

IFRS Foundation

# Due Process Handbook

International Accounting Standards Board (IASB)

Approved by the Trustees October 2008. Updated December 2010.



**IFRS Foundation**

**Due Process Handbook for the  
International Accounting Standards Board  
(IASB)**

*Approved by the Trustees March 2006. Amended version approved by the Trustees October 2008.  
Updated December 2010*

This document is published by the IFRS Foundation,  
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## **HANDBOOK OF CONSULTATIVE ARRANGEMENTS**

### **International Accounting Standards Board**

#### **I Introduction**

- 1 This Handbook describes the consultative arrangements of the International Accounting Standards Board (IASB). It is based on the existing framework of the due process laid out in the Constitution of the IFRS Foundation and the *Preface to International Financial Reporting Standards* (IFRSs) issued by the IASB. It reflects the public consultation conducted by the IASB in 2004 and 2005 and enhancements made to the due process since then.
- 2 The Trustees of the IFRS Foundation have a committee—the Trustees’ Due Process Oversight Committee—which has the task of regularly reviewing and, if necessary, amending the procedures of due process in the light of experience and comments from the IASB and constituents. The Committee reviews proposed procedures for the IASB’s due process on new projects and the composition of working groups and ensures that their membership reflects a diversity of views and expertise.
- 3 The Trustees approved this amended Handbook on 9 October 2008. The text was updated in December 2010 to take account of subsequent developments.

#### **II Summary**

- 4 The IASB is the standard-setting body of the IFRS Foundation. The foremost objective of the organisation is to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards.
- 5 The IASB is an independent group of experts with an appropriate mix of recent practical experience of standard-setting, or of the user, accounting, academic or preparer communities. Members of the IASB are selected and considered for reappointment through an open and rigorous process, which includes advertising vacancies and consulting relevant organisations. The Trustees’ Nominating Committee makes recommendations to the full Trustees on candidates to serve on the IASB, and reviews annually the performance of IASB members.
- 6 In accordance with the IFRS Foundation’s Constitution, the IASB has full discretion in developing and pursuing its technical agenda and in organising the conduct of its work. In order to gain a wide range of views from interested parties throughout all stages of a project’s development, the Trustees and the IASB have established consultative procedures to govern the standard-setting process. The framework for, and the minimum requirements of, the IASB’s ‘due process’ are set out in the Constitution (see Appendix I) and the IASB’s *Preface to International Financial Reporting Standards* (see Appendix II).
- 7 The IASB uses many steps in its consultation process to gain a better understanding of different accounting alternatives and the potential impact of proposals on affected parties. In the light of its consultation, the IASB considers its position, and decides whether to modify its approach to standard-setting issues.

8 In establishing its consultative arrangements, the IASB originally drew upon and expanded the practices of national standard-setters and other regulatory bodies. The IASB sought to enhance its procedures in 2004 and proposed a series of steps to improve transparency. Those steps, after public consultation, were incorporated into practice. This Handbook describes the procedures that were established and have been subsequently enhanced.

9 The procedures described in this Handbook address the following requirements:

- transparency and accessibility
- extensive consultation and responsiveness
- accountability.

#### **Transparency and accessibility**

10 The IASB considers adding topics to its agenda after consultations with constituents and on the basis of research conducted by or in conjunction with IASB staff. Potential agenda items are discussed in IASB meetings. Those meetings, as well as meetings of the IFRS Advisory Council, the IFRS Interpretations Committee and the IASB's working groups, are open to the public for observation. IASB meetings are also broadcast and archived on the IASB's website.

11 Comment letters from interested organisations, IASB meeting observer notes and IASB decisions are posted on the IASB's website. Discussion papers and exposure drafts are also posted on the website and published for public comment (see paragraph 111).

#### **Extensive consultation and responsiveness**

12 The IASB solicits views and suggestions through its consultations with a wide range of interested parties and a formal process of inviting public comment on discussion papers and exposure drafts. Organisations that the IASB consults include, among others, the IFRS Advisory Council, standard-setting organisations and various regulatory bodies. The IASB may also arrange public hearings and field visits and set up working groups to promote discussions.

13 IASB members hold a large number of meetings with groups of preparers, users, academics and others to test proposals and to understand concerns raised by affected parties. Additionally, IASB members and senior staff appear at many public events to exchange views with constituents.

14 The IASB listens to, evaluates and, where the IASB considers it appropriate, adopts suggestions received during the consultations. It also debates different views on technical matters in public IASB meetings, conferences and seminars. In response to public comments, the IASB considers alternatives to its proposals.

15 Comments received from interested parties as part of the consultation process are summarised, analysed and considered by the staff, who make recommendations for the IASB to consider in its public meetings. Using its website, project summaries and feedback statements, the IASB informs the public of its position on major points raised in the comment letters received.

### **Accountability**

- 16 Adopting the 'comply or explain' approach that is used by various regulatory bodies, the IASB explains its reasons if it decides to omit any non-mandatory step of its consultative process as described in the Constitution (see paragraphs 112–114 below).
- 17 In addition, the Trustees review and ensure compliance with the IASB's procedures and mandate, consider the IASB's agenda, and conduct annual reviews of the IASB's performance (see paragraphs 115 and 116).

### **III The six stages of standard-setting**

- 18 The IASB's standard-setting process comprises six stages, with the Trustees having the opportunity to ensure compliance at various points throughout the process.

#### **Stage 1: Setting the agenda**

- 19 The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit. The IASB, by developing high quality financial reporting standards, seeks to address a demand for better quality information that is of value to those users of financial reports.
- 20 Other parties, such as regulators and members of the public other than investors, lenders and other creditors, may also find general purpose financial reports useful. However, those reports are not primarily directed to these other groups. The IASB therefore evaluates the merits of adding a potential item to its agenda mainly by reference to the needs of the users identified in paragraph 19.
- 21 When deciding whether a proposed agenda item will address users' needs the IASB considers:
- (a) the relevance to users of the information and the reliability of information that could be provided
  - (b) existing guidance available
  - (c) the possibility of increasing convergence
  - (d) the quality of the IFRS to be developed
  - (e) resource constraints.

For further discussion see paragraphs 54–60.

