Report of the Due Process Oversight Committee (DPOC) meeting

London, 18 June 2015

1. Update on technical activities

1.1 The DPOC received an update on technical activities.

1.2 The DPOC was updated on the work of the Transition Resource Group (TRG) on **Revenue Recognition** that had been set up jointly by the IASB and the US Financial Accounting Standards Board (FASB). A number of issues submitted to the TRG were considered by the IASB and the FASB to need clarification, although in some instances the Boards had reached different decisions on what actions they should take. In that context, the DPOC was informed that the IASB would be asked at its June 2015 meeting (a) whether it had satisfied the due process steps for the publication of an Exposure Draft (ED) of clarifications to IFRS 15 *Revenue from Contracts with Customers* and (b) for its permission for the ED to be balloted for publication. Subject to that decision[1], the IASB planned to issue the ED in July and the DPOC was asked if, in that circumstance, it would consent to a shortened comment period of 90 days.

1.3 The DPOC discussed the issue and agreed to a comment period of 90 days, given the limited scope of the clarifications and the need for constituents to have a stable version of IFRS 15 as soon as possible to give certainty to their implementation plans. The DPOC's approval on this issue was in line with paragraph 6.7 of the *Due Process Handbook*.

1.4 With regard to the **leases** project, the DPOC was informed that the balloting process for the Standard was underway. The IASB had received a letter from the European Financial Reporting Group (EFRAG) asking that a fatal flaw review draft of the proposed Standard should be made available publically. EFRAG had written previously asking that a fatal flaw review draft should always be made publically available, but – after considering the issue – at its February 2015 meeting[2], the DPOC decided to maintain the current policy of the IASB retaining the option to make such drafts publically available if it decided to do so[3]. The DPOC agreed that how to respond to the current letter from EFRAG was a matter for the IASB and did not raise specific issues of due process that required the DPOC's attention.

1.5 On **insurance contracts**, the IASB was continuing to engage closely with the insurance industry on how to account for contracts with participating features. The IASB's deliberations would continue during 2015 and the Insurance Contracts Standard was not expected before the end of 2015. The IASB's decision to extend its original timetable for this Standard meant that the mandatory effective date of the new Insurance Contracts Standard would be after 1 January 2018, the mandatory effective date of IFRS 9 *Financial Instruments*. The IASB was aware that entities that issued insurance contracts would be significantly affected by both the new Insurance Contracts Standard and IFRS 9. In particular, the DPOC was updated on the progress in Europe on the **endorsement of IFRS 9** and the issue of the relationship between IFRS 9 and the proposed new

[1] The IASB agreed to a 90-day comment period at its June 2015 meeting, see IASB *Update* at: http://media.ifrs.org/2015/IASB/June/IASB-Update-June-2015.pdf.

[2] The report of the DPOC's meeting in February 2015 can be accessed at: http://www.ifrs.org/DPOC/meetings/Documents/2015/DPOC-meeting-summary-February-2015.pdf. Section 5 of the report refers.

[3] The correspondence between EFRAG and the DPOC on this issue can be accessed at: http://www.ifrs.org/DPOC/Documentation-and-Correspondence/correspondence/Pages/correspondence.aspx.

Insurance Contracts Standard. While EFRAG's draft endorsement advice recommended the endorsement of IFRS 9, it was also seeking views on a call for the effective date to be deferred for insurance businesses. This DPOC agreed that this was a complex and sensitive issue and noted that the IASB was monitoring developments and, at its June meeting, would be discussing the consequences and complexities of a deferral for the insurance industry, as well as exploring other approaches for addressing concerns about the temporary increases in accounting mismatches that might arise on applying IFRS 9 before the new Insurance Contracts Standard.

