

# AGENDA PAPER

Meeting of the IFRS Foundation Monitoring Board and the Trustees

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## Due Process Oversight Activities

### Introduction

1. The purpose of this paper is to provide a report of the Trustees' due process oversight activities since the meeting with the Monitoring Board in April 2013.

### Background

2. The Trustees' Due Process Oversight Committee (DPOC) is responsible for overseeing the due process procedures of the IASB and its Interpretations Committee. As set out in the IFRS Foundation's *Due Process Handbook*, the DPOC is responsible for:
  - (a) reviewing regularly, and in a timely manner, together with the IASB and the IFRS Foundation staff, the due process activities of the standard-setting activities of the IASB.
  - (b) reviewing, and proposing updates to, the *Due Process Handbook* that relate to the development and review of Standards, Interpretations and XBRL Taxonomies (a separate due process handbook exists for XBRL activities) so as to ensure that the IASB procedures are best practice.
  - (c) reviewing the composition of the IASB's *consultative groups* to ensure an appropriate balance of perspectives and monitoring the effectiveness of those groups.
  - (d) responding to correspondence from third parties about due process matters, in collaboration with the Director for Trustee Activities and the technical staff.
  - (e) monitoring the effectiveness of the *IFRS Advisory Council* ('Advisory Council'), the Interpretations Committee and other bodies of the IFRS Foundation relevant to its standard-setting activities.
  - (f) making recommendations to the Trustees about constitutional changes related to the composition of committees that are integral to due process, as appropriate.

### Due process steps on the IASB's standard-setting activities

3. The DPOC continues to meet regularly with the IASB to ensure that the due process steps taken on the standard-setting projects are appropriate and reflect the necessary commitment to quality and full due process<sup>1</sup>. At each meeting, the DPOC has focused its attention on gaining comfort that the projects on the IASB's work plan are following the proper due process steps as outlined in the *Due Process Handbook*. At its meetings in July and October 2013, the DPOC has reviewed all the **major projects on the work plan**, notably the main phases of the financial instruments project (classification and measurement, impairment, hedge accounting and accounting for macro-hedging), leases, revenue recognition, insurance contracts, the Conceptual Framework and rate-regulated activities. In all cases, the DPOC is satisfied that all the due process requirements are being met, but will conduct a further review at its January 2014 meeting.
4. The DPOC also undertakes a full lifecycle review of a project as it nears finalisation in order to confirm that it has completed its review of due process. In July, the DPOC considered a report of the full lifecycle of the **revenue recognition** project, which dates back to 2002 and includes the publication of a Discussion Paper (DP) in 2008 and two Exposure Drafts (EDs) in 2010 and 2011. Given the central importance of revenue recognition to the production of financial statements by all companies in all sectors, the DPOC noted that the IASB<sup>2</sup> has followed an extensive due process to ensure that all constituents had an opportunity to participate. At its July meeting, the DPOC confirmed that it was satisfied that the project had completed the due process steps necessary to move to final balloting.
5. Subsequent to that meeting, the 'fatal flaw' process in considering a draft of the proposed revenue recognition standard for editorial review raised three issues (on collectability, the constraint on estimates of variable consideration and licences) that required further consideration by the IASB and the FASB. The boards discussed those matters in public meetings, and in November 2013, completed their deliberations and decided to move to finalise the standard. The DPOC has been updated on the additional due process steps taken. The Committee is satisfied that all necessary due process steps have been taken and that the revenue recognition standard can be finalised.
6. At its January 2014 meeting, the DPOC will consider a lifecycle review of the project to develop an interim IFRS ***Regulatory Deferral Accounts***.
7. During the period, the DPOC has been kept updated on the IASB's plans to restructure staffing and consultative activities related to **electronic reporting**, with a particular focus on the digital taxonomy for IFRS standards and XBRL. As part of its consideration, the DPOC agreed to a request from the IASB to apply a modified due process for the

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<sup>1</sup> Agenda papers for DPOC meetings and reports of DPOC meetings can be accessed from the IFRS Foundation website at: <http://www.ifrs.org/DPOC/meetings/Pages/meetings.aspx>.

<sup>2</sup> Together with the US Financial Accounting Standards Board (FASB), as revenue recognition is a joint project.

preparation of the 2013 IFRS Taxonomy, using the proposal that the interim releases of proposed changes to the Taxonomy should be the main focus for public consultation, rather than the year-end compilation as in the past.

8. At its January 2014 meeting, the DPOC will consider the IASB's proposal for a general revision to the XBRL due process as follows:
  - a. interim taxonomies will be issued for all Taxonomy changes including, but not limited to, architectural changes, new or amended IFRSs issued and changes to reflect common practice;
  - b. the Taxonomy will be available for use as close to the availability of the Standards that it captures; and
  - c. all interim releases with proposed updates will be exposed for public comment.
9. At that meeting, the DPOC will also consider a formal request to replace the XBRL Advisory Council (XAC) and the XBRL Quality Review Team (XQRT) with one consultative group, the IFRS Taxonomy Consultative Group. This proposal follows the IASB's reassessment of its strategy for XBRL, whereby the IASB's focus has moved from the technology behind the Taxonomy to concentrate on how the Taxonomy can help facilitate regulatory filing requirements and help users of IFRS financial statements to consume the information. The aim is that the IFRS Taxonomy Consultative Group will provide technical advice and specific strategic implementation advice related to the Taxonomy.
10. The DPOC has also discussed the IASB's policy in relation to the preparation and issue of **educational material**. In particular, the DPOC has considered the IASB's efforts to further clarify the distinction between material issued as part of a Standard (such as Application Guidance), and therefore subject to the transparency of full due process, and material that supports, but which is not part of, a Standard (such as Illustrative Examples) and thus subject to less extensive due process. The DPOC is encouraged by these efforts, and has expressed a willingness to consider proposals for clarifying amendments to the *Due Process Handbook* once the IASB had completed its further research and outreach on the topic.

