

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

22 January 2013

### 1. Revision of the Due Process Handbook

At its meeting, the DPOC considered a proposed revised version of the Due Process Handbook (DPH), a feedback statement on the results of the consultation on the draft of the DPH that had been issued for comment, and proposed revised Due Process Protocol (DPP) tables for publication on the website.

#### Due Process Handbook

##### *Background*

The DPOC was reminded that the draft DPH had been issued for comment on 8 May 2012, with 51 comment letters being submitted in response. At its October 2012 meeting, the DPOC considered a comment letter analysis, together with some of the main issues arising from the responses. The DPOC subsequently held a number of conference calls to discuss the issues further.

As a reminder, the draft DPH proposed combining the current separate handbooks for the IASB and the Interpretations Committee into one document. It was set out in 8 Sections, together with a number of appendices (which the consultation draft made clear were not integral to the DPH), the most significant of which was a Due Process Protocol in the form of a table that showed the steps that IASB and Interpretations Committee must, or could, take as well as reporting metrics to demonstrate the steps that they had taken.

The DPOC noted and agreed the proposal to retain the 8 Section structure for the final DPH. The staff presentation to the DPOC summarised each section, and the main changes from the draft DPH, as set out below.

##### *Introduction (Section 1)*

The Introduction set out the primary objective of the organisation, what the DPH covered, and why due process was important.

In the light of responses, the main changes in this section:

- a. aligned the wording of the foremost objective of the Foundation to that which was set out in the Trustees' February 2012 report *Strategy Review 2011*, as the most recent articulation of the objective;
- b. clarified the objective of due process as being to ensure that, in exercising its independent decision-making, the IASB conducted its standard-setting process in a transparent manner, considering a wide range of views from interested parties throughout all stages of the development of IFRSs; and
- c. clarified the role of staff as assisting the IASB, Interpretations Committee, and the Trustees, as well as distinguishing between the technical staff and Trustee staff – a number of respondents

expressed concerns about the role of staff relative to that of the IASB and the Interpretations Committee.

### *Oversight (Section 2)*

The draft DPH proposed the addition of a new section dealing with oversight and the responsibilities of the DPOC.

Respondents were broadly supportive of the inclusion of this section. The main changes from the draft DPH for this section were:

- a. clarification that the DPOC's activities were limited to matters of due process and that the Committee was not there to review or consider the technical decisions made already by the IASB;
- b. the inclusion of new text on the Trustees' independent staff resource and that the DPOC had the right to request a review of any information provided to it. These additions were designed to reinforce the independence of the DPOC, which was questioned by a number of respondents;
- c. clarifying the transparency of reporting by the DPOC, to reflect the fuller reporting of Committee meetings that was already taking place, together with a clarification that the DPOC 'signed off' on its review of due process before any final pronouncement was issued. The DPOC had considered carefully the issue of whether it should hold sessions in public, but had decided not to at the present.

### *Principles (Section 3)*

This section highlighted and detailed the principles on which the due process requirements were built: transparency, full and fair consultation, and accountability.

Again, responses were broadly supportive, but a number of areas attracted particular comment. These comments, and the changes proposed, related to:

- a. review drafts - a number of respondents wanted the provisions relating to review drafts to be enhanced, in particular with such documents always being published on the website for a systematic review to identify potential implementation difficulties or undue costs and to serve as the basis for ultimate field tests. The DPOC accepted that having a review draft should not become a mandatory due process step, but thought that the DPH should clarify the purpose of a review draft and what it was not. The revised text used the term 'draft for editorial review', rather than review draft, and sought to clarify that such a draft had a limited purpose, representing a pre-clearance editorial review in which reviewers were asked whether the draft was clear and reflected the technical decisions made by the IASB;
- b. comment letters – the draft DPH noted that: "The staff does not normally provide the IASB with any numerical analysis of how many respondents expressed a particular view because it is the strength of the analysis, and the evidence supporting the analysis, that is important". Some respondents questioned that and noted that a numerical analysis was often provided and should be provided, as it could give useful supplementary information. The DPOC agreed that numerical analysis could be very misleading, but noted that the staff often gave an indication of the quantity of comments received, particularly in terms in types of respondent and their geographical origin. The

DPH sought to emphasise that it was the quality of comment and the evidence provided that was key, rather than the quantity, but outlined some circumstances where information on numbers of comments might be useful; and

c. consultative groups – clarifying that the DPOC reviewed the composition of consultative groups established by the IASB to ensure that there was a satisfactory balance of perspectives, including geographical representation.

