

## AGENDA PAPER

June 2015

**Due Process Oversight Committee**

Paper topic Reporting Protocol—annual report on general due process matters

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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.

**Introduction**

1. The purpose of this paper is to report to the Due Process Oversight Committee (DPOC) on the following issues for the 11 months to 31 May 2015:
  - (a) the receipt of comment letters and their being made publicly available (paragraphs 2–4);
  - (b) the availability of IASB papers to observers (paragraphs 5–10); and
  - (c) the IASB’s dialogue with securities and other regulators (paragraphs 11–19).

**Comment Letters**

2. The *IFRS Foundation Due Process Handbook* (the ‘*Due Process Handbook*’) states that:

**Comment letters**

- 3.64 Comment letters play a pivotal role in the deliberations process of both the IASB and its 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. Details of the comment letters considered are set out in Appendix 1 of this paper.
4. We have not received any letters in which confidentiality was requested and we are not aware of any letters being withheld from public posting in the 11 months to 31 May 2015.

### **IASB papers made available to observers**

5. The IASB strives to operate in an open and transparent manner. Accordingly, the *Due Process Handbook* includes a section explaining the importance of making papers discussed by the IASB members available to observers.
6. The *Due Process Handbook* states:
  - 3.11 All material discussed by IASB or Interpretations Committee members in their public meetings, including papers that are prepared by technical staff, is usually made available to observers via the IFRS Foundation website. The IASB Chair, Vice-Chair or a Senior Director of Technical Activities 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 of the IASB and the Interpretations Committee will be publicly available in their entirety.
  - 3.12 The technical staff is 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. In addition, the technical staff is required to include in that report the number of meeting papers that have been posted later than 5 working days in advance and the main reasons for doing so.

### ***Practice in the 11 months to 31 May 2015***

7. We are not aware of any cases in the 11 months to 31 May 2015 in which a document discussed by the IASB or the IFRS Interpretations Committee (the ‘Interpretations Committee’) in a public meeting was withheld from observers or had any material removed.
8. As reported last year, we are aware of three scenarios in which papers may not have 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 instead of 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. We re-designed our meetings’ web pages and our posting procedures to reduce the risk

of failing to post a paper. We are not aware of any such cases in the 11 months to 31 May 2015, this is consistent with 2014.

- (b) correspondence arrives, or analysis is prepared, during an IASB or Interpretations Committee meeting: as a result, we are 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. During the 11 months to 31 May 2015 we are confident that we have virtually eliminated such cases.
  - (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 IASB 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.
9. The staff has reported to the DPOC throughout the year on the late posting of papers for IASB meetings (defined in the *Due Process Handbook* as later than 5 working days in advance of meetings).

### **Conclusion**

10. In the year to 11 months to 31 May 2015, all Agenda Papers distributed to IASB members (or Interpretations Committee members) for public meetings of the IASB (or Interpretations Committee) were made available on our public website, unaltered.

## Securities and other regulators

11. The *Due Process Handbook* states:

### **Securities and other regulators**

- 3.54 The IASB is responsible for developing global financial reporting standards that are enforceable.
- 3.55 To achieve this it is important that the IASB maintains a dialogue with securities regulators. Such a dialogue is usually 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.
- 3.56 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.
- 3.57 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.

### ***Securities regulators***

12. During the 11 months to 31 May 2015 (the period of this review) we have had regular dialogue with the International Organization of Securities Commissions (IOSCO) and regional security regulators. Appendices 2 and 3 of this paper summarise our interactions with IOSCO and ESMA, in the context of our protocols with them.

### ***Prudential regulators***

- 13. We maintain regular dialogue with prudential regulators. Our interaction with prudential regulators is at both a policy level and at a Standard-specific level.
- 14. At the policy level Hans Hoogervorst is a member of the Financial Stability Board (FSB) so he attends their meetings. In addition, we provide them with periodic updates on the progress of our projects, with particular focus on accounting for financial instruments and insurance contracts.
- 15. In April 2015 Hans Hoogervorst and Sue Lloyd (IASB member) attended a roundtable on impairment arranged by the Financial Stability Board. This meeting was chaired by Masa Kono and included representatives from the FASB, the SEC, IOSCO, representatives of the audit firms and users of financial statements. At this meeting an update was provided of the support being provided for the implementation of the new expected loss model in IFRS 9 *Financial Instruments*.
- 16. We have also continued to have a regular dialogue between the IASB and the Basel Committee.