### Consultative groups and DPOC engagement

11. The IASB usually establishes a consultative group for each of its major project and may also establish or host specialist advisory groups whose membership reflects a particular sector, in order to give it access to additional practical experience and advice. As noted above, the DPOC reviews the composition of such groups and monitors their effectiveness.

12. The *Due Process Handbook* requires that all consultative groups are reviewed each year to assess whether each group is continuing to serve the function for which it was established and whether, if that is the case, the membership should remain the same. The DPOC considered the latest annual review at its meeting in July 2013. The DPOC was informed that all existing groups were reported to be operating effectively, and several new groups were in the formation stage. The DPOC enquired about the effectiveness of several project working groups that did not hold formal meetings in the past year. This received particular attention because of the importance of the projects in question (financial instruments, leases, insurance). The DPOC was satisfied with the explanation that most project work groups have the bulk of their meetings at the beginning of a project's life as the initial ED is being contemplated. As a project advances towards its final stages, the role of the working group evolves to that of a group of experts that the IASB can call on to get specific advice on specific elements of the proposed standard. This stage does not usually require formal meetings of the group. Despite the fact that they are no longer meeting as a group, the IASB needs to keep the individuals on these projects active in the process until the project is complete.
13. In monitoring the effectiveness of such groups, the DPOC's aim is that a member of the Committee (or the Director for Trustee Activities) should observe at least part of a face-to-face meeting of each of the major groups, as well as the standing bodies of the IFRS Foundation (the IFRS Advisory Council and the Interpretations Committee), once a year and report back to the Committee to validate the breadth of attendance and an appreciation of the quality of the dialogue. Since April 2013, some five groups have been observed<sup>3</sup>, with positive reports made on all of them.
14. In addition, the DPOC – at its October 2013 meeting – considered an update on the activities of the **Effects Analysis Consultative Group**, which is preparing a report setting out recommendations to the IASB as to how it should undertake effects analyses. The DPOC welcomes the work being undertaken by the Group, but has cautioned that the IASB's legitimate efforts to be sensitive to the user needs of prudential regulators should not inadvertently expand the scope of an effects analysis beyond the constitutional limits of its standard setting responsibilities and should be consistent with the objectives of financial reporting as set out in the *Conceptual Framework*.
15. In June 2013, the DPOC considered a proposal from the technical staff that the IASB should form a **revenue implementation group** in conjunction with the FASB with a limited life to provide support for stakeholders after the issue of the joint IASB/FASB standard on revenue recognition. The role of the group is 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

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<sup>3</sup> The IFRS Advisory Council, Capital Markets Advisory Committee (CMAC), Global Preparers Forum, and the consultative groups for Rate-Regulated Activities and Effects Analysis.

direction to where in the standard and accompanying guidance their issue is addressed. It can also serve to identify issues for the reference to the IASB, FASB and their interpretations committees. The DPOC has been reassured that the implementation group will not be a decision-forum, nor will it write its own guidance, which could be seen as authoritative. While there is also some concern about setting a precedent, the DPOC has welcomed and agreed with the proposal to establish a revenue implementation group, as an important initiative to serve the needs of users.

### **General reports to the DPOC**

16. At its July 2013 meeting, the DPOC considered annual reports addressing three general issues:
  - a. **the availability of comment letters** - in the year to 30 June 2013, the IASB and the Interpretations Committee had received 1,172 comment letters (including responses to draft rejection notices), all of which were publicly available;
  - b. **the availability of meeting papers to observers** - 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; and
  - c. **interactions with securities and prudential regulators** – the DPOC was informed that, over the year, the Foundation had been exploring ways to further strengthen the relationship with the International Organisation of Securities Commissions (IOSCO), including developing joint protocols for co-operation (subsequently signed in September 2013). Over the same period, the IASB maintained regular dialogue with prudential regulators, at international, regional and national levels.
  
17. The DPOC has also been kept updated on the IASB’s general handling and reporting of **feedback from outreach activities**, including the staff’s continuing efforts to improve the transparency of reporting of feedback from outreach and fieldwork activities, particularly with respect to reporting on feedback from persons and/or organisations who wished to remain anonymous. The principle in the *Due Process Handbook* is that any feedback should be reported as transparently as possible while respecting requests for confidentiality.

## **Correspondence with the DPOC**

18. The DPOC is also responsible for handling correspondence from third parties about aspects of the IASB's due process. In recent months, one correspondence case has been received by and dealt with by the DPOC, relating to a complaint received from Business Europe regarding the accuracy of staff reporting on comment letters. At its October 2013 meeting, the DPOC reviewed the handling of the case and was satisfied that the staff responded to the complaint in a timely and comprehensive manner, and approved a response letter from the DPOC to Business Europe regarding the matter<sup>4</sup>.

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<sup>4</sup> Details of the case can be accessed at: <http://www.ifrs.org/DPOC/Documentation-and-Correspondence/correspondence/Pages/correspondence.aspx>.