Report of the Due Process Oversight Committee (DPOC) meeting

Johannesburg, 10 July 2013

1. Update on technical activities

1.1 The DPOC received an update on technical activities. As normal, the DPOC noted that it had received several reports that had been submitted to the IASB considering due process steps on a number of projects since the April 2013 meeting.

1.2 The DPOC was informed that the IASB continued to have a busy agenda and publication schedule, noting in particular that since its April 2013 meeting the IASB had issued Exposure Drafts (EDs) on leases, insurance contracts and rate-regulated activities, plus a feedback statement on the Disclosure Forum. In addition, the IASB had finalised its redeliberations on revenue recognition and hedge accounting. The IASB had finalised its first Post-Implementation Review (PIR), on IFRS 8 *Operating Segments*, and a draft of the report had been sent separately to the DPOC seeking its clearance for publication.

Major projects

1.3 The DPOC was updated on the progress of the major projects on the IASB's work plan. On **financial instruments: classification and measurement**, the main changes proposed were to clarify the notion of principal and interest, to introduce a fair value through Other Comprehensive Income (OCI) category for simple debt investments, and to propose the clarification to the concept of 'holding to collect' contractual cash flows. While these had the advantage of closer alignment with the position under US GAAP, there had been some pushback from respondents to the IASB's ED that it was adding complexity back into IFRS 9 *Financial Instruments*. A project plan for joint deliberations by the IASB and the US Financial Accounting Standards Board (FASB) was on the agenda for their July meeting, and the Accounting Standards Advisory Forum (ASAF) was scheduled to discuss the project at its meeting in September. The DPOC noted that its next step would be to undertake a 'lifecycle' review of the project. This was likely to take place at its meeting in October 2013, although if there was greater alignment between the proposals on classification and measurement and impairment, this might slow the timetable somewhat.

1.4 On **financial instruments: impairment,** the DPOC was reminded that this was one of the most critical parts of the IASB's project to overhaul the accounting for financial instruments. The comment period on the ED *Financial Instruments: Expected Credit Losses* had closed on 5 July, with, at the time of the meeting, over 140 comment letters having been received. A staff paper to the IASB on a comment letter summary was scheduled to be posted that day. The general impression of the comment letters overall was one of support for the proposals in the ED and a view that, while convergence with the US was important, the IASB should focus on refining its proposals and complete the project on a timely basis. While the models proposed by the IASB and the US FASB might move closer together, the view of the IASB representatives at the meeting was that convergence was not likely to be achieved. The DPOC noted that the comment letter summary prepared for the FASB on its ED showed a divergence of views between investors and regulators, who generally preferred a model that recognised upfront all expected credit losses, and preparers, who did not. The DPOC noted that views differed among the prudential regulatory community. The

DPOC was informed that the IASB had asked 14 banks to test its proposals for expected credit losses and the Committee emphasised the importance of fieldwork on this project to help ensure that the IASB felt comfortable to press on with its own model. It was noted that the feedback from the two consultations was on the agenda for the joint IASB-FASB meeting in July, and the project would also be discussed by ASAF in September.

1.5 On **financial instruments: hedge accounting**, the DPOC was reminded that it had conducted a lifecycle review of the project at its April 2013 meeting. The IASB had held its meeting in April after the DPOC and at that meeting had finalised its deliberations and granted the staff permission to draft the final hedge accounting requirements for inclusion in IFRS 9. At that same meeting, the IASB also decided, pending the outcome of the project on accounting for macro hedges, to provide entities with a choice between applying the new hedge accounting requirements in IFRS 9 or continuing to apply the hedge accounting requirements in IAS 39. The view was that this would give a better chance of IFRS 9 being adopted in the European Union. In terms of the effective date of the hedge accounting proposals, it was noted that the Boards would be considering comments made by respondents to the ED on expected credit losses to further defer the effective date of IFRS 9.

1.6 On **accounting for macro hedging,** the IASB planned to issue a Discussion Paper (DP) later in 2013. A pre-release discussion was scheduled to be held by ASAF in September. The DPOC queried whether the project timetable could be accelerated, but it was noted that the issues were complicated and needed time to be thought through. The whole point of the DP was to assess the likely acceptability of a proposed model for accounting for macro hedges.

