

# AGENDA PAPER

IFRS Foundation Trustees meeting – Due Process Oversight Committee

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AUTHORS

Michelle Sansom/Henry Rees/David Loweth

## Consultative Groups—Annual Review and DPOC Engagement

### Introduction

1. The purpose of this paper is to set out the annual review of consultative groups and to provide an update on DPOC engagement with the IASB’s major advisory and consultative bodies.

### Background

2. The *Due Process Handbook* (the Handbook) (paragraphs 3.58-3.63) sets out the provisions relating to consultative groups. It notes (in paragraph 3.58) that the IASB usually establishes a consultative group for each of its major projects, such as a specialist or expert advisory group, in order to give the IASB access to additional practical experience and advice.
3. The Handbook goes on to state:  
*3.63 All consultative groups are reviewed by the technical staff 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 outcome of the review is presented to the IASB and DPOC.*
4. Reviews of the consultative groups have been undertaken since July 2012, when the first such review was reported to the DPOC.

### Review to June 2014

5. A list of the IASB’s current consultative groups is set out in Appendix A, together with details of the meeting activity for each group in the year to the end of June 2014. Details on each of these groups are set out below.

### Standing Advisory Groups

#### *Accounting Standards Advisory Forum (ASAF)*

6. Established by the Trustees in 2012, the main aim of the ASAF is to provide technical advice and feedback from national and regional accounting standard-setting bodies to

the IASB. The ASAF is made up of 12 national accounting standard-setters and regional bodies with an interest in financial reporting, selected by the Trustees. In accordance with its Terms of Reference the membership of ASAF is subject to review every two years; the current inaugural members were appointed in April 2013. A review of ASAF's membership and operations is scheduled to take place in early 2015.

7. The ASAF normally meets quarterly; in the period under review it met in September and December 2013, and March and June 2014. It has provided technical input on the IASB's major projects including a number of projects on the IASB's research agenda. Agenda papers and audio webcasts can be accessed on the ASAF page on the website.
8. The Group acts as the Advisory Group to the *Conceptual Framework* and has considered the developments in this project at each of its meetings.
9. The technical staff's view is that ASAF is a useful consultative group to the IASB and is functioning well.

### **Capital Markets Advisory Committee (CMAC)**

10. The CMAC aims to provide the IASB with regular input from the international community of users of financial statements.
11. The CMAC currently consists of 16 members with extensive practical experience in analysing financial information and who are established commentators on accounting matters in their own right or through the representative bodies with which they are involved. Members are drawn from a variety of industries and geographical backgrounds. Several CMAC members' terms ended in 2013. As a result, in October 2013 the CMAC discussed the applications for new membership in 2014. The CMAC agreed to extend the membership of one member and appointed seven new members.
12. The CMAC meets three times a year (one of which is a joint meeting with the Global Preparers Forum, GPF). In the period under review, the CMAC met in October 2013 and February 2014, with a joint meeting with the GPF being held on 30 June 2014. Agenda papers and audio webcasts can be accessed on the CMAC page on the website.<sup>1</sup> The IASB staff are exploring having two joint meetings a year with the GPF instead of only one so that the investors and preparers have more opportunities to discuss technical

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<sup>1</sup> <http://www.ifrs.org/The-organisation/Advisory-bodies/CMAC/Pages/CMAC.aspx>.

issues and concerns together. The technical staff's view is that the CMAC is functioning well.

### ***Global Preparers Forum (GPF)***

13. The GPF aims to provide the IASB with input from the international preparer community.
14. Its 17 members (the maximum number according to its constitution) have considerable practical experience of financial reporting and are established commentators on accounting matters in their own right or through working with representative bodies in which they are involved.
15. The GPF meets three times a year (one of which is a joint meeting with the CMAC). In the period under review, the GPF met in November 2013 and March 2014, with a joint meeting with the CMAC being held on 30 June 2014. Agenda papers and audio webcasts can be accessed on the GPF page on the website.<sup>2</sup> As noted above, the IASB staff are exploring having two joint meetings a year with the CMAC instead of only one so that the investors and preparers have more opportunities to discuss technical issues and concerns together.
16. Sheila Fraser and David Loweth observed the GPF at its meeting in November 2013 and reported positively on the level of participation and debate to the DPOC in January 2014 (Agenda Paper AP 3E for that meeting refers).
17. The technical staff's view is that the GPF is functioning well.

