

Report of the Due Process Oversight Committee (DPOC) meeting

Jakarta, 25 May 2016

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 current agenda of the International Accounting Standards Board (the Board). The staff focused on updating the Committee on a number of key issues.

Agenda Consultation

1.3 The DPOC was updated on the progress of the Board's Agenda Consultation and had an opportunity to consider the Board's emerging proposals for the shape of its future Work Plan in the light of the feedback received to its Request for Views (RFV) issued in 2015. The Trustees as a whole – in their plenary session – were also updated on the status of the Board's deliberations on the Agenda Consultation.

1.4 The DPOC was reassured that the requirements of the *Due Process Handbook* as they related to the Agenda Consultation were being met, in particular with the issue of the public consultation in the RFV, the continuing consultation with the Advisory Council, and regular reports to the Trustees and the DPOC having been made. The DPOC would be consulted on the due process undertaken on the Agenda Consultation as a whole as the Board finalised its proposals and at that stage would be asked to confirm that its review of due process was complete.

1.5 The DPOC focused on one particular issue, namely the staff's proposal – with which the Board had agreed at its May 2016 meeting - that the interval between Agenda Consultations should be extended from three to five years. This was because the proposal would require an amendment to the *Due Process Handbook*. The DPOC reviewed and agreed with the rationale to extend the interval to five years, namely that it would:

- a. provide greater stability in the Board's Work Plan to enable stakeholders to plan their activities on a longer-term basis and the Board to manage its projects and resources more efficiently;
- b. reduce the Agenda Consultation burden on the Board and stakeholders;
- c. reduce the uncertainty that may affect the Board's decision-making and strategy during the agenda consultation period;
- d. align the interval of the agenda consultation with the interval of Trustee review; and
- e. align the agenda consultation process with the term of the Board Chair.

1.6 The DPOC was pleased to see that there was flexibility in the proposal, which also specified that an Agenda Consultation should commence, at the latest, five years after the previous one. The proposal also specified that there should be sufficient flexibility to enable the Board to address

emerging issues that arose between Agenda Consultations by adding additional topics to its Work Plan as required.

1.7 On this basis, the DPOC was content to ratify the proposal, which would be incorporated into the *Due Process Handbook*.

Different effective dates of IFRS 9 and the forthcoming Insurance Contracts Standard

1.8 The DPOC was updated on how the Board was proposing to tackle the possible accounting consequences of the different effective dates of International Financial Reporting Standard (IFRS) 9 *Financial Instruments* and the forthcoming Insurance Contracts Standard. The DPOC was reminded that, in December 2015, the Board had issued an Exposure Draft (ED) of proposed amendments to IFRS 4 *Insurance Contracts*, which outlined two proposed approaches for dealing with the consequences:

- a. an overlay approach (designed to address any accounting mismatches and additional volatility that might arise if IFRS 9 was applied before the forthcoming Insurance Contracts Standard); and
- b. a deferral approach (a temporary exemption deferring the application of IFRS 9 for entities whose predominant activity was issuing contracts within the scope of IFRS 4).

1.9 The DPOC noted that the Board had completed its redeliberations in the light of the feedback to the ED and was pressing ahead with finalising the proposed amendments in respect of both of the proposed approaches referred to in paragraph 1.8 above. But in the light of the feedback, the Board had decided to extend the scope of the deferral approach so that more entities considered as insurers would qualify for the temporary exemption.

1.10 The DPOC noted that, at its May 2016 meeting, the Board had concluded that all necessary due process steps on the project had been fulfilled. In addition, the Board had assessed whether the proposals required re-exposure and had concluded that they do not. The Board had accordingly given its permission to start balloting on amendments to IFRS 4. The DPOC reviewed those due process steps and the re-exposure assessment. On the basis of its review, the Committee concurred with the Board's conclusions. As a consequence, the DPOC confirmed that its review of due process on these amendments to IFRS 4 was now complete.

Other projects

1.11 The DPOC questioned the IASB representatives on a number of other projects, in particular primary financial statements and the research project on discount rates.

Overview

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

2 Insurance Contracts Standard: due process life-cycle review

2.1 The DPOC received a report setting out a lifecycle review of the due process steps completed in the Board's project on Insurance Contracts, together with a copy of the agenda paper that had been presented to the Board at its February 2016 meeting. This agenda paper summarised the due process that had been taken in developing the Standard, analysed whether the Board had complied with all necessary due process requirements, and sought the Board's permission to commence the balloting process. The DPOC noted that it had already reviewed and commented on a draft version of the Board agenda paper at its meeting in January 2016.