17. At a project level we have regular dialogue with the Basel Accounting Expert Group (Basel AEG), which is a sub-committee of the Basel Committee. This sub-committee is preparing guidance regarding the implementation of an expected credit loss model with specific reference to their expectations for the application of the model in IFRS 9 by internationally active banks. We have worked in close cooperation with them to ensure that those requirements do not conflict with IFRS 9. In addition, three times a year we meet in a forum between the IASB, the Basel AEG and the International Institute of Finance (a global banking body). This forum enables us to discuss the interaction between our requirements and those of the prudential regulators and for us both to obtain input and information from the banks. The next three-way meeting is due to be held in New York in June 2015.
18. In addition to these international initiatives, we also have interaction with prudential regulators at a national and regional level. For example, we have met with the European Central Bank to discuss their report on the application of the current impairment requirements by banks in Europe.
19. For insurance contracts, we have met with the Chairman of the European Insurance and Occupational Pensions Authority (EIOPA), as well as regular discussions with the staff at EIOPA. We also maintain a regular dialogue with the staff at the Office of the Superintendent of Financial Institutions in Canada, and the Accounting and Auditing Working Group of the International Association of Insurance Supervisors (IAIS).

In the year to 11 months to 31 May 2015 the project teams have considered comment letters in relation to the following projects:

<b>Project</b>	<b>Due Process Stage</b>	<b>No of Comment letters received</b>
Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging.	Discussion Paper	126
Rate-regulated Activities	Discussion Paper	118
Clarifications of Classification and Measurement of Share-based Payment Transactions	Exposure Draft	80
Disclosure Initiative (Proposed amendments to IAS 7)	Exposure Draft	110
Disclosure Initiative (Proposed amendments to IAS 1)	Exposure Draft	118
Fair Value Measurement: Unit of Account	Exposure Draft	81
Recognition of Deferred Tax Assets for Unrealised Losses (Proposed amendments to IAS 12)	Exposure Draft	70
Applying the Consolidation Exception (Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures)	Exposure Draft	170
Proposed Interim Release 2 to the IFRS Taxonomy 2014.	Exposure Draft	2 (plus 10 comment letters from ITCG <sup>1</sup> )
Proposed Interim Release 3 to the IFRS Taxonomy 2014 published for public comment	Exposure Draft	0 (4 comment letters from ITCG)

<sup>1</sup> IFRS Taxonomy Consultative Group

Project	Due Process Stage	No of Comment letters received
<b>IFRS Interpretations Committee</b>		
IAS 1: Disclosures requirements about assessment of going concern	Agenda Decision	7
IAS 12: Recognition of deferred tax for a single asset in a corporate wrapper	Agenda Decision	5
IAS 12: Recognition of current income tax on uncertain tax positions	Agenda Decision	10
IAS 12: Selection of applicable tax rate for measurement of deferred tax relating to investment in associate	Agenda Decision	1
IAS 16 and IAS 2: Accounting for core inventories	Agenda Decision	4
IAS 16: Accounting for proceeds and costs of testing Property, Plant and Equipment.	Agenda Decision	10
IAS 19: Should longevity swaps held under a defined benefit plan be measured at fair value as part of plan assets or on another basis as a qualifying insurance policy?	Agenda Decision	1
IAS 21: Foreign exchange restrictions and hyperinflation	Agenda Decision	4
IAS 24: Definition of close members of the family of a person	Agenda Decision	2
IAS 28: Fund manager's significant influence	Agenda Decision <sup>2</sup>	4
IAS 34: Condensed statement of cash flows	Agenda Decision	4
IAS 39: Classification of a hybrid financial instrument by the holder	Agenda Decision	4

<sup>2</sup> As a result of the comments received, the Interpretations Committee decided not to finalise these agenda decisions but proposed the IASB consider the matter as part of its project on the equity method of accounting.

