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This document is provided as a convenience to observers at IFRS Foundation meetings, to assist them in following the discussion.

INFORMATION FOR OBSERVERS

IFRS Foundation Trustees Meeting, Tokyo, 10 February 2011

AGENDA PAPER 11A

Memorandum

To: Due Process Oversight Committee

From: David Sidwell

cc: David Tweedie, Other Trustees

Date: 24 January 2011

Re: 2011 Committee priorities

In Tokyo, the Committee will discuss priorities for the upcoming year and its strategy for handling issues within the Committee's mandate. In considering priorities, I suggest that the Committee take into account the recommendations emanating from the Strategy Review regarding the need for enhanced Trustee oversight of the IASB's due process. This includes in the area of reviewing the IASB's due process on particular agenda-decisions or standards before completion.

This memorandum is supplemented by papers that address specific XBRL issues and the IASB's annual improvements process.

Refining the mandate

In 2006, the Trustees established the Due Process Oversight Committee to play a more active and visible role in the oversight of the IASB's due process. The Committee was established to provide better oversight over IASB procedures. The Trustees also believed that they would be in a position to defend, with full confidence, the outcome of the standard-setting process.

The mandate of the Committee is attached. The Committee should review this mandate at the meeting.

Current status

This Committee meets the IASB regularly to monitor its compliance with due process procedures, to review complaints regarding the IASB's due process, and to assess other areas of concern related to the IASB's due process activities. Nevertheless, stakeholders regularly express concern regarding the effectiveness of the Trustees' oversight over the IASB's procedures.

Meeting that objective

To accomplish the Committee's objectives, the Committee's members require active engagement with the IASB regarding the processes and consultation procedures being followed in both the agenda-setting and standard-setting processes (including interpretations). I suggest that there should be four recurring elements of our work:

Recurring Committee actions

- **Assessment against an agreed benchmark to ensure the IASB's due process remains best practice:** The IASB's due process is generally considered one of the most rigorous and transparent in the standard-setting world and steps are continuously taken to improve them, for example with the introduction of the feedback statement. There is the IASB *Due Process Handbook* which was reviewed by the Due process Committee when it was last updated. This provides a strong basis for assessing performance. However, some Trustees have noted that they have little understanding of how the IASB implements its due process on specific projects. This from time to time exposes the Trustees to accusations that they are insufficiently involved. The Committee, with the IASB, should develop a list of due process activities that it could use to review with the IASB the specific due process followed by IASB on key projects. The Due Process Committee should periodically review and approve the manual.

2011 ACTIONS: The Committee should approve a framework/checklist for such an assessment. The Committee could use the attached IFAC/IAASB framework (see Appendix B) as an example. (Draft to be completed for March Trustees' meeting.) In addition, Foundation staff has prepared a summary of due process steps being followed by IASB which can provide a foundation for a framework/checklist.

- **Review of procedural/consultation steps being taken by the IASB throughout the standard development process:** To enable the Trustees better to understand and defend the IASB's due process, the Committee should discuss the process that the IASB is using throughout the various stages of the standard-setting process.

2011 ACTIONS: Using the agreed framework/checklist, the Committee should begin systematic reviews of the due process steps that the IASB is undertaking on key projects. These reviews should occur at the regular meetings of the Due Process Oversight Committee. These reviews will help to alert the Trustees to contentious issues that the IASB is facing.

- **Attestation of due process compliance before project completion:** Before finalising a new standard or a major revision in an existing standard, the IASB should make a presentation to the Trustees' Due Process Oversight Committee explaining how it has complied with each step of its required due process. The IASB should also explain, using the constitutionally required 'comply-or-explain' approach, how it used the optional elements of its due process. An example of an IFAC certification is attached as Appendix C.

2011 ACTIONS: Using the framework/checklist discussed above, the Committee should put into place a procedure for attestation of due process.

- **Regular benchmarking of Trustee and IASB activities:** The Due Process Oversight should conduct regular reviews to assess the effectiveness of due process activities. Such activities have previously included reviews of IASB working groups and the IFRS Advisory Council.

2011 ACTIONS: The Due Process Oversight Committee should complete its benchmarking exercise with other standard-setting organisations and its review of the IFRS Interpretations Committee's effectiveness. In addition, the Committee can consider what form attestation by the due process committee of specific standards.

