

**Monitoring Board
and
IFRS Foundation Trustees Meeting**
(Transcript of Public Meeting)

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Note: This is a verbatim transcript and directly taken from the original sound source.

Public Session: Monitoring Board and IFRS Foundation Trustees Meeting

Chair (Masamichi Kono): Thank you very much and a warm welcome to you for this public session of our joint meeting between the Trustees of the IFRS Foundation and the Monitoring Board. And certainly, the last time I think we had this kind of physical meeting was almost exactly one year ago. While of course we have had intensive communication in between, still certainly we have probably a lot to report and to review and to discuss, and therefore, with your kind indulgence and support, I would like to conduct this session as efficiently as possible.

And of course I must mention, first, I am Masamichi Kono. I am chair of the IOSCO Board but here in this meeting I am acting chair of the Monitoring Board, and with your permission I would like to chair this meeting. And of course if there are any general comments or any particular issues that you would wish to raise before we start an agenda-by-agenda session, this is the moment to do so.

If I may, I would of course like to introduce some new members from the Monitoring Board side. One thing that I should report is that the representative of the IOSCO Technical Committee, who was Mr. Fernando Restoy, vice-chair of the Technical Committee of IOSCO, has resigned from his position at the Spanish securities commission. He is now appointed as the deputy-governor of the Spanish central bank, and while of course we congratulate him in his new position – we wished him well – and to replace him we have not yet formally appointed a representative to take his place but today we have the newly-appointed secretary general, Mr. David Wright from the IOSCO secretariat, to represent our organization. And while on my part I am basically representing the Financial Services Agency of Japan.

Then we have a new representative from IOSCO again, but from the Emerging Markets Committee, Ms. Zarinah Anwar of the Malaysia securities commission has resigned from her post and Mr. Vedat Akgiray from the Turkish securities commission, he has actually already been chair of the Emerging Markets Committee but now he is also representing the EMC in the Monitoring Board, so we would like to welcome Mr. Akgiray.

So this is I think what I should be mentioning on behalf of IOSCO. Of course I would like to turn to Mr. Bob Glauber to perhaps introduce the new appointments and changes in personnel at the Foundation. Please.

Bob Glauber: Chairman, thank you. Let me simply introduce Michel Prada, our new – not so new anymore – it's a name I know none of you know and have never dealt with before, we are simply delighted of course that he is now

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chair of the Trustees and has been since actually since December of last year, but not for one of the Monitoring Board meetings. And Michel, could I in fact ask you to do the rest of the introductions?

Michel Prada: I thought you would do it, Bob. [*laughter*] But I can just say that I'm very happy to be here. I've been with this organization for six months now. It is a fascinating organization. I knew it from the outside and as in, brackets, one of the founding fathers of the organization, so I'm very glad to be here at a critical time when the world is confronted with a number of issues, and therefore I'm very happy to be part of the game. Having said that maybe you can summarize the changes and movements of persons. If you want me to do it, I can do it as well, as you like.

Glauber: I'm more than happy to. I'm trying to reconstruct who is new among the Trustees since the last time this group met. And Jim...

Prada: Well, I have a list...

Glauber: Jim, quickly of course, is new.

Prada: I have a list if you wish.

Glauber: Have you? Oh, wonderful.

Prada: Yes. I have: Ronald Arculli from Hong Kong, he's the chairman of the World Federation of Exchanges, inter alia; Chandrashekhhar Bhave, unfortunately he couldn't make it because he was a bit sick, I hope not seriously, but he could not travel; Yong Li from China; Sir Callum McCarthy, whom many of you know well also, a securities regulator; Marco Onado from Italy; James Quigley, whom you mentioned a minute ago. And all of them began an initial three-year term in 2012.

There have been a number of changes with Trustees that retired: Marvin Cheung, Sam DiPiazza, Zhongli Liu, Mohandas Pai, and also Sir Bryan Nicholson who played a major role in this organization.

So we have a few changes with the IASB members, but maybe I will not go through the whole description, so...

Chair: Thank you, Michel. And of course from the Monitoring Board side we would like to again extend our warm welcome to the newly-appointed Trustees and also everyone in the room, but it is a bit of a strange feeling that of course we have in a way met over the phone, and many of you several times, but it could be really the first time we meet physically and so of course

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this is really an opportunity to exchange our views and also ask questions, on the very nice setting today, and of course my thanks to you and also to the organizers of this meeting for this excellent venue in the heart of Washington, DC.

Now one just short housekeeping matter is that, well, first this I should mention, that the transcript for this public meeting will be made public and there is also a web connection that will enable our stakeholders to actually access the proceedings of this meeting.

Now otherwise, I think we should go along with the list of agenda items that we have distributed ahead of the meeting. We have I think seven documents with you. I don't really wish to go through each document now. Maybe as we enter each subject I can refer you to the documents that have been distributed for your information, and of course based on those documents we will have I hope a very useful afternoon discussion.

So what is first on our agenda, the all-important issue of governance and strategy reviews, status update by the Monitoring Board and the Trustees. Now perhaps can I start with you, Michel, on the update from the Trustees, and certainly I will supplement that with a status update from the Monitoring Board.

Prada: Thank you, Chairman. I will summarize the paper that has been distributed. This is my first report to the Monitoring Board in my capacity as chairman of the Trustees. You also have the annual report that has been published on June 12 and that provides some information on the activity of the organization. I will focus on the implementation of the recommendation of the Strategy Review and also the actions resulting from the Monitoring Board's Governance Review.

The first item is the Trustee selection process. We have not yet made final decisions on that but we are in the process of further enhancing the documentation of the criteria and the process for trustee nominations and appointments. We have also to take stock of the issue of publication versus confidentiality. So we will deal with this in the next months.

Among these issues I would like to mention something new, which we have decided today in our committee meeting, which is to formalize a sort of annual self-evaluation of the Board of Trustees, the way we work together and how we could improve the functioning of the Board of Trustees. This will be, I hope, implemented by the end of the year on the basis of some kind of questionnaire that we will have to deal with and which will trigger

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discussions between us to improve our performance, our collective performance.

