

# AGENDA PAPER

IFRS Foundation Trustees' meeting—Due Process Oversight Committee

Washington DC

11 July 2012

Agenda paper 4A

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

**From:** Alan Teixeira

**Date:** 3 July

**Re:** Reporting Protocol – General Reports

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## Overview

In the proposed new Due Process Handbook we have proposed that the staff report to the IASB and the DPOC at least annually on several matters.

Even though the Due Process Handbook is out for public comment, the staff and the DPOC agreed at the last meeting to begin this regular reporting process. Four reports are provided here, addressing comment letters, the availability of meeting papers to observers, consultative groups and interactions with market and prudential regulators.

In each case the paper is the report to the IASB on these activities. These papers will be discussed by the IASB in a public meeting in the week following the Trustee meeting. My intention is to, as far as possible, provide the DPOC with copies of the reports given to the IASB rather than separate reports to the DPOC. This should provide the DPOC with some assurance that the IASB is fully engaged with the due process protocols.

The reports are principally for noting. However, we will ensure that any feedback from the DPOC is conveyed to the IASB when the papers are presented at its meeting in July.

## STAFF PAPER

July 2012

## IASB

Project	Due Process
Paper topic	Cover Paper
CONTACT(S)	Alan Teixeira <a href="mailto:ateixeira@ifrs.org">ateixeira@ifrs.org</a> +44 (0)20 7246 6442

This paper has been prepared by staff of the IFRS Foundation. The views expressed in this paper reflect the individual views of the author[s] and not those of the IASB or the IFRS Foundation. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs.

**Background**

1. In 2011 and 2012 the Due Process Oversight Committee (DPOC) has been working with the staff and the IASB to develop due process reporting protocols. These protocols are designed to help the IASB demonstrate that it is using its due process efficiently and effectively in the development of Standards and Interpretations.
2. The proposed new *Due Process Handbook*, which was issued for public comment in May 2012, included draft reporting protocols. Most of this reporting relates to project work, demonstrating throughout the development of a new Standard or Interpretation the due process steps the IASB and its Interpretations Committee have taken for a particular project. This information will be integrated into the project webpages.
3. The IASB, and DPOC, will receive relevant information throughout the life of a project (such as an explanation of the investor consultations that have accompanied a comment letter process) as well as summary updates before each project milestone (such as a summary report of the due process steps that have been undertaken to support a staff recommendation for the IASB to ballot an exposure draft).
4. As well as this regular reporting of the due process steps being applied in a particular project, the new Handbook proposes that the staff should be required to prepare for the IASB, and DPOC, several summary reports each year. These

reports serve two main purposes. They bring together information that is incorporated in many Staff Papers, providing a clearer summary of the particular activity. They also give the IASB an opportunity to reflect on some of the processes that are implicit in the development of Standards (such as making IASB papers publicly available).

5. There are four main papers for this session, each of which is a report on the activities identified in the *Due Process Handbook*:
  - (a) 9A—Comment Letters
  - (b) 9B—Availability of Meeting Papers
  - (c) 9C—Consultative Groups
  - (d) 9D—Market and Prudential Regulators
6. The papers are reports to the IASB and are for noting. IASB members will be given the opportunity to ask questions about the matters raised in these reports.
7. Paper 9C, which deals with Consultative Groups, is the only report that contains recommendations.

## STAFF PAPER

July 2012

## IASB

Project	Due Process
Paper topic	Comment Letters
CONTACT(S)	Alan Teixeira <a href="mailto:ateixeira@ifrs.org">ateixeira@ifrs.org</a> +44 (0)20 7246 6442

