

AGENDA PAPER

IFRS Foundation Trustees meeting with the Monitoring Board

Washington DC 12 July 2012

Agenda ref MB 4

To: IFRS Foundation Monitoring Board

From: David Sidwell, Chairman, Trustees' Due Process Oversight Committee

Re: Due Process Oversight Activities

Overview

1. This memorandum provides a report of the Trustees' due process oversight activities since the last Monitoring Board meeting on 11 July 2011.
2. A summary of the progress made by the Due Process Oversight Committee (DPOC) against its 2011 objectives is set out in my DPOC Chairman's report which was included in the IFRS Foundation's *Annual Review 2011*, together with the Committee's priorities for 2012. A copy of my report is reproduced at Appendix A.

Review of the IASB's due process and creation of an enhanced DPOC reporting protocol

3. A major focus of the DPOC's work in the past year has been a systematic review of the IASB's due process, together with the developing of a reporting protocol by the Committee to describe its own activities. A major milestone was reached on 8 May, when the Trustees published for public comment an updated version of the *IFRS Due Process Handbook* ('the draft Handbook'), with a comment deadline of 5 September 2012. The draft Handbook can be accessed on the Foundation's website at:
<http://www.ifrs.org/DPOC/DueProcessHandbook/Handbookand.htm>.
4. The revised Handbook fully incorporates the necessary due process enhancements recommended by the recent Monitoring Board Governance Review and Trustees' Strategy Review, as well as recommendations from the Trustees' Review of the Efficiency and Effectiveness of the IFRS Interpretations Committee (see below).
5. The proposed revisions to the Handbook are to:

- consolidate the due process requirements of the IASB and the IFRS Interpretations Committee, in addition to the protocols for due process oversight by trustees, into a single document
- include a more extensive discussion of the process of assessing the likely effects of an IFRS.
- propose a methodology for the completion of post implementation reviews.
- reflect the ability of the Monitoring Board to refer urgent issues for consideration by the IASB.
- include consideration of due process requirements related to the extensive programme of outreach activities that is now routinely conducted by the IASB as part of its standard-setting activities.
- incorporate other enhancements to the IASB's due process resulting from the more active dialogue with the DPOC.

6. The Invitation to Comment (ITC) in the draft Handbook is seeking comments in particular on the following four issues:

Due Process Oversight

7. The draft Handbook (Section 2) sets out the role and responsibilities of the Trustees' Due Process Oversight Committee (DPOC) in overseeing the due process of the IASB and the Interpretations Committee. This is a new section and has been included to reflect the enhancement of the DPOC's role.

8. The draft Handbook also describes (in Section 8) the protocols for the actions that the Trustees can take in the event of a perceived breach of due process.

Due Process Protocol

9. As noted above, the DPOC has created a Due Process Protocol in the form of a reporting template that shows the steps that the IASB and the Interpretations Committee must, or could, take, as well as reporting metrics to demonstrate the steps that they have taken, in meeting their reporting obligations. The template is set out in Appendix 4 accompanying the draft Handbook. The intention is that a reporting protocol should be available on the website for each project.

10. The template is being used already by the IASB and the Interpretations Committee, and an example is at Appendix B, which sets out the due process steps followed by the IASB in the development of the *Annual Improvements to IFRSs 2009-2011 Cycle*, as reported to the DPOC in advance of publication.

Research Programme

11. The draft Handbook (section 4) describes a research programme, which is expected to become the development base from which potential standards-level projects will be identified.

The use of a Discussion Paper (DP) as the first external due process document has been moved into this research programme phase and would precede a proposal to add a standards-level project to the IASB's technical work programme. Currently, a DP is required as a step after a standards-level project has been added to the technical work programme.

Implementation and Maintenance

12. The draft Handbook includes a new section (section 5), which formalises the practice that the IASB and the Interpretations Committee have been following for addressing matters that are narrow in scope. It clarifies that the more formal project proposal processes, such as prior consultation with the Advisory Council, were always intended to apply to new IFRSs and major amendments. The IASB has the discretion to initiate changes that are narrow in scope to IFRSs as part of the general maintenance of IFRSs. The new section also explains how the activities of the IASB and the Interpretations Committee are closely related. These changes respond to the Trustee's call for the IASB to play a more active role in the on-going work to improve consistency of application and implementation.