Other items for discussion in 2011

In addition to the recurring items, the committee should address other topics in the upcoming year. These include:

1. A review of the Committee's charter
2. The role of XBRL in the IASB's standard-setting process
3. Committee member attendance at upcoming IFRS Advisory Council meetings (21-22 February, 20-21 June, 10-11 November)

Committee meetings

To fulfil our oversight function, the Committee should continue to meet on a quarterly basis with two additional meetings for some members to meet with the IASB. The Due Process Committee can conduct many of these activities in conjunction with the regularly scheduled Trustee meetings. At the quarterly meeting, we should consider inviting, as appropriate:

- members of the IASB
- the chair of the IFRS Advisory Council,
- the chair of the IFRS Interpretations Committee
- the chairs of the XBRL Advisory Council and the XBRL Quality Review Team

APPENDIX A—Committee mandate

The Trustees' Due Process Oversight Committee is a standing committee of the Trustees. The Committee shall normally comprise five to seven members of the Trustees. One member of the Committee shall be the Chairman and shall serve on the Trustees' Executive Committee. The Committee shall normally meet four times annually, either in person or via teleconference, in advance of full Trustees' meetings. The Committee shall also be able to conduct business in writing and on an as needed basis.

The Committee is responsible for making recommendations to the full Trustees regarding fulfillment of their oversight function, in accordance with the duties of the Trustees set out in the IASC Foundation Constitution. The Due Process Oversight Committee shall develop proposals and measurement targets regarding oversight responsibilities for consideration by the Trustees. The Due Process Oversight Committee shall monitor the achievement of these targets, alert the Trustees when these targets are not being met, and suggest amendments of the targets when appropriate.

The Committee shall also have responsibility for:

- Reviewing and proposing updates to the IASB's and the IFRIC's Due Process Handbooks
- Managing a process of interaction with the IASB, including regular meetings to share views related to the IASB's work program and activities. Other Trustees shall have the opportunity to add items to the agendas of these meetings, and the Committee shall make a formal report to the full Trustees following such meetings.
- Addressing matters of compliance to those procedures, including reviewing complaints about alleged "non-compliance"
- Approving the composition of IASB working groups to ensure an appropriate balance of perspectives
- Discussing the IASB's proposed approach to consultations for new projects, and receiving reports from the IASB regarding their conduct of these projects in the context of the approach suggested
- Making recommendations regarding Constitutional changes related to the composition of committees and due process, as appropriate
- In coordination with the Director of Corporate Communications, reporting on meetings that the Trustees have with interested parties

APPENDIX B—IFAC Framework

#	Due Process Requirement	Yes/ No	Comments
A. Project Proposal			
A1.	A proposal for the project has been prepared, with consideration given to, among other things, the public interest and the costs and benefits of the proposed project.	Yes	See IAASB March 2006 meeting material: http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0058&ViewCat=0494 . The public interest was an important driver for this project given the increasing frequency and extent of use of service organizations, the increasingly complex relationship between service organizations and entities using them, and the need for standards supporting the expected responsibilities of service auditors whose reports are relied on by financial statement auditors.
A2.	The project proposal has been circulated to other IFAC committees and IFAC task forces to identify matters of possible relevance to the project.	Yes	
A3.	The IAASB has approved the project in a public meeting.	Yes	See March 2006 IAASB meeting minutes: http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0065&ViewCat=0514
A4.	The IAASB CAG has been consulted on the project proposal.	Yes	See May 2006 IAASB CAG meeting material: http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0077&ViewCat=0544 See May 2006 CAG meeting minutes: http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0078&ViewCat=0569
B. Development of Proposed International Pronouncement			
B1.	The IAASB has considered whether to hold a public forum or roundtable, or issue a consultation paper, to solicit views on a matter under consideration.	Yes	Prior to exposure, discussions of the project within the IAASB and IAASB CAG did not indicate any fundamental matters requiring additional consultation through a consultation paper, public forum or roundtable. The IAASB noted, however, that it would be important to reach out to service organizations regarding the shift, in some jurisdictions, from direct reporting by the service auditor to assertion-based engagements. The IAASB concluded that the best way to achieve the necessary input was to distribute the exposure draft to a wide range of service organizations identified by IAASB members, firms and member bodies around the world. The issue was discussed as part of the exposure decision and at the September 2009 IAASB

