

Report of the Due Process Oversight Committee (DPOC) meeting

10 October 2012, Brussels

1. Draft Due Process Handbook: Comment letter summary and issues arising

The DPOC received a summary of the comment letters that had been submitted in response to the consultation on the draft Due Process Handbook (DPH). A total of 50 comment letters had been received. While the overall thrust of the responses was supportive, respondents raised a number of issues.

The DPOC considered an overview of the responses to the questions in the invitation to comment in the draft DPH.

Oversight by the DPOC

The draft DPH proposed the inclusion of a section on oversight of the due process. Most respondents supported the inclusion of such a section, but a number of issues were raised.

The first was on **transparency**. A number of respondents called for DPOC meetings to be held in public. The DPOC discussed this issue, with a range of views being expressed. Some members thought that meetings in public might affect the candour and tone of the discussions; while others did not think that this would be the case. Meeting in public would be more of an imperative if it was felt that the DPOC had a credibility problem, but this was not thought to be the case. The DPOC already operated with a high level of transparency. There was general agreement that if meetings were to be in public, certain issues would still need to be considered in closed session, which raised a logistic issue, but that was not felt to pose too much of a problem. Given the range of views expressed, the Chairman asked the staff to develop further a number of alternative options, the first being to think about the option of having both public and closed sessions in meetings, and the second not to hold the DPOC meetings in public, but to enhance even further the detailed reporting of Committee meetings, both in terms of a written record on the website and an oral report to the Trustees as a whole in their public session.

In response to comments made about **passivity and independence** of the due process, the DPOC felt that its oversight was active and independent, but agreed that the reporting of its discussions and the actions taken as a result of them could be more detailed. In response to comments made that the DPOC should 'sign off' on due process before any final pronouncement was issued (in particular on major projects), the Committee noted that, in effect, that was what it was doing already, and that this could be clarified in the DPH.

In discussing its **role and objectives**, the DPOC noted that a number of respondents had suggested that the text in the draft DPH on this issue should be included in the IFRS Foundation *Constitution*. However, the DPOC did not favour taking up this suggestion. The *Constitution* set out, in high level terms, the responsibilities of the Trustees to establish due process and monitor compliance with it, but how they fulfilled those responsibilities was more appropriately dealt with in the DPH. Adopting this approach also allowed for more frequent review and updating of the roles and objectives than the five-yearly cycle for the review of the *Constitution*.

On the handling of perceived **breaches of due process**, the DPOC considered the comments of some respondents that there should be a time limit during which complaints could be made, in particular to try and avoid any due process challenge being lodged after the issue of an IFRS and any legal challenges coming for those jurisdictions in which IFRSs became law. However, the DPOC felt that imposing such a 'statute of limitations' would be impracticable. A number of respondents had wanted greater transparency around reporting the reasons for which a breach would not question the decisions already made by the IASB and it was noted that the staff would look to reflect this in the drafting of the DPH.

Due Process Protocol (DPP)

The DPOC considered the responses that had been received in response to the draft DPP, which had been included as an appendix but was not intended to be an integral part of the DPH. Most respondents had agreed with that view, or not commented on it, although a minority had taken the view that it should be part of the DPH. A larger number of respondents, however, had expressed concerns that the DPP tables were very detailed and could lead to a very bureaucratic and time-consuming process. The DPOC discussed this with the IASB representatives at the meeting, who noted that the DPP was being used effectively as a management tool to ensure that the due process steps (both mandatory and, where appropriate, optional) had been followed and to inform the narrative of the due process reports that were being submitted to the Board and the DPOC.

The DPOC was reassured by this, and proposed that the DPP be maintained as a reporting tool, but not as an integral part of the DPH. It would, however, be available on the website. The DPOC noted that it was important that the DPP was consistent with the DPH and the staff undertook to review both to ensure that this would be the case.

Research programme

The DPOC noted the strong support in the responses to the proposal for a research programme. A number of respondents suggested that the DPH should include guidance on managing a research project, but it was not felt that the DPH was the place to get into the detailed operational procedures on the management of such projects. A number of respondents had suggested that research projects should always result in the issue of a research paper or a discussion paper, but the DPOC acknowledged that sometimes with a research project, one did not know what the result would be. It was felt that this could be reflected in the triennial review of the agenda, including the research programme. The DPOC wondered whether separate oversight of research projects was necessary, other than the consideration of the triennial agenda consultations, and that the handling of the individual projects should otherwise be left to the Board.

Implementation and maintenance

The DPOC noted that respondents had broadly supported the proposed new section on implementation and maintenance in the draft DPH, but that many comments had been raised about the distinction between minor/narrow-scope amendments and comprehensive projects, including reflecting the clarifications relating to interpretations in the Trustees' May 2012 report on their review of the effectiveness of the Interpretations Committee and the Annual Improvements Programme. It was noted that all projects would involve due process, but it did raise issues of

project planning. The staff undertook to review the comments raised by respondents and the clarity of the drafting of this section in the draft DPH.

