TEXT OF E-MAIL FROM ALAN TEIXEIRA TO DUE PROCESS OVERSIGHT COMMITTEE (DPOC)

Date: 4 November 2013

Dear DPOC members

I have three matters that need to be brought to your attention:

- Last week, the IASB voted to shorten the comment period for a planned exposure draft to 60 days, subject to consultation with the DPOC;
- The membership of the **Capital Markets Advisory Committee** has changed; and
- A comment letter was posted on our public website despite a request from the respondent not to do so.

Proposed Amendment to IAS 27 *Separate Financial Statements*

On 21 October I sent you via email the papers reviewing due process steps for items being discussed at the IASB at its meeting last week. One of those items related to IAS 27. The paper contained a recommendation for a comment period of 120 days. The IASB voted to have a shorter comment period, of 60 days.

Background

IAS 27 requires that when an entity prepares separate (parent-only) financial statements it shows interests in subsidiaries as a single item being the investment in the shares rather than consolidating the assets and liabilities of the subsidiary. IAS 27 gives two measurement choices—costs or fair value. Prior to 2004 there was a third choice, the equity method. The Agenda Consultation in 2011 highlighted that the lack of availability of the equity method was a problem for many South American countries where the equity method must be used for statutory purposes and entities are required to prepare IFRS compliant separate financial statements. Those entities must therefore present two sets of financial statements. The IASB has determined that re-introducing the equity method would be appropriate.

At the meeting last week the IASB reviewed the due process undertaken. The IASB voted to reduce the comment period to 60 days.

The Due Process handbook states:

> 6.7 The IASB normally allows a minimum period of 120 days for comment on an Exposure Draft. If the matter is narrow in scope and urgent the IASB may consider a comment period of no less than 30 days, but it will only set a period of less than 120 days after consulting, and obtaining approval from, the DPOC.

There are two legs to the exception, **narrow in scope** and **urgent**.

The matter is clearly narrow in scope. It relates only to separate financial statements and re-introduces a measurement choice. It does not take away any existing choices. Although this might seem to reduce comparability, not all jurisdictions using IFRS require that IFRS be applied to separate financial statements. Most jurisdictions apply local requirements. Hence, it is more likely to improve comparability within particular jurisdictions.

The IASB members with experience in South America told the IASB that this is an urgent matter, because of the duplication it is causing in several South American countries. The sooner we can address this the better.

A short comment period is never ideal. However, given that the proposal is designed to give relief to several jurisdictions, without the loss of information for investors, the risks associated with a short comment period are small.

Action for the DPOC
Do DPOC members support a shortened comment period for this narrow scope proposal? Is there any additional information you need?

Capital Markets Advisory Committee (CMAC)

CMAC is one of two consultative groups that manages its own appointments processes (the other being the Global Preparers Group). We have previously discussed bringing the appointment process more in line with other groups.

As staff informed you at the Committee's October meeting, the CMAC selection committee made a public call for nominations via the IFRS website and through our contacts database. The CMAC has considered the nominations and wishes to finalise the membership. There are a few items to highlight:

1. The CMAC still has a lot of representation from Europe. This is partly a factor of cost-many users in countries that are farther away can't or won't fund the travel. However, the CMAC has now expanded representation to include Australasia. In addition, the 2013 US member left at the beginning of the year so we were successful in finding another US member for 2014. Finally, the CMAC would also like to have representation from S. Africa but did not find any candidates this year. This means we will try to focus our user outreach a bit more in S. Africa for the coming year. The CMAC and the IASB are aware that the group remains dominated by European analysts. Accordingly, we are aware that we need to supplement the CMAC views with targeted outreach to underrepresented regions.

2. The CMAC has shifted some of the membership concentration from professional organisations to more sell-side analysts (as a result of applicants and more choice). We hope that this will give us some more direct feedback from more "hands-on" users. We also have been successful in maintaining buy-side representation, which is constantly a challenge.

3. The maximum number of members per the charter is 20. The total number of members in 2014 will be 16. There were many qualified applicants this year that the CMAC decided not to accept. They would prefer to have staggered expiry dates and therefore look again at taking on more new members in 2014. So we have asked some of the qualified candidates if they would be happy to defer to be considered for membership until next year.

[See attached table]

Action for the DPOC
The membership selection process has, in my view, improved this year with a public call for nominations and a closer focus by the CMAC on the balance of the group. The reason for allowing the group to self-select its members was to protect the IASB from any perception that the IASB was

selecting members that suited the IASB. I think that we have brought more discipline to the process while protecting the independence of this group.

Having said that, the CMAC and IASB are aware of gaps in some of the demographic areas. This awareness is important because it helps us target supplementary investor outreach.

Do DPOC members have any concerns about the CMAC membership appointment process or are you comfortable that we finalise the membership for 2014?

Confidential Comment letter

Last week it was brought to my attention that a comment letter submitted by a company in relation to the *Leases* exposure draft was posted on the public website despite a request for confidentiality. The error was discovered by the leasing staff when they were analysing the letter and the letter was removed from the public site—it had been publicly accessible for seven days.

I have written to the company concerned to apologise for the error. However, I have also pointed out to the respondent that there is nothing in the letter that justifies their request for confidentiality. This is the first time the respondent has commented on a proposed Standard and it seems likely that they are less familiar with our procedures and transparency.

Ultimately it is likely that no harm will have come from this error. I am sure that the letter will be cleared for posting. However, the fact that the request was overlooked in the first instance is a concern. My review suggests that it was simply human error as a result of significant pressure being put on the person responsible for uplifting the letters onto the website. It is the first time such an error has been made. The person normally catches this type of request. I have spoken to the person concerned. I do not want to over-engineer our systems. I think it is a case of monitoring the flow of comment letters and when we hit peaks we will provide additional assistance to the capture process.

Action for the DPOC
I am not requesting any action at this stage. This is for noting, although if DPOC members think additional steps need to be taken please do not hesitate to say so.

Please do not hesitate to contact me if you need any additional information.

I will leave it to Scott and David to determine if we need a call to discuss any of the matters here.

Kind regards

Alan

Alan Teixeira | Senior Director - Technical Activities

CMAC Current composition and terms for 2013							
Geographic distribution:							
Global	Europe	US	Canada	S. America	Asia	Australasia	Total
4	8	1	1	1	1	0	16
25%	50%	6%	6%	6%	6%	0%	100%
Type of user							
Sell-side analyst/research	Buy-side analyst	Credit ratings analyst	Independent consultant	Professional organisation	Corporate Governance	Academia (former analyst)	Total
4	3	1	1	5	1	1	16
25%	19%	6%	6%	31%	6%	6%	100%

CMAC New composition and terms for 2014							
Geographic distribution:							
Global	Europe	US	Canada	S. America	Asia	Australasia	Total
3	8	1	1	1	1	1	16
19%	50%	6%	6%	6%	6%	6%	100%
Type of user							
Sell-side analyst/research	Buy-side analyst	Credit ratings analyst	Independent consultant	Professional organisation	Corporate Governance	Academia (former analyst)	Total
8	3	1	0	2	1	1	16
50%	19%	6%	0%	13%	6%	6%	100%