The DPOC discussed the provision in the revised DPH that technical staff papers were normally distributed 10 to 14 days in advance of being discussed by the IASB or Interpretations Committee and whether that was sufficient. At least one commentator had suggested a longer period. The DPOC acknowledged the importance of the papers being distributed on a timely basis, but was also mindful of the need not to hinder the IASB's ability to make effective progress on projects and to receive staff papers that were up-to-date and reflected the latest developments.

#### *Technical work programme (Section 4)*

This section outlined how the IASB considered potential candidate projects for its technical work programme, in particular the three-yearly agenda consultation and the research programme.

Some respondents took issue with a statement in the draft DPH that the agenda consultation “is not designed to add individual projects to the IASB's work programme”. The main change in the revised DPH was to clarify that, while the focus of the three-yearly agenda consultation was to seek input on the strategic direction of the IASB's work programme, there should also be scope to seek views on areas of financial reporting to which the IASB should give priority, together with suggestions for the withdrawal of projects which had not proceeded as planned and for which the prospects for progress were limited (the latter having been raised by a number of respondents).

#### *Standards-level projects (Section 5)*

This section outlined how projects were selected, whether as comprehensive projects to develop new IFRSs or major amendments to IFRSs, or as implementation and maintenance projects (whether as minor or narrow-scope amendments, annual improvements or Interpretations).

The main changes in this section were to:

- a. include an introduction, which was designed to clarify the distinction between the process for a comprehensive project to develop a new IFRS or major amendments to IFRSs and projects coming under the heading of implementation and maintenance. The text clarified that, whichever route is chosen, proposals were exposed for public comment;
- b. clarify the criteria for proposed comprehensive projects to develop new IFRSs or major amendments, focusing on users' needs while taking into account the costs of preparing the information in financial reports;
- c. implementation and maintenance – clarifying that there were different solutions available (minor or narrow scope amendments, annual improvements and Interpretations). A number of respondents had commented that this section of the draft DPH focused on Interpretations only;

d. rejection notices – a number of respondents wanted the DPH to specify that Interpretations Committee agenda rejection notices should not be confused with an IFRS, Interpretation or perceived as being mandatory. The text now clarified this.

#### *New or amended IFRSs (Section 6)*

This section outlined the process of developing and publishing Exposure Drafts (EDs) for public comment, developing final proposals, and Post-Implementation Reviews.

The main change from the draft DPH proposed in this section related to re-exposure criteria. A number of respondents called for the addition of a further criterion that re-exposure was necessary if significant changes were made to a proposed standard in the light of comments received on an ED. The DPOC was mindful of the risks of embedding re-exposure as a regular step and elongating the time taken to develop an IFRS. The revised text sought to address the issue, but making it clear that the fact that there were changes from an ED (and, inevitably, there would be changes) did not compel the IASB to re-expose the proposals.

#### *Interpretations (Section 7)*

This section outlined the process followed by the Interpretations Committee in developing a draft, and then final, Interpretation. The main change proposed in this section from the draft DPH was to align the re-exposure criteria as they related to the Interpretations Committee with those for the IASB (as discussed above).

#### *Perceived breaches of due process (Section 8)*

This section outlined the protocol for Trustee action for perceived breaches of due process.

