

## Report of the Due Process Oversight Committee (DPOC) meeting

11 July 2012, Washington DC

### 1. Due Process Protocol: general reports

The DPOC considered four general reports addressing availability of comment letters, availability of meeting papers to observers, meetings of consultative groups and interactions with market and prudential regulators. The draft Due Process Handbook proposed that such reports should be provided to the IASB and the DPOC at least annually. Although the draft Handbook was still out for public comment, the staff and the DPOC had agreed at its April 2012 meeting to begin this regular reporting process.

In each case the paper was a report to the IASB on the above activities, and scheduled to be discussed at the July IASB meeting. The intention was, as far as possible, to provide the DPOC with copies of the reports provided to the IASB, demonstrating to the Committee that the IASB was fully engaged with the due process protocols. The DPOC would receive an update of comments raised by IASB to these reports.

#### *Comment letters*

The first report dealt with comment letters. In the year to 30 June 2012, the IASB had received over 1,000 comment letters in response to 7 consultations and all letters received were posted on the website.

In discussion, the DPOC agreed that this was a useful management and reporting tool, but stressed the importance of ensuring summaries of outreach other than through comment letters, in particular from investors, were made available, and given full consideration by Board members. The DPOC reinforced the importance of other forms of communication from stakeholders besides comment letters.

#### *Availability of meeting papers*

The second report confirmed that, in the year to 30 June 2012, all agenda papers distributed to IASB members for public meetings of the IASB were made available, unaltered, on the public website. The DPOC noted that, at times, individual IASB members received correspondence about aspects of individual projects on a confidential basis, which – if referred to by those members in public meetings – could create the impression that all IASB members had access to material that was being withheld from observers. This was not the case. The DPOC noted that the IASB members and staff were careful to protect the principle that full and open consideration of technical issues must take place during public meetings. There was discussion of circumstances when the IASB was requested not to make available confidential information given to the Board.

#### *Review of consultative groups*

The third report represented the first annual review of the IASB's existing consultative groups. In discussion, the DPOC noted that the report did not contain any value judgements on the quality of the existing groups and whether or not they were engaged with their subjects and used effectively by the IASB.

For those groups that were recommended to continue, the information provided in the report on the formal meetings of the groups held in the year to 30 June 2012 could imply a very low level of activity and engagement. However, the IASB representatives sought to reassure the DPOC that these consultative groups (those for insurance and leases were highlighted in particular) were fully engaged and that much of the activity took place outside of the formal meetings. The members of the consultative groups provided a useful sounding board for the IASB to explore ideas on issues. The DPOC acknowledged that and felt that future reports should highlight such informal mechanisms and on-going dialogue as well as the formal meetings. The report proposed that a number of consultative groups should be wound up: those for Financial Statement Presentation, Employee Benefits and the Expert Advisory Panel for Fair Value Measurement. This was agreed to by the DPOC.

### *Market and Prudential Regulators*

The fourth report provided a summary of activities undertaken over the past 12 months that confirmed the active dialogue that had taken place by the IASB with market and prudential regulators. The DPOC noted that the report gave no indication of the effectiveness of such dialogue. The IASB representatives confirmed the dialogue was effective and that the relationships were, in general, sound. It was noted that work was underway to enhance and formalise relationships in some areas, in particular with the International Organisation of Securities Commissions (IOSCO). The DPOC acknowledged the need for the IASB to avoid getting bogged down in tracking activities with market and prudential regulators, and should be looking for a more qualitative assessment of the engagement.

## **2. Reappointment of the members of the Small and Medium-sized Entities Implementation Group (SMEIG)**

The DPOC received a report recommending the reappointment of the 22 members of the SMEIG. The SMEIG had proved to be an effective group, conducting all its work through e-mail contact, and with the recent launch of the comprehensive review of the IFRS for SMEs, the IASB recommendation was that there would be considerable benefit if the terms of all current SMEIG members were extended for two more years to 30 June 2014 to allow continuity in the comprehensive review process. The DPOC agreed.

In discussion, the DPOC suggested that, given the way in which the group operated, there might be scope to further expand the membership, which would allow for an even broader geographical representation. The IASB representatives agreed to consider this and come back to the DPOC with any further recommendations for new members. In addition, staggering the term of members would be considered.

## **3. Draft Due Process Handbook: initial feedback**

The DPOC received a report on some initial feedback received on the draft *Due Process Handbook*, currently being exposed for public comment.

At its meeting on 18 June, the IFRS Advisory Council (AC) had received a presentation on the main features of the draft Handbook and, in breakout sessions, had considered some of the major issues contained in it on which the Foundation was seeking comment. AC members had supported the

importance of robust due process and the general direction of the proposals. They also offered a range of comments on the main issues contained in the draft Handbook to enhance and clarify the proposed amendments.

The DPOC also heard that the European Financial Reporting Advisory Group (EFRAG) had also held a number of meetings to develop its Draft Comment Letter (DCL) on the Handbook proposals. One theme that was highlighted was EFRAG's proposal that there should be a shared due process between the IASB and national and regional accounting standards bodies. In discussion, the DPOC acknowledged that while there should be shared outreach wherever possible, any such activities must not restrict the IASB's ability to have its own, open relationships with any party.

On timing, the deadline for comments on the draft Handbook was 5 September. The plan was for a summary of the responses and the issues raised to be presented to the DPOC at its October meeting. A number of DPOC conference calls had been scheduled in November and December for follow-up discussions and the aim was to finalise the new version of the Handbook by the end of 2012.