- 22 To help the IASB in considering its future agenda, its staff are asked to identify, review and raise issues that might warrant the IASB's attention. New issues may also arise from a change in the IASB's *Conceptual Framework for Financial Reporting*. In addition, the IASB raises and discusses potential agenda items in the light of comments from other standard-setters and other interested parties, the IFRS Advisory Council and the IFRS Interpretations Committee, and staff research and other recommendations.

- 23 The IASB receives requests to interpret, review or amend IFRSs. The staff consider all such requests, summarise major or common issues raised, and present them to the IASB from time to time as candidates for when the IASB is next considering its agenda (see paragraphs 62 and 63).
- 24 The IASB's discussion of potential projects and its decisions to adopt new projects take place in public IASB meetings. Before reaching such decisions the IASB consults the IFRS Advisory Council and accounting standard-setting bodies on proposed agenda items and setting priorities. In making decisions regarding its agenda priorities, the IASB also considers factors related to its convergence initiatives with accounting standard-setters. The IASB's approval to add agenda items, as well as its decisions on their priority, is by a simple majority vote at an IASB meeting.
- 25 When the IASB considers potential agenda items, it may decide that some issues require additional research before it can take a decision on whether to add the item to its active agenda. Such issues may be addressed as research projects on the IASB's research agenda. A research project normally requires extensive background information that other standard-setters or similar organisations with sufficient expertise, time and staff resources could provide.
- 26 Research projects are normally carried out by other standard-setters under the supervision of, and in collaboration with, the IASB. In the light of the result of the research project (normally a discussion paper, see paragraph 32), the IASB may decide, in its public meetings, to move an issue from the research project to its active agenda.

## **Stage 2: Project planning**

- 27 When adding an item to its active agenda, the IASB also decides whether to conduct the project alone, or jointly with another standard-setter. Similar due process is followed under both approaches.
- 28 After considering the nature of the issues and the level of interest among constituents, the IASB may establish a working group (see paragraphs 92–95) at this stage.
- 29 The directors of the technical staff select a project team for the project, and the project manager draws up a project plan under the supervision of those directors (see paragraphs 64–68). The project team may also include members of staff from other accounting standard-setters, as deemed appropriate by the IASB.

## **Stage 3: Development and publication of a discussion paper**

- 30 Although a discussion paper is not a mandatory step in its due process, the IASB normally publishes a discussion paper as its first publication on any major new topic as a vehicle to explain the issue and solicit early comment from constituents. If the IASB decides to omit this step, it will state its reasons.
- 31 Typically, a discussion paper includes a comprehensive overview of the issue, possible approaches in addressing the issue, the preliminary views of its authors or the IASB, and an invitation to comment. This approach may differ if another accounting standard-setter develops the research paper.

- 32 Discussion papers may result either from a research project being conducted by another accounting standard-setter or as the first stage of an active agenda project carried out by the IASB. In the first case, the discussion paper is drafted by another accounting standard-setter and published by the IASB. Issues related to the discussion paper are discussed in IASB meetings, and publication of such a paper requires a simple majority vote by the IASB. If the discussion paper includes the preliminary views of other authors, the IASB reviews the draft discussion paper to ensure that its analysis is an appropriate basis on which to invite public comments.
- 33 For discussion papers on agenda items that are under the IASB's direction, or include the IASB's preliminary views, the IASB develops the paper or its views on the basis of analysis drawn from staff research and recommendations, as well as suggestions made by the IFRS Advisory Council (see paragraphs 88–91), working groups and accounting standard-setters and presentations from invited parties. All discussions of technical issues related to the draft paper take place in public sessions according to the procedures described in paragraphs 69–75.
- 34 When the draft is completed and the IASB has approved it for publication (see paragraphs 76–83), the discussion paper is published to invite public comment.
- 35 The IASB normally allows a period of 120 days for comment on a discussion paper, but may allow a longer period on major projects (which are those projects involving pervasive or difficult conceptual or practical issues).
- 36 After the comment period has ended the project team analyses and summarises the comment letters for the IASB's consideration. Comment letters are posted on the website. In addition, a summary of the comments is posted on the website as a part of IASB meeting observer notes.
- 37 If the IASB decides to explore the issues further, it may seek additional comment and suggestions by conducting field visits, or by arranging public hearings and round-table meetings (see paragraphs 96–108).

#### **Stage 4: Development and publication of an exposure draft**

- 38 Publication of an exposure draft is a mandatory step in due process. Irrespective of whether the IASB has published a discussion paper, an exposure draft is the IASB's main vehicle for consulting the public. Unlike a discussion paper, an exposure draft sets out a specific proposal in the form of a proposed IFRS (or amendment to an IFRS).
- 39 The development of an exposure draft begins with the IASB considering issues on the basis of staff research and recommendations, as well as comments received on any discussion paper, and suggestions made by the IFRS Advisory Council, working groups and accounting standard-setters and arising from public education sessions.
- 40 After resolving issues at its meetings, the IASB instructs the staff to draft the exposure draft. When the draft has been completed, and the IASB has balloted on it (see paragraphs 76–83), the IASB publishes it for public comment.

- 41 An exposure draft contains an invitation to comment on a draft IFRS, or draft amendment to an IFRS, that proposes requirements on recognition, measurement and disclosures. The draft may also include mandatory application guidance and implementation guidance, and will be accompanied by a basis for conclusions on the proposals and the alternative views of dissenting IASB members (if any).
- 42 The IASB normally allows a period of 120 days for comment on an exposure draft as clarified in paragraph 100 below.
- 43 The project team collects, summarises and analyses the comments received for the IASB's deliberation. A summary of the comments is posted on the website as a part of IASB meeting observer notes.
- 44 After the comment period ends, the IASB reviews the comment letters received and the results of other consultations. As a means of exploring the issues further, and soliciting further comments and suggestions, the IASB may conduct field visits, or arrange public hearings and round-table meetings. The IASB is required to consult the IFRS Advisory Council and maintains contact with various groups of constituents.