2.2 The DPOC was reminded of the very long history of this project, Phase II of which had been on-going since the issue of IFRS 4 back in 2004. The DPOC noted that the proposals on insurance contracts had always generated controversy and, among some stakeholders, continued to do so. The Board 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 2007 and two EDs – one in 2010 and the second in 2013.

2.3 The DPOC noted that, throughout the life of the project, extensive outreach activities had also been carried out, including public roundtable meetings, consultations with Foundation bodies such as the Advisory Council and the Accounting Standards Advisory Forum, the setting up of an advisory Insurance Working Group, extensive fieldwork and other outreach activities. The Committee reviewed all the due process steps that had been carried out on this project and agreed that all the requirements as set out in the *Due Process Handbook* (both mandatory and optional) had been met.

2.4 Given the high profile of the project and controversial nature of at least some of the proposals, the DPOC again emphasised the need for careful and considered drafting process for the Standard, which would involve preparing drafts for editorial review with external parties as well as preparing an extensive effects analysis, as had been done for the Leases Standard. The DPOC was assured that there would be an extended drafting process, including obtaining some field data on the operability and understandability of the proposed requirements of the Standard.

2.5 The DPOC noted that the insurance contracts project was not a convergence project and that there would be differences between the forthcoming Standard and US Generally Accepted Accounting Principles (GAAP). The DPOC also noted that insurance companies in the European Union would face changes in respect of both the new Standard and the Solvency II regulatory regime. The DPOC was informed that this was one reason why the amendments to IFRS 4 (as noted in section 1 above) were being implemented. The Board also had yet to determine the effective date of the new Standard, but was likely to provide for a long lead time for implementation. The DPOC was reassured that the Board was preparing an extensive effects analysis that would be published with the Standard.

2.6 The DPOC was reminded that, in its review of the leases project, it had emphasised the importance to the Board of the need to avoid being left exposed to claims that it had not followed due process and that the Board was disclosing 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 same issues applied to insurance contracts. The Board highlighted the work that it had been undertaking in this area on insurance, including the publication of a number of Project Updates.

2.7 The DPOC noted that – at its February 2016 meeting – the Board had considered whether further re-exposure might be necessary and concluded that it was not necessary. The DPOC was content with the Board’s decision not to re-expose.

2.8 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 Standard on insurance contracts was scheduled to be published around the end of 2016.

3 IFRS Taxonomy: due process

3.1 The DPOC considered proposals from the staff on revising the due process with regard to the IFRS Taxonomy. The DPOC was reminded that this had been an issue on the Committee’s agenda for some time, and at its October 2015 meeting, the DPOC had approved the issue for public comment of an Invitation to Comment on a revised IFRS taxonomy due process.

3.2 At this meeting, the staff reported back to the DPOC on the comments received from stakeholders, together with proposals as to how the Foundation should respond to any issues raised in the form of a draft Feedback Statement for publication.

3.3 In terms of the main issues, the DPOC was informed that:

- a. respondents overall supported the proposal that the Board should be involved in the approval and review of the IFRS Taxonomy content;
- b. many respondents also agreed with the proposal that public consultation on any revisions to the IFRS Taxonomy should take place at the time of a final IFRS Standard, and not at the ED stage;
- c. many respondents warned of the need to guard against the IFRS Taxonomy constraining the principle-based approach to Standard-setting. The Invitation to Comment had emphasised the importance of the fact that IFRS Taxonomy considerations should not dictate the Standard-setting approach and the staff proposals for the final revisions emphasised this point even more.

3.4 The DPOC discussed the proposed due process in the context of the Foundation’s strategy for the IFRS Taxonomy and the need to guard against the IFRS Taxonomy constraining the principle-based approach to Standard-setting. In the light of the feedback and the staff proposals, the DPOC agreed with the staff recommendation that the IFRS Taxonomy due process should be incorporated as an annex into the *Due Process Handbook* and that the existing XBRL Handbook should be withdrawn.

3.5 The DPOC in particular questioned one aspect of the draft due process text, in relation to the process to be followed in relation to changes affecting the technology of the IFRS Taxonomy. Subject to the staff clarifying that process, the DPOC was content to approve the proposed text of the IFRS

Taxonomy due process, together with a number of consequential amendments to the main text of the *Due Process Handbook*. The DPOC also approved the issue of the Feedback Statement.

