

# AGENDA PAPER

IFRS Foundation Trustees' meeting—Due Process Oversight Committee

Singapore 11-12 January 2012

Agenda paper 3C

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**To:** David Sidwell, Chairman—Due Process Oversight Committee

**From:** Alan Teixeira

**Date:** 22 December 2011

**Re:** Due Process Update

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## Overview

This report covers two areas

- Update on technical projects
  - (a) Completed projects
  - (b) Exposure drafts issued
  - (c) Endorsement
  - (d) Other due process matters.
- XBRL Advisory Council and Quality Review Team membership

## Update on technical projects

This report focuses primarily on matters of due process that are related to IASB activities. Agenda Paper 2 for the public Trustee Meeting is the report by Hans Hoogervorst. That paper provides a more general update of the IASB projects.

Since the DPOC last met in October, the IASB has:

- Published amendments to IFRS 7 *Financial Instruments: Disclosure* and IAS 32 *Financial Instruments: Presentation* to implement new disclosure requirements and address divergence in practice in relation to offsetting.
- Finalised the deferral of the effective date of IFRS 9 to 1 January 2015.

- Issued IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*.
- Published an exposure draft to correct an oversight by making an amendment to IFRS 1 that focuses on first-time adoption of IFRSs.
- Published an exposure draft to clarify the transitional requirements for IFRS 10 *Consolidated Financial Statements*.

## Completed projects

### ***Financial instruments—Offsetting of financial assets and financial liabilities***

On 16 December the IASB amended IFRS 7 *Financial Instruments: Disclosure*, requiring additional information be disclosed about offsetting arrangements. The new disclosures will be required for periods beginning on or after 1 January 2013.

Also on 16 December, the IASB amended IAS 32 *Financial Instruments: Presentation*, by adding application guidance to address current practice issues identified during the redeliberations.

The amendments were issued with no dissents. A Feedback Statement and podcast were released on the same day and webcasts were held on 19 December.

### ***IFRS 9—deferral of the mandatory date***

On 16 December 2011 the IASB deferred the mandatory effective date of IFRS 9 to 1 January 2015. The amendments also provide relief from restating comparative information and require disclosures (in IFRS 7) to enable users of financial statements to understand the effect of beginning to apply IFRS 9.

The related exposure draft has a 75-day comment period. Support for the amendments was overwhelmingly positive, which suggests that the shorter than normal comment period was justified.

### ***IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine***

In October I reported that that IASB had ratified IFRIC 20 at its meeting in September 2011. IFRIC 20 was issued on 19 October with an effective date of 1 January 2013, with earlier application permitted.

## Exposure drafts issued

### ***Proposed amendments to IFRS 1***

The IASB published a proposed amendment regarding Government Loans on 20 October 2011. The proposed amendment sets out how a first-time adopter would account for a government loan with a below-market rate of interest when they transition to IFRSs. If adopted, this amendment would provide the same relief to first-time adopters as is granted to

existing preparers of IFRS financial statements when applying IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. Comments on the proposals are requested by 5 January 2012, which is a shorter than normal comment period. The DPOC was consulted before the comment period was finalised.

#### ***Proposed amendments to IFRS 10 Consolidated Financial Statements***

The IASB published for public comment proposed amendments to IFRS 10 on 20 December. The objective of the proposed amendments is to clarify the transition guidance in IFRS 10 by confirming when an entity needs to apply IFRS 10 retrospectively. The proposals should allay the concerns of some who thought that the transition provisions were more burdensome than originally intended.

It is proposed that the effective date of the proposed amendments would be aligned with the effective date of IFRS 10.

The exposure draft is open for comment until 21 March 2012, which is a 90-day comment period. The DPOC was consulted before the comment period was set.

#### ***Revenue recognition***

This is a joint project with the FASB. The boards have issued two due process documents: a discussion paper in December 2008 and an exposure draft in June 2010.

