

Report of the Due Process Oversight Committee (DPOC) meeting

Toronto, 14 April 2015

1. Update on technical activities

1.1 The DPOC received an update on technical activities.

Due process issues

1.2 The DPOC was informed that papers for the meetings of the IASB between January and March 2015 had been posted within the required deadline (a minimum of five working days in advance) with a number of exceptions, all but one of which related to staff papers on issues emerging from the Transition Resource Group on the revenue project (RTRG), where the delays in posting had occurred in order to enable agreement to be reached with the US Financial Accounting Standards Board (FASB) on the content of the papers. The other with a shortened posting period dealt with a sweep issue that was identified during the balloting of the *IFRS for Small and Medium-sized Entities (SMEs)*, which enabled the IASB to discuss the issue in January 2015.

Major projects

1.3 On **insurance contracts**, the DPOC was updated on the progress of the IASB's redeliberations on the issues raised in the comment letter responses, outreach and detailed fieldwork on the proposals in the IASB's revised Exposure Draft (ED), which had been issued in late June 2013. The DPOC was reminded again that, while there was broad support for the proposals, there remained some significant areas of disagreement, in particular about performance reporting, and concerns about excessive complexity. The IASB was continuing to maintain extensive dialogue with all interested parties, including preparer bodies such as the European CFO Forum, and continued to consult its advisory bodies.

1.4 The IASB had made tentative decisions on the four targeted proposals in the ED that related to non-participating contracts (unlocking the contractual service margin, recognising the effects of changes in the discount rate in Other Comprehensive Income, insurance contracts revenue, and transition). The DPOC noted that, in March 2015, a *Project Update* had been published on the website providing an overview of the IASB's tentative decisions on the general model that would apply to insurance contracts without participation features, and the IASB's reasons for reaching those decisions¹.

1.5 The DPOC was updated on the progress being made by the IASB on considering the accounting for contracts with participating features, which was one of the most difficult and contentious issues in the 2013 ED. As a consequence of the complexity of the issues related to contracts with participating features, the IASB had decided to extend its original timetable to consider the issues in detail, and to continue its engagement with interested parties. The IASB was expected to reach tentative decisions on the accounting model for contracts with participating features later in Quarter 2 of 2015. The IASB did not expect to issue the Standard on insurance contracts before the end of 2015. The DPOC noted that, because the IASB intended to allow

¹ The Insurance *Project Update* can be accessed at: <http://www.ifrs.org/Current-Projects/IASB-Projects/Insurance-Contracts/Documents/2015/Insurance-Contracts-without-Participation-Features-March-2015.pdf>.

approximately three years between the issuance of the new insurance contracts Standard and its mandatory effective date, it would come into force after the mandatory effective date of IFRS 9 *Financial Instruments*. The Committee discussed the interaction between the new insurance contracts Standard and IFRS 9 and the fact that entities that issued insurance contracts would be significantly affected by both Standards. The DPOC was informed that the IASB was continuing to consider ways in which the transition to the new Standard might be facilitated.

1.6 On **Leases**, the DPOC noted that the IASB had focused on finalising its redeliberations of the 2013 ED and, in particular, had made tentative decisions on the disclosure requirements that accompanied the lessee accounting model and on transition requirements. It also noted that the IASB had considered the due process steps (see item 2 below).

1.7 On the **conceptual framework** project, the DPOC was informed that the IASB was continuing the balloting process on an ED, including conducting a fatal flaw review. Addressing the issues from that fatal flaw review had taken longer than anticipated and it was now expected that the ED would be published later in Quarter 2 of 2015, with a comment period of 150 days.

1.8 On the project on **macro-hedging**, the DPOC was reminded that the comment period on the DP *Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging* had closed on 17 October 2014, with 126 comment letters having been received. In addition, over the last six months the staff, along with IASB members, had conducted over 50 outreach meetings with constituents across jurisdictions and with different types of constituents. The staff had taken a comment letter analysis to the IASB during Quarter 1 of 2015 and planned to initiate discussions with the Board on next steps later in Quarter 2 of 2015.

1.9 On the project on **rate-regulated activities**, the DPOC was informed that the staff had provided a preliminary analysis of comments on the DP *Reporting the Financial Effects of Rate Regulation* to the IASB at its meeting in February 2015 and sought advice from the consultative group on Rate-Regulated Activities in March 2015. The staff planned to hold discussions with the IASB on next steps later in Quarter 2 of 2015.

1.10 The DPOC was also updated on the progress of the **disclosure initiative** portfolio of projects that was being undertaken with the aim of improving the effectiveness of disclosures in financial reporting. The portfolio included both implementation and research projects. On the implementation projects, the DPOC was reminded that, in December 2014, the IASB had issued an ED of proposed amendments to IAS 7 *Statement of Cash Flows*, with a comment period that closed on 17 April 2015. The main research project concerned *Principles of Disclosure*, which had the objective of improving disclosures in financial statements by identifying and developing a set of principles for disclosure in IFRS. The IASB was aiming to issue a DP in Quarter 4 of 2015. The DPOC also noted that the IASB was undertaking a research project to review disclosures in existing Standards to identify and assess conflicts, duplication and overlaps.