The main changes proposed in this section of the DPH related to:

- a. addressing concerns that it would be the staff that would write the report on complaints. Some respondents took the view that it should be the IASB that was responsible for preparing the report. The DPOC acknowledged the fact that the staff prepared a report simply reflected the working arrangements for the concerns to be addressed in an effective and timely manner. The responsibility for due process remained that of the IASB or Interpretations Committee, as appropriate, and the fact that the Chair and/or Vice-Chair of the IASB attended DPOC meetings and were answerable to the Committee reflected that. To this end, the DPH made clear that they were present at the meetings of the DPOC when complaints were considered, plus an additional provision that the DPOC may request additional information before finalising a response;
- b. an addition to clarify that when the DPOC concluded that a breach of due process would not question the decisions already made by the IASB, it was required to make its conclusions and discussions public; and
- c. a clarification that if a due process complaint related to a project for which the IASB had yet to issue a new IFRS or amendment to an IFRS, the IASB could not complete the phase of the project in progress until the complaint had been discussed by the DPOC. However, where an IASB or amendment to an IFRS had already been issued, the pronouncement should remain valid until the due process complaint had been addressed by the DPOC. This change was designed to address the

concerns expressed by some respondents of any legal challenges coming for those jurisdictions in which IFRSs became law.

### *Approval*

Subject to a number of editorial suggestions that were made, the DPOC approved a recommendation to the Trustees that the revised DPH be approved for publication.

### Feedback Statement on the Revised Due Process Handbook

The DPOC also considered a Feedback Statement that summarised the consultation that had taken place on the proposed revision to the DPH, the main views expressed by respondents, and how the Foundation had responded to those views. Again, the DPOC approved a recommendation to the Trustees that the feedback statement be approved for publication.

### Due Process Protocol

The DPOC considered and approved revised Due Process Protocol (DPP) tables. The revisions had been made in the light of comments received, which focussed on ensuring that the tables were consistent with the revised DPH. The DPOC confirmed that the DPP was not an integral part of the DPH. Rather, it was a reporting tool for the technical staff, who were already using the relevant tables as appendices to their due process reports to the IASB, to ensure both that all due process steps had been completed and to document compliance with those steps. However, for transparency purposes, the full DPP template would be available on the IFRS Foundation website.

## **2. IFRS Education Initiative: due process issues**

The DPOC considered an update on the planned due process that the Education Initiative staff intended to follow for each of the education products scheduled for 2013. The DPOC noted that there were three levels of material, each subject to a peer review process: (A) high level summaries, including presentations, (B) teaching materials, and (C) educational materials accompanying an IFRS. The DPOC focused in particular on Level C material, noting that it must be reviewed by at least 3 IASB members. The DPOC also discussed the wording of the disclaimers that accompanied the issue of the Education Initiative's products and how it might best reflect the status of the educational material being produced.

The DPOC was satisfied that the processes planned should ensure that the educational material to be published would not be confused with an IFRS or be perceived as being mandatory.

## **3. Update on technical activities**

The DPOC received an update on technical activities. 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 October 2012 meeting, and received several more at this meeting.

The DPOC discussion focused on a number of issues. The first concerned the project on **financial instruments: impairment**. This was an important and politically sensitive project, which was under the spotlight of the G20, the Financial Stability Board (FSB) and the Basel Committee on Banking Supervision, all of whom had been calling for the IASB and the US Financial Accounting Standards

Board (FASB) to develop a converged solution. The two Boards had held extensive discussions with the FSB and the Basel Committee. However, despite the two Boards having worked to develop a common expected loss approach (the so-called three bucket model), in August 2012 the FASB had decided to diverge from the joint approach and had subsequently issued an Exposure Draft (ED) of a current expected credit loss model, in which all lifetime expected losses were recognised for all loans from initial recognition. The IASB's ED was scheduled to be issued during the first quarter of 2013, which should allow for some overlap with the FASB's comment period. The two Boards planned to have a joint discussion on the responses to both their proposals.

