

Report of the Due Process Oversight Committee (DPOC) meeting

Beijing, 13 October 2015

1. Update on technical activities

1.1 The DPOC received an update on technical activities.

1.2 The DPOC was presented with a report that outlined the due process activities for all projects on the IASB's current agenda. The staff focused on updating the Committee on a number of key issues, some of which were the subject of separate agenda items (see sections 2-4 of this report).

1.3 On the **conceptual framework** project, the DPOC noted that an Exposure Draft (ED) had been issued in May 2015 with a 150 day comment period. The IASB had set a comment period in excess of the normal 120 days because of the length, nature and significance of the issues in the ED. However, a number of stakeholders had encouraged the IASB to further extend the comment period. In response to those calls, the DPOC was informed that the IASB had decided to extend the comment period by a further 30 days, with the comment deadline now being 25 November 2015. The DPOC was comfortable with the decision that the Board had taken. In discussion, the DPOC heard that the Board was still determined to complete the conceptual framework project in as timely a manner as possible.

1.4 The DPOC questioned the IASB representatives on a number of other projects, in particular:

- **Dynamic risk management** – where the DPOC noted the divergence of views between users and preparers that the IASB had received in response to the Discussion Paper on this project and the difference of views on what should be the overall objective of the project. This presented a challenge for the Board in how it should proceed. The DPOC was informed that the IASB was approaching the issue by deciding to consider the information needs of users. From that perspective, the Board would seek to determine both recognition and measurement requirements and the related disclosure requirements;
- **Materiality** – the DPOC was updated on the progress of the proposed Practice Statement on materiality, with an ED scheduled to be issued during the fourth quarter of 2015. The DPOC also received an explanation as to why the Board was choosing to develop a Practice Statement rather than a Standard, noting in particular the fact that – in some jurisdictions – materiality was considered to be the responsibility of the securities regulator and the courts;
- **Discount rates** – the IASB updated the DPOC on the progress of this research project, noting that the Board had yet to take a view on how to take the issue forward; and
- **High inflation** – the DPOC asked the IASB representatives about the inactive status of this project, in the light of the Board's decision not to undertake additional work on the topic. The DPOC was informed that, notwithstanding the Board's decision, the issue was referred to specifically in the Request for Views (RfV) document on the Agenda Consultation that the IASB had issued to get feedback from stakeholders (see section 3 below). In addition, as agreed by the IASB's Emerging Economies Group, the standard-setters from a number of jurisdictions were preparing a further paper on the issue.

1.5 In considering the work plan overall, at its meeting the DPOC confirmed its view that all projects were proceeding in a manner consistent with the requirements set out in the Due Process Handbook.

2. Different effective dates of IFRS 9 and the new Insurance Contracts Standard

2.1 The DPOC was updated on the IASB's discussions regarding the possible accounting consequences of the different effective dates of IFRS 9 *Financial Instruments* and the new insurance contracts Standard. The DPOC was reminded that the effective date for IFRS 9 was for annual periods beginning on or after 1 January 2018. This meant that the earliest possible effective date of the new insurance contracts Standard could not be aligned with that of IFRS 9, on the grounds that the IASB:

- a. expected to finalise the new insurance contracts Standard no sooner than late 2016; and
- b. had tentatively decided to allow a period of approximately three years after the issue of the insurance contracts Standard for entities to implement it.

2.2 Given the situation outlined above, some stakeholders had expressed concerns about the implications of this, including the additional temporary volatility in profit and loss, which could confuse users of financial statement. Those stakeholders were also concerned that there would be additional costs and effort for both preparers and users of financial statements as a result of two consecutive sets of major accounting changes in a short period of time. Those stakeholders had urged the IASB to find a solution.

2.3 At the meeting, the IASB's proposals to address this issue were explained to the DPOC. The DPOC was informed that the IASB was going to issue a forthcoming ED outlining two proposed approaches: the overlay approach and the deferral approach¹. The DPOC noted in particular that the views of Board members were very split on proposing the deferral approach, but that there were sufficient votes from the Board to push ahead with the issue of the ED. The DPOC also noted that the deferral approach proposal included a 'sunset' clause, which would send out a strong signal that the IASB was determined to complete the insurance contracts project.

2.4 The particular issue presented to the DPOC was whether the Committee was content with the staff recommendation to be discussed by the IASB at its meeting in the week beginning 19 October 2015 to have a shortened comment period of 60 days for the ED. The *Due Process Handbook* contained a provision (in paragraph 6.7) that DPOC consultation and approval was required for any proposal to set a comment period of less than 120 days. The DPOC was aware that the insurance contracts project had been in progress for many years, but took note of the staff's reasoning of the urgency of the issues to be raised in the ED, mainly the fact that with the effective date of IFRS 9 having been set for 2018, entities needed clarity as soon as practicable for their implementation plans. The DPOC was informed that the Accounting Standards Advisory Forum (ASAF) had been briefed on the issue at its latest meeting and that ASAF members recognised the urgency of the issue.

¹ A summary of the two approaches can be found in Agenda Papers 3C and 3C(i) for this meeting of the DPOC, which are available at: <http://www.ifrs.org/Meetings/Pages/DPOC-meeting-October-2015.aspx>.

2.5 On this basis, together with the fact that the proposals would affect a limited range of entities, the DPOC was content to approve a shortened comment period of 60 days.

3. Agenda Consultation

3.1 The DPOC received an update on the IASB's latest **agenda consultation** exercise, and the RFV document that the IASB had issued for comment in August 2015². The DPOC noted that the questions the IASB was asking in the RfV document were relatively open, but also acknowledged that the Board would have a challenge in considering the feedback and then prioritising those projects it decided to include in its forward agenda.

