IFRS Foundation

Meeting Summary

IFRS Advisory Council

Date	**9 April to 10 April 2024**
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This document summarises a meeting of the IFRS Advisory Council, the formal strategic advisory body to the Trustees of the IFRS Foundation, the International Accounting Standards Board and the International Sustainability Standards Board. The IFRS Advisory Council consists of a wide range of representatives, comprising individuals and organisations with an interest in international financial reporting.

Introduction

1. The IFRS Advisory Council (Council) met in person on 9 and 10 April 2024. In addition to the Advisory Council members, the meeting was attended by the Chair of the International Accounting Standards Board (IASB), the Chair and Vice Chair of the International Sustainability Standards Board (ISSB) and a number of IFRS Foundation staff.

2. The agenda and papers for the meeting, as well as the meeting recording, are available at: [IFRS - IFRS Advisory Council].

3. The Council Chair, Mr. Bill Coen, welcomed members to the meeting. He offered a particular welcome to Alta Prinsloo, Claes Norberg, Demdet Akmaz Tercan, Emily Chien, Gary Berchowitz, Glen Yelton, Huihao Shu and Jesus Lopez Zaballos who were attending their first meeting since their appointment in January 2024.

IASB Strategy Refresh: Generation 3.0

4. Ms. Michelle Sansom, IASB Technical Director, presented Agenda Paper 2. Ms. Sansom provided Advisory Council members with an update on the IASB's strategy over the last two decades—the IASB has established its credibility issuing IFRS Accounting Standards that are applied globally, whilst diversifying its activities to include supporting consistent application, the IFRS Taxonomy, and the *IFRS for SMEs* Accounting Standard.

5. The IASB is now seeking the Advisory Council's advice on whether there is a 'white space' – ie a void that needs to be filled – in the IASB product mix.

6. Advisory Council members discussed the IASB's strategy refresh in four breakout groups. IASB members summarised the discussions in the plenary session.

7. Ms. Hagit Keren, IASB member, summarised the first breakout group's discussion. She explained that the group concluded there was no evidence of a sizeable 'white space' and, therefore, no strong demand for the IASB to invest in that space.

   The group acknowledged entities that are planning an IPO express concerns about cost and complexity. The cost and concerns included transitioning to IFRS Accounting Standards, but this was not the single factor. In the group's view the benefits of an IPO will outweigh these costs.

   Additionally, the group noted a potential white space for listed companies in small markets with mainly domestic investors and low liquidity. In their view this potential white space could possibly be addressed through education.

   To conclude, the group suggested that the IASB should focus resources on other areas such as connectivity, crypto and other developments in the ecosystem that will affect the standard-setting in the future.

8. Ms. Patrina Buchanan, IASB member, presented on behalf of the second breakout group. The second group emphasised that the IASB should focus on its existing two products IFRS Accounting Standards and *IFRS for SMEs* Accounting Standard.

   The group had mixed views on whether there is a white space. Some said there are possible white spaces for companies without public accountability as well as for small public companies in some jurisdictions. However, the group expressed concern that introducing a new language would complicate the information communicated between companies and investors.

   The group concluded that if anything is needed (regarding a possible white space to be filled), it would be better to focus on making existing products more accessible and easier to apply.

9. Mr. Bob Uhl, IASB member, presented a summary of the discussion from the third breakout group. The third group stressed that that there is no substantive 'white space' and the IASB's product offering is fit for its purpose, thus, no need to develop another product. Another set of standards for stakeholders (particularly investors) to learn would not provide a net benefit. The IASB should focus its resources on delivering relevant products to users of financial statements.

   The group suggested the IASB focus on areas of relevance to investors such as connectivity and consistency within IFRS Accounting Standards, digitalisation and AI and updating standards in the most relevant areas such as the current pipeline projects of intangibles and cash flows.

10. Mr. Florian Esterer, IASB member, presented a summary of the discussion from the fourth breakout group. The fourth group had also concluded that there is no necessity for the IASB to introduce a new product.