The second issue I would like to mention, following a recommendation by the Monitoring Board is that we have made a few decisions to ensure a clear division of responsibilities and reporting lines between staff supporting the IASB's standard-setting functions and those assisting the Trustees in their off-site functions, and accordingly we have appointed a director for trustee activities, David Loweth, who is here on my left.

The Monitoring Board has also recommended a separation of the role of the chairman of the IASB and chief executive officer of the Foundation, and these responsibilities have been split. Yael Almog has become the chief executive officer, and we have also updated the Constitution accordingly to clarify this new organization.

I have to mention an editorial detail in the paper which is joined to this report. It is clear that the executive director is appointed both by the Board of Trustees and the chair of the IASB. This was in one of the paragraphs and not in the other, so it was merely an editorial correction I wanted to mention to you.

Now we have a number of steps to take to improve the functioning of our organization with regard to the process and the way it functions. One of the items is the need for us to better understand how IFRS are effectively implemented throughout the world, and we are starting a process whereby we will identify what is the situation in the different countries.

This is merely for informational purposes, for better understanding where we are. It is in no way a sort of name-and-shame approach, which wouldn't be relevant, but only having a better understanding of where the different jurisdictions stand, full adopters, have they endorsement mechanisms, are there carve-outs, are there exceptions, and so on and so forth. It's not an easy thing to do because there are a number of jurisdictions and we will have to collect daytime information. This will be undertaken very soon.

We will also improve the way we look into application and implementation through new activities, post-implementation reviews, and reviewing and enhancing the way the Interpretations Committee functions. David Sidwell might come back to this when he reports on the oversight activities.

And as you know, we have put to publication a new Due Process Handbook for public comment last May. By the same token we have taken an initiative which is to improve and possibly enlarge the relationship with IOSCO. This

is part of a global strategy whereby we wish to be closer to the field and better understand what happens before and after the standard-setting process. And I was invited to participate in one of the panels of the IOSCO conference in Beijing where I proposed to IOSCO to build a working relationship that provides us with a better understanding of the way the standards are enforced in the field.

We, I understand, are all comfortable with the present governance of the system. The three-tier governance arrangement has been confirmed by both the Monitoring Board report and the Strategy Review. We now have to clarify and improve the way we describe the role of the Trustees in the oversight field, and this is something the Due Process Oversight Committee has undertaken. We will also review the way the different committees of the main Board function and see whether we have to revisit their remits and then their respective responsibilities.

With regard to the standard-setting process, there is ongoing work under the leadership of the DPOC and David Sidwell to improve the process and answer the questions raised by the constituents and by the stakeholders. There are a number of initiatives that are described in the report.

We also want – and this is another pillar of the new development – we also want to build better cooperation with national standard-setters. This is a very important question and not an easy one. It is clear that as IASB is today a global organization, and while nearly 100 or more than 100 countries today either apply or permit the use of IFRS, that there is a need to have a better relationship with the standard-setters of these countries.

At the same time, we have to be efficient and we have to find the delicate balance between global outreach and efficiency in the process. The idea is two-fold: it is to bring the standard-setters into the process sooner and in a more formalized way, which will hopefully facilitate the building of the standards; and then it is also a way to improve the promotion of standards in the field. Yael is working on this to make proposals and we will be in touch of course with our counterparties to define the best system possible.

Finally, we are looking at the issue of financing, which is always a difficult one. As you know, we've made progress compared to the previous years. We now rely in majority on public funding but we still need the good support of private entities, and we have not yet been able to generalize a formula and a process that be similar for all countries so that we have to struggle with the bilateral relations we have with countries with different process and different situations.

The ideal, clearly from the point of view of the Foundation, would be to have with all participants a system whereby each country would have one body who should be the intermediary, the counterpart, which should raise the fees and bring the fees to us so that we are totally funded publicly in a rational way on the basis of a formula that has to be determined. Today we tend to consider that GDP is a good criteria, and when we look at the contributions that are delivered to us we always look at this relationship between what is provided and what should be provided according to the GDP criterion.

I think that this is clearly an issue where we will have to work with the support of the Monitoring Board. We need the public authority of the Monitoring Board to validate the process and then to facilitate our relationship with our counterparts. The situation today is a bit worrying because we are always very close to negative and we have to be very careful. The management of this organization is very well mastered, but when you look at the Strategy Review and the ambitions of the organization, and the fact that we need probably to increase our capacity in many domains, all the things I mentioned are time-consuming and require some resources.

We see that the present budget, which is okay, and you have in your files the outcome of the last exercise, 2011. Nevertheless, this is clearly not consistent with our missions and we will have to raise money in the future, and also not to be in this very uncomfortable position where each hour we wonder whether we will do it or not. We always do it due to the skills of the managers, but nevertheless it's a bit uncomfortable. So we are seeking your support. And having said that, I will stop my report.

Chair: Thank you very much. Now of course I'm quite sure Monitoring Board members would like to either ask questions or make comments on your status report, but in fact, just to close the circle, maybe I should combine this with my report on the Governance Review and progress with regard to follow-up work on the recommendations made in the context of the Governance Review of the Monitoring Board, and then open the floor.

Just one point on the proposals and suggestions that you just made, Michel. In fact, I can suggest that in the past we had in some cases of course discussions on the specific type item or in some cases an exchange of letters just to clarify the points that you would like to make to the Monitoring Board and then the Monitoring Board could provide some views, and also of course the support that you have just requested in the form of a reply to your letter for example.

And so on each of those points of course we would like to certainly welcome a proposal from you, for example on how to engage the national standard-

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setters and also how to have closer relationships with IOSCO, support on funding. Maybe on each of those points or maybe combined together we could have perhaps a useful exchange of letters going forward so that in some cases we can actually formalize or in that form maybe clarify what exactly we will be doing.

One immediate response that I can make here is that we would like to invite you to the next meeting of the IOSCO Board which will take place in October, and there I think we can have a discussion with your presence amongst our IOSCO Board members on how constructively and efficiently we can cooperate, and that is certainly, from us I welcome the proposal and we would like to certainly reciprocate that. Thank you.

So in fact, just a quick overview of what we have been doing at the Monitoring Board. Since we haven't really briefed the Trustees, yourselves, on the work of the Monitoring Board since we issued this report on the Governance Review of the IFRS Foundation on February 9 this year, with your indulgence I would just like to go over the main points made in that recommendation and report the recommendations therein.