1.6 The DPOC also sought clarifications on the progress of the projects on the conceptual framework, macro-hedging, rate-regulated activities and the next steps of the research into financial reporting in inflationary environments. On the last issue, the DPOC sought clarification as to why the IASB had decided not to agree to the request of the Group of Latin American Standard-Setters (GLASS), supported by the Accounting Standards Advisory Forum (ASAF), to consider lowering the inflation threshold in IAS 29 *Financial Reporting in Hyperinflationary Economies*. The IASB had discussed the issue at its April 2015 meeting and noted the view that IAS 29 was a very blunt instrument that was trying to fundamentally correct a major economic event in a country; lowering the threshold without considering the Standard more carefully would be dangerous. If the IASB was to develop requirements, it would need to undertake a more comprehensive project, but in the IASB's view it was not a project that merited a high priority. Nevertheless, the IASB agreed that the issue would remain on the research programme to enable interested parties to comment on these decisions in the IASB's forthcoming Agenda Consultation (on which see paragraph 1.8 below). The IASB had also invited the Emerging Economies Group (EEG) to examine whether there could be merit in developing disclosure requirements for entities in jurisdictions suffering from high inflation. EEG members (Argentina and Mexico) were developing a paper on these issues.

1.7 Overall, the DPOC was satisfied that all projects are proceeding in a manner consistent with the requirements set out in the Due Process Handbook.

1.8 The DPOC was also informed that the IASB was now well advanced in preparing a Request for Views document on its second three-yearly **Agenda Consultation**. The document was scheduled to be issued in July, with a comment period running through to the end of November. From the DPOC perspective, the Committee was assured that the necessary due process requirements had being met, notably with the IASB's intention to have a comment period of over 120 days and the Board consulting as necessary with the IFRS Advisory Council.

2. IFRS Taxonomy

2.1 The DPOC received an update of the IASB's proposals on changes to the due process for the IFRS Taxonomy, in particular the two trials being conducted 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 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 was planning to discuss this issue at its July meeting, after which the plan was for the Board to bring a formal proposal back to the DPOC.

- The second trial related to the IFRS Taxonomy due process for content reflecting common practice, which the staff reported had been completed successfully.

2.2 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 looked forward to the conclusion of the trials and proposals to take forward an Invitation to Comment on the proposed new process being made as soon as practicable after that time.

3. Review of Consultative groups

3.1 The DPOC considered an annual review of consultative groups that had been prepared by the technical staff (as required by paragraph 3.63 of the *Due Process Handbook*). The review covered the following categories of groups.

Standing Advisory Groups

3.2 The DPOC reviewed and agreed with the staff's assessment of the standing groups as follows:

- **Accounting Standards Advisory Forum (ASAF)** – this group had met four times in the period under review. The DPOC noted that a full two-year review of ASAF had been completed recently by the Trustees, which had generated very positive feedback about ASAF and its importance as a key technical advisory group to the IASB;
- **Capital Markets Advisory Committee (CMAC)** and **Global Preparers Forum (GPF)** – the view was that both these groups were functioning well. The CMAC and the GPF both met three times in the period under review, most recently in a joint meeting held on 11-12 June 2015, which had gone well;
- **Emerging Economies Group (EEG)** – this group had met twice in the period under review. The EEG was assessed to be working well as an effective vehicle for ensuring that emerging economies had a conduit to the IASB. The EEG was continuing to add value, as strategically it was the vehicle used by the members to raise issues and was valued by the membership;
- **SME Implementation Group (SMEIG)** – this group was also viewed as operating effectively and its contribution to the comprehensive review of the IFRS for SMEs had been significant. The DPOC noted that the SMEIG operated mostly by e-mail;
- **Education and Advisory Group (EAG)** – this group was deemed to be operating effectively. The DPOC noted that, in the period under review, the EAG had met once, via teleconference;
- **Advisory Group on Sharia-compliant instruments and transactions –** this group was also assessed to be operating effectively. In the period under review, the group had held a meeting in Malaysia in September 2014 (which was a mix of a group meeting and an outreach meeting), with an additional outreach event held in Bahrain in March 2015. The group's work had focused on discussing an IASB Staff Paper *Issues in the Application of IFRS 9 to Islamic Finance*. Staff were working to revise and expand the Staff Paper, with a view to publishing it in some form.

