

## Report of the Due Process Oversight Committee (DPOC) meeting

London, 26 January 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, some of which were the subject of separate agenda items (see sections 2 and 3 of this report).

#### *Revenue recognition*

1.3 The DPOC spent some time discussing the latest position on **revenue recognition**, following the publication of IFRS 15 *Revenue from Contracts with Customers*. The DPOC was reminded that the Board had published an Exposure Draft (ED) in July 2015 *Clarifications to IFRS 15*. The clarifications in that ED had resulted from the Board's consideration of issues discussed by the Revenue Transition Resource Group (the TRG), a group that had been established jointly by the Board and the US Financial Accounting Standards Board (FASB) in June 2014 (given that IFRS 15 was fully converged with its US equivalent).

1.4 The comment period on the ED referred to above had closed on 28 October 2015. Having considered the feedback received, the Board had completed its decision-making on the proposed clarifications to IFRS 15 at its January 2016 meeting. Respondents generally supported the Board's approach and the Board had largely reaffirmed the proposals. The Board had, however, considered further the benefits of convergence and decided to make the same amendments to the requirements in the Standard on identifying performance obligations as had been made by the FASB in October 2015. This preserved full convergence of a core part of the Standard. The Board planned to issue the final amendments to IFRS 15 towards the end of the first quarter of 2016.

1.5 Having completed these deliberations, the Board had announced its view that stakeholders now needed stability and to be sure that they could continue their IFRS 15 implementation plans confident in the knowledge that the Standard would not be subject to further changes before it came into effect in 2018. The Board had also announced that it did not plan to schedule further meetings of the IFRS constituents of the TRG<sup>1</sup>. The DPOC observed that the FASB had, however, scheduled three further meetings of US constituents of the TRG, although those meetings might not take place if no further issues of substance were raised.

1.6 The DPOC observed that this announcement had caused some comment and a concern that this might result in a disconnect between the approaches taken by the Board and the FASB. The DPOC sought further explanations from the Board representatives on the rationale for the announcement and the potential implications.

---

<sup>1</sup> The announcement (dated 21 January 2016) can be accessed at: <http://www.ifrs.org/Alerts/Meeting/Pages/IASB-completes-decision-making-on-clarifications-to-its-Revenue-Standard.aspx>.

1.7 The DPOC was given such explanations. The Board stressed the importance of giving stakeholders stability and certainty in their IFRS 15 implementation planning and the need to avoid the impression that the Standard remained a moving target. That said, the Board was keen to emphasise to the DPOC that the TRG has not been disbanded and further meetings might be held if deemed necessary. The Board and the staff would continue to monitor and observe any future activities of the FASB's TRG and would take any further action as deemed appropriate. The Board noted that, as has been the case since inception, TRG papers and discussions would be public and that all constituents would have the ability to keep up to speed with any developments and comment to the Board, as well as to the FASB, if they had any concerns or issues.

1.8 The DPOC considered whether there were any due process concerns or implications. The Committee noted that a TRG was a relatively new device, and one which was not contemplated at the time that the latest version of the *Due Process Handbook* was issued in early 2013. The Trustees had also previously made clear that the establishment of a TRG, which had been done for both Revenue and Impairment of Financial Instruments, should not be taken as a precedent that such a group would always be set up. That said, the Committee also noted that the TRG was a forum established to consider and discuss issues, but it was not empowered to issue any authoritative guidance. The Board already had existing mechanisms in place to consider any implementation questions relating to a Standard post-publication and these remained unaffected.

1.9 The DPOC noted that there had been positive comments made about the TRG, not only in providing a forum for issues to be discussed, but also to educate constituents in the requirements of the Standard. The Board was again keen to emphasise to the Trustees that such educational and implementation support activities would continue.

1.10 Following a discussion, the DPOC expressed its support for the Board's emphasis on stability, but asked the Board to consider how it might also stress and better communicate the fact that its decision not to schedule any further TRG meetings did not mean that it was stepping back from its activities in supporting the implementation of IFRS 15. The Board agreed to do so.

#### *Agenda Consultation*

1.11 The DPOC was updated on the progress of the Board's Agenda Consultation, noting that the comment period on its RfV closed on 31 December and that over 100 comment letters had been received.

1.12 In terms of main messages, the Committee noted the encouragement from many constituents for completing the projects on insurance contracts and the Conceptual Framework. There was also support expressed for the Board's Disclosure Initiative and a project on Primary Financial Statements.

1.13 The staff were now reading through and starting to analyse the comment letters, with the aim of preparing a feedback statement and proposals in summer 2016. The DPOC took note of the latest developments and stressed the need to ensure that the proposed timetable allowed for discussion with the Trustees at their May 2016 meeting, including the Board's emerging proposals in the light of the feedback received. It was important that the implications of the agenda consultation for the Trustees' review of structure and effectiveness, and *vice versa*, were taken into account.