And so basically of course this report recommended that we improve the governance of the standard-setter by enhancing the current three-tier governance structure, that is, we did not call for an entirely different governance structure but rather to enhance the three-tiered structure.

First of all, with regard to Monitoring Board membership, we recommended that the membership will be constituted of capital market authorities responsible for setting the form and content of financial reporting, but at the same time, continue to have the Basel Committee on Banking Supervision as an observer.

Now what was particularly important was the need to make the Monitoring Board more effective but also accountable to the global stakeholders and within the governance structure of the Foundation, and therefore, we have called for an enlargement of the Monitoring Board to include up to four additional authorities, primarily from major emerging markets, and also to establish a new mechanism to allocate a further two seats as rotating members in the Monitoring Board, in consultation with IOSCO.

And also, we proposed to review the eligibility of existing members of the Monitoring Board every five years against the set of defined membership criteria, and on this we are conducting follow-up work to develop more detailed membership criteria, particularly to clarify the meaning of what we mean by domestic use of IFRSs which would be an important condition for

eligibility as a Monitoring Board member of a jurisdiction or an authority within that jurisdiction.

Another front on IASB agenda referrals, of course the current arrangements already call for the Monitoring Board's involvement in agenda-setting without undermining the standard-setters' independence, so the current set-up should be basically maintained, but the Monitoring Board will continue to refer matters to the IASB for consideration with a new feedback system or mechanism to ensure that the IASB's response is consistent with its constitutional responsibilities.

On IASB chair selection there was a proposal to maintain the current set-up basically, but still to further enhance the existing arrangements on the process and the criteria for this selection and to enable the Monitoring Board to submit to the Trustees its assessment of a shortlist of candidates against certain criteria that will be clarified going forward.

Otherwise of course there were certain recommendations with respect to the IASB and the Trustees of the Foundation, and I don't wish to really go through a long list of measures, but as Michel just mentioned, there was also a call for a certain change in the type of the top officials of the Foundation, and therefore this proposal to separate the title of CEO from the IASB chair was also one element in this set of proposals. And a certain segregation of staff functions was also proposed, of course just to improve the efficiency and also of the accountability of the governance process within the Foundation.

Now with regard to this work at the Monitoring Board to follow-up on those recommendations and in particular with reference to the criteria for membership of the Monitoring Board, this morning we heard a report from a task force that was established under the Monitoring Board to develop operational criteria and also to make or clarify the details of the procedure to actually enlarge and also to review the membership of the Monitoring Board. Certain progress was made yesterday and today in the meeting of this task force. We are looking forward to receiving from this task force a draft report in a relatively short while and we will aim for completion of this follow-up work towards the end of this year, which is basically along the lines of what we proposed in the February report, except that there has been some delay in the milestones in between the preparatory stage and the final stage and due to certain factors involving personnel movements and the current economic and financial situation, et cetera.

So perhaps I've already spoken long enough on this. Of course your questions are more than welcome and may I open the floor for questions and comments

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on both what Mr. Prada mentioned and the report from myself? Please, Mr. Barnier.

Michel Barnier: Thank you, Masa, and good afternoon to all of you. Just a few points or remarks, first of all to say that we are on the side of the European Union very pleased to take part in this new common meeting between the Trustees and the Monitoring Board and to see so many new faces around the table. Under the Monitoring Board side, welcome David Wright, and we know each other for a long time, and also our new Turkish colleague.

And on the Trustees side, in fact 2012 was a very important year. A new chairman has been appointed and we wish you all the best, Michel, and you already worked a lot for the last six months and we wish you good luck and look forward to continue and to improve collaboration between the Monitoring Board and the Trustees.

Regarding individual trustee seats, there have been a number of new appointments this year and I am pleased to see that the recruitment process has been improved and the Budgetary Board has added the opportunity to discuss to have direct contact with the selected candidates.

I would like to make just briefly two comments, the first one, the governance and strategy review, and the second one regarding the Trustee selection process.

The governance in general, I would like to welcome the good collaboration between the Trustees and Monitoring Board to coordinate both reviews. As Masa already said, it's essential for stakeholders to show that we act in a coordinated way, especially in the very challenging time we are going to face in the next few months.

I also welcome, and Masa made this point a few minutes ago, the action taken by the Trustees to separate the duties of the chairman of the IASB and the executive director and the corresponding changes in the Constitution. This was asked by the Monitoring Board because it reflects in our views good governance practice.

I would like, coming back to the process of selection for Trustees, just to ask for one clarification regarding the way seats are allocated to different jurisdictions.

In my view, the chairman of the Trustees should not be counted in the different quotas. I understand that the Constitution might be interpreted differently; however, there seems to be a buffer of two seats for any

jurisdiction. I think it should be used in an intelligent manner in order to counterbalance the seat lost in one jurisdiction quota given the nationality for the chairman, and I would just make this point to perhaps clarify now further this point in our work together. Thank you very much.

Chair: Thank you very much. Would a knowledgeable person be able to inform us on the interpretation of this article in the Constitution allocating a certain number of seats along geographical lines? This is in the section on Trustees within the Constitution, paragraph or Article 6, and it does say six Trustees from Asia-Oceania, six Trustees from Europe, six Trustees from North America, one from Africa, one from South America, and two appointed from any area subject to maintaining overall geographical balance. Could you? Bob, thank you.

Glauber: You have indeed recited the Constitution as it now stands, and I understood the Commissioner's comments and I think we should discuss that among the Trustees. As it stands now, the Constitution is reasonably clear and I think it's something we should take under discussion and report back to you.

Chair: Thank you very much. Of course even as it stands, it does mention that two Trustees appointed from any area subject to maintaining overall geographical balance can be interpreted flexibly, and I actually, personally, since I have actually been involved in the selection of a new competent and excellent chair for the group of Trustees, I am 100 percent confident that he has been selected on the basis of personal merit. So we should not perhaps apply any of those articles with too much rigor or too much formality; rather, we should be flexible, and also, as Mr. Barnier put it, we should apply it intelligently. But having said that, maybe if you could discuss this among yourselves as well and if there are any further either interpretative guidances that you can give, that might be helpful. So thank you very much.