4 Trustees' review of structure and effectiveness: should the DPOC meet in public?

4.1 The DPOC was informed that one of the issues raised in the content of the review of structure and effectiveness had been the visibility of how the Trustees' oversight role was exercised, in particular in relation to due process oversight. In advance of the Trustees' plenary session at their meeting in Jakarta, the DPOC discussed the staff proposal that in future meetings of the Committee should – for the most part – be held in public session. At the meeting, the DPOC members expressed a range of views, and the debate was continued at the Trustees' plenary session (a summary of which can be found in a separate report¹).

5 Benchmarking: an initial consideration

5.1 The DPOC considered a staff paper on benchmarking. One of the specified actions in the Foundation's Strategic Work Plan for 2016 was to benchmark its due process against relevant frameworks and similar organisations. Benchmarking was also one of the DPOC's priorities for 2016.

5.2 The paper presented to the DPOC represented the first output to meet the commitments noted above. The paper outlined the staff's assessment of how they thought the Foundation and the Board measured up against four particular frameworks that the staff viewed as relevant to the work of the organisation, whether directly by referring to the work of standard-setters, or as a reasonable proxy, in referring to the work of securities regulators in particular.

5.3 The four frameworks were those published by:

- a. the International Corporate Governance Network (ICGN), as part of a position paper it developed on *What Investors Want from Financial Reporting*, had articulated a number of principles it expected standard-setters to meet in relation to their governance;
- b. the International Organization of Securities Commissions (IOSCO) had developed its *Objectives*, including eight principles that related to the responsibilities and operations of securities regulators;
- c. the Organisation for Economic Co-operation and Development (OECD) *Best Practice Principles for the Governance of Regulators*; and
- d. the International Law Association (ILA's) principles of good governance for international organisations as part of its report *Accountability of International Organisations*.

5.4 In reviewing the paper, the DPOC noted the staff's view that the Foundation and the Board met all the applicable criteria in the frameworks. That said, the DPOC also noted that the staff had been careful to highlight a caveat that the analysis was a self-assessment and that the Foundation should look to have the analysis assessed externally. The DPOC agreed that the staff should explore the potential for such an external review.

¹ The *Summary of the Conclusions of the IFRS Foundation Trustees' meeting May 2016, Jakarta* will be available via the following link: <http://www.ifrs.org/About-us/IFRS-Foundation/Oversight/Trustees/Trustee-meetings/Pages/Trustee-meetings.aspx>.

5.5 The DPOC also agreed with the staff's caution that, even if all applicable criteria were met, the organisation could not be complacent, and that the Foundation and the Board should always be looking at ways in which further improvements could be made.

5.6 The DPOC also noted that the staff planned to carry out benchmarking against a number of similar organisations and looked forward to seeing the results of that work at a future meeting.

6 Consultative Groups

6.1 The DPOC noted the report of the latest activities of a number of the IASB's consultative groups.

6.2 The DPOC also considered the staff proposals for revising the membership of the Small and Medium-sized Entities Implementation Group (SDMEIG). The proposed membership, which had been approved by the Board, was brought to the DPOC for review to ensure that there was a satisfactory balance of perspectives.

6.3 On geographical balance, the DPOC noted the spread of membership across the continents, with a good ratio of members from Africa and Latin America, reflecting among others things their use of the IFRS for Small and Medium-sized Entities (the *IFRS for SMEs*).

6.4 In terms of professional background, the DPOC noted that there continued to be a preponderance of members from accounting firms, which reflected the fact that the financial statements of the types of entities on which the *IFRS for SMEs* was targeted are often prepared, as well as being audited, by practitioner firms. As with the previous revision of the SMEIG membership in 2014, getting applications from users remained a considerable challenge. The DPOC noted that a number of seats on the SMEIG had been kept vacant, in the hope that suitable user candidates for the group could be found.

6.5 In discussion, the DPOC questioned the preponderance of accounting firm members on the group and encouraged the staff to continue to try to identify suitable candidates who were practitioners but not from the accounting firms, together with users of SME financial statements. With that caveat, the DPOC was content with the composition.

7 Correspondence

7.1 The DPOC was informed that no other correspondence requiring the Committee's attention had been received since its meeting in January 2016.

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