### ***Emerging Economies Group (EEG)***

18. The aim of the EEG is to enhance the participation of emerging economies in the development of IFRSs.
19. The EEG is chaired by Wayne Upton, the Chairman of the IFRS Interpretations Committee, and comprises 12 members who represent the emerging economies member countries of the G20 and Malaysia.
20. The EEG focuses on issues around the application and implementation of IFRSs in emerging economies. In addition, the group may also consider if, and how, the IASB could provide educational guidance at the right level for interested parties in emerging

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<sup>2</sup> <http://www.ifrs.org/The-organisation/Advisory-bodies/Pages/Global-preparers-forum.aspx>.

economies—and what the best delivery system for this would be. However, the remit of the EEG may evolve over time.

21. The EEG meets twice a year. In the period under review, the EEG met in December 2013 (in Kuala Lumpur) and May 2014 (in Moscow). Communiqués of both meetings can be accessed on the EEG page on the IFRS Foundation website.<sup>3</sup> The communiqué for the May 2014 meeting notes that:

*“Members acknowledged that by their joint efforts with the IASB, the EEG works smoothly and achieves fruitful results. In particular, the meeting provides a venue for discussing specific accounting issues from emerging economies’ perspectives, which will be helpful to achieve the mission of IASB to develop one single set of high quality global accounting standards”.*

22. The technical staff’s view is that the EEG is an effective vehicle for ensuring that emerging economies have a conduit to the IASB. The work of the group has been largely technical in nature, with different members taking a lead on project discussions. We will monitor the continuing effectiveness of this group in the light of the evolving regional groups. Members of the EEG generally participate in regional forums such as the Asian-Oceanian Standard-Setters Group (AOSSG), and Group of Latin American Standard-Setters (GLASS) and some EEG members are also members of the ASAF. Some papers discussed at the EEG have also been presented at these regional meetings and at IFASS (the larger international forum).

### ***SME Implementation Group (SMEIG)***

23. The SMEIG’s aim is to support the international adoption of the *IFRS for SMEs* and monitor its implementation. The SMEIG currently has two principal responsibilities:
- (a) to develop non-mandatory guidance for implementing the *IFRS for SMEs* in the form of questions and answers (Q&As) that will be made publicly available to interested parties on a timely basis; and
  - (b) to make recommendations to the IASB regarding any need to amend the *IFRS for SMEs*.
24. In addition, during the period under review, the SMEIG has played an important role in the comprehensive review of the *IFRS for SMEs*.

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<sup>3</sup> <http://www.ifrs.org/The-organisation/Advisory-bodies/EEG/Pages/About-the-EEG.aspx>.

25. The SMEIG is chaired by IASB member Darrel Scott and currently comprises 22 members. Members are selected on the basis of their knowledge and experience in the financial reporting of Small and Medium-sized Entities, and to give a balanced geographical distribution. Membership of the SMEIG is personal; this means that members participate and vote in accordance with their own independent views, not as representatives voting according to the views of the firm, organisation or constituency with which they are associated.
26. In October 2012 the Trustees approved an expansion of the membership of the SMEIG from 22 to a maximum of approximately 30 as of 1 July 2014, together with proposals to stagger the terms of membership from that date. The DPOC reviewed the proposed composition of the revised SMEIG at its meeting in April 2014 (Agenda Paper AP 3G for that meeting refers). In May 2014 half of the 22 current members were reappointed and 16 new members were also appointed. The terms of 15 members will expire on 30 June 2017 and those of the others on 30 June 2016. Agenda papers and a meeting summary can be accessed on the SMEIG page on the website<sup>4</sup>.
27. The SMEIG was created with the expectation its members would do most of their work (ie development of Q&As) by email. The next face-to-face meeting is unlikely to take place until the next review of the *IFRS for SMEs*, which will be 2017-2019 depending on whether the review takes place after three or five years.
28. The technical staff's view is that the SMEIG is an effective group that has functioned well during the period. It has made a significant contribution to the comprehensive review of the *IFRS for SMEs*. Although the next face-to-face meeting is not scheduled for another three to five years they will remain highly active via email.

### **Education Advisory Group (EAG)**

29. The EAG advises the Director of Education on the IASB's education work (although it does not review the technical quality of the organisation's educational products and services).
30. The EAG is a group of up to 10 individuals having diverse geographical and functional backgrounds, but with expertise and experience in the education of

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<sup>4</sup> <http://www.ifrs.org/IFRS-for-SMEs/Pages/Implementation-Group.aspx>.

accountants or other professionals. During the period under review, the EAG met once, via teleconference, and conducted one email-based discussion.