1.11 As part of the disclosure initiative, the IASB was developing guidance on the application of **materiality**, which would take the form of a Practice Statement, an ED of which was scheduled for publication later in Quarter 2 of 2015. The IASB was aware of the sensitivity of this topic because, in some jurisdictions, materiality was considered to be the responsibility of the securities regulator and

the courts. For that reason, the staff had been liaising with securities regulators and were confident of developing helpful, non-mandatory, guidance that would be globally accepted.

Research projects

1.12 The DPOC was updated on the progress of a number of the research projects on the IASB's work plan. The DPOC was reminded that, while there appeared to be a large number of items on the research programme, not all of them would necessarily lead to projects on the IASB's Standard-setting agenda. The projects on the programme were classified into short- and medium-term (of which there were thirteen projects) and longer-term (five projects). The forthcoming Agenda Consultation would influence the future composition of the research programme. On the Agenda Consultation, the DPOC was informed of the IASB's intention to issue a Request for Information (RfI) in July 2015, for a 120-day comment period, with the aim of finalising a Feedback Statement in the first Quarter of 2016.

IFRS Taxonomy

1.13 The DPOC was updated on the progress of the IFRS Taxonomy due process trials, covering Taxonomy updates for both new or amended Standards and common practice elements. The trials were designed to give the IASB comfort as to its role in the approval of the content of the Taxonomy. Significant progress had been made on the first trial, where the IASB's December 2014 ED of amendments to IAS 7 (referred to in paragraph 1.11 above) included the draft Taxonomy Update as accompanying material. The second trial was proceeding on the basis that the process for common practice additions should be similar to that applied to educational materials, with a panel of at least three designated members of the IASB reviewing the proposed common practice taxonomy elements to affirm compliance with IFRS. This was designed to manage the risk of common practice elements being perceived as authoritative guidance.

Implementation and maintenance projects

1.14 The DPOC took note of the progress of implementation and maintenance projects. The DPOC again focused its discussion on the progress of the Transition Resource Group on **Revenue Recognition (RTRG)** and the challenges that it raised. The Committee noted that, in the light of the issues brought to the RTRG, the FASB was planning to make a few amendments to its revenue Standard. The IASB was planning to propose some limited clarifications to the revenue Standard, which it would expose for comment, together with any other clarifications it might consider necessary from discussions at its forthcoming meetings, in a single ED, to be approved at its meeting in June 2015.

1.15 The DPOC also noted that, at its meeting on 1 April 2015, the FASB had decided to propose a one-year delay in the effective date of the revenue Standard for public companies, from 2017 to 2018, with adoption in 2017 permitted. The IASB was scheduled to discuss the topic at its meeting in April 2015. If the IASB decided to propose a similar deferral to the effective date of IFRS 15, then it would also need to issue an ED on the issue. The DPOC discussed what might be an appropriate comment period for such an ED and agreed that the comment period could be shortened to 30 days, given the narrow scope. The DPOC's approval on this issue was in line with paragraph 6.7 of the *Due*

Process Handbook. The IASB would report back to the DPOC the outcome of its discussion in April on this issue.

General

1.16 In summary, the DPOC confirmed that, in the case of all the major, research and implementation projects discussed, it was satisfied that all the due process requirements as set out in the *Due Process Handbook* were being met.

2. Lease: due process ‘lifecycle’ review

2.1 The DPOC received a report setting out a lifecycle review of the due process steps completed in the IASB’s project on *Leases*, together with a copy of the agenda paper that had been presented to the IASB at its March 2015 meeting. This agenda paper summarised the due process that had been taken in developing the Standard, analysed whether the IASB had complied with all necessary due process requirements, and sought the Board’s permission to commence the balloting process.

2.2 The DPOC noted the long history of this project, which had been conducted jointly with the FASB, since its formal inception in July 2006. The DPOC noted that the proposals on leases had always generated controversy and, among some stakeholders, continued to do so. The two Boards had, therefore, proceeded carefully and there had been extensive due process carried out on this project, with the publication of a Discussion paper (DP) in 2009 and two EDs (in 2010 and 2013). Throughout the life of the project, extensive outreach activities had also been carried out, including public roundtable meetings and setting up an advisory Leases Working Group.