    The group highlighted that the primary driver behind the growing 'white spaces' created by privatisation of public companies and growth private equities is the cost-benefit trade off. The benefit and cost for the IASB to consider are:

    - private equities already have access to private information, so little additional benefit from IFRS Accounting Standards besides higher comparability for benchmarking; and
    - compared to accounting cost, the regulatory costs accompanying companies going public is much higher.

    The group highlighted opportunities to reduce application costs to balance cost-benefit trade-offs behind the white spaces by:
    - making standards more modular through additional structure/scalability or technology; and
    - building capacity in markets through network of stakeholders and update adoption guides.

    Finally, the group noted that connectivity will be the defining issue for the next period.

11. Ms. Sansom concluded that there might be a white space but it was not necessary for the IASB to address it by developing a new product. The feedback suggested the IASB should focus on:

    - improving the current standards;
    - increasing connectivity between standards and addressing items in the last agenda consultation;
    - maintaining the relevance of financial statements to provide useful information to users; and
    - exploring how AI and digitisation affect data consumption and address investor needs.

12. To stimulate discussion, Mr. Andreas Barckow, Chair of the IASB, asked three questions to Council members:

- Should the IASB adjust its products as a result of the decrease in the number of listed companies? This question arises because the main customer for IFRS Accounting Standards is listed companies. We develop standards to serve investors in global capital markets.
- Are the two existing products (IFRS Accounting Standards and *IFRS for SMEs* Accounting Standard) serving customers well?
- Is there another customer group that IASB should address?

Mr. Barckow, noted that while agreeing that the white space is not an imminent issue to be solved, the IASB could enhance education materials for users and preparers, i.e., reducing implementation costs of standards and rewriting the standards to improve interpretability and accessibility.

13. In response to Mr. Barckow's questions, council members made the following comments:

- enhanced synergy, integration, and consistency between IASB and ISSB will contribute to the comparability and cross selling between listed and non-listed companies, thus enhancing the scalability of implementing standards.
- another way of adding value is through reputation enhancement and making the Standards more accessible. The IASB should investigate if technology can help with application of the Standards—for example, using technology to enable a company to select the requirements to apply by answering a series of questions. This would reduce the volume of requirements companies need to consider.
- the customer base is not decreasing, but the nature of the customer is changing. The IASB should not narrow its focus by disregarding private equity companies and those raising money in the debt markets. Investors in those companies also want high-quality standards.
- the key customer base is not companies, but international investors, who will eventually drive companies they invest in to apply IFRS Accounting Standards. The IASB should allocate resources to focus on investor needs and demands, including consideration of how investors consume financial information.
- the IASB should continue its focus on developing high-quality accounting standards.
  a. companies need high-quality standards to attract international investment.
  b. IFRS Accounting Standards are more proportional for different types and sizes of companies than might be portrayed. The IASB should be aware of the opportunity cost of changing its focus, which could affect its existing projects and agenda.
  c. to remain relevant, the IASB should progress the potential projects in the Third Agenda Consultation, such as projects on cryptoassets or green energy assets.
- recognition, measurement, and disclosure are the main components of preparing financial statements. There is room for simplification of disclosure requirements but recognition and measurement should remain unchanged.
- when thinking about the trajectory of the IASB development, time horizons should be expanded, not only focusing on the current market trend but also contemplating what financial reporting might look like in twenty years. This might also involve strategic thinking at the IFRS Foundation level, considering a holistic product for general purpose financial reporting.

IFRS Foundation Corporate Champions Network

14. Mr. Brian Gougherty, Director of Fundraising and Development, presented on the Corporate Champions Network which included:

- a brief overview of IFRS Foundation's overall funding model;
- the purpose, benefits, and impact of the Network;
- what has been learned over the past initial year of the programme;
- goals for the Network;

- requests for the Council members to help evaluate and strengthen the programme.