31. In July 2014, the staff will seek guidance from the Trustees' Education and Content Services Committee on the process to be followed for seeking a suitable candidate to bring the development agency perspective to the EAG.
32. The staff finds the EAG very helpful in developing the Education Initiative's plans. The staff's view is that the EAG is operating effectively and should continue in its current form.

### ***Shariah-Compliant Instruments and Transactions***

33. This group has been formed to discuss Shariah-compliant instruments and transactions. An inaugural meeting was held on 2 July 2013. The meeting was chaired by Ian Mackintosh of the IASB.
34. The meeting was attended by members of the accounting standard-setting bodies of Malaysia, Saudi Arabia, Dubai International Financial Centre, Indonesia and Pakistan as well as representatives of the Islamic Financial Services Board and the Gulf Cooperation Council Accounting and Auditing Organization. At its October 2013 meeting (Agenda Paper AP 3E for that meeting refers), the DPOC considered, and was content with, proposals to expand the membership of the group, following which acceptance letters from four additional member institutions were received<sup>5</sup>.
35. The first request for papers (in March 2014) addressed issues on classification and measurement of financial instruments under IFRS 9. Although three major Islamic banks are early adopters of the Standard, the classification of debt instruments remains a concern.
36. The request for papers was distributed to over 20 individuals and institutions and to date we have had no responses. As a result, we are concerned that the operating model developed a year ago, in which the emphasis is on third parties preparing papers for consideration by the group and the IASB, may not be working. We are considering alternatives.

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<sup>5</sup> The four institutions are: the General Counsel for Islamic Banks and Financial Institutions; Islamic Shariah Research Academy; E&Y Saudi Arabia; and Islamic Development Bank Saudi Arabia.

## **Project Consultative Groups—recommended for disbandment in 2014**

### ***XBRL Advisory Council (XAC) and XBRL Quality Review Team (XQRT)***

37. Following a review of the due process procedures for the IFRS Taxonomy, the XBRL Advisory Council and XBRL Quality Review Team were disbanded and replaced with the IFRS Taxonomy Consultative Group (see below).

### ***Effects Analysis Consultative Group (EACG)***

38. The EACG is a group that was established in 2012, in response to a recommendation made by the Trustees in their February 2012 report *Strategy Review 2011* that the IASB should establish a consultative group from the international community to develop an agreed methodology for field testing and effects analysis. Following a call for candidates issued in July 2012, the DPOC reviewed the proposed membership of the EACG at its meeting in October 2012.
39. The EACG comprises 17 members, including representatives from the European Commission and the US Securities and Exchange Commission (SEC).
40. The EACG held its third meeting in November 2013. The EACG is designed to be a limited-life group with a near-final report being reviewed by the DPOC at this meeting (AP 3C refers).
41. It is recommended the group should be disbanded when its report to the IASB is issued.
42. David Loweth attended the November 2013 meeting of the EACG and reported to the DPOC at its January 2014 meeting (AP 3E for that meeting refers) that there had been a good level of participation and debate.

### ***Financial Instruments Working Group (FIWG)***

43. The FIWG's aim is to help the IASB in its Financial instruments project. The IASB has completed its deliberations on financial instruments (except "Accounting for Dynamic Risk Management: A Portfolio Approach to Macro Hedging", henceforth referred to as "macro hedging") and aims to publish a revised IFRS 9 including all phases by the end of July of this year.
44. In view of the impending publication of IFRS 9 (revised) the staff view is that the FIWG should be disbanded. While at its meeting in January 2014 the DPOC (AP 3E

for that meeting refers) reviewed the existence of the FIWG and considered it was beneficial to retain the group for advice on the macro hedging project; the staff consider that constituting a specialist group for macro hedging will provide more useful input if members of the group are experienced in risk management activities, rather than in the reporting of financial instruments.

### ***Expert Advisory Panel (EAP)—Impairment***

45. The EAP on Impairment was established when the Impairment ED was published in 2009. As mentioned above the IASB has completed its deliberations on financial instruments (except macro hedging) and aims to publish a revised IFRS 9 including impairment by the end of July this year. In the staff's view this will also bring to completion the work of the EAP and consequently, the staff are recommending that the group should be disbanded.
46. That said, as discussed with the DPOC at its April 2014 meeting (AP 3C for that meeting refers), the IASB is setting up an IFRS Transition Resource Group for Impairment of Financial Instruments, similar in concept to the Joint Transition Resource Group for Revenue Recognition (see below).
47. The IASB issued a call for nominations on 23 June 2014<sup>6</sup>. The aim is for the group to consist of 14-18 specialists representing financial statement preparers, auditors and related groups from a wide spectrum of geographical locations. The ITG will meet periodically (about 2-3 times a year) in public and will be chaired by an IASB member.