### Other projects

- 1.14 The DPOC questioned the IASB representatives on a number of other projects, in particular:
- the **Disclosure Initiative**, where the centrepiece was the Principles of Disclosure, on which a Discussion Paper was anticipated in the second quarter of this year; and
  - **Dynamic risk management**, also known as macro-hedging – where the DPOC asked for an update on progress. The DPOC noted the divergence of views between users and preparers that the Board had received in response to the Discussion Paper (DP) on this project and the difference of views on what should be the overall objective of the project. This presented a challenge for the Board in how it should proceed. The DPOC was informed that the IASB was approaching the issue by deciding to consider the information needs of users.

### Overview

1.15 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

2.1 The DPOC was updated on the progress the Board had made on its insurance contracts project.

2.2 At its January 2016 meeting, the Board completed its planned technical decisions on the project. For its February meeting, the technical staff planned to ask the Board to confirm that it did not need to re-expose the proposed new Standard and – subject to that confirmation – to review the due process steps taken in developing the proposed Standard and to ask the Board for its permission to start the balloting process.

2.3 The staff presented to the DPOC a number of draft papers they intended to present to the Board in February 2016. One set out the background to the project, including a reminder of the urgent need for a new insurance contracts standard and the extent of consultation that had taken place (including the issue of one DP, in 2007, and two EDs, in 2010 and 2013 on the project).

2.4 As for the other two draft papers:

- the first set out the criteria for re-exposure in the *Due Process Handbook*, together with the technical staff's assessment of where the current proposals for the forthcoming Standard stand against those criteria. The staff recommendation was that the tentative decisions reached on the changes were not of such a fundamental nature as to require re-exposure and those changes also responded to feedback the Board had received. In addition, the Board's on-going engagement with constituents had not revealed any new issues. The draft paper also assessed weighing the costs of re-exposing against the benefits;
- the second paper reviewed all the due process steps taken in developing the new insurance contracts Standard (both mandatory and optional) and would contain a request to begin the balloting process for the new Insurance Contracts Standard.

2.5 The staff highlighted the fact that the Insurance Contracts project page on the website was updated regularly, including a summary of the effect of the board redeliberations on the 2013 ED and a feedback statement on the 2013 ED.

2.6 The DPOC appreciated the opportunity for the DPOC to review the papers and to provide its comments before the papers go to the Board. Given the high profile of the project and controversial nature of at least some of the proposals, the DPOC stressed the importance of the Board having a defensible and credible case for not re-exposing again. The DPOC noted that the Board had already issued three formal due process documents on the project and carried out extensive further engagement with constituents, but acknowledged that there would be some parties who thought that the proposals should be re-exposed again whatever the situation.

2.7 In reviewing the position, the DPOC acknowledged that a case had been made for not having another re-exposure. The DPOC acknowledged that the drafting of the Standard would be challenging. The Committee 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 Board confirmed that the process would be careful and considered.

2.8 Subject to the Board's decision at its February meeting, the DPOC would consider a full due process lifecycle review of the upcoming Standard at its meeting in May 2016.

### **3 Leases: Quality control**

3.1 The DPOC received a presentation from the technical staff providing an insight into what happened in the process of finalising the Leases Standard for issue from the time that the Board gave its permission to ballot and the DPOC carried out its due process lifecycle review to the time of publication.

3.2 The new Leases Standard, IFRS 16, had been published on 13 January 2016. The Standard had received a good deal of publicity, which had been mostly positive. The Standard would provide more transparency with all leases being recognised as assets and liabilities by lessees. The accounting would better reflect the underlying economics.

3.3 In the drafting of the Leases Standard, the DPOC noted that the process after the Board gave its permission to ballot had taken some ten months, with the preparation of four different drafts: three internal and one issued to a group of external reviewers. The staff explained to the Committee how they had sought to tabulate, analyse and address all the comments received, and the process that had been followed with the Board as a whole and the Board member advisors on the leases project in particular. The staff also explained how they had handled the comments received from the external reviewers and assured the Committee that all of the comments had been considered carefully.

3.4 The DPOC also noted the extensive effects analysis that has been prepared and published with IFRS 16. This was the first effects analysis that had been issued that sought specifically to incorporate the recommendations of the November 2014 report of the Effects Analysis Consultative Group (the appendix to the agenda paper presented to the DPOC set out how the Group's

recommendations had been reflected in the effects analysis<sup>2</sup>). The DPOC noted the positive reaction that had been given to the issue of IFRS 16 in general and the effects analysis report in particular, which set a high benchmark for the Board to attain in assessing and analysing the effects on further major projects.

#### **4 Consultative Groups**

4.1 The DPOC noted the report of the activities of a number of the IASB's consultative groups, including a number of membership changes.

#### **5 Correspondence**

5.1 The DPOC was informed that no other correspondence requiring the Committee's attention had been received since its meeting in October 2015.

END

---

<sup>2</sup> Agenda Paper (AP) 3D for the DPOC's January 2016 meeting can be accessed at:  
[http://www.ifrs.org/Meetings/MeetingDocs/Other%20Meeting/2016/DPOC/January/AP3D-DPOC\\_Leases.pdf](http://www.ifrs.org/Meetings/MeetingDocs/Other%20Meeting/2016/DPOC/January/AP3D-DPOC_Leases.pdf).