### **Stage 5: Development and publication of an IFRS**

- 45 The development of an IFRS is carried out during IASB meetings, when the IASB considers the comments received on the exposure draft. Changes from the exposure draft are posted on the website.
- 46 After resolving issues arising from the exposure draft, the IASB considers whether it should expose its revised proposals for public comment, for example by publishing a second exposure draft.
- 47 In considering the need for re-exposure, the IASB
- identifies substantial issues that emerged during the comment period on the exposure draft that it had not previously considered
  - assesses the evidence that it has considered
  - evaluates whether it has sufficiently understood the issues and actively sought the views of constituents
  - considers whether the various viewpoints were aired in the exposure draft and adequately discussed and reviewed in the basis for conclusions on the exposure draft.
- 48 The IASB's decision on whether to publish its revised proposals for another round of comment is made in an IASB meeting. If the IASB decides that re-exposure is necessary, the due process to be followed is the same as for the first exposure draft (see Stage 4 at paragraph 40).
- 49 As it moves towards completing a new IFRS or major amendment to an IFRS, the IASB prepares a project summary and feedback statement. These:
- give direct feedback to those who submitted comments on the exposure draft

- identify the most significant matters raised in the comment process and
- explain how the IASB responded to those matters.

50 At the same time, the IASB prepares an analysis of the likely effects of the forthcoming IFRS or major amendment. The IASB has undertaken to provide such information to jurisdictions that adopt IFRSs. The IASB is committed to imparting information and sharing knowledge on the likely costs of implementing a new requirement and the ongoing associated costs. The IASB also documents what it learned during the development of the IFRS about the likely costs of implementing a new requirement and the subsequent ongoing costs, and the likely effect of an IFRS on the quality of the information that entities will provide to users. The analysis will therefore attempt to assess the likely effects of the new IFRS on:

- the financial statements of those applying IFRSs
- the possible compliance costs for preparers
- the costs of analysis for users (including the costs of extracting data, identifying how the data have been measured and adjusting data for the purposes of including them in, for example, a valuation model)
- the comparability of financial information between reporting periods for an individual entity and between different entities in a particular reporting period and
- the quality of the financial information and its usefulness in assessing the future cash flows of an entity.

51 When the IASB is satisfied that it has reached a conclusion on the issues arising from the exposure draft, it instructs the staff to draft the IFRS. A pre-ballot draft is usually subject to external review, normally by the IFRS Interpretations Committee. Shortly before the IASB ballots the standard, a near-final draft is posted on its limited access website for paying subscribers. Finally, after the due process is completed, all outstanding issues are resolved, and the IASB members have balloted in favour of publication, the IFRS is issued, followed by publication of any project summary and feedback statement and any effect analysis. See paragraphs 76-83 for details on balloting and drafting.

### **Stage 6: Procedures after an IFRS is issued**

52 After an IFRS is issued, IASB members and staff hold regular meetings with interested parties, including other standard-setting bodies, to help understand unanticipated issues related to the practical implementation and potential impact of its provisions. The IFRS Foundation also fosters educational activities to ensure consistency in the application of IFRSs.

53 The IASB carries out a post-implementation review of each new IFRS or major amendment. This is normally carried out two years after the new requirements have become mandatory and been implemented. Such reviews are normally limited to important issues identified as contentious during the development of the pronouncement and consideration of any unexpected costs or implementation problems encountered. A review may also be prompted by:

- changes in the financial reporting environment and regulatory requirements
- comments made by the IFRS Advisory Council, the IFRS Interpretations Committee, standard-setters and constituents about the quality of the IFRS.

The review may lead to items being added to the IASB's agenda. The IASB may also continue informal consultations throughout the implementation of the IFRS or amendment.

## IV How the due process is applied

### Setting the agenda

54 As mentioned above, the development of a single set of global standards relevant to users' needs is the foremost objective of the IASB. When developing IFRSs to achieve this objective, the IASB evaluates the merits of adding a potential item to its agenda primarily on the basis of the needs of users of financial statements. As investors are providers of risk capital to the entity, the provision of financial statements that meet their needs will also meet most of the needs of other users.

55 The IASB considers the following factors when adding agenda items:

- (a) the relevance to users of the information involved and the reliability of information that could be provided
- (b) existing guidance available
- (c) the possibility of increasing convergence
- (d) the quality of the IFRSs to be developed
- (e) resource constraints.

#### *The relevance to users of the information involved and the reliability of information that could be provided*

56 The IASB considers whether the project would address the needs of users across different jurisdictions, taking into account the following factors:

- changes in the financial reporting and regulatory environment—whether the issue is internationally relevant, and has emerged as a result of changes in the financial reporting environment and regulatory requirements across jurisdictions.
- pervasiveness—whether the issue is one that (a) affects more than a few entities and more than a few jurisdictions, (b) gives rise to problems that are frequent and material and (c) will persist if not resolved.
- urgency—whether requests have been received from constituents, with reasonable justifications, that the IASB should address the issue as a matter of priority.
- consequences—whether the absence of an IFRS might cause users to make suboptimal decisions.

*Existing guidance available*

57 After assessing the significance of an issue, the IASB considers whether the project will address an area on which existing guidance is insufficient. The following aspects are taken into account:

- no guidance exists.
- there is diversity in national standards, which results in a lack of comparability in financial reporting.
- there is diversity in practice, or IFRSs are difficult to apply because
  - they are unclear or unnecessarily complex,
  - the cost of complying outweighs benefits to users, or
  - the IFRSs are out of date and the information they generate no longer appropriately reflects economic conditions or results.

*The possibility of increasing convergence*

58 As specified in the Constitution, the IASB is tasked with promoting the convergence of national accounting standards and IFRSs. Therefore, in parallel with the review of existing guidance on an issue, the IASB considers whether undertaking a project would increase the possibility of achieving the convergence of the accounting standards in different jurisdictions.

*The quality of the IFRSs to be developed*

59 After evaluating the existing IFRSs including the prospects of further convergence, the IASB considers the qualitative aspects of the IFRSs that are proposed to be developed. The following factors are taken into account:

- availability of alternative solutions—whether when an issue is addressed, there are alternative solutions to improve *relevance, faithful representation, application of fundamental qualitative characteristics, comparability, verifiability, timeliness and understandability* in financial reporting, and it is likely that sufficient IASB support and approval will be attainable for IFRSs developed.
- cost/benefit considerations—whether it is likely that the expected benefits to users of the improved financial reporting will exceed the costs of implementation.
- feasibility—whether it is feasible to develop a technically sound solution within a reasonable time period without awaiting completion of other projects.

