

Report of the Due Process Oversight Committee (DPOC) meeting

London, 8 July 2014

1. Update on technical activities

1.1 The DPOC received an update on technical activities.

Major projects

1.2 The DPOC noted that the final version of **IFRS 9 Financial Instruments** was on schedule to be published later in July 2014 and that, on **accounting for macro hedging**, the IASB had published a Discussion Paper (DP) in April 2014, with a 180-day comment period until 17 October. The IASB had sought initial feedback on the DP from the Accounting Standards Advisory Forum (ASAF) and was undertaking outreach to raise awareness of the DP and obtain initial reactions from constituents.

1.3 On **insurance contracts**, the DPOC was updated on progress following the responses, outreach and detailed fieldwork that had been undertaken on the proposals in the IASB's revised Exposure Draft (ED), which had been issued in late June 2013. The DPOC was reminded that while there was broad support for the proposals, there remain some significant areas of concern, in particular around complexity and accounting mismatches. It was noted that the proposals in the IASB's ED had been developed in conjunction with the US Financial Accounting Standards Board (FASB). However, the FASB had decided subsequently to make only limited, targeted improvements to its existing Standards on insurance. The DPOC raised the question as to whether the need to achieve a level playing field between IFRS and US Generally Accepted Accounting Principles (GAAP) was a common feature raised by constituents, but it was felt that this issue was commented on less on the insurance contracts project than others.

1.4 The IASB was pressing on with redeliberating the issues raised in the responses to the June 2013 ED, in the light of the feedback received. As at June 2014, the IASB had made tentative decisions on a three of the five targeted proposals in the ED as they related to non-participating contracts (unlocking the contractual service margin, recognising the effects of changes in the discount rate in Other Comprehensive Income, and insurance contracts revenue).

1.5 The IASB expected to complete its redeliberations during 2014. The DPOC was informed that the IASB was currently considering the most difficult and contentious issue in the 2013 ED, namely the accounting for contracts with participating features. The IASB was proceeding in a measured way and was seeking to achieve a balance between completing the project and the need to maintain the quality of its decision-making process in dealing with such a challenging issue. The DPOC questioned the IASB representatives on the diverse views of constituents on the proposals and the risk that the Standard might not be endorsed for use in certain jurisdictions. The IASB was clear that there was a need for a Standard on insurance contracts and that, while it was open to dialogue on the outstanding difficult issues, it would ultimately need to reach decisions in order to finalise the Standard. From a due process perspective, the IASB was mindful of the need to ensure that it had given constituents sufficient opportunity for their views to be expressed.

1.6 The DPOC noted that discussions were continuing on the **leases project**, which was a joint project with the FASB. The DPOC was reminded that, at their joint meeting in March 2014, the IASB

and FASB had reached a number of tentative decisions on both the models for lessee and lessor accounting, scope simplifications for 'small-ticket' leases, and the determination of the lease term. The DPOC noted that the two Boards were united on the balance sheet approach for lessees, but had come to different conclusions on the recognition and presentation of lease expenses in a lessee's income statement, as follows:

- a. the IASB had decided tentatively upon a single lessee model, whereby a lessee would recognise interest on lease liabilities separately from amortisation of lease assets; and
- b. the FASB had decided tentatively upon a dual lessee model that would retain the existing distinction between operating and finance leases, which would essentially result in no change to the lessee's income statement compared with the income statement under existing requirements.

1.7 On a portfolio basis, the DPOC noted that the difference in effect in the income statement would not be significant. The IASB representatives acknowledged that in practical terms the difference would be small, but conceptually the gap would be bigger. There was a risk that, under the dual lessee model, some constituents might question why lease assets and liabilities should be recognised on the balance sheet, which was the most important aspect of the project.

1.8 The DPOC asked about the implications of the additional public consultation on leases that had been launched at the end of June 2014 by the European Financial Reporting Advisory Group (EFRAG) and the four major European national standard-setters, which included seeking constituents' views and their preference on the two alternative income statement approaches proposed by the IASB and the FASB. The IASB noted that it would have to look at the results of that survey, but also noted that other constituents had expressed a preference for the single lessee model. The IASB representatives noted that the IASB and FASB members present at the June 2014 meeting of the ASAF had indicated that the two Boards would continue their redeliberations on a joint basis, with the intention of minimising any differences between IFRS and US GAAP.