Next steps

13. The DPOC plans to discuss a summary of the comments received to the consultation and the issues arising at its meeting in October, with further meetings planned during the year, with the aim of completing the update to the Handbook and the reporting protocol by the end of 2012.

Review of the Efficiency and Effectiveness of the Interpretations Committee

14. As noted above, the Trustees have reviewed the efficiency and effectiveness of the Interpretations Committee, publishing a report of their review on 2 May. The primary recommendations of the review are:

- that a broader range of 'tools' should be deployed by the Interpretations Committee, enabling it to be more responsive to requests for assistance;
- to revise the criteria used to determine which issues the Interpretations Committee should take action on;
- to improve the Interpretations Committee's communications regarding issues that it decides not to address; and
- to expand the Interpretations Committee's outreach and the transparency surrounding its decisions regarding which issues to address.

15. The recommendations will enable the Interpretations Committee to deal with a wider range of requests. For example, the Interpretations Committee may make proposals to the IASB for targeted, narrow-scope amendments that are beyond the scope of the Annual Improvements process, or proposals for additional illustrative examples of standards.

16. A number of the recommendations are reflected in the draft Due Process handbook and the aim is that the resulting changes will be implemented by the end of 2012.

Due process steps on the IASB's standard-setting activities

17. The DPOC continues to meet regularly with the IASB to ensure that the due process steps taken on the standard-setting projects are appropriate and reflect the necessary commitment to quality and full due process. The DPOC and the Trustees will review the IASB's work programme, including the agenda consultation, the post-implementation review of IFRS 8 *Operating Segments* and XBRL, at their meetings immediately preceding this meeting with the Monitoring Board. A report and summary of the IASB's ongoing work is also on the agenda for this meeting (paper MB x). Hans Hoogervorst and Ian Mackintosh will be available to answer questions on technical content at the meeting.

Consultative Groups

18. As noted in the draft Handbook, the IASB normally establishes a consultative group for each of its major projects. The IASB may also establish or host sector representative groups. The draft Handbook notes that all consultative groups should be reviewed by the staff each year. The results of the first review are to be considered by the DPOC at its July meeting. In addition, the DPOC will be considering the reappointment of members of the Small and Medium-sized Entities Implementation Group (SMEIG), together with a proposal to establish a consultative group to provide the IASB with advice on the methodology for field tests/visits and effect analyses, in line with a recommendation in the Trustees' Strategy Review.

Correspondence with the DPOC

19. The DPOC continues to receive correspondence from third parties about aspects of the IASB's due process. Since the last meeting with the Monitoring Board, the DPOC has dealt with 9 correspondence cases, with another 2 considered at the Committee's July meeting. In all cases, a staff report was commissioned on the issues raised in the correspondence. In the cases reviewed during the period, the DPOC has been satisfied with the explanations provided by the staff, although a number of issues will be considered further in the light of the responses to the draft Due Process Handbook referred to above.

20. In the meantime, the DPOC continues to provide enhanced transparency and visibility of its own activities, in particular on the dedicated DPOC section of the IFRS Foundation website. The DPOC will continue to publish summaries of the conclusions of its meetings, as well as other related documents and correspondence with third parties.

IFRS FOUNDATION ANNUAL REVIEW 2011: REPORT OF THE CHAIRMAN OF THE DPOC

The DPOC meets at least every three months with the leadership and staff of the IASB to review due process considerations for active projects, correspondence received from third parties and other related aspects of the IASB's standard-setting work.

Progress against 2011 objectives

The 2010 *Report of the Due Process Oversight Committee* identified four priority areas for the work of the DPOC during 2011.

They were:

1. to review the IASB's due process;
2. to create an enhanced DPOC protocol;
3. to enhance the transparency of the DPOC's own activities; and
4. to increase engagement with the IASB.