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**Background**

1. The proposed revised *IFRS Foundation Due Process Handbook* states that:
  - 3.64 Comment letters play a pivotal role in the deliberative process of both the IASB and the Interpretations Committee, because they provide considered and public responses to a formal consultation.
  - 3.65 All comment letters received by the IASB are available on the IFRS Foundation website. Portions of a comment letter may be withheld from the public if publication would be harmful to the submitting party, for example a potential breach of securities disclosure laws.
  - 3.66 When considering comment letters, the IASB or the Interpretations Committee assess the matters raised and the related explanations and evidence provided by respondents. The staff does not normally provide the IASB with any numerical analysis of how many respondents expressed a particular view because it is the strength of the analysis, and the evidence supporting the analysis, that is important.
2. Each letter needs to be checked before it is posted to make sure that it is a genuine submission and that the respondent has requested confidentiality. Such requests are rare—I am aware of only one such request in the last 12 months and the respondent agreed with little hesitation to have their letter posted once we had explained our process. These checks are, nevertheless, necessary.
3. Comment letters are normally posted on the website within a few days of receipt. However, over 90 per cent of comment letters are received in the last day or so of the comment period. When this happens it can take a week or more to post the letters.

4. We also received unsolicited letters on aspects of a project outside of a comment period. Those letters are also posted to the project web pages. In the year to 30 June 2012 we received comment letters in relation to the following projects:

<b>Project</b>	<b>Comment letters</b>	<b>Unsolicited correspondence</b>
Exposure Draft: <i>Annual Improvements to IFRSs 2009–2011 Cycle</i>	67	-
Exposure Draft: <i>Mandatory Effective Date of IFRS 9</i>	131	-
Exposure Draft: <i>Investment Entities</i>	170	8
Exposure Draft: <i>Transition Guidance (proposed amendments to IFRS 10)</i>	64	-
Exposure Draft: <i>Revenue Recognition</i>	359	-
Exposure Draft: <i>Government Loans (Proposed amendments to IFRS 1)</i>	38	-
Request for Information: Three-yearly public consultation	248	-

## **Conclusion**

5. I am not aware of any letters being withheld from public posting in the year to 30 June 2012.

## STAFF PAPER

July 2012

## IASB

Project	Due Process
Paper topic	Availability of meeting papers
CONTACT(S)	Alan Teixeira <a href="mailto:ateixeira@ifrs.org">ateixeira@ifrs.org</a> +44 (0)20 7246 6442

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**Background**

1. The IASB strives to operate in an open and transparent manner. Accordingly, both the current and proposed revised due process handbooks include sections explaining the importance of making papers discussed by the IASB members available to observers.

2. Paragraphs 71 and 72 of the current handbook explains that:

Before IASB meetings, the staff prepare IASB papers and observer notes for review and approval by the directors. IASB papers are distributed to the IASB members on or before the second Wednesday before the IASB meeting date. Meeting agendas and observer notes are normally posted on the website five days before the IASB meeting day. Observer notes normally include the following:

- background to the issues to be considered by the IASB
- all illustrations and examples given to the IASB
- all PowerPoint presentations and spreadsheets used at IASB meetings
- staff recommendations.

The numbering of paragraphs in observer notes matches the numbers used in IASB papers. Staff analysis may be omitted from the observer notes to allow staff to express their views freely.

3. IASB members were not normally notified if material was removed from a Board paper when the Observer Note was prepared. When material was removed, this was indicated in the Observer Note (which also ensured that the paragraph numbers were aligned with the Board paper).

4. In July 2008 I reviewed the application of the Observer Note policy, and began requiring staff to have any deletions or modifications approved. My recollection is that two paragraphs were removed over the 12 months that followed. From July 2009 until today we have maintained a principle of ensuring that everything given to IASB members for discussion in a public meeting is made publicly available.
5. Staff papers were converted to Observer Notes by removing the name(s) of the paper authors and replacing the words 'Staff Paper' with 'Observer Notes'. In 2011 we stopped this practice and simply began posting the Staff Papers on the meetings web pages and making printed copies available to observers.
6. Similar steps were taken in relation to the IFRS Interpretations Committee (the Interpretations Committee). Draft Rejection Notices were included in Staff papers but not in Observer Notes, until early 2011 when we stopped this practice. Since then the Interpretations Committee has followed the same procedures as the IASB.
7. The proposed revised *IFRS Foundation Due Process Handbook* reflects these changes and states that:
  - 3.10 All material discussed by the IASB or Interpretations Committee members in their public meetings, including papers that are prepared by staff, is normally made available to observers via the IFRS Foundation website. The staff have the discretion to withhold papers, or parts of papers, from observers if they determine that making the material publicly available would be harmful to individual parties, for example if releasing that information could breach securities disclosure laws. The DPOC expects that withholding material in such circumstances would be rare and that most papers will be publicly available.
  - 3.11 The staff are required to report to the IASB and the DPOC at least annually on the extent to which material discussed by the IASB or the Interpretations Committee has not been made available to observers and the main reasons for doing so.