Comment periods

The draft DPH had proposed two changes to suggested comment periods. The first was an increase in the minimum comment period for the Interpretations Committee exposing a draft of a **rejection notice** from 30 days to 60 days. This attracted wide support, and the DPOC agreed that it should be reflected in the final DPH. The second was to give the IASB the ability to have a reduced comment period of a minimum of 60 days for **re-exposures**, where the re-exposure was narrow in focus. This provoked a much more mixed reaction, with many respondents arguing that this would not provide sufficient time. The DPOC expressed sympathy with these views and felt that a 90-day minimum might provide an acceptable compromise. The DPOC also noted that some respondents had expressed concerns about the provisions in the draft DPH that the IASB could, in exceptional circumstance and with Trustee approval, have a minimum comment period of 30 days or even less. The DPOC understood the concerns, but felt that such an exceptional circumstances provision should be retained.

Other issues

The DPOC considered a number of other issues that had been raised by respondents.

A number of respondents had suggested that the DPH should specify the **objectives of due process**. The DPOC agreed with this suggestion.

The DPOC considered the suggestions made by some respondents that **review drafts** should in effect become a systematic step in the due process and be published on the website for public fatal flaw reviews and field testing. It was noted that the purpose of a review draft was unclear. The IASB saw review drafts as a final 'housekeeping check' to ensure that the draft document was clear and reflected accurately the technical decisions made by the Board. It was not a document used to consider the appropriateness of the Board's decisions. The DPOC accepted that having a review draft for external review should not become a mandatory due process step, but thought that the DPH should clarify the purpose of a review draft and what a review draft was not.

On **outreach**, the DPOC agreed with the comments made with some respondents that the substance and conclusions drawn from such activities needed to be reported as transparently as possible, while respecting participants' concerns about confidentiality. The DPOC agreed with the desirability of seeking greater co-operation and co-ordination with National Standard-Setters (NSS) and regional bodies, but felt that they, and the IASB, needed to retain the right to undertake their own due process and outreach where they felt it appropriate.

The DPOC felt that the comments made by respondents about **effect analysis** would help inform the work of the proposed consultative group on fieldwork and effect analysis.

The DPOC noted that a number of respondents had expressed concerns about the proposals in the draft DPH on issues being referred to the IASB by the **Monitoring Board**. The DPOC noted that this proposal reflected the agreed conclusions of the Trustees' Strategy Review and the Monitoring

Board's review of governance. The DPOC asked the staff to check that the wording in the DPH was as agreed in the conclusions of those reviews.

A number of respondents had questioned the issue of the IASB's **quorum and voting procedures**. The draft DPH had referred to the fact that there was no quorum for an IASB meeting, although the glossary noted that for a public meeting at least 60 per cent of the IASB members must be in attendance (the DPOC felt that attendance could include participating by conference call). The DPOC felt that a quorum should be referred to, to align with what was outlined in the glossary. The DPOC also considered the views of some respondents that a 'supermajority' of IASB members was required for all decisions, not just the issue of exposure drafts and standards, but felt that the existing voting requirements were clear and appropriate.

Next steps

The DPOC noted that the staff would continue to work through the responses and the issues arising from them, which would be discussed with the Committee at conference calls scheduled during November and December. The aim was to have a proposed draft of the DPH to present to the Trustees for approval at the January 2013 meeting.

2. Update on technical activities

The DPOC received an update on technical activities. The DPOC noted that it had received several reports considering due process steps on a number of projects since the July 2012 meeting, which were available on the website. As agreed at the July 2012 meeting, the DPOC received the same reports on due process that had been submitted to the IASB.

The DPOC discussion focused on a number of issues. The first concerned **financial instruments**. On classification and measurement, the IASB expected to issue an exposure draft proposing limited amendments to the existing requirements of IFRS 9 in the fourth quarter of 2012. At its September 2012 meeting, the IASB had determined that it had complied with the requirements in the DPH and could proceed to the issue of an exposure draft, with a 120 day comment period. On impairment, the DPOC was informed of the different approaches being taken by the IASB and the US Financial Accounting Standards Board (FASB). It was noted that the IASB was still working towards the issue of an exposure draft in the fourth quarter of 2012, although the timing would depend on any modifications that the IASB decided were necessary on the basis of the latest outreach conducted by the Board.

On **insurance contracts**, the DPOC noted that, at its September meeting, the IASB had discussed whether to re-expose its proposals or move forward to a review draft of an IFRS. While the core principles of the July 2010 exposure draft had remained largely intact, the IASB was proposing some significant changes to some of the proposals. The IASB had made extensive efforts to consult interested parties during its redeliberations and made available reports on the website of tentative decisions and extracts of a working draft implementing some decisions. The IASB also noted the importance of finalising the project expeditiously. However, the IASB was conscious that operational challenges might arise as a result of the magnitude of the changes and that input on the relative costs and benefits of the proposals. The IASB decided on balance to re-expose the proposals, with questions targeted on the areas of significant change, although the exposure draft would set out the

whole draft IFRS. The DPOC noted the fuller discussion on re-exposure that had taken place, which was in line with the discussion on the subject at the Committee's July 2012 meeting.