*Resource constraints*

60 The IASB then considers whether there are sufficient resources to undertake a project in its agenda. The following factors are taken into account:

- availability of expertise outside the IASB—whether there is expertise available at the national level that the IASB can employ to address the

issue; or certain accounting standard-setters have already committed resources to the project or have undertaken research to address the issue.

- amount of additional research required—whether there is sufficient research about the topic to form a basis for beginning the project, although more may be needed.
- availability of resources—whether there are adequate resources and expertise available to the IASB and its staff to complete the project and undertake the necessary due process activities.

#### *Other considerations*

- 61 As mentioned in paragraph 24, before approving the addition of an item to its agenda item and deciding on the priority of agenda items, the IASB consults the IFRS Advisory Council and standard-setters.
- 62 As mentioned in paragraph 23, the IASB may also discuss potential agenda items in the light of requests received. The following requests are considered:
- requests to clarify IFRSs
  - requests to resolve conflicts between IFRSs
  - requests for guidance on issues for which no relevant IFRS has been established.
- 63 Before the IASB's discussion, the staff, under the supervision of the directors, review the requests and recommend whether any issues should be added to the IASB's agenda. On the basis of the five factors described in paragraph 55, the IASB decides whether any specific issues are to be added to its agenda. Such evaluations are carried out regularly.

#### **Project planning**

- 64 Project plans are prepared by the staff under the supervision of the directors. The plans provide an overview of the proposed timetable, staffing, the documents that are expected to be produced and the due process to be followed.
- 65 In planning a project, the staff divide a project into manageable components. Each component is assigned a target date of completion. The documents to be produced for each component include drafts (or sections of drafts) of the proposed publication (discussion paper, exposure draft or IFRS).
- 66 A project team may include a technical principal, senior technical manager, one or more technical managers, a practice fellow or a research associate, IASB members and staff. A project team may also include members of staff from other accounting standard-setters, as deemed appropriate by the IASB. Project teams may, where appropriate, seek advice from IASB members on specific topics during their research. Individual IASB members may also seek information from staff and project teams.

- 67 In developing staff recommendations, to preserve the quality of staff proposals, project teams are expected not to seek to favour the views of individual IASB members, and individual IASB members are required not to try to influence unduly or improperly projects teams' conclusions outside of the IASB's public meetings.
- 68 The duties of technical managers include:
- proposing the due process and a timetable for the IASB's consideration
  - preparing IASB meeting materials, including observer notes
  - developing staff recommendations
  - presenting the different views of constituents and facilitating debates during IASB meetings
  - preparing materials for meetings and assisting with communications with working groups and constituents
  - preparing updates for the IASB's website to enable the public to follow the progress of the project
  - co-ordinating the due process throughout the life of the project.

### **IASB meetings**

- 69 The IASB's discussions of technical issues take place during public IASB meetings. The IASB normally meets once every month (except August) for a period of three to five days. Additional meetings may be convened at the Chair's request.
- 70 In accordance with the Constitution, meetings of the IASB are open to the public. Individuals may attend meetings as observers, or, for a nominal fee to help cover the cost of transmission, view or listen to the meetings through an Internet broadcast. Past meetings are archived on the website.
- 71 Before IASB meetings, the staff prepare IASB papers and observer notes for review and approval by the directors. IASB papers are distributed to the IASB members on or before the second Wednesday before the IASB meeting date. Meeting agendas and observer notes are normally posted on the website five days before the IASB meeting day. Observer notes normally include the following:
- background to the issues to be considered by the IASB
  - all illustrations and examples given to the IASB
  - all PowerPoint presentations and spreadsheets used at IASB meetings
  - staff recommendations.
- 72 The numbering of paragraphs in observer notes matches the numbers used in IASB papers. Staff analysis may be omitted from the observer notes to allow staff to express their views freely.
- 73 During the week when the IASB meets, the staff may from time to time conduct open educational and informational sessions. Individuals or organisations with interests or expertise in a particular project may be invited to provide background briefings to the IASB and to respond to questions.

- 74 During its meetings, the IASB also discusses comments and suggestions arising from research by the staff, and from consultations with the IFRS Interpretations Committee, the IFRS Advisory Council, working groups and other interested parties from public hearings, field visits, education sessions and comment letters.
- 75 Soon after the meeting, the staff summarise the IASB's decisions, and a decision summary—IASB *Update*—is published. This publication, together with a webcast recording of the IASB meeting, is available from the website. When project plans (including consultative arrangements) have been discussed in the meeting, the staff update and revise those plans to reflect the IASB's decisions.

### Balloting and drafting

- 76 The voting requirements for the IASB's publications are as follows:

Simple majority of members in favour	Nine votes in favour
<ul style="list-style-type: none"> <li>• Agenda and topic decisions</li> <li>• Discussion paper</li> <li>• Other discussion documents (such as those prepared by other standard-setters)</li> <li>• Administrative decisions</li> </ul>	<ul style="list-style-type: none"> <li>• Exposure drafts (including revised proposals, and proposed amendments of existing standards and the <i>Conceptual Framework</i>)</li> <li>• IFRSs</li> <li>• Interpretations of IFRSs</li> </ul>

- 77 Before instructing the staff to start drafting a document to be voted upon, the Chair of the IASB polls IASB members during an IASB meeting to gauge the level of support on a particular issue. If there is sufficient support, the IASB instructs the staff to prepare a pre-ballot draft of the document (discussion paper, exposure draft or IFRS). IASB members review the pre-ballot draft individually, and further pre-ballot drafts may be required if new issues ('sweep issues') arise during IASB members' review.
- 78 If the document being drafted is an IFRS, the pre-ballot draft is sent to selected parties (normally the IFRS Interpretations Committee) for a 'fatal flaw' review. After considering the results of this review, together with IASB members' comments, the staff prepare a ballot draft. To enhance the transparency of the drafting process, the IASB posts on the website changes from the exposure draft. In addition, at about the same time a near-final draft is posted on the IASB's limited-access website for paying subscribers.
- 79 The ballot draft of a discussion paper, exposure draft or IFRS is ready for balloting after all outstanding issues are cleared and the IASB agrees to proceed with balloting.
- 80 A balloting package includes the following:
- a balloting form
  - a memorandum summarising major changes from the pre-ballot draft
  - the ballot draft, in two versions:
    - the text, marked up to show changes from the previous pre-ballot draft
    - the 'clean' text.