1.7 With regard to the other major projects, the second ED on **leases** was open for comment until 13 September 2013. On **insurance contracts**, the IASB had issued a revised ED in late 2013 and was planning extensive outreach. The DPOC was informed that the FASB had published its ED on insurance contracts in late June as well. The boards planned to discuss the feedback on their EDs at a joint meeting and would then consider the extent to which aspects of the proposals should be jointly redeliberated. While joint redeliberations would be welcomed, it could extend the timetable for completion of the project.

1.8 On the **conceptual framework** project, a DP was scheduled to be issued during July, with a 180 day comment period. The big debates would start with the issue of the DP, for which the IASB was planning extensive outreach, including holding a number of public roundtables. The DPOC was reminded that the ASAF was the consultative group on the project and informed that ASAF members were preparing papers on a number of aspects of the framework: prudence (EFRAG and the major European standard-setters), disclosure framework (Australia), and measurement and possibly recycling)(Japan). The IASB representatives noted that that the IASB did not intend to fundamentally reconsider the content of the conceptual framework chapters finalised in 2010 on the objective of general purpose financial reporting and qualitative characteristics. However, it would make changes if work on the rest of the conceptual framework highlighted areas that needed clarifying or amending, including on the treatment of the concepts of stewardship, prudence and reliability, which continued to be controversial in some jurisdictions such as the EU. The DP would include a question as to whether constituents agreed with this approach or if they believed that the IASB should consider changes to those chapters. It was noted that the project was an IASB-only project.

On the timetable, the intention was to have an ED issued in the second half of 2014, with a final framework by the end of 2015, after a lifecycle review by the DPOC.

1.9 In the case of all the major projects discussed, the DPOC was satisfied that all the due process requirements as set out in the *Due Process Handbook* were being met.

Implementation and maintenance projects

1.10 The DPOC was updated on the progress of a number of the implementation and maintenance projects on the IASB's work plan. On **separate financial statements**, it was noted that there was strong support from stakeholders in certain countries, in Latin America in particular, to amend IAS 27 to allow for separate financial statements to use the equity method of accounting to measure investments in subsidiaries, joint ventures and associates. An ED was scheduled to be published by the end of 2013. Another high profile project was that on **disclosure requirements about the assessment of going concern**, with issues being raised by organisations such as the International Auditing and Assurance Standards Board (IAASB) and the International Corporate Governance Network (ICGN). The FASB had also issued recently an ED on the subject. The IASB planned to issue an ED in the fourth quarter of 2013, together with any other amendments to IAS 1 arising from the follow-up to the IASB's Disclosure Forum. On **levies**, the DPOC had been informed at its 20 June conference call that there might be some pushback in the EU to the endorsement of IFRIC Interpretation 21. That remained a possibility, but the latest intelligence was that the risk of non-endorsement may have receded.

1.11 The DPOC was informed that the IASB had started preparatory work for the **PIR of IFRS 3 *Business Combinations*** and that it would consider a planning paper at its July meeting, including sessions planned at the September meetings of the International Forum of Accounting Standard Setters (IFASS) and World Standard-Setters (WSS). The IASB would also be liaising with FASB about outreach to US investors and other constituents on the project. The FASB's oversight body, the Financial Accounting Foundation (FAF), had conducted a PIR on the US requirements for business combinations, but the FASB would have to conduct its own follow-up work on the issues raised. It was noted that the lessons learned from the first PIR on IFRS 8 would be taken into account.

Other

1.12 The DPOC was informed that the IASB planned to bring to the October 2013 meeting a full paper on **educational material** developed by the IASB. The aim was to clarify what the purpose was of such material, which the IASB saw as providing guidance to help constituents 'step-up' to a standard. In the meantime, given the educational material prepared, but not issued, in relation to IFRS 11 *Joint Arrangements*, the IASB was continuing to take a cautious approach and not to issue material that could be confused with an IFRS or perceived as being mandatory or interpretative in nature. A number of the IFRS 11 issues were being considered by the IFRS Interpretations Committee. The DPOC welcomed the caution being exercised by the IASB.