First, the DPOC conducted a systematic review of the IASB's due process. In recent years, the Trustees have introduced several new requirements to the IASB's due process such as the three-yearly public consultation on the IASB's agenda, the requirement to consider the effects of changes of major new standards or interpretations and mandatory post-implementation reviews of major standards. At the same time, the IASB has significantly increased the extent of the outreach and consultation activities that it undertakes in addition to those required by its formal due process. Recognising these initiatives, the DPOC reviewed the due process steps for the full life cycle of the IASB's standard-setting process. The IASB's due process was benchmarked against similar international standard-setting organisations and new methodologies were introduced for recent innovations such as post-implementation reviews.

Second, during the year, the DPOC developed a protocol to describe its own activities. The protocol is intended to guide the work of the DPOC as it discharges its responsibility for oversight of due process matters and to define the performance measurements to be used by the IASB to assist in evaluating and reporting on its adherence to published due process.

In developing the protocol, the DPOC decided to pursue an approach to oversight based on enhanced transparency, reporting and dialogue between the DPOC and IASB rather than through a formal audit mechanism. This approach allows information provided to the DPOC for compliance purposes to be used by staff and others in tracking the progress of individual projects, thus increasing transparency regarding the extent and the robustness of the IASB's standard-setting process. The protocol was incorporated into the revised due process handbook published for public comment in May 2012, which also integrates the requirement for the Interpretations Committee.

Third, the DPOC enhanced the transparency of its own activities. The DPOC already provides a quarterly report during the public session of the Trustees' meeting and a written report as part of the Annual Report. During the year a dedicated DPOC section of the IFRS Foundation website was created. The website includes summaries of the conclusions of DPOC meetings, public correspondence with third parties about the IASB's due process along with responses from the DPOC, a list of forthcoming

meetings of the DPOC and the ability to view DPOC papers by meeting date or by the project being reviewed.

Finally, the DPOC further deepened its engagement with the IASB. During the year, the IASB and the US Financial Accounting Standards Board (FASB) sought to conclude the remaining elements of their convergence programme before the June 2011 target date. Recognising the importance of this work and the significant number of active projects for consideration at the same time, the DPOC increased the intensity of its dialogue with the IASB. The frequency of meetings was increased and the DPOC continued to receive regular reports on the due process status of each major project. The DPOC reviewed the due process lifecycle for each major project prior to issuance of the final standard.

Furthermore, during this important period the DPOC intensified its dialogue with interested parties, including meetings with the IFRS Advisory Council, representatives of XBRL advisory bodies and other interested parties.

Priorities for 2012

The achievements described provide a demonstration of the active and highly engaged nature of the relationship between the DPOC and the IASB. The DPOC's priorities during 2012 will be to build upon the achievements of 2011 in the following areas:

First, the DPOC will oversee the implementation of the revisions to the due process, the introduction of the DPOC protocol and the implementation of due process recommendations resulting from the Trustees' strategy review and the Monitoring Board governance review.

The update of the IASB's *Due Process Handbook* will also be completed before the end of the year.

Second, the DPOC will work in close co-operation with the IASB to ensure that projects due for completion in 2012 benefit fully from the updated due process, including the agenda consultation and the post-implementation review of IFRS 8 *Operating Segments*. Furthermore, in advance of the issue of major standards, the DPOC will now conduct a complete review of due process throughout the life cycle of a project, including an assessment of the robustness of field testing and effect analysis studies.

Third, the DPOC will oversee the completion and implementation of several important projects, including the review of the efficiency and effectiveness of the IFRS Interpretations Committee and a review of the strategy of the IASB's XBRL activities.

Fourth, the DPOC will oversee the introduction of procedures to support enhanced dialogue between the IASB and relevant stakeholder groups, as recommended by the Trustees' strategy review. This will include an extension to the IASB's technical dialogue with prudential regulators, the introduction of mechanisms to facilitate greater co-operation with securities regulators and the formalisation of the relationship between the IASB and national standard-setters and regional bodies with an interest in accounting standard-setting. Furthermore, the DPOC intends to conduct an annual assessment of the effectiveness of working groups.

Finally, the DPOC will further enhance the rigour and transparency of its own activities. During 2012, the Committee will implement the DPOC protocol and finalise the development of a DPOC charter. The

Committee will also consider holding parts of its meetings in public session. The appointment of David Loweth as Director for Trustee Activities will greatly assist our work in these important areas.