Please, any other comments, questions? Please.

Yves-Thibault de Silguy: Just a remark concerning the Constitution. The Constitution is not the bible. We change the Constitution each two years or three years, and for example to separate the chair, if we consider the evolution of the Foundation has an impact which is necessary to change the Constitution, we can change the Constitution. So the argument the Constitution, it's not for me very, very apparently obvious.

Chair: Thank you very much. And in fact, I must mention that due to a recent reorganization at IOSCO, I'm afraid the Foundation will probably need to change the Constitution just because of this reorganization that we

have just completed at IOSCO by way of merging two, three committees actually, the Technical Committee, the Executive Committee, and the Emerging Market Committee Advisory Group, those three groups have been merged into the IOSCO Board, and that already is cause for a certain change required in the Constitution, which of course I should perhaps apologize for because of course this is an administrative, purely an administrative point that will need to be reflected.

But having said that, of course there are certainly very important imminent changes that need to be made in the near term and so I think your point is very well taken.

Thank you. Please, any further questions, comments on the status reports? David, please.

David Wright: Okay, just first of all just to fully support what Michel Prada said about the importance of implementation and I think this dovetails very well with the global effort going on the Financial Stability Board, and indeed in IOSCO itself, in trying to strengthen the enforcement of the global principles that are emerging in the process of financial repair, so I think this fits extremely well in the global efforts that are under way.

We do already a lot of work in various committees, as Masa was saying, on the implementation, looking carefully at how our membership is applying IFRS principles and looking at where there are gaps and opt-outs and various things like that, so I think Michel's presence in October will help us I think focus. And I think we have to focus on priorities, because when we look at the scale of the task in general, I have 120 work streams with 25 people. We have to focus on priorities and I think it would be helpful to bear that in mind. Whilst I fully support this effort, some things are more important than others, so let's identify them. Thank you.

Chair: Thank you very much. Any other comments or questions? If I may, I would just like to partly echo what David mentioned just now but to add one element; that is, in the past, of course, we have had very intensive discussions globally, not particularly in this room but more broadly in the global context, whether and how many countries have adopted IFRS, have adopted in parentheses or in quotation marks, and in fact I have always felt the need that there needs to be a more informed discussion of what exactly adopted means. In fact, the situation does differ even amongst the adopted countries, and of course there are countries which proclaim, and justifiably so I would say, fully converged for example, or there are other terms that have been used which I am not really able to repeat here in a very intellectual manner, but there can be quite a large diversity or divergence amongst those

countries who in a status report would use the same term as the situation in that country.

So any fact-finding, any mapping of where countries are in an informed manner and also in a balanced manner, if I may put it that way, would be extremely helpful to perhaps call for a more balanced and informed discussion of this matter. Now that could provoke some views from around the table. Do I see any hands?

Hans Hoogervorst: The fact is that this is a very important question and we want to know ourselves, so are we going to send around a questionnaire to securities regulators I think, Yael?

Yael Almog: National standard-setters.

Hoogervorst: National standard-setters, but they are not... Why don't you answer the question, Yael, because you are going to deal with it.

Almog: Well, one of the proposals that we're discussing here in DC is actually initiating a survey amongst national standard-setters that are going to attend the World Standard-setters Conference that we have every October, and we are in this exercise trying to devise and comprise a list of questions that could be defined as milestones in the process of where a country goes in the IFRS adoption process or incorporation process, and we hope that by that service, have centralized data in the organization and try to begin to analyze it in the benefit of our own strategic needs and information and also for the benefits of all the international community because this information is very useful to many of our constituents and stakeholders.

It is not... It has been, it's a very challenging exercise because as was stated there are many ways to adopt IFRS, there are many versions, there are many needs in many countries, there are many modifications, and we are trying to both informative and accurate but nevertheless be constructive and helpful to the countries that we work with, so hopefully this will be completed in the next few weeks and then we will start to actually circulate the survey before October.

Chair: Thank you very much. Any other comments, views? In fact, from IOSCO, certainly IOSCO can perhaps provide some information on this aspect as well because in the past, particularly for emerging markets, we have constructed a database that provides certain information that probably you will be requiring. So of course subject to IOSCO Board approval, we could perhaps establish a certain cooperation mechanism here as well. Yes, Michel, please.

Prada: Just a brief word to thank you for your invitation. I do appreciate the willingness from IOSCO to have a better relationship and the invitation to attend the next meeting of the Board. I will be more than happy to meet with former colleagues. It will be a great pleasure. Thank you.

Chair: Thank you very much. So in the interests of time, if I may I would like to move on to the next item, but did we cover the...

Prada: Well, I... On the Constitution?

Chair: Yes.

Prada: Well, on the Constitution, in fact I gave you the essence of the decisions we made. Of course it is translated in a drafting change in the Constitution. You have papers on this. And the only thing I wanted to mention, that there was an editorial reconciliation that needed to be made because at one section, 15b, we forgot to mention the chairman of the IASB, whereas in the section 47 or paragraph 47 of section 47, we mentioned it. So it's merely editorial. We coordinate the two articles and this is a slight difference that I had to mention to you for the sake of clarity.

Chair: Thank you very much for that clarification. And if you could circulate the definitive proposal later and that would be very helpful as well.

Prada: Of course, we'll do that.

Chair: Thank you very much. So, yes, Ethiopis?

Ethiopis Tafara: Thank you, Masa. Just on the IOSCO point, I think to the extent possible there would be enormous utility in IOSCO being able to share with the Foundation and the Board what it's learned with respect to interpretation and application of IFRS. That information is gathered in a database and I think we should see whether or not there's a way for us to share that with the Board because I think they'll benefit from that and that should be one of the purposes of the database, is for that information to be made available to standard-setting bodies.

Chair: Thank you very much. And of course, again, being a Board chair of a member-driven democratic organization, what we will be doing will be of course based on Board approval, which we will be seeking in October, so if I may just add that point.

So thank you very much. Can we move on to the next item, updates on IASB developments, and here could Hans give us a report? Thank you.

Hoogervorst: Thank you, Masa. I am very happy to report to the Monitoring Board, and it's also with a certain measure of relief that I am reporting to you, relief because I finally have the sense that we are approaching the end of the convergence project. They are not over yet and we still have a lot of work in front of us, at least until mid-2013, but the most important thing is that I have the feeling that the most substantial decisions have been taken on the major projects.