Impairment was currently a hot topic with stakeholders in many regions and, as an example, the DPOC was updated on the criticisms of the incurred loss model and the importance of developing an expected loss model that had been raised by the UK Parliamentary Commission on Banking Standards and a number of UK-based investors. The DPOC did not disagree with the view that the IASB had complied with all the due process requirements in the development of the current impairment model, but stressed the importance of reporting fully those steps, for example in the reporting of the outreach that had been undertaken. Given the sensitivity of the project, it was important to be able to give a positive message on due process and to defend the decisions taken by the IASB.

On **hedge accounting**, the DPOC received a report summarising the due process to date on the project and the reactions that had been received to the draft of the proposed requirements posted on the IASB's website. This was posted for a period of 90 days both to enable stakeholders to become more familiar with the document prior to its finalisation and as part of a fatal flaw review. The posting of the draft had not been a formal comment process, which meant that the 40 or so letters that had been received would not be posted on the website, but the key issues raised were to be considered by the IASB at its January 2013 meeting. It was noted that some stakeholders continued to have concerns with the IASB's technical decisions, in particular its decision not to grandfather all aspects of current practice for accounting for macro hedges until the separate macro hedge accounting project was completed.

The DPOC was updated on the progress of other major projects. On **leases**, it was noted that the IASB and FASB had agreed to re-expose proposals for a common standard, scheduled for issue in the first half of 2013, with a 120-day comment period. During the comment period, the two Boards planned to conduct additional outreach including with users of financial statements. On **insurance contracts**, the IASB had agreed to re-expose its proposals, and it aimed to issue an Exposure Draft in the first half of 2013. On **revenue recognition**, which was another joint project with the FASB, the two Boards were planning to complete their redeliberations in early 2013 and issue a final standard in mid-2013. The DPOC noted that the two Boards had tentatively decided not to create an exception to the general revenue recognition model to reflect practice in the telecommunications industry, having received an extensive analysis of the application of the model to typical mobile phone contracts. The DPOC emphasised the importance of documenting the extensive outreach and analysis that had been undertaken to evidence the rationale for the Boards' decision.

#### **4. Website project pages and DPOC web pages**

The DPOC was updated on the redesign of the project pages on the website and welcomed the enhancements that have been made. The Committee also considered proposals for redesigning the

DPOC section of the website with the aim of removing clutter from the pages and making it easier for visitors to navigate.

## **5. Small and Medium-sized Entities Implementation Group**

The DPOC considered two issues related to the SME Implementation Group (SMEIG).

First, the DPOC approved proposed changes to the wording of the *Terms of Reference and Operating Procedures for the SME Implementation Group* to reflect decisions the Committee had made at its October 2012 meeting, with regard to the SMEIG membership. The approved changes reflected the following:

- (a) To expand the number of members to a maximum of 30 as of 1 July 2014.
- (b) To reappoint no more than 10 current members for an additional two-year term from 1 July 2014.
- (c) To appoint a maximum of 20 new members with effect from 1 July 2014, no more than 15 of whom would be appointed for a three-year term ending 30 June 2017, while the remainder would be appointed for a two year term ending 30 June 2016.
- (d) That all new members would be eligible for a three-year reappointment.
- (e) That generally, no member would be eligible for more the two consecutive terms.

The DPOC also approved a number of non-substantive changes to that document to reflect (a) the change of name to IFRS Foundation, (b) clarification of the review process in light of board progress in regard the major projects, (c) the fact that the comprehensive review of the IFRS for SMEs was now underway and (d) current practice in regard comment period for Q&As.

Second, the DPOC agreed with the recommendation that Darrel Scott should be appointed as chair of the SMEIG as a replacement for Paul Pacter, who had retired from the IASB as from 31 December 2012. Darrel had already assumed certain responsibilities for the SME standard and, as a South African, came from the first that had applied the IFRS for SMEs when it was still an Exposure Draft. The DPOC recommendation was that the Trustees should agree to Darrel becoming chair of the SMEIG.

## **6. Review of correspondence**

The DPOC noted that no new correspondence cases had been submitted since the October 2012 meeting.

## **7. Any other business**

The Chairman of the DPOC requested input from Committee members on suggested agenda items for future meetings.