#### **4. Update on technical activities**

The DPOC received an update on technical activities. The DPOC noted that it had received a number of reports on due process issues on a number of projects since the April 2012 meeting and agreed that this was an appropriate way of being kept up to date on the projects. These reports would be made available on the website and future reports would be posted as they were submitted. The DPOC noted and agreed that it should receive the same reports on due process that were being submitted to the IASB, in order to avoid the process being perceived as over-bureaucratic and to demonstrate that the IASB was following an evidence-based due process. In discussion, the staff confirmed to the DPOC that, in their view, the IASB on a number of projects had exceeded the due process requirements and constituents had had ample opportunity for their views to be heard. The DPOC requested an update of any issues raised on the papers on due process considered by the IASB at its July meeting.

The DPOC discussion focused on a number of issues. The first concerned the effective date of IFRSs 10, 11 and 12 and the related amendments on transition guidance. The DPOC was reminded that the Board had received a request from EFRAG to defer the mandatory effective date of the standards until 1 January 2014. The Board had discussed the request but had decided to retain an effective date of 1 January 2013, not least given the fact that many jurisdictions had implemented plans to bring in the standards for 2013. The transition guidance would assist preparers. In response to a query that comparatives were of importance to users, the staff confirmed that the IASB had had dialogue with user groups and had not heard of any pushback.

The DPOC discussed the process for the IASB determining whether or not to re-expose proposals. The staff reported that, in their papers to the IASB on re-exposure, they did not make any recommendations on whether or not there should be re-exposure. This was a matter for the IASB alone to determine. It was noted, however, that the IASB's rationale of whether or not proposals should be re-exposed or not was not documented in any detail. The IASB agreed to document such decisions more fully in the future.

The DPOC's discussion on the agenda consultation focused on the research programme and how the IASB proposed to work with National Standard-Setters (NSS). It was agreed that there needed to be clarity in how the arrangements would work and it was also important to manage expectations. How to prioritise and select projects for the research programme was a challenge. Prioritisation was particularly difficult, as what was important for one jurisdiction might not be so for others. The biggest risk was that the research programme would become a way to bury difficult issues. The proposal on from the Korean Accounting Standards Board on foreign currency accounting was cited as an example. The IASB needed to be open and explain and justify each proposal to add an item to the research programme.

On post-implementation reviews (PIRs), the DPOC noted the progress being made on the first such review, that for IFRS 8, and took comfort that the scope of the review was not a narrow one.

On XBRL, the DPOC noted the development of a strategic plan, which was scheduled to be considered at the October meeting.

## **5. Proposals for a consultative group on the methodology for field tests/fieldwork and effect analyses**

The DPOC considered, and approved, a proposal to establish a working group from the international community, chaired by the IASB, to develop an agreed methodology for field testing and effect analyses. The importance of effect analyses had been stressed by organisations such as the European Commission and the US Securities and Exchange Commission (SEC). The DPOC noted that EFRAG and the UK Financial Reporting Council (FRC) had been working on proposals calling on standard-setters to consider the effects of accounting standards, and that a report was due to be published in the near-future, which would serve as a useful input.

## **6. Proposed revision to website project pages**

The staff updated the DPOC on the work being undertaken to substantially enhance the way project-related information was presented on the website. The staff reported that it would be another 2-3 months before the revamped website would be launched. The project pages would incorporate the metrics evidencing due process procedures and the staff reported that the project teams were clear on the requirements, which were being incorporated into the way they worked.

## **7. Review of correspondence**

The DPOC discussed a general issue on correspondence (other than responses to consultations) and agreed that retaining the existing practice of getting explicit permission from correspondents for their letters to be made publicly available was a good idea.

The DPOC reviewed letters that had been submitted by Michael Straut (on the Board's adoption of a phased approach to the development of IFRS 9 *Financial Instruments*) and Business Europe (on a number of general due process issues).

The proposed staff response to Mr Straut was endorsed by the DPOC.

The DPOC discussed the issues raised by Business Europe and a staff report on them, which were in three broad categories: transparency of DPOC operations; the role of the IASB; and confidentiality.

On transparency, the DPOC held an initial exchange of views on Business Europe's proposal that DPOC meetings should be held in public. A range of views was expressed and it was noted that the DPOC would further consider this issue at its October meeting as part of evaluating feedback on the Due Process Handbook. In the interim, it was agreed that a fuller report of DPOC meetings should be made available on the website, starting with this meeting. The DPOC also agreed that Business Europe should be asked for any suggestions it had to improve the DPOC section of the website given their observations about its difficulties navigating the site.

The DPOC discussed Business Europe's concern that *Feedback Statements* and *Effects Analyses* should be approved by the Board. In discussion, the DPOC and the IASB representatives present agreed that *Effect Analyses* should be owned and signed off by the IASB. On *Feedback Statements*, the view was that these were communication documents which the IASB should have the flexibility to develop without requiring formal sign-off by the Board, but which would have to be consistent with formal IASB documents. The DPOC noted that Business Europe had also questioned the robustness of the process for deciding on re-exposure and referred back to its earlier discussion and the IASB's undertaking to better document the rationale on whether or not to re-expose proposals.

On confidentiality of information given by respondents, the DPOC acknowledged the difficulties of having a transparent process for outreach while maintaining the need for confidentiality, but felt that Business Europe had raised a valid point in how the results and conclusions of any outreach are summarised and reported.

The DPOC agreed that Business Europe had raised a number of important issues to be considered in the context of the review of the draft *Due Process Handbook*, and that the staff and the Chairman should work together on a response reflecting the DPOC's discussion.

## **8. Any other business**

The DPOC briefly discussed the working relationship between the IASB and the IFRS Interpretations Committee (IC). It was noted that, following the review of the IFRS IC, steps had been taken to have the IASB and the IFRS IC work more closely together. The proposals in the draft *Due Process Handbook* reflected this.

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