#	Due Process Requirement	Yes/ No	Comments
			meeting. See September 2009 IAASB meeting material: http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0168&ViewCat=1157 .
B2.	The IAASB has considered whether it is appropriate to conduct a field test of the proposals in a new or revised International Standard.	Yes	<p>Subsequent to exposure, the IAASB deliberated the need for further consultation and field testing related to the shift, in some jurisdictions, from direct reporting by the service auditor to assertion-based engagement; in particular, the practicality of service organizations complying with the responsibilities attributed to them in the ISAE regarding the identification of risks, the development of control objectives, and articulating their assertions. The IAASB concluded that further consultation was not warranted in the circumstances; the manner in which these responsibilities are described in the ISAE is sufficiently flexible to accommodate the full range of ways in which these responsibilities could reasonably be fulfilled by service organizations in practice. However, the IAASB agreed to monitor the experiences of application of the standard in a reasonable period following the standard's effective date.</p> <p>See September 2009 IAASB meeting material: http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0168&ViewCat=1157.</p> <p>See draft September 2009 IAASB meeting minutes available at http://www.ifac.org/IAASB/Meetings.php by mid-November 2009.</p>
B3.	The rationale for the IAASB's decision regarding due process elements B1 and B2 has been discussed at an IAASB meeting and the decision has been minuted.	Yes	<p>See September 2009 IAASB meeting material: http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0168&ViewCat=1157</p> <p>See draft September 2009 IAASB meeting minutes available at http://www.ifac.org/IAASB/Meetings.php by mid-November 2009.</p>
B4.	If comments have been received through a public forum or roundtable, or the issue of a consultation paper, they have been considered in the same manner as comments received on an exposure draft.	N/A	
B5.	The IAASB CAG has been consulted on significant issues during the development of the exposure draft.	Yes	See September 2006 CAG meeting material: http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0078&ViewCat=0634

#	Due Process Requirement	Yes/ No	Comments
			<p>See September 2006 CAG meeting minutes: http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=3261</p> <p>See report back on September 2006 CAG meeting: http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0130&ViewCat=0902</p> <p>See September 2007 CAG meeting material: http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0088&ViewCat=0844</p> <p>See September 2007 CAG meeting minutes: http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0130&ViewCat=0901</p> <p>See report back on September 2007 CAG meeting: http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0130&ViewCat=0902</p>
B6.	The IAASB has approved the issue of the exposure draft in accordance with its Terms of Reference.	Yes	See December 2007 IAASB meeting minutes: http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=3889
C. Public Exposure			
C1.	The approved exposure draft has been posted to the IAASB website for public comment for a period of ordinarily 120 days.	Yes	Exposure draft issued December 2007. See IAASB website: http://www.ifac.org/Guidance/EXD-Details.php?EDID=0099 . The exposure draft was also distributed to a range of service organization to seek their feedback on the proposals. The exposure period was set at 150 days (ending 31 May 2008) to allow organization that do not ordinarily comment on IAASB exposure drafts sufficient time to develop responses.
C2.	The exposure draft was accompanied by an explanatory memorandum highlighting the objective(s) of, and the significant proposals in, the draft International pronouncement, as well as the IAASB's views on the main issues addressed.	Yes	See Exposure Draft: http://www.ifac.org/Guidance/EXD-Details.php?EDID=0099
C3.	Exposure draft comments have been posted to the IAASB website after the end of the exposure period.	Yes	47 comment letters were received, including: 2 regulators and oversight authorities; 18 Member Bodies; 4 other professional organizations; 6 firms; 6 governmental organizations; 3 national standard setters; 6 preparers and users and 2 other. Comment letters received are posted on the IAASB website:

#	Due Process Requirement	Yes/ No	Comments
			http://www.ifac.org/Guidance/EXD-Details.php?EDID=0099
<i>D. Consideration of Respondents' Comments on an Exposure Draft</i>			
D1.	The task force has provided the IAASB, as part of the public agenda papers, with an analysis summarizing the main issues raised by respondents, outlined their proposed disposition, and explained why significant changes recommended by respondents have or have not been accepted.	Yes	See December 2008 IAASB meeting material: http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0144&ViewCat=1018 See June 2009 IAASB meeting material: http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0167&ViewCat=1091
D2.	The IAASB has deliberated significant matters raised in the comment letters, and significant decisions have been minuted.	Yes	See December 2008 IAASB meeting minutes: http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0166&ViewCat=1065 See June 2009 IAASB meeting minutes: http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0168&ViewCat=1163 See September 2009 IAASB meeting material: http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0168&ViewCat=1157 See draft September 2009 IAASB meeting minutes available at http://www.ifac.org/IAASB/Meetings.php by mid-November 2009.
D3.	The IAASB CAG has been consulted on significant issues raised by respondents to the exposure draft.	Yes	See September 2008 IAASB CAG meeting material: http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0132&ViewCat=0975 See September 2008 IAASB CAG meeting minutes: http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0170&ViewCat=1033 See September 2009 IAASB CAG meeting material: http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0171&ViewCat=1158 Draft September 2009 IAASB CAG meeting minutes available upon request. Concerns raised were consistent with those raised by respondents to the exposure draft as identified in the issues paper presented to the IAASB and CAG.
D4.	The IAASB has assessed whether there has been substantial change to the exposed document that might warrant re-exposure.	Yes	See September 2009 IAASB meeting material: http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0168&ViewCat=1157 The IAASB agreed that the changes made to the exposure draft were in response to the