1.13 On **XBRL**, the DPOC considered a request from the IASB to apply a modified due process for the preparation of the 2014 IFRS Taxonomy. The current due process was to expose the entire complied XBRL Taxonomy every year, which meant that the IASB had to wait until the end of the calendar year before formally exposing. Some jurisdictions required access to the IFRS Taxonomy earlier than the IASB was currently providing, which could lead to a jurisdiction using an older Taxonomy. In such cases the taxonomy lagged IFRS requirements, potentially by a year. The IASB was proposing a modified approach under which only the changes from the 2013 Taxonomy to the 2014 one would be exposed for comment, rather than the full Taxonomy (which would align with how the IASB exposes proposed changes to its Standards and Interpretations). This would allow the 2014 Taxonomy to be available earlier. The XBRL Quality Review Team (XQRT) would validate the final compilation. The IASB was at pains to stress that all changes would be subject to public consultation. The due process for XBRL was scheduled to be reviewed in any event, but that review could not commence until the future of the XBRL Advisory Council (XAC) and XQRT was resolved. This was the major outstanding issue from the review of the strategy for XBRL that the IASB had undertaken. The modified due process being proposed now by the IASB could be a template for a more effective process in the longer term, and the IASB planned to consult on the general revision to the XBRL due process in early 2014. The DPOC gave its approval in principle to the proposal, noting that the IASB would bring a more detailed plan to the Committee before pressing ahead.

2. Production and timing of Consultative and Final Documents – 2013

2.1 The DPOC noted that the IASB had a heavy Work Plan and was scheduled to issue a large number of documents during the remainder of 2013. The IASB reported to the DPOC that it was planning a number of steps to manage the workload and burden on constituents, in particular:

- assigning priority weightings to projects, with lower ranked projects being used to create more flexibility in the production and exposure cycles;
- packaging together proposals for, and final, narrow scope amendments, rather than issuing them separately; and
- flexing the comment periods for proposals, for example the DP on the Conceptual Framework would have a comment period of six months, rather than the normal 120 days.

2.2 In addition, the DPOC noted that a review was underway of how the Interpretations Committee assessed the need to undertake a narrow scope amendment. The IASB noted that the Interpretations Committee had been more responsive to requests for clarification and interpretations, but there was an opportunity to reflect on whether this responsiveness could be managed in ways that were less burdensome to constituents.

3. Revenue recognition forthcoming IFRS: due process 'lifecycle' review

3.1 The DPOC received a report summarising the due process to date on the revenue recognition project, which had been first added to the IASB's agenda in 2002, and which had been through three rounds of consultation: a DP in 2008, an ED in 2010 and a second ED in 2011. The project was conducted jointly with the FASB. The process of discussing the issues that led to the DP involved 31 staff papers at 13 public meetings over a 6 year period; from the responses to the DP to the 2010 ED involved 37 staff papers at 13 public meetings; and the responses to the first ED to the issue of the revised ED involved a further 50 staff papers at 16 public meetings. This demonstrated the fact that the IASB and FASB had taken their time over this project. This caution had, for example, resulted in the issue of a revised ED in 2011, which had attracted a much lower level of response (359 letters) than the 2010 ED (974 comment letters).

3.2 A draft for editorial review of the proposed IFRS had been sent to 27 reviewers, including preparers, regulators and the accounting firms. The quality of feedback from this review had been high, and a sweep issue identified that the IASB and FASB would consider at their July joint meeting. This was an indication of the caution being exercised by the boards.

3.3 In developing the IFRS, the IASB had spent a lot of time in understanding the implications for a number of sensitive sectors, in particular telecommunications. The level of outreach had been acknowledged by representatives within the sector, who in February 2013 had written to the Chairman of the IASB to express their appreciation for the comprehensive and positive way the IASB had engaged with them, although they were disappointed that the new Standard would not incorporate their preferred approach to reporting their activities. That said, there was evidence that some telecommunications companies were changing the way they were contracting with customers in a way that was consistent with how they would need to report handset and airtime contracts when the new Standard took effect. Other sectors on which particular attention had been focused were construction and residential real estate, where again some industry practice would need to change to meet the forthcoming requirements.