1.9 The DPOC had a brief discussion on convergence and what had been achieved, noting that the most notable success had been the issue in May 2015 of the converged Standard on **revenue recognition**. The DPOC noted that the IASB and the FASB had established a Joint Transition Resource Group (TRG) for revenue recognition and the group was scheduled to hold its first meeting on 18 July.

1.10 On the **conceptual framework** project, the DPOC was informed that the IASB had made a number of tentative decisions at its May 2014 meeting on a number of aspects contained in the Objective and Qualitative Characteristics chapters of the *Conceptual Framework* that were published in 2010, in particular the treatment of prudence, stewardship and reliability. The IASB's original intention had been not to fundamentally reconsider these chapters, but had done so following views expressed by many constituents. The DPOC was reassured that this would not slow the timetable on the project and the aim was still to publish an ED by the end of 2014.

1.11 The DPOC was updated on the progress of the **disclosure initiative** and the **research programme**, noting in particular that a DP on the project on **rate-regulated activities** was scheduled to be published in the third quarter of 2013.

Implementation and maintenance projects

1.12 The DPOC was updated on the progress of a number of the implementation and maintenance projects on the IASB's work plan.

1.13 The DPOC was reminded that it had received a due process life-cycle review of the project on **IAS 41 - bearer plants** and the final amendments had been published on 30 June.

1.14 The DPOC was informed that the IASB was moving forward with its project **Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**. Four IASB members had indicated their intention to dissent on technical grounds. The amendment was scheduled to be issued in the third quarter of 2014.

1.15 The DPOC noted that the IASB had decided not to finalise a proposed amendment to **IAS 28: Equity method – Share of Other Net Asset Changes**, following five IASB members indicating their intention to dissent. The DPOC inquired what would be the next steps. The IASB representatives stated that the issue would be dealt with as part of the wider research project on the **equity method of accounting**.

1.16 The DPOC was informed that progress continued to be made on the **post-implementation review of IFRS 3 Business Combinations** and that a summary of the comment letters received in response to the January 2014 Request for Information was scheduled to be considered by the IASB during the third quarter of 2014.

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

2. Effects Analysis Consultative Group

2.1 The DPOC received a progress report on the work of the Effects Analysis Consultative Group (EACG), which had been set up to advise the IASB in developing an agreed methodology for field testing and effects analyses. A near-final draft of the EACG's report was presented to the DPOC. The DPOC noted that a number of changes had been made from the previous version that the Committee had seen at its April 2014 meeting. The main change highlighted was the redrafting of the section on financial stability, where the near-final draft report acknowledged that, as a member of the Financial Stability Board (FSB), the IASB had a responsibility to support the objectives of the FSB. Within that context, the report emphasised that the objectives of the IASB and the FSB were complementary rather than competing and were not in conflict.

2.2 In terms of the consequences of the report's recommendations, it was noted that more extensive use of evidence and more structured analysis throughout the development of financial reporting requirements was being made not only by the IASB but other parties involved in the process as well.

2.3 On next steps, it was noted that the near-final draft report was with the EACG members for their sign-off, after which it would be submitted to the Trustees and the IASB with a covering letter which would explain that the report contained recommendations and ideas that the consultative group thought would enhance the IASB's standard-setting processes. This would be along the lines of the precedent of the report of the Financial Crisis Advisory Group that was submitted to the IASB and the FASB in 2009. The DPOC noted that a number of the recommendations in the report might imply some minor amendments to the *Due Process Handbook* and the Committee undertook to examine carefully any such recommendations.

2.4 The DPOC considered and was content with the staff's proposals for the follow-up to the report and the need to ensure that it was implemented in a sensible and meaningful way and which fulfilled the desire of the EACG for the report to be of practical help to the IASB.

2.5 The DPOC was content with the direction of the draft report, but made a number of suggestions for the EACG to consider in finalising its report to help emphasise some of the key messages. The Committee looked forward to receiving the final report and noted that, on finalisation, the EACG would be disbanded.

3. IFRS Taxonomy (XBRL)

3.1 The DPOC received a progress report on the IASB's proposals to revise the due process for updating the IFRS Taxonomy. At its April 2014 meeting, the DPOC had considered the Foundation staff's proposals for the revised IFRS Taxonomy due process, together with a draft of a proposed Invitation to Comment (ITC). At that meeting, it was noted that the plan had been to present a revised ITC to the DPOC for its approval at this meeting, following discussions with the IASB, the IFRS Advisory Council and the IFRS Taxonomy Consultative Group.