- 81 Balloting takes place outside meetings. The staff circulate the balloting package to IASB members individually. After reviewing the balloting package, IASB members complete the ballot form to record whether they assent to, or dissent from, publication of the ballot draft. IASB members may suggest late editorial improvements to the text; depending on the number of such changes, the staff report to the IASB after the ballot or prepare and circulate to the IASB a post-ballot draft showing the final changes.
- 82 The IASB publishes its pronouncements and consultative documents by posting them on its limited-access website for paying subscribers. Discussion papers, exposure drafts and draft Interpretations are freely available on the IASB's website. With the exception of Interpretations Committee documents, IASB publications are normally also published in hard copy.
- 83 IASB members who propose to dissent from publication of an exposure draft or IFRS make their intentions known during the poll at the IASB meeting. Dissenting opinions are prepared by the IASB member concerned in collaboration with the staff. In exposure drafts, dissenting opinions are presented as alternative views. Dissenting opinions and alternative views are incorporated in the pre-ballot and ballot drafts for the other IASB members to see before balloting.

### **Liaison activities**

- 84 Liaison activities take place throughout the due process cycle. Their purpose is to promote co-operation and communication between the IASB and parties interested in standard-setting. Liaison is conducted at many levels within the IASB's structure and operations.
- 85 Close co-ordination between the IASB's due process and the due process of other accounting standard-setters is important to the success of the IASB. At its inception, the IASB established formal liaison relationships with standard-setters in Australia and New Zealand, Canada, France, Germany, Japan, the United Kingdom and the United States. The Technical Expert Group of the European Financial Reporting Advisory Group (EFRAG) was given the same rights as those bodies formally designated as liaison standard-setters. Since then, the concept of liaison with accounting standard-setters has been broadened. Members of the IASB are assigned to liaison not only with formerly designated liaison standard-setters and EFRAG, but also with other accounting standard-setters throughout the world.
- 86 While the extent and depth of liaison with accounting standard-setters required depends on the organisation involved, the IASB determines particular liaison responsibilities in consultation with the Trustees. The IASB meets the chairs of other accounting standard-setters and regularly organises regional and global meetings with standard-setters.
- 87 Liaison activities extend beyond interaction with accounting standard-setters. The IASB interacts with a wide range of interested parties throughout a project, which can include practical business analysis. IASB members and senior staff of the IASB and the IFRS Foundation also regularly hold educational sessions, attend meetings and conferences of interested parties, invite interested organisations to voice their views, and announce major events of the organisation on the website.

## **Consultation with the IFRS Advisory Council**

- 88 The IFRS Advisory Council provides broad strategic advice on the IASB's operations. In accordance with the Constitution and the Council's Charter (at Appendix III), the IASB consults the Council on its technical agenda, project priorities, project issues related to application and implementation of IFRSs, and possible benefits and costs of particular proposals. The Council also serves as a sounding board for the IASB, and can be used to gather views that supplement the normal consultative process.
- 89 The Council normally meets three times a year for a period of two days. The directors of the technical staff and those IASB members and staff who are responsible for items on the Council's meeting agenda are normally required to attend the meetings.
- 90 IASB staff normally provide an update for the Council, and invite questions and comments from Council members. Depending on the issue, the chair of the meeting may call for a formal poll to demonstrate to the IASB the extent of support within the Council for a particular point of view. If the IASB ultimately takes a position on a particular issue that differs from a polled expression of the Council, the IASB gives the Council its reasons for coming to a different position.
- 91 In addition to receiving advice from the Council, the IASB also considers comments from Council subcommittees.

## **Working groups**

- 92 Working groups give the IASB access to additional practical experience and expertise. The IASB normally establishes working groups for its major projects. If the IASB decides to omit this step, it will state its reasons.
- 93 Working groups are set up during the project planning stage. Before setting up a working group, the IASB advertises for nominations and applications. The composition of a working group reflects the diversity and breadth of interest involved in a particular area. The Trustees' Due Process Oversight Committee reviews the proposed composition of each group to ensure that there is a satisfactory balance of perspectives. Meetings of working groups are attended by some IASB members and technical staff.
- 94 In consultation with the Trustees and the members of working groups, the IASB sets working groups a clear mandate and objectives, and the groups are not asked to develop formal recommendations. Once work starts, the IASB consults the groups on important decisions, and provides regular updates on the progress of the project.
- 95 Meetings of working groups are announced in advance, open to the public, and chaired by an IASB member. Comments from group members are included in the materials for discussion in IASB meetings.

### **Comment letters**

- 96 Comment letters play a vital role in the IASB's formal deliberative process. To give the public timely access to the comment letters sent to the IASB, the staff regularly post the letters on the website.
- 97 The IASB members review comment letters that are received within the comment period. The staff normally provide a summary and analysis of the comments received. Summaries of comments are posted on the website as part of IASB meeting observer notes.
- 98 To be responsive to views received in comment letters, the IASB posts on the website a summary of its position on the major points raised in the letters, once they have been considered. In addition the IASB responds to the main issues raised in comment letters.

### **Comment period**

- 99 The following documents are published by the IASB to solicit public comments:
- (a) discussion papers
  - (b) exposure drafts of IFRSs and amendments to IFRSs
  - (c) draft IFRIC Interpretations and draft amendments to Interpretations.
- 100 The IASB normally allows a period of 120 days for comment on its consultation documents. For exposure drafts, if the matter is exceptionally urgent, the document is short, and the IASB believes that there is likely to be a broad consensus on the topic, the IASB may consider a comment period of no less than 30 days, but it will set such a short period only after formally requesting and obtaining prior approval from 75 per cent of the Trustees. For major projects, the IASB will normally allow a period of more than 120 days for comments. The comment period on draft IFRIC Interpretations is usually 60 days, but may be less in urgent cases.