15. In response to the presentation and the requests made, several themes arose from the ensuing discussion, including:
    - Funding is a key strategic imperative for the Foundation, and it was important that the Foundation used the funds available to it in the most effective manner.
    - Many members noted their concerns about the possible threat – or the perception of a threat – to independence, in this funding approach. In line with this theme, specific concerns were raised about the need to avoid any real or perceived threat that membership of the network might give corporate donors the ability to buy privileged access to the ISSB or staff. One member emphasised that adequate safeguards should be put in place to ensure that there was no privileged access that could pull the ISSB into arbitrating between different viewpoints.
    - Members also identified reputational risk for the Foundation, should a company that is a member of the network being fined, sanctioned, or accused of greenwashing while they are a Corporate Champion. Concerns were also expressed by the label "champion" in this context. Similarly, concerns were raised about the extent to which member companies would benefit from support in how to describe their membership, eg on social media.
    - One member noted there are currently no requirements to become a Corporate Champion outside of a financial contribution. As implementation and adoption of the ISSB Standards move forward, qualifications such as reporting against the Standards should be a prerequisite to become a Corporate Champion.
    - The Foundation should continue to explore other sources of funding that have fewer risks, including from multilateral development banks, governments or through national standard setters and other national bodies. Success in these areas would reduce the need for corporate funding. Members also noted the strategic importance of the Foundation's funding approach, and that, as such the Advisory Council remains available to provide strategic advice on these matters.

16. Mr. Gougherty noted the Foundation's aim for a diversified funding base, of the network would form a part, was intended to protect the independence of the Standard setting boards, and noted the strong governance, transparency and rigorous due diligence process currently in place to receive donations from entities. Due diligence is performed on all potential donations, and subject to review by an executive Donations Approval Group. Further work would be performed to examine the potential independence risk and how it could be mitigated, including:

    - term limits for Corporate Champions;
    - enhancing communication and guidance for donors to be clear that membership of the network does not influence standards setting activity;
    - enhance risk management processes for receiving donations, considering size of donation, donor and context.

17. Some members commented that fundraising is challenging and that the Foundation would need to be practical, at the same time taking steps to minimise any risk to independence and any perception of risk. However, the IASB's funding model had been in place for 20 years, shared some of the features members were concerned about, but had avoided independence concerns.

18. Mr Gougherty thanked the Council for its advice and noted that he would consider how to revise the programme to address their concerns and reflect their advice.

Update on the Trustees' Activities

19. Mr. Erkki Liikanen. Chair of the IFRS Foundation Trustees, updated the members on a number of matters.

20. In his opening remarks Mr. Liikanen thanked the Council members for their ongoing commitment to engage with board members and staff in order to share their advice on matters of strategic importance. He extended a particular welcome to the new Council members.

21. Mr. Liikanen reported that, since he had last updated the Council, the IFRS Foundation said farewell to six Trustees who had been instrumental in the work to establish the ISSB, which was formally announced two years ago at COP 26 in Glasgow. Mr. Liikanen reported that he attended the COP 28 meeting in Dubai in December 2023 and had the opportunity to report on the IFRS Foundation's achievements since COP 26, and to outline its commitments and priorities for the next phase of work.

22. Mr. Liikanen updated Council members on the Trustees' meeting in Madrid, held from 27 to 29 February 2024. He noted:

    - the formal welcome of five new Trustees, who joined the Foundation on 1 January 2024;
    - the participation of Mr. Coen, Advisory Council Chair, providing the opportunity for Mr. Coen to directly provide the advice and views of the Council members to Trustees and respond to their questions;
    - a presentation by Mr. Jean-Paul Servais, IOSCO Chair, who joined the Trustees by video link, and reconfirmed IOSCO's support for the IFRS Foundation's mission to provide better financial information for investors;
    - in-depth consideration and discussion of the future strategies of both the IASB and the ISSB;
    - important and constructive engagement with the IFRS Monitoring Board;
    - the opportunity to thank Mr. Lee White, outgoing Managing Director, for his outstanding six years of service.