## **Practice in the year to 30 June 2012**

8. I am not aware of any cases in the year to 30 June 2012 where a document discussed by the IASB or the Interpretations Committee in a public meeting was withheld from observers or had any material removed.

9. Having said that, I am aware of three scenarios where papers have not been made available to observers on a timely basis.
- (a) Papers are not posted to our website before a meeting: in all such cases this reflects an administrative error rather than a deliberate action. Not posting papers to our website before a meeting is rare. When it does happen, observers make us aware of such oversights. In the last few months we have re-designed our meetings web pages and our posting procedures to reduce the risk of failing to post a paper.
  - (b) Correspondence arrives, or analysis is prepared, during an IASB or Interpretations Committee meeting: as a result, I am aware of instances when the staff have distributed a paper to IASB members and to observers physically attending the meeting but the paper has not been available to remote observers until after the meeting has finished. The papers are then made available, but clearly have not been available on a timely basis. Again, this is rare. We are working to eliminate such cases completely.
  - (c) The perception that we are withholding papers: individual IASB members speak with interested parties and receive emails and letters about aspects of a project. In most cases the correspondent wishes the IASB member to treat the exchange as private or informal. Nevertheless, individual IASB members often mention these exchanges, in very general terms, in Board meetings. This can create the impression that all IASB members have access to material that is being withheld from observers. This is not the case. IASB members and staff are careful to protect the principle that full and open consideration of technical issues must take place during public meetings.

## **Conclusion**

10. In the year to 30 June 2012 all agenda papers distributed to IASB members for public meetings of the IASB were made available on our public website, unaltered.



## STAFF PAPER

July 2012

## IASB

Project	Due Process
Paper topic	Consultative Groups
CONTACT(S)	Alan Teixeira <a href="mailto:ateixeira@ifrs.org">ateixeira@ifrs.org</a> +44 (0)20 7246 6442

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**Background**

## 1. The proposed new Due Process Handbook states:

The IASB normally establishes a consultative group for each of its major projects, such as a specialist or expert advisory group. Consultative groups give the IASB access to additional practical experience and expertise.

All consultative groups are reviewed by the staff each year to assess whether each 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. The outcome of the review is presented to the IASB and DPOC.

## 2. 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.

## 3. 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 three such groups:

- Expert Advisory Panel—Fair Value Measurement

- Expert Advisory Panel—Impairment of Financial Instruments
  - Valuation Expert Group (to assist with educational material for IFRS 13 *Fair Value Measurement*).
4. We have some additional groups, the XBRL Advisory Council, XBRL Quality Review Team, Education Advisory Group and the SME Implementation Group. The XBRL and Education groups will be reviewed separately as part of more comprehensive reviews of those areas. The membership of the SME Implementation Group is being considered by the Due Process Oversight Committee at its meeting in July 2012.

### Meeting activity in the year to 30 June 2012

5. During the last year we hosted four meetings of these consultative groups, as follows:

Consultative Group	Meetings in the year to 30 June 2012	Last meeting
Insurance Contracts	2	June 2012
Leases	1	January 2012
Financial Instruments	1	August 2011
Financial Statement Presentation	Nil	December 2010
Employee Benefits	Nil	September 2010
Expert Advisory Panel – Impairment of Financial instruments	Nil	June 2010
Expert Advisory Panel – Fair Value Measurement	Nil	October 2008
Valuation Expert Group	Nil	Formed May 2012

6. The three groups that met relate to three of the four MoU projects (the IASB does not have a consultative group for the Revenue Recognition project).