### **Field visits and field tests**

- 101 The IASB often uses field visits to gain a better understanding of industry practices and how proposed standards could affect them. Conducted at a later stage of a project's development, they enable the IASB to assess the cost of possible changes in practice.
- 102 Although field visits are not described in the Constitution or the *Preface to International Financial Reporting Standards*, the IASB often uses them. Field visits are usually made after the publication of a discussion paper or exposure draft. However, sometimes they take place earlier. The focus of such visits is principally on transaction-specific issues. Participants in the field visits normally include companies or other parties affected by the proposals, and are identified by the IASB in consultation with working groups.

- 103 Field tests normally require collaboration with interested companies that are willing to be involved in testing the proposed IFRS, sometimes over an extended period. During field tests, the IASB staff work closely with participating companies in data collection, preparation of financial reports using the proposed IFRS, and evaluation of the results of the tests.
- 104 The IASB recognises the high costs of field tests, for financial resources and staff arrangements required from the IASB and the participating entities, and the possibility that the tests will delay the timely introduction of IFRSs. As the costs may exceed any benefits, the IASB expects to conduct field tests in rare circumstances. If the IASB decides to omit this step, it will state its reasons.

### **Public hearings (including round-table meetings)**

- 105 In addition to inviting comment letters to solicit views and suggestions, the IASB often considers holding public meetings with interested organisations to listen to and exchange views on specific topics. Such public meetings can be convened as public hearings, public round tables or other formats. Notice is given to the public in advance of those meetings.
- 106 Public hearings are regarded as most usefully held after the comment period, when the IASB has reviewed the views raised by constituents. Participating entities are required to provide written submissions in advance of the hearing. During the hearings, participants make brief presentations, and question and answer sessions follow.
- 107 As an alternative to public hearings, the IASB may arrange public round-table meetings to discuss issues with interested parties. The format of such meetings is similar to that of a meeting of the IFRS Advisory Council, in that the IASB raises previously circulated questions and invites participants to give their comments and views.
- 108 Throughout the due process, and in particular during the comment period, constituents may propose public meetings to explain their concerns about the IASB's proposals or existing IFRSs. In response to such requests, the IASB may assign individual IASB members and staff to attend such meetings. The staff summarise the information received at the different meetings for the IASB's consideration.

### **Effect analysis**

- 109 The IASB gains insight on the effects of IFRSs through its consultations, both in consultative publications (discussion papers and exposure drafts) and communications with interested parties (liaison activities, meetings etc). The IASB's views on effect analysis questions are reflected explicitly in the basis for conclusions published with each exposure draft and IFRS. The IASB weighs effect analysis considerations as a part of its deliberation when considering and drafting its analysis of likely effects. However, it is rarely possible to make a formal quantitative assessment of the effects of IFRSs.

- 110 In forming its judgement on the evaluation of the effects of a proposed IFRS, the IASB considers
- the costs incurred by preparers of financial statements
  - the costs incurred by users of financial statements when information is not available
  - the comparative advantage that preparers have in developing information, when compared with the costs that users would incur to develop surrogate information
  - the benefit of better economic decision-making as a result of improved financial reporting.

### **Information on the organisation's website**

- 111 Publications and information related to the IASB's due process that are freely available on the organisation's website are as follows:
- meeting schedules of the Trustees, the IASB, the Advisory Council, the Working Groups, the Interpretations Committee, public hearings and other public meetings
  - comment letters and written submissions
  - exposure drafts of IFRSs and amendments
  - draft Interpretations and draft amendments to Interpretations
  - discussion papers
  - project summaries and feedback statements
  - effect analyses
  - *IASB Update* and *IFRIC Update*
  - project updates
  - comparisons of exposure drafts and current proposals of the IASB following IASB redeliberations
  - post-implementation reviews
  - press releases
  - other relevant information.

### **'Comply or explain' approach**

- 112 The following due process steps are mandatory:
- developing and pursuing the IASB's technical agenda
  - preparing and issuing IFRSs and publishing exposure drafts, each of which is to include any dissenting opinions
  - establishing procedures for reviewing comments made within a reasonable period on documents published for comment

- consulting the Advisory Council on major projects, agenda decisions and work priorities
  - publishing bases for conclusions with IFRSs and exposure drafts.
- 113 Other steps specified in the Constitution are not mandatory. They include:
- publishing a discussion document (eg a discussion paper)
  - establishing working groups or other types of specialist advisory groups
  - holding public hearings
  - undertaking field tests (both in developed countries and in emerging markets).
- 114 If the IASB decides not to undertake those non-mandatory steps defined by the Constitution, it will, as required by the Constitution, state its reasons. Explanations are normally made at IASB meetings, and are published in the decision summaries and in the basis for conclusions with the exposure draft or IFRS in question.

### **Trustees' oversight role**

- 115 As mentioned in paragraph 17, the Trustees of the IASC Foundation oversee the IASB's operations. The Trustees' Due Process Oversight Committee reviews the composition of working groups and ensures that their membership reflects a diversity of views and expertise. The Committee also reviews proposed procedures for the IASB's due process on new projects.
- 116 Other oversight duties of the Trustees in relation to the IASB's due process include
- reviewing annually the IASB's strategy and its effectiveness
  - considering, but not determining, the IASB's agenda
  - reviewing the IASB's compliance with its due process
  - establishing and amending the IASB's operating procedures, consultative arrangements and due process
  - engaging the chair of the Advisory Council to participate in the Trustees' meetings.
- Appendix IV sets out the relevant Constitution section regarding the Trustees' oversight role.
- 117 Questions about adherence to the procedures described in this Handbook should be addressed to the IFRS Foundation's Chief Operating Officer.