3.2 The DPOC considered what its role was, and should be, as part of this exercise, noting that the Foundation's *Constitution* gave the IASB complete responsibility for all technical matters. That said, the *Constitution* also provided that, among their duties, the Trustees should consider, but not determine, the IASB's agenda. On that basis, the DPOC asked that the IASB provided the Committee with a summary of the feedback received on the RfV and the IASB's subsequent proposals having considered that feedback at its forthcoming meetings in January and May 2016.

4. IFRS Taxonomy Due Process

4.1 The DPOC received an update of the staff's proposals on changes to the due process for the IFRS Taxonomy, being reminded that this issue had been a regular feature on the agenda of the Committee's meetings over the past couple of years.

4.2 The DPOC was reminded that the IASB had conducted two trials to assess the proposals:

- The first trial related to the IFRS Taxonomy due process for content reflecting new or amended Standards. The DPOC was informed that the ED *Disclosure Initiative (Amendments to IAS 7)* was used for the trial, with a closing date in April 2015. On the positive side, the DPOC was informed that the consultation succeeded in eliciting the highest ever level of response to a proposed change to the IFRS Taxonomy. However, on the less positive side, the consultation highlighted limited support for publishing proposed changes to the Taxonomy together with EDs of proposed changes to Standards. The IASB discussed this issue at its July 2015 meeting, including a staff recommendation to continue with an integrated due process, with concurrent public consultation on proposed changes to Standards and the IFRS Taxonomy, as being more effective in obtaining public feedback.
- The second trial related to the IFRS Taxonomy due process for content reflecting common practice, which – as the DPOC had noted at its June 2015 meeting - had been completed successfully.

4.3 The DPOC was informed that the IASB, at its July 2015 meeting, did not accept the staff recommendation referred to in paragraph 4.1. Instead of undertaking consultation on proposed changes to the IFRS Taxonomy at the ED stage of proposals to develop or amend Standards, it was now proposed that the drafting, approval and publication of the *Proposed IFRS Taxonomy* document

² The IASB's RfV document can be accessed at: http://www.ifrs.org/Current-Projects/IASB-Projects/IASB-agenda-consultation/2015-agenda-consultation/Documents/Request%20for%20Views_Agenda%20Consultation_AUG%202015.pdf.

would normally happen at the same time as the drafting, approval and publication of the final Standard.

4.4 This was the approach set out in a draft of an Invitation to Comment to amend the *Due Process Handbook* to reflect the IFRS Taxonomy due process that was presented to the DPOC for approval. The staff was recommending to the DPOC that:

- a. the *Due Process Handbook* should be extended to incorporate the IFRS Taxonomy due process in the form of a separate appendix or section; and
- b. on finalising the amendments the current *XBRL Handbook* should be withdrawn.

4.5 The DPOC noted that the draft Invitation to Comment reflected a number of important changes, including:

- a. the introduction of a specific role for the IASB, which currently did not have any formal responsibility for taxonomy-related matters. In particular, under the proposed new due process requirements, IFRS Taxonomy content updates reflecting new or amended IFRS would be approved by the IASB. IFRS Taxonomy content updates reflecting common practice would be subject to review by three to five members of the IASB who would form an IFRS Taxonomy Review Panel;
- b. recognition of the changes to the IASB's consultative arrangements for the IFRS Taxonomy (as approved by the DPOC in January 2014), with the creation of the IFRS Taxonomy Consultative Group (ITCG) to replace the XBRL Advisory Council (XAC) and the XBRL Quality Review Team (XQRT); and
- c. the alignment of the IFRS Taxonomy and Standard-setting due processes.

4.6 The DPOC was pleased by the direct involvement of the IASB board in the trials in order that the Board could feel comfortable with the proposed new process. The DPOC was also pleased to note the recent proposal issued by the European Securities and Markets Authority (ESMA) on regulatory technical standards on the European Single Electronic Format (ESEF) that the use of the IFRS Taxonomy should be mandated for certain companies.

4.7 The DPOC noted that the Trustees' current review of structure and effectiveness contained questions related to the IFRS Taxonomy and the wider impact of technology on financial reporting and that the Trustees would consider these wider issues during the course of 2016. But in the meantime, the DPOC approved the issue of the Invitation to Comment on the IFRS Taxonomy due process, with a comment period of 90 days.

5. Consultative groups: update

5.1 The DPOC noted an update on the meetings of a number of the IASB's consultative groups since October 2014 and a forward schedule of group meetings.

5.2 On the **Transition Resource Group (TRG) for Revenue Recognition**, which the IASB had established jointly with the US Financial Accounting Standards Board (FASB), as noted in paragraph 1.2 above, this is a joint group with the FASB that had been established to discuss potential

implementation issues that could arise as companies and organisations implement IFRS 15. In the period under review, the TRG had met 4 times. The staff's view was that the group had functioned well and that its discussions of implementation questions had been useful to stakeholders. Together with the FASB, the IASB was now encouraging stakeholders to submit outstanding questions as soon as possible.

5.3 The DPOC also noted the latest developments on the **Transition Resource Group for Impairment of Financial Instruments (ITG)** – this group had been established in 2014 with the aim of providing support to the IASB's stakeholders who were implementing the new expected credit loss requirements in IFRS 9. The group had held two meetings to date (one introductory; one substantive). The staff's view was that the ITG was a useful forum for IASB stakeholders implementing the impairment requirements of IFRS 9. In particular, it played an important educational role and to date was functioning well.

5.4 On the **IFRS Taxonomy Consultative Group** – this group had been established in 2014 to provide a technical advisory and review forum in which members could contribute to the development of the IFRS Taxonomy. The group had held 6 meetings (4 by conference call) in the period under review and was assessed to be operating effectively;

6. Correspondence

6.1 The DPOC noted that no new correspondence requiring its attention had been received since the June 2015 meeting.

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