23. In concluding his update, Mr. Liikanen reiterated the significant value of the information and advice received from the Advisory Council. He thanked Mr. Coen for his ongoing excellent leadership of the Council.

Update on the ISSB's Activities

24. Mr. Emmanuel Faber, Chair of the ISSB, and Ms. Sue Lloyd, Vice Chair of the ISSB, presented Agenda Paper 5 to the Advisory Council. The paper outlined recent developments in the ISSB's activities and the focus of its work in the next few months. The update included the expected timetable for the development of the ISSB's work plan, in the light of the feedback on the ISSB's consultation on agenda priorities.

25. Council members confirmed their support for:

    - the efforts and progress the ISSB and staff have made over the last nine months in initiating the adoption and implementation of IFRS S1 and IFRS S2 and developing educational materials to support this;
    - the focus the ISSB has placed on supporting jurisdictions as they design and plan their journey to the adoption or other use of ISSB Standards;
    - the impact and momentum the ISSB Standards are developing inside and outside of the reporting ecosystem. Council members highlighted how IFRS S1 and IFRS S2 can play a crucial role in creating a common language for sustainability in capital markets and beyond, including for policymakers;

- the ISSB's continued efforts to foster interoperability between its standards and other standards and frameworks, including the upcoming publication of interoperability guidance material related to the European Sustainability Reporting Standards (ESRS).

24. The session's discussion among Council members was focused on the following topics:
    - **The enhancement of the SASB Standards:** Council members welcomed the ISSB's commitment to continue its work to enhance the Sustainability Accounting Standards Board (SASB) Standards to ensure they are internationally applicable. Members suggested the ISSB further clarify the practical application of the requirements in IFRS S1 to refer to and consider the SASB Standards
    - **Thematic and industry based standard setting:** Council members and the ISSB's Chair and Vice Chair discussed how the ISSB aims to move away from debates about thematic versus industry-based standard setting, instead focusing on what disclosures are most useful and relevant for investor decision making. These discussions highlighted how a combination of thematic and industry-specific disclosures may provide investors with a better understanding of an entity's position and prospects.
    - **The Integrated Reporting Framework:** Council members acknowledged that the Chairs of the IASB and ISSB have stated their support for the ongoing use of the Integrated Reporting Framework. Council members were encouraged to hear that the support and work on Integrated Reporting will continue.
    - **New research and standard-setting:** Council members supported the ISSB building out its suite of sustainability standards awaiting the board's decisions on its next two-year work plan following the Agenda Consultation. In particular, members suggested that existing social disclosures require enhancement to meet the common investors' needs.

Update on the IASB's Activities

25. Mr. Andreas Barckow presented Agenda Paper 6, providing an update on the IASB's activities since the Advisory Council last met in November 2023. In particular, Mr. Barckow highlighted:

    - forthcoming and published Standards and amendments;
    - published and forthcoming consultation documents;
    - changes to the IASB's work plan;
    - other forthcoming publications;
    - new projects that will start in 2024; and
    - connectivity between the IASB and ISSB.

    Mr. Barckow also presented the snapshot of projects on the IASB's horizon, focussing on several IASB projects dealing with climate-related matters in the financial statements.

26. The ensuing discussion among Council members focused on several issues, including:
    - **IFRS 19 Subsidiaries without Public Accountability: Disclosures:** A query was raised about what approach the IASB will take to the future updates of the prospective Standard. Mr. Barckow explained that IFRS 19 will be a living document and will be continuously updated. Each time the IASB amends the disclosure provisions of a Standard, it will propose concurrent changes to IFRS 19.
    - **Amortised Cost Measurement:** One Council member enquired about the reasons to start the project. The Council member noted that the effective interest method was introduced not by IFRS 9, but by IAS 39 and nothing fundamental had changed in that respect since IAS 39 was issued. Mr. Barckow explained that this question arose through feedback on the IASB's post-implementation reviews of the classification and measurement requirements and the impairment requirements in IFRs 9 *Financial Instruments*. There is a possibility that the prospective project