## Appendix I

### The IASB's due process: extracts from the Constitution

- 34 The IASB shall meet at such times and locations as it determines: meetings of the IASB shall be open to the public, but certain discussions (normally only about selection, appointment and other personnel issues) may be held in private at the discretion of the IASB.
- 36 The publication of an exposure draft, or an IFRS (including an International Accounting Standard or an Interpretation of the Interpretations Committee) shall require approval by nine members of the IASB, if there are fewer than sixteen members or by ten members if there are sixteen members. Other decisions of the IASB, including the publication of a discussion paper, shall require a simple majority of the members of the IASB present at a meeting that is attended by at least 60 per cent of the members of the IASB, in person or by telecommunications.
- 37 The IASB shall:
- (a) have complete responsibility for all IASB technical matters including the preparation and issuing of IFRSs (other than Interpretations) and exposure drafts, each of which shall include any dissenting opinions, and the approval and issuing of Interpretations developed by the Interpretations Committee.
  - (b) publish an exposure draft on all projects and normally publish a discussion document for public comment on major projects in accordance with procedures approved by the Trustees.
  - (c) in exceptional circumstances, and only after formally requesting and receiving prior approval from 75 per cent of the Trustees, reduce, but not dispense with, the period for public comment on an exposure draft below that described as the minimum in the Due Process Handbook.
  - (d) have full discretion in developing and pursuing its technical agenda, subject to the following:
    - (i) consulting the Trustees (consistently with section 15(c)) and the Advisory Council (consistently with section 44(a)); and
    - (ii) carrying out a public consultation every three years, the first of which shall begin no later than 30 June 2011.
  - (e) have full discretion over project assignments on technical matters: in organising the conduct of its work, the IASB may outsource detailed research or other work to national standard-setters or other organisations.
  - (f) establish procedures for reviewing comments made within a reasonable period on documents published for comment.
  - (g) normally form working groups or other types of specialist advisory groups to give advice on major projects.
  - (h) consult the Advisory Council on major projects, agenda decisions and work priorities.

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- (i) normally publish a basis for conclusions with an IFRS or an exposure draft.
- (j) consider holding public hearings to discuss proposed standards, although there is no requirement to hold public hearings for every project.
- (k) consider undertaking field tests (both in developed countries and in emerging markets) to ensure that proposed standards are practical and workable in all environments, although there is no requirement to undertake field tests for every project.
- (l) give reasons if it does not follow any of the non-mandatory procedures set out in (b), (g), (i), (j) and (k).

## Appendix II

### Due process: extract from the *Preface to International Financial Reporting Standards*

- 17 IFRSs are developed through an international due process that involves accountants, financial analysts and other users of financial statements, the business community, stock exchanges, regulatory and legal authorities, academics and other interested individuals and organisations from around the world. The IASB consults, in public meetings, the Advisory Council on major projects, agenda decisions and work priorities, and discusses technical matters in meetings that are open to public observation. Due process for projects normally, but not necessarily, involves the following steps (the steps that are required under the terms of the IFRS Foundation's Constitution are indicated by an asterisk<sup>\*</sup>):
- (a) the staff are asked to identify and review all the issues associated with the topic and to consider the application of the *Conceptual Framework* to the issues;
  - (b) study of national accounting requirements and practice and an exchange of views about the issues with national standard-setters;
  - (c) consulting the Trustees and the Advisory Council about the advisability of adding the topic to the IASB's agenda;<sup>\*</sup>†
  - (d) formation of an advisory group to give advice to the IASB on the project;
  - (e) publishing for public comment a discussion document;
  - (f) publishing for public comment an exposure draft (including any dissenting opinions held by IASB members) approved by at least nine votes of the IASB if there are fewer than sixteen members, or by ten of its members if there are sixteen members;<sup>\*</sup>
  - (g) normally publishing with an exposure draft a basis for conclusions and the alternative views of any IASB member who opposes publication;<sup>\*</sup>
  - (h) consideration of all comments received within the comment period on discussion documents and exposure drafts;<sup>\*</sup>
  - (i) consideration of the desirability of holding a public hearing and of the desirability of conducting field tests and, if considered desirable, holding such hearings and conducting such tests;
  - (j) approval of a standard by at least nine votes of the IASB if there are fewer than sixteen members, or by ten of its members if there are sixteen members;<sup>\*</sup> and

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† Beginning no later than 30 June 2011 the IASB is required to carry out a public consultation on its agenda every three years

- (k) publishing with a standard (i) a basis for conclusions, explaining, among other things, the steps in the IASB's due process and how the IASB dealt with public comments on the exposure draft, and (ii) the dissenting opinion of any IASB member.\*

## Appendix III

### IFRS Advisory Council Terms of reference and operating procedures

#### I Objectives and scope of activities

1 The primary objective of the IFRS Advisory Council of the International Accounting Standards Board is to provide a forum where the International Accounting Standards Board (IASB) consults individuals, and representatives of organisations affected by its work, that are committed to the development of high quality International Financial Reporting Standards (IFRSs). As part of that consultative process the Council gives advice to the IASB on a range of issues which includes, but is not limited to, the following:

- input on the IASB's agenda;
- input on the IASB's project timetable (work programme) including project priorities, and consultation on any changes in agenda and priorities; and
- advice on projects, with particular emphasis on practical application and implementation issues, including matters relating to existing standards that may warrant consideration by the IFRS Interpretations Committee.

In view of the importance of the IASB's agenda and priorities, once these have been determined by the IASB, changes thereto are expected to be the subject of consultation with the Council.

When considered appropriate by the members of the Council, or on the request of the Trustees of the IFRS Foundation, the Council also provides input to the Trustees on matters relating to the activities of the Council or the IASB and any other relevant issues.

2 A secondary objective of the Council is to support the IASB in the promotion and adoption of IFRSs throughout the world. This may include the publishing of articles supportive of IFRSs and addressing public meetings on the same subject. Any such views expressed are personal, and should not create the impression that they are the opinions of the Council. (This objective does not preclude Council members from participating in genuine and objective critiques of the work of the IASB to assist better understanding and transparency of issues and solutions.)

#### II Composition and membership

3 The Council is composed of individuals, or representatives of organisations, interested in the development of high quality IFRSs. The membership provides for a broad geographical spread and a range of functional backgrounds that include members drawn from user groups, preparers, financial analysts, academics, auditors, regulators and professional accounting bodies. In addition, certain international organisations may be granted permanent seats on the Council by the Trustees. Official observer status may also be granted by the Trustees to other bodies and organisations that are influential in the global financial community.