### Recommendation

7. I recommend that we formally wind up the consultative groups for Financial Statement Presentation, Employee Benefits and the Expert Advisory Panel for Fair Value Measurement. Aspects of the Financial Presentation Project will be

absorbed into the Conceptual Framework project and we should create a new consultative group for that project—a separate paper on the planning for the conceptual framework project will be discussed at a later IASB meeting. The Employee Benefits project has been completed, as has Fair Value Measurement—with a new group helping us with education material.

8. The Insurance Contracts, Leases and Financial Instruments consultative groups remain active and I am not proposing any changes to the membership or activities of those groups at this stage.

**Staff recommendation**

The staff recommend that the IASB formally wind up the working groups for Financial Statement Presentation and Employee Benefits and the Expert Advisory Panel for Fair Value Measurement, thanking the members for their assistance with these projects.

## STAFF PAPER

July 2012

## IASB

<b>Project</b>	<b>Due Process</b>
Paper topic	Market and Prudential Regulators
CONTACT(S)	Alan Teixeira <a href="mailto:ateixeira@ifrs.org">ateixeira@ifrs.org</a> +44 (0)20 7246 6442

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**Background**

## 1. The proposed new Due Process Handbook states:

**Securities and other regulators**

- 3.53 The IASB is responsible for developing global financial reporting standards that are enforceable.
- 3.54 To achieve this it is important that the IASB maintains a dialogue with securities regulators. Such a dialogue is normally undertaken by establishing regular meetings with such regulators. In addition, the Interpretations Committee has the right to invite members of securities regulatory bodies to act as official observers to its meetings.
- 3.55 Financial information prepared in accordance with IFRSs is used by other regulators, including prudential supervisors and taxation authorities. The IASB develops IFRSs to improve the transparency and integrity of financial statements. The confidence of all users of financial statements in the transparency and integrity of those statements is critically important for the effective functioning of capital markets, efficient capital allocation, global financial stability and sound economic growth.
- 3.56 The IASB is aware that prudential supervisors rely on financial reports for some of their functions. To assist prudential supervisors, the IASB keeps an enhanced dialogue with such authorities, particularly through the Financial Stability Board and the Bank of International Settlements.

## 2. The purpose of this paper is to provide the IASB with a summary of activities undertaken during the last 12 months that support an active dialogue with market and prudential regulators.

**Group** **Meetings and interactions**  
**1 July 2011 to 30 June 2012**

<b>Market and securities regulators</b>	<b>1 - 5</b>	<b>6 - 10</b>	<b>11 – 20</b>	<b>21 +</b>
ESMA				✓
IOSCO			✓	
US SEC				✓
Japanese FSA				✓
Chinese Finance Ministry			✓	
Canadian, Australian, Dutch, Malaysian, Portuguese and UK securities regulators	✓			
<b>Prudential regulators</b>	<b>1 - 5</b>	<b>6 - 10</b>	<b>11 – 20</b>	<b>21 +</b>
Basel Accounting Task Force			✓	
Three-way Dialogue	✓			
US Federal Reserve	✓			
Financial Stability Board	✓			
Australian, Brazilian, Dutch, Canadian prudential regulators	✓			
International Association of Insurance Supervisors				✓

3. Many of these activities are informal. The interactions range from telephone discussions on specific accounting matters to more formal meetings with IASB members and senior staff. Many of these regulators also observe or participate in IFRS Interpretations Committee and IFRS Advisory Council meetings.
4. The summary table comes with caveats. The table does not purport to capture all of the interactions we have had with market and prudential regulators. It is likely to understate the level of interaction. The IASB is developing more formal networks and activities and more formal ways to record and report those activities.