Report of the Due Process Oversight Committee (DPOC) meeting

20 June 2013 (by conference call)

1. Proposal for a Revenue Recognition Implementation Group

The DPOC considered a proposal from the technical staff that the IASB should form an implementation group in conjunction with the US Financial Accounting Standards Board (FASB) with a limited life to provide support for stakeholders after the issue of the joint IASB/FASB standard on revenue recognition. The IASB and the FASB were in the process of drafting the final joint standard on revenue recognition, which was expected to be issued in Q3 2013.

The staff had discussed the proposal with the FASB, who saw a particular need for such a forum in preparation for application of the new standard due to the replacement of extensive industry-specific revenue guidance in US GAAP with a single revenue model. There had been some public discussion about forming an implementation group. The IASB staff view was that establishment of the group jointly by the IASB and the FASB would demonstrate that the two Boards were taking proactive action as responsible standard setters to ensure support for the new converged standard and consistency of application. Given that the IASB and FASB had spent several years developing a converged standard, it was important to minimise the risk of divergent interpretation. The staff saw this as a good way to start off with a consistent application of the standard. The staff had referred to the possibility of establishing such a group at the June 2013 meeting of the IFRS Advisory Council. The Advisory Council had been supportive of the idea, while cautioning against forming a body that would create a new form of authoritative guidance in its own right.

The DPOC was reassured that the implementation group should not be a decision-forum, nor should it write its own guidance, which could be seen as authoritative. In some cases the outcome of the group's discussion would be a recommendation from the group that the IFRIC or the IASB (or the FASB or its interpretative body the EITF) consider an issue for the purposes of issuing additional guidance. The transparency of such a group was key. It was foreseen that discussions would be webcast live, with the issues papers used in the discussion also being publicly available. A summary of the meeting discussions would also be made public, as would any recommendations to the IASB, FASB and their interpretations committees.

The DPOC was informed that the IASB's outreach activity had highlighted the fact that stakeholders were keen for the IASB to provide post-publication support for the revenue standard. The implementation group would provide such support. If the IASB and the FASB did not provide such an implementation group, others would step in and do so (such as the major accounting firms).

This was particularly important for the revenue standard, given the importance of the revenue number for preparers and users of financial statements and the broad application of the standard. The standard set out a framework for revenue recognition, applicable to all industries. This was a difference from existing US GAAP which contained much industry-specific guidance and the formation of an implementation group would help to ensure consistent application based on the general principles of the standard and help to prevent any slip back to industry-specific guidance.

The role of the group would be to provide a forum for discussion of issues arising from the implementation of the new revenue standard. The discussion should be sufficient to meet the demands of stakeholders by providing direction to where in the standard and accompanying guidance their issue is addressed. It could also serve to identify issues for the reference to the IASB, FASB and their interpretations committees.

In terms of the size and structure of the group, the proposal was that membership should be small and focused on preparers (4-6), auditors (4-6), users and others (2-3), plus a number of observers, in particular from regulators. The two Boards would also be represented, plus staff. There would be a challenge in striking an appropriate geographical balance, notably between the US and Europe. The proposal was that the membership of the group would be appointed at the invitation of the IASB and FASB, although the precise details had still to be worked out.

In terms of how the group would take on issues, guidelines would be made available on the website on how to submit an issue, including minimum required information and analysis. The objective would be avoid focusing on items that were too case-specific, so the view was that there needed to be some criteria specified for issues the group might discuss. Staff papers would present and analyse the issue. The staff wanted to preserve the principles-based nature of the standard and avoid any slip-back into industry-specific guidance. The DPOC viewed this as an important aspect of the group's work.

It was envisaged that meetings of the group would be timed to be flexible enough to meet demands (possibly 4 times a year) and would be held in either London or Norwalk. On communications, an announcement to create such a group would be made soon.

The DPOC recognised that establishing such a group could create a precedent for future converged standards, such as that on leases. The staff reported that they were working on a more general strategy for implementation support on new standards, which would be brought to the DPOC at a future meeting.

It was envisaged that the group would have a limited life and run until around the first year of mandatory application of the standard, ie 2017. The DPOC noted that this was a considerable length of time, but was informed that this was a reflection of the long lead time to mandatory application of the revenue recognition standard and the fact that this would be a big change. The DPOC view was that it was important to make clear that revenue was an exceptional circumstance in order to avoid setting a precedent for any future groups having a similarly long proposed life.

The DPOC was keen to stress that if the group made any recommendations to the FASB and IASB and/or their respective interpretations committees that they consulted each other before contemplating any additional authoritative guidance. It was noted that this had been done in respect of issues arising from the business combinations standards, which had been taken to both the IFRIC and the EITF. Also, on post-implementation reviews (PIRs), the IASB and the FASB had agreed to co-ordinate any work as a consequence of the results of PIRs, even when the timelines of their reviews were not completely aligned, as was the case on segments, where the FASB had completed its PIR on the issue before the IASB.

The DPOC was also keen to stress that work was needed on education materials on revenue recognition, given the importance of the topic.

In summary, while there was some concern about setting a precedent and the risk of the group producing authoritative guidance, the DPOC welcomed and agreed with the proposal to establish a revenue implementation group, as an important and excellent initiative to serve the needs of users.

2. Update on adoption of IFRIC 21 in Europe

The DPOC was informed that the IASB had issued IFRIC 21 *Levies* in May 2013. The interpretation dealt with when levies, such as the bank levy in the UK, should be recognised. The Technical Experts Group (TEG) of the European Financial Reporting Advisory Group (EFRAG) had discussed its draft advice on the endorsement of the interpretation for use in Europe at its June meeting. It was noted that the EFRAG staff recommendation that IFRIC 21 be adopted for use in Europe had received some pushback from the TEG, which was scheduled to discuss the issue further. While it was still too early to say, there was a risk that TEG might not make a positive recommendation on endorsement.

While IFRIC 21 set out a correct interpretation of IAS 37, the answer was not universally popular. The DPOC had been alerted to the controversy on IFRIC 21 in May, although the memorandum sent to the Committee (on 3 May) had also confirmed that due process had been complied with in developing the interpretation. No questions regarding due process had been raised. It was noted that many banks were already applying their accounting for levies in accordance with that IFRIC 21 said. Given that IFRIC 21 was an interpretation, the accounting treatment in IFRIC 21 should still be permissible even if not endorsed.

The DPOC noted the present situation and would be kept updated on developments.