- 4 A panel of the Trustees considers nominations and, where applicable, their origins and/or the organisations that may be represented, to determine whether nominee associations and individuals are suitable for membership and to ensure a broad geographical spread and a range of functional backgrounds.
- 5 Members are appointed for an initial term of three years and, depending upon the need to maintain a proper balance and for continuity, may be asked to remain for a further period of up to three years. A maximum period of service of six years is permitted.
- 6 In the interests of retaining an active and engaged membership, individuals who do not attend in person three consecutive meetings will be asked to stand down from the Council.
- 7 The Trustees appoint members to the Council in an individual or representative capacity, and at Council meetings members are expected to express their individual views unless it is expressly stated that they are the opinions of the organisations they represent. No sourcing record is made of organisational or individual views in the Council minutes. In adopting this convention the Council is mindful that discussion at a Council meeting may often be free-ranging and an individual's contribution might be unduly hampered if reference had to be made back to an organisation before a view was expressed at the meeting. Council members are free to table written materials for circulation, prior to the meeting, should they wish.

### **III Chair**

- 8 The Chair of the Council is appointed by the Trustees from nominations submitted by the Council. The term of office of the Chair is three years renewable for up to three years, subject to a maximum of six years.
- 9 The Chair provides leadership to the Council in ensuring that the IASB receives timely and effective input that contributes to the development of high quality IFRSs enjoying broad acceptance. To achieve this goal, the Chair actively monitors the progress of the IASB's work programme, projects and priorities and works closely with the Chair of the IASB and senior staff to identify, on a timely basis, matters on which the Council's advice should be sought. Specifically, the duties of the Chair include, but are not limited to, the following:
  - working with the senior staff of the IASB and IFRS Foundation to ensure the preparation of timely and appropriate materials to facilitate the conduct of the Council meetings;
  - conducting meetings of the Council;
  - reviewing the draft minutes of Council meetings before distribution to members;
  - appointing the Agenda Committee of the Council ;
  - acting as the liaison between the Council and the IASB and the Trustees;
  - keeping abreast of developments within the IASB and informing members of the Council of these matters, if considered necessary, between meetings;

- assisting the Trustees in the identification of new members of the Council;
- briefing new members of the Council on its operations and their role and responsibilities;
- assisting the Chair of the IASB in promoting the adoption of IFRSs throughout the world; and
- at the request of the Trustees, attending and participating in the Trustees' meetings.

#### **IV Operating procedures**

- 10 In order to ensure that the Council operates efficiently and effectively the following operating procedures are adopted.

##### **Meeting details**

- 11 Generally, the Council meets three times per year for a period of two days, but additional meetings may be convened at the request of the Chair.
- 12 The Chair of the IASB, the IASB's Director of Technical Activities and those IASB members and staff who are responsible for items on the agenda are required to attend Council meetings. IASB members are generally required to attend the meetings so that they can hear at first hand the views of the Council.
- 13 Secretarial support for the meetings, as well as the recording of the minutes, is the responsibility of a designated member of the IASB secretariat.
- 14 The meetings of the Council are open to the public except for administrative items, which are dealt with in closed session.

##### **Meeting agenda and papers**

- 15 The Agenda Committee, appointed by the Chair from amongst the members, is responsible for preparing the agenda for each meeting in consultation with the IASB secretariat. All Council members are encouraged to submit to the Agenda Committee items for consideration for inclusion in the agenda in advance of the meeting date and in accordance with the timing determined by the Chair.
- 16 Written materials supporting Council agenda items are provided before each meeting. A briefing paper highlighting those issues on which specific guidance is sought from the Council is usually prepared for each technical item on the agenda. The extent of the supporting documentation is dependent on the complexity of the issues involved and the need for Council members to be adequately briefed. The following should be the norms for distribution of material to Council members by the Secretariat:
- minutes of each meeting are distributed to Council members within thirty days following each meeting of the Council (or subcommittee of the Council);
  - the agenda for each Council meeting, including a brief description of each agenda item, is distributed to Council members at least thirty days before each Council meeting; and

- all detailed agenda papers are distributed to Council members at least ten days before each Council meeting.

### **Conduct of meetings**

- 17 The conduct of technical topics is generally prefaced by an introduction of the topic by the relevant IASB member or staff, and may include papers prepared and/or delivered by Council members. The extent of these briefings is dependent on the complexity of the topic. At the meeting members are invited to comment on the questions raised by the IASB or any other related matters. Depending upon the issue, the Chair may call for a formal poll to demonstrate to the IASB the extent of support within the Council for a particular point of view. If the IASB ultimately takes a position on a particular issue that differs from a polled expression of the Council, feedback is given at the next meeting of the Council on the reasons for the IASB's decision.

### **Subcommittees**

- 18 In order to improve the quality of comment submitted to the IASB on a specialised topic, the Chair may call for the establishment of a subcommittee of knowledgeable Council members to provide expert comment. This subcommittee reports to the Council, which in turn presents its views to the IASB.

## **V Travel and accommodation costs**

- 19 Members of the Council or the organisations they represent meet their own travel and accommodation costs.

## **VI Approval and changes**

- 20 The Trustees have approved the terms of reference and operating procedures and any changes thereto require their concurrence.

## Appendix IV

### The Trustees' oversight role—extract from the Constitution

- 15 In addition to the duties set out above, the Trustees shall:
- (a) appoint the members of the IASB and establish their contracts of service and performance criteria;
  - (b) appoint the members of the IFRS Interpretations Committee (the Interpretations Committee) and the IFRS Advisory Council (the Advisory Council);
  - (c) review annually the strategy of the IFRS Foundation and the IASB and its effectiveness, including consideration, but not determination, of the IASB's agenda;
  - (d) approve annually the budget of the IFRS Foundation and determine the basis for funding;
  - (e) review broad strategic issues affecting financial reporting standards, promote the IFRS Foundation and its work and promote the objective of rigorous application of IFRSs, provided that the Trustees shall be excluded from involvement in technical matters relating to financial reporting standards;
  - (f) establish and amend operating procedures, consultative arrangements and due process for the IASB, the Interpretations Committee and the Advisory Council;
  - (g) review compliance with the operating procedures, consultative arrangements and due process as described in (f);
  - (h) approve amendments to this Constitution after following a due process, including consultation with the Advisory Council and publication of an exposure draft for public comment and subject to the voting requirements given in section 14;
  - (i) exercise all powers of the IFRS Foundation except for those expressly reserved to the IASB, the Interpretations Committee and the Advisory Council; and
  - (j) foster and review the development of educational programmes and materials that are consistent with the IFRS Foundation's objectives.

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