In closing, I would like to make specific reference to the excellent spirit of co-operation that exists between the DPOC and the leadership and staff of the IASB. There is no doubt in my mind that the IASB is fully committed to the very highest levels of due process and transparency in its operations. Many of the initiatives described are being introduced at the behest of the Board and they should be congratulated on their support for our work.

Confirmation of Due Process Steps followed in the finalisation of Annual Improvements to IFRSs 2009-2011 Cycle

The following table sets out the due process steps followed by the IASB in the development of the Annual Improvements to IFRSs 2009-2011 Cycle.

<i>Step</i>	<i>Required/Optional</i>	<i>Metrics or evidence</i>	<i>Protocol for and evidence provided to DPOC</i>	<i>Actions</i>
Consideration of information gathered during consultation				
IASB posts all comment letters received in relation to the exposure draft on the project pages.	Required if request issued	Letters posted on project pages	IASB reports on progress as part of the quarterly report at Trustee meetings, including summary statistics of respondents.	The staff reviewed the comment letters and provided a comment letter summary giving a general overview of the comments received and the major points raised in the letters. This summary was discussed at the IASB February 2012 meeting. This analysis indicated to the Board that it should proceed with the proposed amendments.
Board meetings held in public, with papers available for observers. All decisions are made in public session.	Required	<p>Number of meetings held to discuss topic.</p> <p>Project website contains a full description with up-to-date information on the project.</p> <p>Meeting papers posted in a timely fashion.</p> <p>Number of meetings with Consultative Group and confirmation that critical issues have been reviewed with Consultative Group</p>	<p>IASB discusses progress on major projects, in relation to the due process being conducted, with DPOC.</p> <p>IASB reviews with DPOC its due process over project life cycle, and how any issues regarding due process have been/are being addressed.</p> <p>DPOC meets with the Advisory Council to understand perspectives of stakeholders.</p> <p>DPOC reviews and responds to comments on due process as appropriate.</p>	<p>The issues were discussed on the basis of agenda papers and approved for inclusion in the 2009-2011 cycle of the Annual Improvements process by the Board in its meeting in February 2012.</p> <p>Project webpage was updated by the staff after every Interpretations Committee or Board meeting in which issues proposed for inclusion in Annual Improvements were discussed.</p>
Finalisation				
Need for re-exposure of standard considered	Required	An analysis of the need to re-expose is considered at a public IASB meeting, using the agreed criteria	IASB discusses its thinking on the issue of re-exposure with the DPOC	The comment letter analysis discussed at the Board meeting in February 2012 meeting indicated us that we should proceed with the proposed amendments

Step	Required/Optional	Metrics or evidence	Protocol for and evidence provided to DPOC	Actions
IASB sets an effective date for standard, considering the need for effective implementation, generally providing at least a year.	Required	Effective date set, with full consideration of implementation challenges	The IASB discusses any proposed shortening of the period for effective application with the DPOC	Effective date for each proposed amendment was set for annual periods beginning on or after 1 January 2013.
Drafting quality assurance steps are adequate	Required	Translations team included in review process.	DPOC receives summary report on due process steps before an IFRS is issued.	Formatting changes have been made at the request of the translation team
Drafting quality assurance steps are adequate	Required	XBRL team included in review process.	DPOC receives summary report on due process steps before an IFRS is issued.	XBRL team reviewed the pre-ballot draft, ballot draft and post-ballot draft
Due process steps reviewed by IASB	Required	Summary of all due process steps discussed by the Board before an IFRS is issued	DPOC receives summary report on due process steps before an IFRS is issued.	Each amendment was re-assessed against the annual improvements criteria that were in force at the time it was finalised.
Publication				
Press release to announce final standard.	Optional	Release announced in timely fashion Amount of media coverage of release	DPOC receives a copy of the press release and a summary of media coverage.	Press release prepared and ready to be published with final standard.
Podcast to provide interested parties with high level updates or other useful information about the standard.	Optional	Number of podcasts held	DPOC receives a report on outreach activities.	We will record a podcast of a discussion of the amendments, which will be available on our public website.
IFRS published	Required	Official release	DPOC informed of release.	The final standard will be made available on the subscriber website on publication date.