will not deal with the effective interest method as a whole, but will only focus on the modification and recognition accounting.
Post-implementation Reviews (PIRs): One Council member suggested there is an expectation gap between what a PIR is supposed to do versus what stakeholders think it is supposed to do. That Council member asked whether the approach to PIRs could be reconsidered to save time for both stakeholders and the IASB, since the current approach rarely leads to Standards being reopened. Mr. Barckow acknowledged a communication exercise might be required to better explain the prioritisation process and outcome of PIRs to stakeholders. Mr. Barckow also explained that some issues might be dealt with through the IFRS Interpretations Committee's process, provided they are not fundamental, but rather application questions.

- **Pollutant Pricing Mechanisms (PPMs):** One Council member enquired whether the project will be moved from the reserve list of projects to active list. Mr. Barckow explained that the IASB expects to make a decision later in 2024. Currently the IASB is collecting feedback from several jurisdictions regarding the prevalence, significance and nature of different PPMs systems that are in place. The feedback will facilitate an informed discussion regarding whether to start the PPMs project.
- **Intangible Assets:** One Council member enquired whether and when the IASB anticipates starting the Intangible Assets project. Another Council member shared feedback currently financial statements do not provide sufficient information in terms of certain companies' value creation. That Council member believes that the information can be provided through financial statements and/or sustainability information; depending on the nature of information, the communication can be different, and the connectivity of the information provided to investors is important. That Council member emphasised that the IASB and the ISSB need to work closely together to provide better information to investors. Mr. Barckow noted there are two questions the IASB needs to consider:

    - what are the problems that need to be fixed, and
    - how to bucket them.

  The project will become active at the IASB's April meeting. Mr. Barckow said a Discussion Paper is likely to be issued before the IASB will move on to the Exposure Draft. Depending on the bucketing of the different items, it will inform the IASB regarding whether there is a need for concurrent project streams or whether it should be sequential project stages.
- **PIR of IFRS 9—Impairment:** One Council member mentioned that the feedback statement that will be issued might be useful in clarifying application issues, and could be a good way forward without starting standard-setting activities. Mr. Barckow explained that standard-setting means amending any part of a Standard, whether it is a Standard itself, Illustrative Examples or Basis for Conclusions.
- **Business Combinations under Common Control (BCUCC):** One Council member shared observations that, in their jurisdiction, standalone financial statements are as important as consolidated financial statements. The Council member said they were surprised that the IASB decided to stop the BCUCC project. Mr. Barckow explained that not every research project becomes a standard-setting project. Certain criteria should be met for that to happen, that were not met in case of the BCUCC.
- **Management Commentary:** Clarification was requested on the direction of the project. Mr. Barckow noted that the IASB and the ISSB had a joint meeting in January 2024 to discuss the feedback on the ISSB's question regarding whether the integration in reporting project should be started. Mr. Barckow said the IASB is going to make a decision about the direction of the Management Commentary project in the coming months and there are several options to choose from, including stopping the project, keeping it on hold, or finalising it.
- **Provisions—Targeted Improvements:** Clarification was requested on the scope of the project and what the final product will be. Mr. Barckow confirmed that the project is aiming to propose the targeted amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* in the three main areas identified by the staff. The final product will be a revised IAS 37 and not a new Accounting Standard.

Meeting close

27. Mr. Coen thanked the Council members for their engaged participation in the meeting, noting the broad range of topics that were discussed, and the importance of the advice that the Council has provided on these issues. Mr. Coen also thanked the staff for their support for the meeting.

28. In concluding the meeting, Mr. Coen confirmed the next in-person meeting for 2024 will be held on Tuesday 12 November and Wednesday 13 November 2024. He noted the possibility of a virtual Advisory Council meeting that would take place before the November in-person meeting.