AGENDA PAPER

IFRS Foundation Trustees' meeting—Due Process Oversight Committee

London	12-13 April 2012	**Agenda ref**	**3C**

To: DPOC

From: Alan Teixeira

Re: Consultative Groups

Background

Consultative groups are an important means of giving the IASB access to additional practical experience and expertise. The main type of working group we use is established to provide input on a project. We currently have six working groups, relating to five projects:

- Insurance Contracts

- Leases

- Financial Instruments

- Financial Statement Presentation (Financial Institution Advisory Group on Financial Statement Presentation and the Joint International Group on Financial Statements—jointly appointed by the IASB and FASB)

- Employee Benefits.

In addition, the IASB sometimes establishes other consultative groups, such as expert advisory panels, to provide input on narrower issues within a particular project. We currently have two such groups:

- Expert Advisory Panel—Fair Value Measurement

- Expert Advisory Panel—Impairment of Financial Instruments.

And lastly, we have groups outside the technical agenda:

- SME Implementation Group

- XBRL Quality Review Team

- Education Advisory Group.

Over the last few years it has become clear that the level of involvement that each working group has had with its project has varied. That is not, in of itself, a problem. However, we have previously had feedback that some working group members have been unhappy with how we have used their particular group. In addition, we have encountered some cases in which appointed members have not attended meetings. And in some cases the staff have indicated that they want to change the balance of the membership.

Three working groups relate to projects that have either been suspended (financial statement presentation) or completed (employee benefits). Nevertheless, those working groups are still on our books. The SME Implementation Group is being disbanded.

The purpose of this memo is to outline four steps that I think we should take to improve the general understanding of how the IASB uses consultative groups and to improve the effectiveness of such groups. Those steps are:

(a) amend the *Due Process Handbook* to clarify the differences between the different types of consultative groups;

(b) improve the reporting of working group activities;

(c) introduce an annual review of each working group; and

(d) ensure that we have Terms of Reference for each working group.

The members of the DPOC are asked to endorse these steps, and to identify any other actions that they would like the staff to take to improve the effectiveness of consultative groups.

Due Process Handbook revisions

The draft of the updated *Due Process Handbook* includes a new section addressing consultative groups. That section acknowledges that we have used a range of different types of group—from working groups to expert advisory panels and the emerging economies group, to the Capital Markets Advisory Committee and the Global Preparers Forum. The revised sections clarify that a working group is different from the other groups because:

(a) the DPOC, on behalf of the Trustees, reviews and ratify the membership of each group; and

(b) working group meetings are, generally, held in public and the papers discussed at these meetings are also publicly available.

The current version of the handbook does not mention expert advisory panels, or any of the other groups that we have created over time. There is some confusion about these other groups, including whether their membership is, or should be, ratified by the DPOC. The new sections, which are presented in an appendix to this paper, are designed to legitimise these groups and to clarify, at a high level, their roles.

Reporting

Today, the reporting of how working groups are involved in projects is limited to the information contained on project pages. However, the nature of the reporting varies and it is not easy to get an overall picture of how frequently the working groups are meeting or how we are keeping them informed of developments in the related projects.

We are building a working group section into the project pages for each project. This will help to standardise the reporting, as well as to lift the level of reporting in general. The pages will include membership, the terms of reference and a table showing when the group has met (with access to any related staff papers and audio recordings). In addition, we are overhauling the general page on working groups.

We also plan to report to the Board, and subsequently to the DPOC and IFRS Advisory Council, summarising the steps taken and the outcomes of the (proposed) annual review of the consultative groups.

Annual Review

I intend to introduce an annual review of consultative groups, culminating in a report on working group activity that would be posted on the working group web page, and would also be presented to the Board and to the DPOC. I expect that the review would be relatively

light, with the main focus being on reporting the nature and level of activity of each group. I think that this will help to bring more discipline to the teams.

The more substantive step that I think is appropriate to take annually is to ask whether the working 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. Thinking about this annually provides us with an opportunity to review the balance of the membership, and provides a natural point at which to revitalise the group.

The review will, by necessity, need to be private. It would not be appropriate to discuss possible non-performance issues of individual working group members in a public document. However, the outcome of the review would be discussed in public meetings.

I do not see an annual review as being a particular burden. The plan is to have the review at 30 June each year—the first substantive review for a working group established in the first half of a calendar year might be 30 June of the following year. At the very least, writing once a year to members to say thank for their contribution should be seen as positive step.

Terms of reference

Some working groups have terms of reference, but not all. It is clear that we should ensure that every working group has appropriate terms of reference, setting out:

- the name and purpose of the group;
- whether the IASB expects the group to contribute to all or only part of a project;
- the type of people that the IASB is seeking to become members, including how many people it expects to have on the group;
- whether the group is required to meet in public;
- when the group's role and membership will be reviewed.

The terms of reference should also set out the expectations that the IASB will have for the group, including how frequently it is likely to be asked to meet and who bears the out-of-pocket costs for meetings.

Extract from proposed revised Due Process Handbook

Consultative groups

1.1.   The IASB normally establishes a consultative group for its major projects, such as a working group or specialist advisory groups.

Working groups

1.2.   Working groups give the IASB access to additional practical experience and expertise.

1.3.   Once a project is added to the IASB's standard-setting programme, the Board must consider whether it should establish a working group for the project. It is not mandatory to have a working group, but if the IASB decides not to do so, it must explain why on the project website and inform the DPOC.

1.4.   Before setting up a working group, the IASB advertises for nominations and applications. The composition of a working group reflects the diversity and breadth of interest involved in a particular area. The DPOC reviews the proposed composition of each group to ensure that there is a satisfactory balance of perspectives.

1.5.   In consultation with the DPOC and the members of working groups, the IASB sets working groups a clear mandate and objectives. Once work starts, the working group should be consulted when the staff consider that it would be beneficial to the project to do so. The staff should provide working group members with regular updates on the progress of the project.

1.6.   Meetings of the IASB Working groups are open to the public and chaired by an IASB member or by a member of staff. Any papers discussed by the working group are publicly available. Individuals may attend meetings as observers. Meetings are recorded and, where possible, broadcast live via webcast. Recordings of meetings are archived on the IFRS Foundation website.

1.7.   Each working group should have terms of reference, setting out the objectives of the group, the expectations the IASB has of working group members and the responsibilities of the IASB to that group.

Specialist advisory groups

1.8.   Specialist advisory groups, including expert advisory panels, are groups assembled by the IASB to provide advice on a particular aspect of a proposed standard or post-implementation review. It is not necessary for the DPOC to approve membership of such groups. However, the purpose of the group and the names and affiliations of the group members must be transparent.

1.9.   The IASB may also establish or host specialist advisory groups whose membership reflects a particular sector, such as investors or preparers that meet regularly to provide advice on a wide range of topics rather than on a specific project. These groups include the Capital Markets Advisory Committee (CMAC), the Global Preparers Forum (GPF) and the Emerging Economies Group (EEG).

1.10.   Specialist advisory groups may meet in public, but it is not a requirement that they do so. Generally, their role is to provide advice on specialist matters. Meeting in private can allow the group to speak more freely amongst themselves. Staff and up to six Board members may participate in private meetings of a specialist advisory group. A summary of each such meeting would normally be posted on the relevant project page.

1.11.   When meetings of a specialist advisory group are open to the public, individuals may attend meetings as observers. Those meetings are recorded and, where possible, broadcast live via webcast. Recordings are archived on the IFRS Foundation website.