If you look at financial instruments, we have basically completed with the FASB our joint discussions on classification and measurement. We have reached quite a bit more convergence than how we started out, so that is also a relief, and we expect to have an exposure draft ready by the end of this year.

Impairment, extremely important in this financial crisis. We've taken all the substantial decisions. Next week we are going to discuss important but relatively minor items such as off-balance sheet items, disclosures, and transition requirements, and also here we expect to be able to issue an exposure draft by the end of this year.

General hedging, thus far a project by the IASB, a review draft can be published any day and soon to be followed by the definitive standard.

The standard which caused us the most headaches, and which I'm certain will cause us headaches in the future as well, was leases. It is a standard that causes a lot of resistance. Huge support among users to put leases on the balance sheet. They do it already in practice. They make their own calculations but they all do it in a different way and they want the rigor of a standard to provide more comparability in the market.

We had a couple of very serious problems to solve for which there was not an obvious solution, such as the expensing, how to expense the lease assets, and I'm happy to say that a couple of weeks ago, the FASB and the IASB reached a very acceptable compromise and that was the last difficult decision that we had to take on the way to the completion of this standard.

Revenue recognition, you know we had reached a converged standard which we re-exposed. We are now starting substantive re-deliberations. Also next week have our first deliberation. And we expect that to progress well and to be able to issue a final standard early 2013.

Insurance contracts, it was not an official convergence program. It was not part of the MOU. The problem here is that FASB and IASB started in very different places, both in timing – the FASB had only issued a discussion paper, we had already exposed an exposure draft. And also the fact is that the FASB already has a working existing standard while we have a sort of a standard but it's really in very poor shape. And so the urgency for the IFRS community to have a new and proper-working standard is very great.

We will not end up completely converged. That is not going to be possible. On the other hand, we have made a lot of important decisions, such as two weeks ago on the role of OCI in the presentation of volatility in discount rates. So we have reached quite a few important converged decisions, and the very fact that we will come up with a standard that will at least look a lot like the American standard will make us much more converged than we are now.

So we are right on track. It all took a little bit longer than we had hoped. At a certain point we were working at a neck-breaking speed which also the Monitoring Board was very worried about. We slowed down. We were very successful in slowing down, and now I hope that we will be successful in getting the job done and I am very confident that we will.

But part of the reason why we did slow down has to do with due process. We have committed ourselves to the highest norms of due process throughout the convergence program, and we have often gone above and beyond the due process requirements, such as the re-exposure of the revenue recognition standard, which was really not necessary according to our criteria but both the FASB and the IASB decided that it was the right thing to do. It's a very important standard and people wanted to take another look at it, and I think we came, some issues came up that we are going to address now.

The due process will be further enhanced by an updated Due Process Handbook which is currently being exposed. And I think our commitment to evidence-based standard-setting also shows in the establishment of a working group to develop an agreed methodology for field testing and effect analysis and the development of a research capability, and I know these issues are very important to many of our close constituents, and so I hope that we will be able to improve our methods for field testing and effect analysis which are far from simple.

Then we have started to develop our new agenda, and in May, in our meeting in May, Board meeting in May, we reached tentative conclusions about the new agenda based on an amazing degree of consensus among our constituents. The main, one of the issues of consensus was that everybody is yearning for a period of calm, which does not mean that we can go into

retirement but people said, please, don't bother us for a while with these wide-ranging standards and concentrate on the foundations of your work, concentrate on the conceptual framework, and we will start working on that as soon as possible because I would really like to get that finished in the next couple of years, very important because it guides all our work.

We will also work towards establishing a disclosure framework. Everybody feels the need for that. We don't see the woods for the trees. And I think preparers and also regulators are in need of clearer-met reality concepts of when to publish a disclosure and when it might not be necessary.

And then, we are going to concentrate on a couple of more narrow impact standards that need to be changed. We are going to look probably at IAS 41, agriculture, to look at evaluation of bearer crops, very important in many parts of the world, many of our new jurisdictions such as Malaysia. We are going to look at rate-regulated activities. We don't have a proper standard for that and it's an important business, especially in the Americas. And we are going to look at the equity method in separate financial statements.

And then, there are quite a few issues which are not ripe yet for standard-setting activities but which we need to devote research to and those are going to be for example foreign currency translation and inflation accounting.

And finally, we are going to work to on, we already have started working on the first Post-implementation Review, IFRS 8, Operating Segments.

Finally, let me say that now that we are coming to the end of the convergence era and we are starting a new era in which the IASB will be setting its agenda more autonomously, we obviously do need very good input from our constituents, and we will have to replace the existing web of bilateral relations that we have with national standard-setters. We will have to replace that with a multilateral organization that we can use to consult with, to discuss technical matters with, to help us in our standard-setting, and to heighten or to lessen the risk of non-endorsement of our standards.

We are working on that. We are first developing ideas for setting up an accounting standards forum consisting of national standard-setters and regional bodies, and for the composition of that we are also of course looking very carefully at the composition of the Monitoring Board because they should perhaps not be identical but they should look like each other. And what is the biggest difficulty for the Monitoring Board is also our biggest difficulty: how can you combine trying to be as inclusive as possible without getting too big and making it such a big organization that you cannot get

your work done anymore and that you cannot have proper technical discussions. But I'm sure we can find a good solution for that.

So we, I think, we are at a very pivotal moment in our organization. We will enter new directions and we of course really rely on our constituents to help shape our future. Thank you very much, Chairman.

Chair: Thank you very much, and of course we would all like to congratulate Hans and the entire Board for the accomplishments and also the successes in adjusting the timing and the schedules also. But I would like to open the floor for questions and comments. I do have some myself but first let me give priority to those around the table. Sylvie?

Sylvie Matherat: Thank you. I just would like to thank Hans for his presentation and to say that on behalf of the Basel Committee we think it's really important to have a converged set of financial rules for financial instruments. It's always very important but of course given the current situation it's even more important, especially the one of impairment. I'm particularly struck by the fact that in the current stage of uncertainty about banks, and especially in Europe but not only, this issue of valuation is always on top of the agenda, so clearly we very much welcome that this process come to an end and that we'll have an exposure draft at the end of this year. Thank you.