3.4 The DPOC noted that the due process on the project had been extensive, to ensure that all constituents had an opportunity to participate in the process. The DPOC agreed that the degree of due process on this project was necessary, given the central importance of revenue recognition to the production of financial statements by all companies in all sectors, but was concerned that this level of due process should not become the minimum on every project. In particular, re-exposure should be undertaken when it was necessary, not as a matter of course. The DPOC was satisfied that the project had completed the due process steps necessary for the IASB to move to final balloting of the new IFRS.

4. Review of consultative groups

4.1 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:

- **Accounting Standards Advisory Forum (ASAF)** – this group had started well, with a meeting in April 2013 and a conference call in July, with a second meeting planned in late September. An ASAF Co-ordinator had been appointed to the staff and would start work in early October. The forward planning for what the ASAF would discuss was being put in place and, as noted in the discussion earlier on the conceptual framework project, ASAF members themselves were preparing papers for discussion by the group;
- **Emerging Economies Group (EEG)** – the group was working well as an effective vehicle for ensuring that emerging economies had a conduit to the IASB. The Secretariat was provided by the Chinese Ministry of Finance and papers were prepared and discussions led by member countries. For example, at the most recent EEG meeting held in Seoul in May 2013, India had prepared a paper on rate regulated assets and liabilities. The DPOC noted that members of the EEG generally participated in other forums and questioned whether, given the overlap, the EEG provided an incremental value. The overlap was acknowledged, but it was still felt that the EEG was adding value, as strategically it was the vehicle used by the members to raise issues;

- **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 were the only two consultative groups were the membership had been selected independently, without any review by the DPOC of their composition to ensure a satisfactory balance. Following discussions with both groups, their memberships would, in future, be reviewed by the DPOC, which should add credibility to the selection process. With regard to the GPF, there was a particular issue in identifying members who would represent mid-cap entities. The staff would come back to the DPOC to review the membership of both groups;
- **Education and Advisory Group (EAG)** – this group was deemed to be operating effectively. The DPOC noted that the Trustees' Education and Content Services Committee, at its April 2013 meeting, had decided that future appointments to the EAG should only be made after a public call for applications;
- **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 operating mostly by e-mail;
- **XAC and XQRT** – the IASB's revised strategy for XBRL had implications for both the XAC and XQRT. The IFRS Advisory Council had discussed the matter at its June 2013 meeting. The staff assessment was not to continue with both groups in their current form, with a possible winding down of the XAC and a change in the profile of the XQRT. A formal proposal would be brought to the Trustees in October. The DPOC was concerned that the skills and experience of the XAC should not be lost to the organisation, a point which was acknowledged by the IASB representatives;
- **Effects Analysis Consultative Group (EACG)** – this was a limited life group which had held its first meeting in May 2013, with a second scheduled in July. The EACG was charged with advising the IASB on the development of an agreed methodology for field testing and effects analysis. The group would prepare a report, scheduled to be finalised by the end of 2013. The IFRS Advisory Council was scheduled to discuss the group's emerging thinking in October;
- **Rate-Regulated Activities Consultative Group (RRACG)** – this was a new group that was scheduled to hold its first meeting in July 2013;
- **Financial Instruments Working Group (FIWG), Insurance Working Group (IWG)** and **Leases Working Group (LWG) –** these groups were viewed as continuing to be useful. The DPOC enquired about their effectiveness, given the fact that formal meetings of the groups had not been held in the past year. This received particular attention because of the importance of the projects in question. The DPOC was satisfied with the explanation that most project work groups had the bulk of their meetings at the beginning of a projects life as the initial ED was being contemplated. As the project advanced toward its final stages, the role of the working group evolved to that of a list of experts that the IASB could call on to get specific advice on specific elements of the proposed standard. This stage did not usually require formal meetings of the group. Despite the fact that they were no longer meeting as a group, the IASB needed to keep the individuals on these groups active in the process until the project was complete;
- **Expert Advisory Panel (EAP) – Impairment –** the staff view was that this was an effective group. It had not held a formal meeting, operating more by e-mail and informal ad-hoc meetings with subgroups;

- **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. On the issue of valuation more generally, the DPOC was informed that the IASB was working on developing ties with the International Valuation Standards Committee (IVSC) and a report was planned for the Trustees' meeting in October 2013.