#	Due Process Requirement	Yes/ No	Comments
			comments received from respondents and, accordingly, re-exposure is not necessary. See draft September 2009 IAASB meeting minutes available at http://www.ifac.org/IAASB/Meetings.php by mid-November 2009.
D5.	If applicable, the IAASB has voted on a resolution in favor of re-exposure.	N/a	
D6.	If the exposure draft has been re-exposed, the explanatory memorandum accompanying the re-exposure draft explained the reasoning for re-exposure and the changes made as a result of the earlier exposure.	N/a	
<i>E. For Technical Director's Completion After Approval of the Final Pronouncement</i>			
E1.	The Technical Director has confirmed to the IAASB and the PIOB that due process has been followed.	Yes	See draft September 2009 IAASB meeting minutes available at http://www.ifac.org/IAASB/Meetings.php by mid-November 2009.
E2.	The IAASB has approved the issue of the final International Standard or Practice Statement in accordance with its Terms of Reference.	Yes	See draft September 2009 IAASB meeting minutes available at http://www.ifac.org/IAASB/Meetings.php by mid-November 2009.
E3.	A separate document explaining the IAASB's basis for conclusions with respect to comments received on the exposure draft has been prepared for the final Standard and posted to the IAASB website.	Yes	See attached. The basis for conclusions document will be made publicly available once the PIOB has considered the due process applied.

APPENDIX C—IFAC sign off

TO: PUBLIC INTEREST OVERSIGHT BOARD

FROM: JIM SYLPH, EXECUTIVE DIRECTOR, PROFESSIONAL STANDARDS

DATE: OCTOBER 29, 2009

RE: APPROVAL OF DUE PROCESS FOR ISAE 3402

Section 1 Document Approved

- 1.1 The IAASB approved at its September 2009 meeting new International Standard on Assurance Engagements (ISAE) 3402, “Assurance Reports on Controls at a Service Organization.”
- 1.2 In support of the PIOB approving the due process followed for this standard, the following are attached to this memorandum:
 - Agenda Item X.1.1: **ISAE 3402: Assurance Reports on Controls at a Service Organization**
 - Agenda Item X.1.1.1: Basis for Conclusions
 - Agenda Item X.1.1.2: Due Process Checklist

Section 2 Description of Due Process

- 2.1 ISAE 3402 is a new ISAE, developed and exposed in accordance with IAASB’s Clarity conventions. For this ISAE, the IAASB:
 - Approved a project proposal for the development of the new ISAE, and consulted with the IAASB Consultative Advisory Group (CAG) on the proposal.
 - Consulted with the IAASB CAG on significant issues during the development of the proposed ISAE.
 - Approved and issued an exposure draft of the proposed ISAE for public comment, together with an explanatory memorandum highlighting, amongst other matters, the significant proposals of the proposed ISAE.
 - Considered an analysis of the main issues raised by respondents on the exposure draft and, with members having familiarized themselves with the issues raised in comment letters:
 - Deliberated significant matters raised in the comment letters received; and
 - Amended the proposed ISAE accordingly.
 - Consulted with the IAASB CAG on significant issues raised by respondents on the exposure draft.

- Considered whether significant matters identified suggested the need to hold a public forum or roundtable, or issue a consultation paper, or to conduct a field test of the proposals.
 - Approved the final wording of the proposed ISAE.
 - Concluded that there were no substantial amendments to the proposed ISAE that warranted re-exposure.
 - Confirmed that it followed due process with regard to the proposed ISAE.
- 2.2 Following approval of the standard, Staff completed a Basis for Conclusions for the standard which was circulated to the IAASB for comment. The Basis for Conclusions document is attached for information.

Section 3 Recommendation

- 3.1 **It is recommended that the PIOB accept that ISAE 3402 has duly been approved by the IAASB in accordance with due process.**