Hoogervorst: We'll do our best, Sylvie, and we really cherish the very close relationship that we have with the Basel Committee.

Chair: Thank you. Please.

Barnier: Thank you. I share the comments of Sylvie and I want to sort of thank Hans and his team for the work they did. On the convergence, 2011 was supposed to be a key year for international accounting standards. A number of major technical projects should have been completed, financial instruments, insurance for the new recognition, and leasing contracts, and we have been called by the G20 leaders in Los Cabos to complete the main outstanding projects by mid-2013.

Hans, I am pleased to hear your confidence and kind of volunteerism and optimism today. I agree with you: if we don't deliver, we will lose our credibility. And I urge therefore the IASB jointly with the FASB to make sure that the projects are completed on time.

And on the European side, I want to say once more, the 2013 will be for us, for the European Parliament, the Council and Ministers, and I have to give

the results, the concrete results of our job. 2013 will be the moment of truth. It must be clear for all, everybody.

In particular on financial instruments, and Sylvie will no doubt agree with me, we need a good standard and rugged standard. And following the call from the G20, banks should make more provisions, and earlier, and the Budget Committee has done the job after the crisis. Let's also do our part.

On that point I finally want to say that we will also need an impact assessment, a comprehensive impact assessment on these new standards. It will be helpful to convince our stakeholders to endorse these new rules.

Perhaps I can just add one word of an agenda consultation. In the EU there will come the possibility to contribute to the IASB agenda-setting. Such a process is important to enhance the legitimacy and acceptability of the standard-setting activities of the IASB. In general, contributions made by original organizations, such as EFRAG, shall receive careful consideration by the IASB and affect local concern and expectations of the jurisdiction applying the IFRS standards. Thank you.

Chair: Thank you very much. I think you raised several important points. Would you have any particular reactions?

Hoogervorst: No, I agree with the points that Michel made and I said that, Michel was talking about impact assessments, that is very difficult but we do feel the need to improve our methodology so we are going to make an effort there.

Chair: Thank you. Perhaps you also on the point about the agenda referrals, of course we have certainly recommended from the Monitoring Board to maintain the current setup as a framework but still of course we were also recommending a new feedback mechanism and just a call for an efficient but also more public-accountable operational method, means of interaction, and in light of of course the need to maintain independence of this standard-setter as underpinned by also accountability to the global stakeholders. I mean this is a very important but delicate subject. I think we need to work together further to make this clearer in a way.

Hoogervorst: Well, Masa, I think we are very conscious of the fact that our independence does not come automatically and that proper due process is really the main pillar for our independence. And I think we have done a lot of work to improve it. I've said before, I've never worked before in such a transparent environment as this one where everything we do is transmitted over the internet, and for example we are precluded from meeting privately

with more than six Board members to preclude pre-cooking of decision-making in the Board, so we have really strict norms which we adhere to.

But it can always be done better and I think that with this new Due Process Handbook, which is now currently being exposed, we will have made another big step forward.

Sidwell: I think, Kono, it's actually a good example of agenda-setting because we spent a lot of time as an Oversight Committee with the Board in the drafting of the request for comment, making sure the Advisory Council was engaged in the review and doing all of the things that have been laid out either in the existing handbook or to try and incorporate some of the best practices that we're trying to incorporate going forward so that there's a very strong Foundation, as the Board begins to deliver on new initiatives that there's been sufficient consultation on exactly what that agenda will be.

Chair: Thank you, David. And in fact of course the next agenda item is really for you to report to us about your progress in other things, those aspects, and the Due Process Handbook and so on, but just before we go into that, any further comments, questions on what Hans has mentioned and the subsequent discussions?

One point that, if I may, I would like to mention with respect to the engagement of national standard-setters, of course I think you did mention this, but there is certainly an important question of which national standard-setters you would like to be represented. Of course you would like to be inclusive but at the same time efficient and also effective. And moreover, of course you cannot exactly replicate the Monitoring Board of course just because of course for example the treatment of European standard-setters is more a question that you would probably like to address.

And in that context may I just mention that of course, while certainly there will be various factors that you would want to consider in a constructive manner, the feeling I get from the national standard-setters who have been actually engaging with you bilaterally or maybe in a plurilateral context, if such a word exists, they would still like to be of course very closely engaged with their work and they would not really like to lose access to the core of the discussion, and that could also be an important factor for some jurisdictions to move further toward IFRS.

So I hope that in this context you will gain more from involving more standard-setters but not lose any element of that contribution or ongoing cooperation that you have established over the years with entities like FASB or the Japanese ASBJ.

Hoogervorst: No, I'm conscious of that fact and I'm sure that, I mean once we have such a forum, a multilateral forum, it cannot mean that we lose all bilateral relations. That would not be feasible nor desirable, but they will take another shape, but obviously we are always open to bilateral contacts and certainly the relationship with the FASB, which is extremely intense, that will end the way it is because we will not be jointly setting standards any more, but I am sure it will remain a very important and intense relationship, and the same goes for the Japanese standard-setter with whom we always have very good contact.

Chair: Thank you very much. Any further comments, questions on this point? So if not, may I invite David now to give us a report from the Due Process Oversight Committee.

Sidwell: Thank you very much. It's really good to be here and reporting to you again. In a year a lot has happened, and despite almost continuous meetings with the Board, I'm actually very pleased to say that there are no matters that I've highlighted to the Trustees or would highlight to you as being due process concerns.

We have continued to meet the commitment we made to you, that we wanted to include a much more continuous oversight process on the part of the Trustees, so as an example of that, I referenced in connection with the discussion of agenda consultation that we were engaged right at the beginning in terms of the process that the Board would follow, the actual document that went out for comment, how the Board engaged with the Advisory Council to get advice, and I think we were very well satisfied that throughout that process the Board followed the due process procedures.

Similarly, using another example, on the Post-implementation Review, which is the first one that is being undertaken, again there was very active dialogue between the Board staff and the Trustees as to exactly what should be done, the timing of the reviews, the process of undertaking the reviews, so I think we are making good progress in the commitment we made to you that we will have a much more continuous oversight process. I think we all feel quite strongly that to just review a standard as issued, even though it may have been ten years in development, doesn't actually provide anything of particular value.