Consultative Groups – disbanded in 2014

3.3 The DPOC noted that, following the annual review in 2014, a number of groups had been disbanded, in particular the **Effects Analysis Consultative Group (EACG)** (following publication of the group's report); the **Financial Instruments Working Group (FIWG)** (following the publication of IFRS 9); and the **Expert Advisory Panel (EAP) – Impairment** (again, following the publication of IFRS 9).

Consultative Groups – recommended for disbandment 2015

3.4 The DPOC considered and agreed with the staff's recommendations for disbanding the Leases Working Group later in 2015, following consultation with the group on the external review draft of the proposed forthcoming Leases Standard.

Consultative Groups – no change proposed

3.5 The DPOC noted and agreed with the staff's assessment of the following groups:

- **Insurance Working Group (IWG)–** this group was viewed as continuing to be useful, even though a formal meetings of the group had not been held in the past year. The DPOC was reminded that it had considered the continued existence of the IWG at its meeting in January 2014 and the reasoning for retaining the group remained valid. As the insurance project advanced toward its final stages, the role of the working group was that of a list of experts that the IASB could call on to get advice on specific elements of the proposed standard. This stage did not usually require formal meetings of the group;
- **Rate-Regulated Activities Consultative Group (RRACG)** – this group had met once during the period (in March 2015) to consider some of the issues raised in responses to the DP on the rate-regulated activities project. The group was viewed as operating effectively, having made a significant contribution in the development of the DP and assisting in the analysis of the issues raised by respondents;
- **Valuation Expert Group (VEG) -** this group was deemed to be operating effectively. The DPOC noted that this was intended to be a virtual group, operating by e-mail. The DPOC noted that the staff were planning to use the VEG in its continuing development of education material on fair value measurement;
- **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;
- **Joint Transition Resource Group for Revenue Recognition –** 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.

- **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.

3.6 Overall, the DPOC was pleased with the smooth functioning of most groups and agreed with the staff's assessment and recommendations.

4. Due Process Protocol: general reports

4.1 The DPOC considered a report addressing three issues: the availability of comment letters, the availability of meeting papers to observers, and interactions with securities and prudential regulators. The *Due Process Handbook* required that such reports should be made at least annually.

Comment letters

4.2 For the 11 month period up to 31 May 2015, 1,077 comment letters were received by the IASB and the IFRS Interpretations Committee, all of which were publicly available.

Meeting papers

4.3 In the 11 months to 31 May 2015, all agenda papers were made available on the website. A small number of papers were posted late (ie within 5 working days of an IASB meeting), mostly in February and March 2015, which related to issues arising from the discussions of the Revenue TRG, where the delays in posting enabled agreement to be reached with the FASB on the content of the papers.

Interaction with regulators

4.4 The DPOC was informed that, over the period, the Foundation and the IASB has been continuing to further strengthen the relationships with securities regulators, in particular in line with the protocols for co-operation agreed with the International Organization of Securities Commissions (IOSCO) in 2013 and the European Securities and Markets Authority (ESMA) in 2014. Over the same period, the IASB has maintained regular dialogue with prudential regulators, at international, regional and national levels.

4.5 Overall, the DPOC was pleased with the consistent adherence to the due process requirements during the year. The Committee observed that the key message from all the reports concerned the sheer scale of the work being done by the IASB in terms of following the due process, together with the amount of outreach and consultation being undertaken. The DPOC asked the staff to consider how all this work might be better publicised and communicated to a wider audience to demonstrate how faithfully the IASB was meeting the principles in the *Due Process Handbook* of transparency, full and fair consultation and accountability.

5. Correspondence

5.1 The DPOC noted that no new correspondence requiring its attention had been received d since the April 2015 meeting.

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