The DPOC also considered the forthcoming exposure draft for the 2011-13 cycle of **annual improvements** and discussed one of the proposed issues, namely the proposal to clarify that depreciation/amortisation methods that reflected the pattern of revenue generation from an asset were not consistent with the requirements of IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*. The DPOC was informed that this proposal would particularly affect service concession operators and the entertainment and media industry and could be controversial. The DPOC encouraged the IASB to consider whether this proposal should be handled as part of the annual improvement programme or taken forward as a separate narrow-scope amendment.

The DPOC was satisfied with the documentation it was receiving on due process and the fact that it was receiving the same reports that were being submitted to the IASB. The IASB representatives confirmed that the Board was being provided with papers analysing due process steps in more detail and was taking due process seriously. Due process issues were being integrated more into the work carried out by the staff, as was effect analysis in forthcoming due process publications, which the IASB would start to receive, as part of the Basis for Conclusions.

The IASB representatives highlighted to the DPOC a recent problem that had occurred on a small number of recent consultations (including that on the draft DPH) where, due to technical problems, the comment letters had not been posted to the website for a number of weeks. The problem had now been resolved.

3. Proposals for membership of a consultative group on the methodology for field tests/fieldwork and effect analyses

The DPOC considered, and approved, the membership of a consultative group being established to advise the IASB on the development of an agreed methodology for field testing and effect analyses. The 18 nominations approved were felt to be suitably qualified candidates, with a good geographical and background mix. The importance of effect analyses had been stressed by organisations such as the European Commission and the US Securities and Exchange Commission (SEC), both of whom had nominated candidates for the group (as either members or observers). The DPOC suggested that further nominations might be considered, if it was felt that the group could benefit from further members with particularly relevant experience.

4. Staggering the terms of the members of the Small and Medium-sized Entities Implementation Group (SMEIG)

The DPOC received a report recommending the staggering of the terms of the members of the SMEIG and expanding the size of the group. This followed the DPOC's agreement at its July 2012 meeting to recommend extending the terms of all 22 current SMEIG members for two more years to 30 June 2014 to allow continuity in the process of undertaking the comprehensive review of the IFRS for SMEs.

The DPOC agreed with a proposal to expand the membership of the SMEIG to a maximum of approximately 30 as of 1 July 2014, together with proposals to stagger the terms of membership from that time, with the result that the terms of 15 members would expire on 30 June 2016 and

those of the other 15 on 30 June 2017. The DPOC suggested that there might be a limit on the number of terms SMEIG members might serve (a maximum of two three-year terms was proposed), which should also be considered for all consultative groups.

As a result, the staff agreed to make appropriate amendments to the Terms of Reference and Operating Procedures of SMEIG to reflect these decisions and to bring them back to the DPOC for approval.

5. Membership of the XAC/XQRT

The DPOC received a report proposing a number of proposals for the memberships of the XBRL Advisory Council (XAC) and XBRL Quality Review Team (XQRT). The DPOC noted that the strategy for XBRL as a whole was being reviewed, but the view was taken that the XAC and XQRT should continue to operate pending the results of that strategy review. The Chairman and Vice-Chair reported that they had attended a meeting of the XAC on 9 October to see how that committee functioned. They had been impressed by the level of participation and engagement by XAC members. In discussion, the DPOC agreed to the proposals to maintain members on the XAC and to approve the appointment of specific named individuals to both the XAC and XQRT, but to delay having calls for nominations for new members until there was more clarity on the future strategic direction of XBRL.

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 the shift of the website to 'SharePoint' had taken longer than anticipated, but it was hoped that the revamped project pages for major projects would be in place by the end of November, and those for all active projects by the end of 2012. As had been reported previously to the DPOC, 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 noted that the correspondence cases considered at the July 2012 meeting had been dealt with and that no new cases had been submitted. The DPOC noted that a further correspondence case received, which had referred to due process, had been assessed as not being a due process matter and dealt with. The DPOC advised that, in drafting replies to correspondence cases, attention needed to be given to the balance and tone of those responses.

8. Any other business

The DPOC highlighted that the terms of reference (charter) for the Committee needed to be updated. It was noted that staff planned to bring a paper to the January 2013 meeting of the Trustees on the terms of reference for all of the Trustees' Committees. One issue that was highlighted was whether the DPOC should continue to be responsible for the appointment of the membership of consultative groups.

Finally, it was noted that this was the last physical meeting of the DPOC that would be chaired by David Sidwell, whose term as a Trustee was finishing at the end of December 2012. The DPOC expressed its

appreciation for David's outstanding contribution to enhancing the role of due process and the profile and work of the DPOC. Scott Evans would take over as Chairman of the DPOC from 1 January 2013.

END