### **Project Consultative Groups—no changes recommended.**

#### ***Insurance Working Group (IWG)***

48. The IWG is designed to help the IASB analyse accounting issues relating to insurance contracts.
49. The IWG was formed in August 2004 and has 25 members (12 from Europe, 10 from North America and 3 from Asia-Oceania). It also has 5 official observers (3 from Europe and 2 from North America).

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<sup>6</sup> The call for nominations is available on the IASB website: [IFRS - IASB Resource-group-for-impairment-of-financial-instruments - call for nominations](#)



50. The IWG has not met since June 2012. The continued existence of the IWG was reviewed by the DPOC at its meeting in January 2014 (AP 3E for that meeting refers), at which time the Committee was content with the staff's view that it is not appropriate to disband the group at this stage of the project. The technical staff's view has not changed: it is still beneficial to retain this as a formal group because we may wish to draw on the expertise of the individual members as we finalise the project on Insurance contracts.

### ***Leases Working Group (LWG)***

51. The LWG was formed in 2006 and has 15 members.
52. It has not met since January 2012, but it has provided advice throughout the development of the Leases project. The technical staff and IASB have benefited from the expertise of the individuals in the group over the past year and expect to continue to do so until completion of the project. The continued existence of the leases group was also reviewed by the DPOC at its meeting in January 2014 (AP 3E for that meeting refers) and the staff reported that it is not appropriate to disband this group at this stage of the project. The technical staff's view continues to be that the group should be retained.

### ***Rate-Regulated Activities Consultative Group (RRACG)***

53. The RRACG was formed in April 2013 to help the IASB in its project on rate regulation by providing a variety of expert perspectives, including those of preparers, auditors, users of financial statements, and regulators.
54. The group consists of 15 senior professionals with extensive practical experience in the operation of a variety of rate-regulatory schemes, plus observers from three organisations.
55. The RRACG held its first meeting in July 2013 with a second meeting in November 2013. The staff continue to draw on the expertise of the individuals in the group through ad hoc emails and telephone calls. As reported to the DPOC in October 2013 (Agenda Paper AP 3E for that meeting refers), David Loweth attended the first meeting of the group and reported positively on the level of engagement and participation.
56. The technical staff's view is that the RRACG is an effective group that has functioned well during the period. The IASB is expecting to issue a Discussion Paper in Q3 2014

and it should be beneficial to have the RRACG in place when we begin considering the feedback on this document.

### **Valuation Expert Group (VEG)**

57. The VEG was formed in May 2012 to assist with the preparation of educational material for IFRS 13 *Fair Value Measurement*.
58. It comprises 17 members, who come from developed, transition and emerging economies. These professionals are experienced in measuring fair value for financial reporting purposes and are knowledgeable about the challenges of applying IFRS 13 or other fair value measurement requirements in IFRSs.
59. During the period under review the group has not met. However, when we established the group it was intended to be a *virtual group*, providing feedback on draft education material. A chapter dealing with the fair value measurement of unquoted equity instruments within the scope of IFRS 9 was published in December 2012 and a chapter dealing with the concept of ‘highest and best use’ in fair value measurement is currently being developed.
60. We are planning to use this group for the next chapter of the fair value measurement material. The technical staff’s view is that this group has operated effectively and should be retained in its current form.

### **Project Consultative Groups—new groups**

#### **IFRS Taxonomy Consultative Group**

61. The outcome of the due process procedures review for the IFRS Taxonomy was the disbandment of the XBRL Advisory Council and XBRL Quality Review Team and the formation of a new IASB consultative group ‘the IFRS Taxonomy Consultative Group’.
62. Members of the IFRS Taxonomy Consultative Group:
  - (a) review in depth the IFRS Taxonomy and ensure that it meets expected market standards and best practices from both a data content and architectural perspective; and
  - (b) provide technical advice and strategic implementation guidance on matters relating to the IFRS Taxonomy and IASB digital reporting activities..

63. The IFRS Taxonomy Consultative Group comprises 16-20 members, including the Chair and Vice-Chair. The composition of the membership provides for a broad geographical spread and a range of functional backgrounds.
64. The Group held its first meeting on 29 May 2014.

