

AGENDA PAPER

IFRS Foundation Due Process Oversight Committee

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Agenda ref 3D

ADDITIONAL
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Staggering the Terms of Members of the SME Implementation Group

1. At their meeting in July, the DPOC approved the reappointment of the current 22 members of the SME Implementation Group (SMEIG) until 30 June 2014. At the same time, the DPOC indicated that it would consider proposals to expand the SMEIG membership and, if necessary, to recommend new members and to suggest a method of staggering the terms of membership.
2. This paper suggests a possible approach to expanding the membership and staggering members' terms.

Background

3. The SME Implementation Group (SMEIG) is an advisory body to the IASB. The mission of the SMEIG is to support the international adoption of the *IFRS for SMEs* and monitor its implementation. In fulfilling that mission, the SMEIG has two main responsibilities: developing Q&As as non-mandatory guidance for implementing the *IFRS for SMEs* and recommending possible amendments to the *IFRS for SMEs* to the IASB as part of a comprehensive post-implementation review of the Standard.
4. The terms of reference and operating procedures for the SMEIG were approved by the Trustees of the IFRS Foundation in January 2010. The document may be downloaded here: <http://www.ifrs.org/IFRS+for+SMEs/Implementation+Group.htm>
5. Relevant excerpts from that document are:

- 10 The SMEIG shall have at least 12 and not more than 20 members appointed by the Trustees of the IASC Foundation. The Trustees will invite nominations, including self-nominations, on the IASC Foundation's website.
 - 11 Members of the SMEIG are selected for their knowledge of and experience in financial reporting by SMEs and, preferably, their knowledge of and direct experience with the *IFRS for SMEs*. They would normally include accountants working in SMEs, auditors in small or medium-sized public practices, and bank lenders and other users of financial statements of SMEs, with a reasonably broad geographical representation.
 - 12 All members of the SMEIG shall serve on a voluntary, unpaid basis.
 - 13 The SMEIG also may include appointed observers who have the right to participate in SMEIG deliberations, but not to vote.
6. Initially 21 members of the SMEIG were appointed in September 2010 by the Trustees following a public call for nominations. There were approximately 90 nominations, and to ensure a breadth of backgrounds the limit of 20 members was exceeded slightly. One person was added subsequently, and two original appointees were replaced. The appointments were based on a public call for nominations. There are also observers from EFRAG and the European Commission. The list of current SMEIG members is here:
<http://www.ifrs.org/IFRS-for-SMEs/Pages/SMEIG-members.aspx>
7. The SMEIG has conducted all of its work by email, with documents posted on the SMEIG's SharePoint website, to which IASB members also have access. All 22 members have participated actively both in the Q&A process, in developing the Request for Information (RFI) for the comprehensive review (published in June 2012), and in developing a Guide for Micro Entities in Applying the IFRS for SMEs (SMEIG is currently reviewing a complete draft of the Guide). A physical meeting of the SMEIG is planned for February 2013 to review responses to the RFI and develop recommendations to the Board for possible amendments to the IFRS for SMEs.
8. The terms of all 22 SMEIG members ended on 30 June 2012. At the July DPOC meeting, based on a recommendation from Michelle Fisher (the IASB's Senior Project Manager on the IFRS for SMEs) and Paul Pacter (SMEIG Chair), the DPOC approved reappointing all current SMEIG members for additional two-year terms ending 30 June 2014 to allow continuity in the comprehensive review process.

9. At that meeting, we also recommended that sometime in the second half of 2013 the Trustees (through the DPOC) should invite nominations for SMEIG members as of 1 July 2014. New appointments would be effective 1 July 2014. At that time the Trustees may wish to consider whether to have staggered terms and whether any other provisions of the Terms of Reference should be amended.
10. The DPOC agreed with the recommendation to move to staggered terms and asked us to develop a proposed method for staggering the terms of membership as of 1 July 2014. At the same time, the DPOC indicated that it would also consider proposals to expand the current SMEIG membership by several members even before 1 July 2014, if necessary, as a way to begin the move to staggered terms of membership.

Proposal for Staggering Terms

11. We propose the following steps:
- a. Expand the number of members to a maximum of approximately 30 as of 1 July 2014.
 - b. Reappoint approximately half of the current members (ie, 10 or 11 members) for an additional two-year term from 1 July 2014 to 30 June 2016. To accomplish that, in approximately June or July 2013 we would ask current members whether they would seek reappointment to 30 June 2016 and, if so, to submit an application and background information. We would explain to the current members that the Trustees wish to begin a process of rotating SMEIG members and staggering SMEIG members' terms, as well as expanding the size of the SMEIG.
 - c. In approximately June or July 2013, the Trustees (through the DPOC) issue a public call for nominations of approximately 20 new members of the SMEIG effective 1 July 2014. The nomination and selection process would be similar to that used in 2010. We had 90 nominations in 2010 and at least that number would be expected in 2013.
 - i. 5 of the 20 new members would be appointed for a two-year term ending 30 June 2016 (and would be eligible for a three-year reappointment).

- ii. 10 of the 20 new members would be appointed for a three-year term ending 30 June 2017 (and would be eligible for a three-year reappointment).
 - iii. We explain that the purpose of the above is to achieve enlargement, staggered terms, and rotation.
 - iv. As a result of the above, as of 1 July 2014 the SMEIG would have approximately 30 members with 15 terms expiring 30 June 2016 and 15 terms expiring 30 June 2017. No terms would expire in 2018. We would plan the next comprehensive review of the IFRS for SMEs to be underway in 2018, and not having reappointments that year would be beneficial for continuity. This cycle would continue going forward.
- d. Make appropriate amendments to the Terms of Reference and Operating Procedures of SMEIG.

Whether to add a few new members before 1 July 2014

12. We do not recommend adding a few new members before 1 July 2014 for the following reasons:

- Some sort of public nomination process would be needed. The above plan for staggering terms already includes a public nomination process that would get underway in June or July 2013 and achieve staggered terms by 1 July 2014. A separate nomination process for a few members to start sooner than 1 July 2014 would be costly and somewhat redundant.
- The SMEIG is currently in the midst of a major project (the comprehensive review of the IFRS for SMEs) to develop recommendations for amendments to the standard. To insert a few new members in the middle of the process could be cumbersome. There is sufficient breadth of views on the current SMEIG to deal well with this project.
- The SMEIG is an advisory body to the IASB Board. The comprehensive review of the IFRS for SMEs is essentially an IASB project that could result in changes to the

way the SMEIG operates going forward – for example, whether further Q&As are needed. It is preferable to wait until the decisions arising from the comprehensive review have been made to add new members to the SMEIG. Those decisions will be made by the IASB either in late 2013 or early 2014.