation document seeking input to the future strategy of the organisation. The consultation sought views on four strategic fronts – the mission, governance, the standard-setting process and the financing of the organisation. The Trustees received 94 comment letters, and published a comment letter analysis on the Foundation website¹. The IFRS Foundation Monitoring Board is conducting its own separate governance review.
- In April 2011, the Trustees published for public comment their preliminary conclusions², including proposals to build upon its 'enhanced technical dialogue' established with prudential supervisors and other stakeholders. The consultation document proposed the possibility of formalising existing informal arrangements in a manner that includes regular and joint meetings with specifically designated organisations (such as IOSCO, the Basel Committee on Banking Supervision, the Financial Stability Board, the IMF and the IAIS).
- Public round table meetings on the preliminary conclusions were held in Asia, Europe and North America. At the same time, the Trustees and the IFRS Foundation Monitoring Board published a joint statement indicating their desire to coordinate their work and to present an integrated package of governance improvements³.
- The Trustees' strategy review is reaching completion, with a draft recently reviewed by the Trustees at their meeting in Paris on 12 October 2011. The latest draft emphasises the IASB's continuing and growing involvement with all stakeholders (including emerging market economies), and this has been strongly supported by respondents. Furthermore, it provides an enhanced oversight function for the Trustees to ensure there is greater accountability in this area. Once the Monitoring Board has completed its own governance review, the Trustees will work with the Monitoring Board in order to deliver the integrated package of reviews. This integrated package is expected to be completed shortly.

¹ Strategy review comment letter analysis May 2011, www.ifrs.org

² Report of the Trustees' strategy review, April 2011 – see www.ifrs.org

³ Joint statement by the Monitoring Board and the Trustees of the IFRS Foundation, 27 April 2011

Enhancements to due process oversight

- The Trustees' Due Process Oversight Committee (DPOC) has significantly enhanced its monitoring of the IASB's due process, as well as support for the IASB's own outreach activities. These enhancements are being implemented in anticipation of requirements emanating from the Trustees' strategy review and provide for continuous oversight of the standard-setting lifecycle.
- The DPOC has undertaken further measures to enhance the confidence of stakeholders in its oversight of the IASB through improvements to its own transparency. These measures include the creation of a dedicated DPOC section⁴ of the website, the provision of summaries of the conclusions of DPOC meetings, staff papers submitted to the DPOC, as well as correspondence with third parties.
- Furthermore, the DPOC is developing an enhanced protocol that describes the three aspects of the DPOC's operations, namely the process followed by the IASB in developing new standards, the performance measures used by the IASB to assist in its evaluation of adherence to the due process, and the steps to be taken by the DPOC to discharge its own mandate.

⁴ See DPOC section of the IFRS Foundation website, www.ifrs.org/DPOC/