The balance that we're trying to do is have this as a valuable process, as a constructive challenge process as opposed to check the box, and I think we are getting that balance right at the moment.

We have spent a lot of time in '11 and into '12 making sure we understand the steps that we want to be followed in due process. We also have spent a lot of time looking at what evidence that we would expect to see on the execution of those due process steps, and I think Hans summarized it very well. We're going for evidence-based standard-setting, and I think one of the things I'm most pleased to report is that the staff has been working very hard to design project management tools which really give them the evidence and help them manage the projects.

So for instance, if you're talking about ensuring that you have done the outreach to the investor community or that you have reviewed common letters, et cetera, et cetera, all the steps that you'd expect to see in a best practice standard-setting process, that staff has really embraced, that they can use technology, they can use measuring the steps they do as a very useful tool for them. I think it makes our jobs much easier and I think that it really puts the emphasis where you want it to be, that the people doing the work understand what the standards are and are responsible for reporting the metrics of evidence, and I think we're moving nicely along that path.

Simultaneously with that, we have spent time developing this thing called a protocol for the DPOC of what we will do to provide oversight. All of that was packaged and released as a document at the beginning of May. We have asked for comments by the beginning of September, and there have been already conversations between the staff and EFRAG as an example, the Advisory Council had some breakout sessions at their last meeting to review that document, so I'm very optimistic that we will get active engagement as we develop it.

I think it's important for you all to understand that in a way, this is getting the handbook to reflect the reality of what has been going on, because the Board has been I think going beyond the minimum standards, and this is really incorporating those standards into its activities, so I think we feel pretty good that this refresh of the handbook gets us to a best practice to the extent that we know it, recognizing that you're always going to have to move the bar, but this is I think at a good stage at this point. We'll know a lot more obviously in September when we hear back.

In terms of the actual standard-setting processes, we did undertake a review of the Interpretations Committee. I think we came to a pretty good place in terms of moving forward, in terms of responding to many operational comments that people have had. Wayne Upton, who is the new chair of the Interpretations Committee, and Hans have worked through how to make the Interpretations Committee much more useful to the IASB in terms of clarifying what types of items will they take on, how do things which are

dealt with in interpretations, how do those relate to things that might be done through an annual improvement process so that there isn't this long jam of agenda items and it's much clearer, and I think the early read is that it's going quite well.

A couple of members from the DPOC are going to observe an Interpretations Committee meeting in November. So again, we're trying to improve the level of oversight that we're giving in all aspects.

Incidentally, we have also included in the Due Process Handbook oversight of the Interpretations Committee which used to be done in a separate handbook, again trying to make sure we're consistent in the way that we deal with things.

Hans mentioned effects analysis and field testing. We approved yesterday the creation of a working group to seek outside help and guidance on how to do it. I think we, as Hans said, recognize that we want to continue to move forward the agenda of doing this. There's a lot of discussion about how to do it. There are fewer examples where you can actually see tangibly best practice but I think we want to move forward with this. EFRAG, as many of you know, has had a document out for comment since last year. We obviously want to leverage that and another best thinking. I think our goal would be, and again we talked about this yesterday, that effect analysis and field testing the results of that will be fully incorporated into the Board-issued parts of the standard-setting. So again, I think good process's there.

We reviewed the use of consultative groups to make sure that they're effective. We agreed that a few were no longer needed, and we actually had a very good dialogue, that if you take the consultative groups around for instance financial instruments or leasing, they provided a very important resource for the IASB to reach out to a particular question. So I think that it's probably an example that you can check a box or you can go to a consultative group but actually it's really the extent of the dialogue and the usefulness of the dialogue that really matters, and based on the conversations we had yesterday I think we feel comfortable that they are working well.

As an aside to that, the SME Implementation Group, which is chaired by Paul Pacter, I think we continue to feel very good about the way that has worked in terms of outreach to the, I heard millions yesterday, I'm not going to quote a precise number, but it seemed to have a lot of zeros after it of people using that standard, and I think there's cooperation of using a working group to help people work their way through the issues is working as a best standard.

Let me just finish with one observation. We continue to welcome comments from any group. We have had a few letters. We don't get a huge number, I'm glad to say, raising due process issues, and we respond to those letters as quickly as we can turn them around. The reason I'm raising this, I think the whole foundation of what we're trying to as a DPOC is to have full transparency of what we do. We've created a section of the Foundation's website which is dedicated to due process. All of the papers – and I mean all of the papers that we use – are on that website. Common letters we receive are on that website, as are our responses. And I think it's just hopefully an indication to all of you that we are trying to use transparency as the principal way of satisfying the various stakeholders that we are following good due process. That's my report.

Chair: Thank you very much. Again, our congratulations for the hard work that you have been putting into this and certainly we look forward to receiving those comments on the consultation.

Now questions, comments, please. Yes, Michel, please.

Barnier: Sorry to take the floor. I'm small but I can't be brief. [*laughs*] Just first to thank David for his presentation. I welcome the improvements for the due process for standard-setting and the role of the Due Process Oversight Committee. We think that a strong due process will enhance the quality of the IFRS and it's an element to ensure their local acceptance. I think also that wide consultation with interested parties is essential; therefore, I appreciate the efforts to keep an enhanced dialogue with stakeholders, in particular with security regulators but also with prudential regulators for banks or insurance.

And my last point is, as I already said, that I also very much welcome the fact that the new handbook outlines the importance of robust excellent effect studies. In the EU we have recently adopted standards on consultation. It was not so easy. I have to admit that the decision to endorse them was a difficult one because my constituents have a lot of questions on the potential impacts of the new standards and could not find the answers in the IASB documents, a very important point to make them. Thank you very much.

Chair: Thank you very much. Further comments, questions? No? Anything from your side? No? Okay, thank you very much. So let us move on to the next item and that is the financial, our conditions, are very important, and I'd like Michel, please.

Prada: Thank you, Masa. I will be very brief because I think the management of the organization is very robust and we stick to our budget, and when you

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look at the operating position for 2011, we end up with a balance, a little more than a balance, a small profit which was due to different rhythms of expenses and income.