4.2 In summary, the DPOC was satisfied that the consultative groups reviewed were operating effectively and should be retained.

4.3 The DPOC was informed that another group was at a formative stage: an **Advisory Group on Sharia-compliant instruments and transactions** (although the title of the group was subject to change). A start-up meeting had been held in July, with a group representing Islamic countries and other groups involved in Islamic finance. What the group might cover and any proposed membership was still under discussion, but if it did evolve into a consultative group the DPOC would be involved in the normal way.

DPOC engagement

4.4 On **engagement**, the Chairman reminded the DPOC that it had a responsibility to monitor the effectiveness of the bodies and consultative groups that supported the IASB and that, at the April 2013 meeting, he had proposed that a member of the DPOC (or the Director for Trustee Activities on behalf of the DPOC) should observe at least part of a face-to-face meeting of each of the major groups once a year and report back to the Committee to validate the breadth of attendance and an appreciation of the quality of dialogue. The DPOC should be more proactive and have dialogues with the groups, which would also have the benefit of helping to address any potential problems with their operations. The Director for Trustee Activities had attended the June meeting of the IFRS Advisory Council and the joint CMAC/GPF meeting, also held in June, and reported positively on the discussions held at both. The Chairman noted that he planned to attend the October 2013 meeting of the IFRS Advisory Council and invited DPOC members to submit further attendance suggestions by e-mail.

5. Due Process Protocol: general reports

5.1 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

5.2 In the year to 30 June 2013, the IASB and the IFRS Interpretations Committee had received 1,172 comment letters (including responses to draft rejection notices), all of which were publicly available. The DPOC was informed that the IASB had received one request for anonymity, from a Government department, which had provided the technical manager on the project with information of a factual nature on a confidential basis. The factual information was incorporated into a staff analysis for the IASB. The staff had considered the request for anonymity to be reasonable and the DPOC concurred.

Meeting papers

5.3 In the year to 30 June 2013, all agenda papers distributed to IASB members for public meetings of the IASB were made available, unaltered, on the public website. A small number of papers had been posted late (ie within 5 working days of an IASB meeting), and these had been reported to the DPOC throughout the year, together with the reasons for the late posting.

5.4 The DPOC discussed the situations whereby individual IASB members held meetings or received correspondence about aspects of individual projects on a confidential basis, which – if referred to by those members in public meetings – could create a perception that all IASB members had access to material that was being withheld from observers and the wider public. This was not the case. The DPOC noted that the IASB members and staff were careful to protect the principle that full and open consideration of technical issues must take place during public meetings. The discussion broadened to cover the issue of circumstances when the IASB was requested not to make available confidential information given to the Board. The DPOC was reminded that this had come up in the context of the revision of the *Due Process Handbook*, when it was noted that some constituents, in particular investors, were keen to retain their anonymity when providing feedback to the IASB on proposals for new IFRSs or major amendments to Standards. There were circumstances where unwillingness by constituents to make comments publicly could disadvantage the IASB. The principle outlined in the *Due Process Handbook* was that any feedback should be reported as transparently as possible while respecting requests for confidentiality.

Interaction with regulators

5.5 The DPOC considered the IASB's interaction over the past year with securities and other regulators. The Trustees' Strategy Review report, published in 2012, had emphasised the importance of consistent application of IFRSs and the need to work with securities regulators. The Foundation was exploring ways to further strengthen the relationship with IOSCO, in particular with its Committee on Issuer Accounting, Audit and Disclosure, including developing a written statement of co-operation. Over the year, the IASB had maintained regular dialogue with prudential regulators, at international, regional and national levels.

6. DPOC web pages

The DPOC was updated on the redesign of the DPOC section of the website and welcomed the enhancements that had been made, with the aim of removing clutter and making it easier for visitors to navigate.

7. Correspondence

At the time of meeting, no new correspondence cases had been submitted since the April 2013 meeting. However, subsequently a case was submitted by Business Europe which the DPOC would investigate in line with the protocol for Trustee action outlined in Section 8 of the *Due Process Handbook*.

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