A revised exposure draft *Revenue from Contracts with Customers* was published on 13 November 2011, with a 120-day comment period. The re-exposure is being treated no differently to any other exposure draft. The exposure draft was accompanied by a press release, snapshot, webcast, and stakeholder letter. In addition, the staff have planned outreach specifically targeted towards investors, including issues of *Investor Perspective* and *Investor Spotlight*. An investor-specific webcast and analysts' briefing took place shortly after publication.

The boards intend to hold public discussions on their proposals in May 2012 in London, Norwalk and Tokyo. The staff will post updates on the project outreach page throughout the redeliberations to ensure that the outreach process is transparent.

In mid-December the IASB received a request from EFRAG to extend the comment period. Hans Hoogervorst has written back to the EFRAG explaining that the boards think 120 days is sufficient, but that, as with any project, it will take time to go through all of the comment letters we receive. We would not reject a comment letter from EFRAG if it arrived after 13 March, provided that we receive it in time for it to be included in our redeliberations. This should give the EFRAG enough flexibility to get a comment letter to us while still having time to communicate the results of any field testing they undertake.

The letter and reply are attached as Appendix 4 to this report.

## **Endorsement**

On 20 December EFRAG wrote to the IASB and FASB requesting a deferment of the effective dates of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*. The request relates to difficulties in applying the new requirements and two exposure drafts that the EFRAG would prefer to see completed before IFRS10, IFRS 11 and IFRS 12 become effective.

Hans Hoogervorst replied to that request on 22 December.

The Board is reluctant to defer these important improvements. However, the Board will consider the request in a public meeting early in 2012. We have asked the EFRAG to provide us with the evidence of the type of difficulty that entities are encountering.

The letter and reply are attached as Appendix 5 to this report.

## **Other due process matters**

### ***Insurance contracts***

A due process concern was raised by a group known as the HUB Group—consisting of representatives of, mainly, insurance companies. The group wrote to Hans Hoogervorst, and Leslie Seidman, with copies to Robert Glauber and Jack Brennan, essentially asking the boards to withdraw staff papers related to discounting of short-duration contracts.

Because the Hub Group was challenging the boards on matters related to due process, I have included copies of the correspondence in Appendix 1 of this report.

### ***Leasing***

The boards expected to complete their deliberations in October. However, several Board members have asked the boards to revisit the accounting for lessees in longer-term leases, particularly for those that are related to property (ie tenanted buildings). As a consequence, the boards do not expect to publish the revised exposure draft until the second quarter of 2012.

The Leases project has attracted a lot of attention. This is not surprising given that the proposals are likely to have a significant effect on how leases are presented in the financial statements, particularly of lessees.

In July ACTEO wrote to the two boards expressing some concerns about how the Leases project was developing. That letter touches on matters of due process. The DPOC is asked to consider whether it would be helpful for the DPOC to comment to ACTEO directly on those matters.

The correspondence from ACTEO is attached as Appendix 2 of this report. The letter is not included in the publicly posted documents because we have not yet asked ACTEO for permission to post the letter on our website.

## **XBRL**

### **2012 IFRS Taxonomy**

The exposure draft of the IFRS Taxonomy 2012 will be released on 16 January 2012. It is currently being reviewed by the XBRL Quality Review Team (XQRT). The XQRT draft version of the IFRS Taxonomy 2012 contains 3,770 concepts (reflecting both IFRSs effective as at 1 January 2011 and IFRSs not yet effective as of that date). The 2012 Taxonomy will be the first IFRS Taxonomy to include (nearly 700) common practice elements. The taxonomy contains approximately 46 per cent more concepts (elements) than the 2011 version, reflecting new IFRS requirements and the common practice additions.

This taxonomy is likely to be the one that is considered for adoption by the US SEC. However, before that happens, we need to ensure that each concept has a definition. Because defined terms can affect how IFRSs are applied, the technical staff are involved in reviewing the definitions proposed.

### **XBRL Advisory Council and XBRL Quality Review Team membership**

Appendix 3 of this report provides information about nominations and recommendations for membership of these groups.

Appendix 3 is not included in the publicly posted documents to protect the privacy of the individuals. Any new members, or continuation of appointments, will be announced publicly through the IASB website rather than included in the public report of this meeting.