So from the point of view of the organization we globally have approximately 23 million pounds of expenditures a year. This is today covered by the income. Probably two-thirds of the income today, a little more, is of a public nature, so we still have to make progress to diminish the proportion of private sector funding we still have.

And as I said, the main question we have today is to find a medium-, long-term process that provides us with more stability and to implement a similar process among countries with an accepted criterion for contribution. So this is work we have to develop in the future. And as I said, we will certainly seek support from the Monitoring Board.

So I have very little to add to the metrics which have been given to you. Our budget is quite simple. The main items are the remuneration of the staff and the Board members. We have a significant charge with regard to travel, and of course as we wish to organize as many meetings as necessary, even if we try to use emails and conference calls, for an organization such as this organization, travel is obviously of the essence, so it's a fairly simple budget. Operating costs are maintained at a very modest level. And the true question really is how the international community organizes itself to support this organization in the long term along the ambitions we collectively have.

And again, this is not a big deal. I mean we are not talking billions of dollars. We are talking 22, 23 million, 24 million pounds, and probably we have a need to have a little more resources in the future if we want to deliver. So it's really a question of willingness from all our constituents to deal with this.

And as a former budget director in France, I know that sometimes the small numbers are more controversial than the big ones, and we are in the small numbers, so we seek our support, new support, and encouragement.

Chair: Thank you very much. Now there has been a strong call for your cooperation, your support. Those are not the easiest of times financially, as we all understand, but certainly before, of course we would like to invite your views, but I can mention that of course country by country I think we have been making progress over the last few years.

Prada: Absolutely.

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Chair: We do need to make much more progress, but we should also welcome those countries who have decided to come forward with their own contributions, so that is one aspect that certainly maybe I should emphasize.

Please, any comments? Michel, again, please.

Barnier: I promise it will be my last intervention. *[laughter]* But this is a last point. The European Union has already established available public funding. In the 2011-2013 period, 12.75 million euro have been earmarked for the financing of the Foundation. For 2012, the Commission and the IFRS Foundation have just signed the grant agreement which will allow a direct payment of 4.25 million euro from the EU budget, and together with the individual contribution of certain member states, the European Union is well above the expected financing based on the GDP figures as calculated by the IFRS Foundation. And we are working to continue our co-financing program after 2013 for the next financial framework, subject to the approval of the EU budgetary authorities, and that's the reason why, one of the reasons I already said that 2013 is a key year for us and a moment of truth if we want to get this co-financing program continuing after 2013. Thank you very much.

Chair: Thank you very much. And again we would like to welcome and appreciate the progress being made there in Europe.

Now...

Prada: Can I add one point?

Chair: Surely, yes. Please.

Prada: I didn't mention that the budget I presented to you was, or rather the accounts, were the 2011 accounts. With regard to the present operations, I would like to mention the fact that we are opening an office in Japan which is an important step for us to go in the direction of outreach and being closer to our constituents, and I have to say that this is taken in charge by the Japanese authorities. So I want to clarify that what I was talking about was the ordinary operations of the organization and that this new undertaking has been very generously taken in charge by the Japanese authorities.

Chair: Thank you very much. Of course to be exact it is not the authorities but it is our stakeholders in Japan, so *[laughter]*...

Prada: Taxpayers... *[laughter]*

Chair: So I should also thank them for their generosity. In other words, this is not going to be an additional burden on your budget. Thank you for that clarification.

One thing that I would like to mention is that the Monitoring Board Governance Review did make certain recommendations in the area of Foundation funding, and apart from confirming basic facts, such as the Trustees being primarily responsible for this issue but with the Monitoring Board overseeing performance, also the Monitoring Board may reach out to relevant public authorities to encourage their contributions, which we have been doing but of course with limited success, and on that of course I think the Monitoring Board should make more progress.

Otherwise, there were some recommendations about greater clarity of criteria for funding contributions jointly between the Trustees and the Monitoring Board, which we have been doing I think, but there should be also continued working on this clarification.

Jurisdictions using IFRSs are strongly encouraged to make their utmost efforts to meet expected contributions based on a certain allocation mechanism depending on their situation. Now I don't think this is the place to point fingers or to really try to go over a long list of countries, but let me just mention that I think we do need to put this recommendation into operation in the sense that certainly those countries who have not met their expected contributions should be encouraged very strongly to come forward, and I would like to make this a joint message agreed today once more that we certainly move forward in that direction.

Any other comments or questions, please, or anything that I mentioned? If not... Yes, Bob.

Glauber: Thank you, Chairman. With your indulgence I would just like to return us to an item at the beginning of the agenda which was the discussion of new Trustees, and simply thank you, the Monitoring Board, you yourself and your staff, for the increasingly efficient process that we have developed for approving those Trustee nominations. It seems this is a new process and we've been learning as we go along, but it has become increasingly efficient and we greatly appreciate it and look forward to working with you and providing you the information you need. So thank you very much.

Chair: Thank you very much. You should not flatter us probably because I can point to some cases in which we did have delayed responses or had some problems in responding swiftly to your proposals, and certainly I think we made a lot of progress on the vetting procedure and also on speeding up our

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responses. And just a long way of saying thank you for your words, but certainly we should improve further and make this a firmly-established procedure going forward. Thank you.

So more or less I have now only a few minutes left, but this may be the moment to raise any other topic or any issues we can revisit that we have not yet perhaps covered today. Any comments or questions, please?

Well if not, thank you very much for your indulgence. I would like to close this public session of the joint meeting between the IFRS Foundation Trustees and the Monitoring Board and I thank you for the very constructive discussion we just had, and certainly we would like to work toward our common goal with further force and enthusiasm, if I may put it that way.

And just a final word, which may be redundant, but what we didn't discuss today was that we are in a certain crisis environment where of course the confidence of markets is being questioned, and this is not just talking about Europe of course. We are facing a global confidence crisis in a certain sense, and I hope all of you will agree that while accounting standards probably do not cause crises by themselves, but in addressing a crisis, certainly accounting standards and proper and transparent and workable accounting standards do play a role in coping with a crisis, and particularly to regain confidence in the capital markets.

So again, a long way of saying thank you very much. Let us work further and we need your support. Thank you very much.