### ***Joint Transition Resource Group for Revenue Recognition***

65. The IASB and the Financial Accounting Standards Board (FASB) have formed a Joint Transition Resource Group for Revenue Recognition (TRG). The DPOC first considered the need for a such a group at its meeting in June 2013 and was updated about the membership in an email on 14 May 2014.
66. The TRG will inform the IASB and the FASB about potential implementation issues that could arise when companies and organisations implement the new Standard on Revenue Recognition. The TRG will also provide stakeholders with an opportunity to learn about the new Standard from others involved with implementation. The TRG will not issue guidance. The TRG has the following observers:
- International Organization of Securities Commissions
  - U.S. Securities and Exchange Commission
  - Public Company Accounting Oversight Board
  - American Institute of Certified Public Accountants.
67. The 19 members of the TRG include financial statement preparers, auditors and users representing a wide spectrum of industries, geographical locations and public and private companies and organisations.
68. The boards expect that the TRG will meet twice in 2014 and four times in 2015. The first meeting is scheduled for 18 July 2014. All meetings will be public and co-chaired by the Vice-Chairmen of the IASB and the FASB.

### **Other matters—Disclosure Initiative**

69. The IASB will consider at its meeting in July 2014 whether to form a consultative group for the Disclosure Initiative. The Disclosure Initiative is an ‘umbrella project’ under which the IASB is undertaking a number of short- and medium-term projects to improve the disclosures in financial statements. The project has a wide spectrum and is pervasive in nature rather than addressing a particular technical accounting topic. Consequently, rather than form a distinct consultative group, the project team may

decide to focus on wider stakeholder engagement. It is also the case that the Disclosure Initiative has been discussed by a number of the IASB’s consultative groups referred to above, in particular the ASAF, CMAC and the GFP.

### **DPOC engagement with consultative groups and Constitutional bodies**

70. As reported previously, the DPOC has discussed how it might enhance its engagement with consultative groups and IFRS Foundation Constitutional bodies (in particular the IFRS Interpretations Committee and the IFRS Advisory Council). The DPOC agreed with Scott Evans’ proposal that one member of the DPOC, or David Loweth (on behalf of the DPOC), should attend at least part of a face-to-face meeting of each of the major groups and report back to the Committee to validate the breadth of attendance and provide an appreciation of the quality of the dialogue.
71. Since the April 2014 meeting, a number of the groups have held meetings. David attended most of the IFRS Advisory Council meeting held on 9-10 June 2014. Michel Prada and Bob Glauber also attended a number of sessions on both days. This was the first meeting to be chaired by Joanna Perry and David’s perspective is that the meeting was very well-chaired, with a high level of engagement and participation. David also plans to attend a number of sessions of the Joint CMAC/GPF meeting to be held on 30 June, and will report his observations to the DPOC. At present, the following meetings are scheduled for the rest of 2014. Scott would welcome indications from Committee members as to which of the meetings outlined below they would be willing to observe:

<b>Group</b>	<b>Date</b>	<b>Location</b>
IFRS Advisory Council	13-14 October 2014	London
ASAF	25-26 September 2014 4-5 December 2014	London
CMAC	16 October 2014	London
GPF	6 November 2014	London
EEG	December 2014	Indonesia
Revenue Recognition Transition Group	18 July 2014 31 October 2014	London and New York
IFRS Taxonomy	28 October 2014	London

## Appendix A

### IASB CONSULTATIVE GROUPS

Consultative Group	Meetings in the year to end June 2014	Date of last meeting
<b>Standing Groups</b>		
Accounting Standards Advisory Forum	4	June 2014
Capital Markets Advisory Committee	3	February
Global Preparers Forum	3	March 2014
Emerging Economies Group	2	May 2014
SME Implementation Group	Nil	February 2013
Education Advisory Group	1	September 2014
Shariah-Compliant Instruments and Transaction	1	July 2013
<b>Project Consultative Groups</b>		
Effects analysis	2	13 November 2013
Financial Instruments	Nil	August 2011
Expert Advisory Panel—Impairment	Nil	Not met.
Insurance	Nil	June 2012
Leases	Nil	January 2012
Rate-Regulated Activities	2	15 November 2013
Valuation Expert Group (IFRS 13)	Email consultation	Not met.
IFRS Taxonomy Consultative Group	1	29 May 2014
Joint Transition Resource Group for Revenue Recognition	Nil (new group)	18 July 2014