3.2 The DPOC was informed that, in discussing the proposals with the IASB, some Board members had expressed a number of concerns, as they related to:

- a. the publication of proposed Taxonomy updates at the ED stage – where some IASB members had concerns that this could require a significant increase in resources;
- b. the timing of the publication of proposed Taxonomy updates at the same time as an ED and when the resulting final Standards were issued – some IASB members had concerns that this might overburden the consultation process and potentially delay the publication of Standards; and
- c. the approval by the IASB of IFRS Taxonomy common practice elements – some IASB members asked whether the Board should be involved with the review of common practice additions.

3.3 The staff reported that they remained confident that the proposals would not cause delays or complicate the due process for EDs and final Standards. However, it was critical that the IASB members felt comfortable with the proposed new process and that their concerns were addressed. On this basis, the staff were proposing that the ITC on the proposed new due process was delayed and that there should be a number of trial runs of both an update related to a new Standard and an update for common practice. The staff view was that the trial runs should provide IASB members with more information on which to base their assessment. In terms of timing, the trial runs would

run through to the end of December 2014, after which the staff would bring a proposed ITC for review and approval to publish as soon as practicable to do so.

3.4 The DPOC expressed disappointment at the delay in the publication of an ITC on the proposed new due process, but was pleased that the IASB as a Board was engaging in the trial runs. The Committee shared the staff's view on the importance of having the IASB comfortable with the process and its role in it. The DPOC was concerned that the delay might cause a vacuum in the Taxonomy process, but the staff were at pains to emphasise that this would not be the case. In the interim, the IFRS Taxonomy Consultative Group would continue to function and the due process amendments that the DPOC had approved at its January 2014 would continue in place, namely that:

- a. proposed interim IFRS Taxonomy releases should be the primary document for public consultation;
- b. the annual IFRS Taxonomy would be a physical compilation of previous interim releases and would not be issued for public consultation; and
- c. the proposed change would be effective immediately, ie would be applied to the 2014 annual IFRS Taxonomy (to be issued in February 2014) and all subsequent IFRS taxonomy releases.

3.5 On this basis, the DPOC was content with the proposals for the trial runs as outlined. The Committee was also informed that, following the recruitment of a new secondee to the Asia-Oceania office in Tokyo, the staff were planning to develop jurisdictional profiles on the IFRS Taxonomy to complement the IFRS jurisdictional profiles that had been completed.

4. Review of Consultative groups and DPOC engagement

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 categories of groups.

Standing Advisory Groups

4.2 The DPOC reviewed and agreed with the staff's assessment of the standing groups as follows:

- **Accounting Standards Advisory Forum (ASAF)** – this group had met four times in the period under review and had provided technical input on the IASB's major projects, including a number of projects on the research agenda. The ASAF also fulfilled the role as the advisory group to the IASB on the conceptual framework project and had considered the developments on this project at each of its meetings. The technical staff's view was that the ASAF was functioning well. The DPOC was reminded that a full review of ASAF's membership and operations was scheduled to take place in early 2015;
- **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 both met three times a year, once in a joint meeting held on 30 June 2014, which had gone well. The technical staff were exploring having two joint meetings a year and the DPOC suggested they

might explore whether all meetings of the two groups could be co-ordinated to facilitate joint discussion;

- **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 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 and was valued by the membership. In addition, the EEG was the only group in which Russia was involved, so providing a forum for Russian views and concerns to be heard;
- **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 operated mostly by e-mail;
- **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 July 2014 meeting, provided advice on the process for filling a vacancy on the group, including a public call for applications;
- **Advisory Group on Sharia-compliant instruments and transactions** – an inaugural meeting of this group had been held in July 2013. The operating model for the group, developed at that time, had been to place the emphasis on third parties to prepare papers for consideration by the group and the IASB. However, a number of calls for papers had elicited no responses. As a consequence, the IASB was planning to adopt a more pro-active approach and for the staff to prepare papers for consideration at a meeting in Malaysia in September 2014.