2.3 On the majority of topics, the two Boards had reached converged decisions, including – most importantly – on the requirement for a lessee to recognise assets and liabilities for its leases (other than short-term leases and, for the IASB, leases of small assets such as laptops and office furniture). But the DPOC also noted that the two Boards had reached different decisions on a number of issues, most notably on the lessee accounting approach for existing operating leases. Different stakeholders had taken different views on the priority of maintaining convergence between the two Boards, but the balance of opinion canvassed from stakeholders by the IASB had emphasised that, while convergence was important, the quality of the final Standard was even more important. The DPOC was reassured that the IASB had reached different decisions from the FASB only after careful evaluation of the implications of reaching those different decisions and when, in its view, those decisions represented a higher-quality solution.

2.4 The DPOC had previously emphasised the importance to the IASB of the need to avoid being left exposed to claims that it had not followed due process and that it took steps to ensure that it disclosed publicly the rationale used to reach tentative decisions and conclusions, with special attention to issues that received substantial debate in the exposure process, including outside the comment letter consultation in response to the DP and the two EDs. The IASB highlighted the work

that it had undertaken in this area on leases, including the publication of three *Project Updates* between August 2014 and March 2015².

2.5 The DPOC was informed that the IASB was preparing an extensive effects analysis that would be presented with the Basis for Conclusions and published with the Standard. This would update and enhance the comprehensive effects analysis that had been presented in the Basis of Conclusions of the 2013 ED.

2.6 The DPOC noted that – at its March 2015 – the IASB had considered whether further re-exposure might be necessary. The DPOC was content with the IASB’s decision not to re-expose.

2.7 In summary, the DPOC was content to confirm that all necessary due process steps had been followed and that its review of due process on this project was now complete. The balloting process was now underway. The IFRS *Leases* was scheduled to be published later in 2015.

3. Post-Implementation Review (PIR) of IFRS 3 *Business Combinations*

3.1 The DPOC received a report setting out a summary of the conduct and main findings of the PIR of IFRS 3 *Business Combinations* and outlining the IASB’s decisions about those findings and next steps. The DPOC also considered a draft of the report and feedback statement on the PIR that was being prepared by the IASB.

3.2 On the conduct of the review, the DPOC noted that the PIR had been first discussed by the IASB at its meeting in July 2013, at which time the scope of the review had been agreed (to cover the whole business combinations project), as well as the staff’s planned consultations and activities. As required by the *Due Process Handbook*, the PIR had been conducted in two phases, with the first phase involving an initial identification and assessment of the matters to be examined. These were the subject of a public consultation in the form of a RfI, which had been published on 30 January 2014 for a 4-month comment period. A total of 93 comment letters were received in response to the RfI, and around 30 outreach activities undertaken. In the second phase of the PIR, the issues arising from this feedback, together with a review of the relevant academic literature, were discussed by the IASB during the second half of 2014.

3.3 The DPOC was informed that, at its December 2014 meeting, the IASB had discussed the findings from the review and identified the most significant topics that it should consider for follow-up work. At a subsequent discussion at its February 2015 meeting, the IASB decided to add the following issues to its research agenda:

- a. how to improve the impairment test in IAS 36 *Impairment of Assets* – this was the most significant finding arising from the PIR;
- b. the subsequent accounting for goodwill (including the relative merits of an impairment-only approach and an amortisation and impairment approach);
- c. the identification and measurement of intangible assets such as customer relationships and brand names; and
- d. how to clarify the definition of a business – participants in the PIR process had raised issues about the challenges faced when determining whether an acquisition includes a business.

² The documents can be accessed from the Leases project page on the website at: <http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/Pages/Leases.aspx>.

3.4 In discussion, the DPOC confirmed that it was content that all necessary due process steps had been followed and that its review of due process on the PIR was now complete. The IASB could, therefore, proceed with finalising the report and feedback statement, which was scheduled for publication later in the second quarter of 2015.

4. Education materials: update

4.1 The DPOC received an update report on the material that the IFRS Education Initiative (EI) was developing in 2015 and the level of review that the staff planned should take place in each case. The DPOC was reminded that the *Due Process Handbook* (paragraph 6.44) specified the levels of peer review that should be applied to different categories of educational material and required the EI (in accordance with paragraph 6.45) to report periodically to the DPOC, identifying the material that it was developing and the level of review planned.

4.2 The DPOC noted the EI's products being developed in 2015 and was satisfied with the level of planned review for each product.

5. Consultative groups and DPOC engagement

5.1 The DPOC noted an update on the meetings of a number of the IASB's consultative groups since February 2015 and a forward schedule of group meetings.

5.2 Following a request made at its February 2015 meeting, the DPOC discussed whether members should observe meetings of any of the major advisory groups at least once a year, but decided against having such a formal process. The DPOC received regular updates on the work of the groups and annually considered a report from the staff that reviewed the effectiveness of all groups. Observation of a meeting might be useful in particular for new Trustees, and a member could observe if in London, or via webcast for a number of groups

6. Correspondence

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

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