Consultative Groups – recommended for disbandment 2014

4.3 The DPOC considered and agreed with the staff's recommendations for disbanding the following groups:

- **XAC and XQRT** – the DPOC was reminded that, as part of the review of due process procedures for the IFRS Taxonomy, the XBRL Advisory Council (XAC) and XBRL Quality Review Team (XQRT) had been disbanded and replaced with the IFRS Taxonomy Consultative Group (see below);
- **Effects Analysis Consultative Group (EACG)** – as discussed elsewhere at the meeting (see section 2 above), the EACG was a limited life group which it was agreed would be disbanded following finalisation of the group's report on the development of an agreed methodology for field testing and effects analysis. While agreeing with the proposal to disband the EACG, the DPOC highlighted the importance of having an on-going mechanism to ensure the quality of field testing and effects analysis;
- **Financial Instruments Working Group (FIWG)** – with the imminent publication of IFRS 9, the staff view was that the FIWG should be disbanded. It was noted that the IASB still had an active project on accounting for macro-hedging, but it was agreed that – if a consultative group was required for this project - it would be more useful to constitute a new specialist group for macro-hedging with members with experience in risk management activities, rather than in the reporting of financial instruments;

- **Expert Advisory Panel (EAP) – Impairment** – the staff view was that, with the issue of IFRS 9, this group should be disbanded. As had been discussed with the DPOC at its April 2014 meeting, the IASB was setting up an IFRS Transition Resource Group for Impairment of Financial Instruments and had issued a call for nominations.

Consultative Groups – no change proposed

4.4 The DPOC considered and agreed with the staff's assessment of the following groups:

- **Insurance Working Group (IWG) and Leases Working Group (LWG)** – these groups were viewed as continuing to be useful. The DPOC was reminded that in January 2014 it had considered the effectiveness of these groups, 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 project's 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. The DPOC was concerned that the presentation of material stating that the groups had not met could give an impression of inactivity and the Committee asked the staff to consider how this could be addressed;
- **Rate-Regulated Activities Consultative Group (RRACG)** – this was a new group that had held its first meeting in July 2013 and was assessed as functioning well. The DPOC noted that the IASB was planning to issue a DP on the rate-regulated activities project in the third quarter of 2014 and the RRACG would be involved in considering the feedback on this document;
- **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. The DPOC noted that the staff were planning to use the VEG in its continuing development of education material on fair value measurement.

Consultative groups – new groups

4.5 The DPOC noted the following in relation to new groups:

- **IFRS Taxonomy Consultative Group** – as noted above, this group had replaced the XAC and XQRT and had met for the first time on 29 May 2014;
- **Joint Transition Resource Group for Revenue Recognition** – see paragraph 1.9 above.

Other matters

4.6 The DPOC was informed that, at its July 2014 meeting, the IASB would consider whether to form a consultative group for the **Disclosure Initiative**. The DPOC acknowledged the staff view that, rather than form a distinct consultative group, it might be more effective to focus on wider stakeholder engagement as well as continuing to seek the advice of a number of existing consultative groups, in particular the ASAF, CMAC and the GPF.

DPOC engagement

4.7 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 again encouraged 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 proactive and have dialogues with the groups, which would also have the benefit of helping to address any potential problems with their operations. He invited DPOC members to submit 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 2014, the IASB and the IFRS Interpretations Committee had received 1,864 comment letters (including responses to proposed agenda decisions by the Interpretations Committee). All but two of the comment letters were publicly available, following requests for confidentiality. The DPOC noted that paragraph 3.65 of the *Due Process Handbook* might need to be amended to provide for the rare cases when confidentiality might be requested by commentators.

Meeting papers

5.3 In the year to 30 June 2014, 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.

Interaction with regulators

5.4 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 DPOC received a report from the Chair of the IASB's Implementation Steering Committee that commented positively on how the Foundation's co-operation with the International Organization of Securities Commissions (IOSCO) under the September 2013 *Statement of Protocols for Co-operation on IFRS* was working out. The DPOC also noted the interactions with other securities regulators, in particular the European Securities and Markets Authority (ESMA). Over the year, the IASB had maintained regular dialogue with prudential regulators, at international, regional and national levels.

5.5 Overall, the DPOC was pleased with the consistent adherence to the due process requirements during the year. The Committee suggested that the transparency of this report could

be further enhanced by including summaries of outreach meeting discussions in next year's annual report.

6. Correspondence

6.1 At the time of the meeting, no new correspondence cases had been submitted since the April 2014 meeting. That said, the DPOC was informed that EFRAG had posted on its website a draft of a letter outlining a potential proposal “to enhance IFRS quality control” by suggesting that a specific “implementation stage” should be inserted into the IASB’s standard-setting process. At this stage, the Committee simply noted the issue.

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