<b>Project</b>	<b>Due Process Stage</b>	<b>No of Comment letters received</b>
IAS 39: Holder's accounting for exchange of equity instruments	Agenda Decision	3
IAS 39: Income and expenses arising on financial instruments with a negative yield – presentation in the statement of comprehensive income	Agenda Decision	4
IAS 39: Accounting for embedded foreign currency derivatives in host contracts	Agenda Decision	2
IFRS 2: Price difference between the institutional offer price and the retail offer price for shares in an initial public offering	Agenda Decision	3
IFRS 10: Single-asset, single lessee vehicles and the assessment of control under IFRS 10. In what circumstances does the lender or lessee consolidate?	Agenda Decision	3
IFRS 11: Various implementation issues	Agenda Decision	8
IFRS 12: Disclosure of summarised financial information about material joint ventures or associates	Agenda Decision	3
IFRS 12: Disclosure of Interests in Other Entities Disclosures for a subsidiary with a material non-controlling interest and for a material joint venture or associate	Agenda Decision	3
IFRS 13: The fair value hierarchy when third-party consensus prices are used	Agenda Decision	5
IFRIC 21: Levies raised on production property, plant and equipment	Agenda Decision	5



## Fulfilment of statement of protocols between IFRS Foundation and IOSCO

Protocol	Fulfilment
<b>II. Development of IFRS</b>	
IOSCO and the Foundation have a common interest in ensuring that the body of IFRS is comprehensive, is well developed and maintained, and is both auditable and enforceable. Accordingly, each will continue to:	
A. Periodically discuss, with each other, IFRS initiatives, standard-setting projects, post-implementation reviews and other relevant matters such as securities regulatory developments; and	<p>Our meeting with Committee 1 for 2015 will take place in Hong Kong in November. Our agenda for that meeting includes an update on the IASB's current agenda.</p> <p>Independently from our meeting in November, we are seeking to provide IOSCO Committee 1 members with an update on our Business Combinations Under Common Control project – a project that IOSCO has highlighted as of particular importance to it. Our aim is to obtain feedback from Committee 1 members of our progress so far in this project.</p>
B. Include, in the case of the Foundation, IOSCO involvement in the IASB's consultative groups, committees and task forces, as appropriate, recognizing that the Foundation determines these compositions on a case-by-case basis; and	<p>Two IOSCO representatives attend the IFRS Advisory Council. Two IOSCO representatives attend the IFRS Interpretations Committee meetings.</p> <p>Representatives of IOSCO observe the Transition Resource Group (TRG) for Revenue Recognition and the TRG for Impairment of Financial Assets.</p>
C. Respond, in the case of IOSCO, to the IASB's proposed new standards and amendments, as appropriate, commenting in particular on the financial reporting integrity and enforceability issues raised and, in the case of the IASB, considering IOSCO's comments in the normal course of its work.	IOSCO has submitted several comment letters to the IASB during the year.
<b>III. Implementation of IFRS</b>	

<p>IOSCO and the Foundation also have a common interest that IFRS be consistently applied in practice across varying national contexts and settings. Timely communication between securities regulators and the IASB and its staff can lead to the early detection of implementation issues and the opportunity to prevent or limit the development of diversity in practice. Therefore, each will continue to:</p>	
<p>A. Discuss, with each other, at least once a year and as necessary for urgent matters, the types of IFRS implementation issues that the IOSCO members are discussing or have recently included in IOSCO's electronic IFRS forums; and</p>	<p>Our meeting with Committee 1 for 2015 will take place in Hong Kong in November. Our agenda for that meeting includes a discussion of IFRS implementation issues selected by IOSCO members.</p>
<p>B. Identify, in the case of IOSCO, situations of diversity in practice that become evident either from discussions or from notations in IOSCO's electronic IFRS forums, and, if appropriate, submit a request to the IFRS Interpretations Committee to consider the matter; and</p>	<p>Our meeting with Committee 1 for 2015 will take place in Hong Kong in November. Our agenda for that meeting includes feedback from IOSCO about observations about diversity in practice in the application of IFRS.</p>
<p>C. Receive, in the case of the Foundation, IOSCO's input into the work of the IFRS Interpretations Committee, both as an official Observer to the Committee's activities and via the IASB staff's outreach process for researching new issues.</p>	<p>IOSCO representatives have attended the 6 IFRS Interpretations Committee meetings held during the year. IOSCO has also responded to the numerous outreach requests from IASB staff during the research phase for new issues.</p>
<p>Further, IOSCO and the Foundation will begin to:</p>	
<p>D. Periodically exchange, with each other, information about the progression in the use of IFRSs within jurisdictions around the world, to sustain credible updated data sets about this use by mutually keeping abreast of developments; and</p>	<p>IASB staff and IOSCO have continued to exchange information for updates to our jurisdiction profiles. In addition, during our meeting with Committee 1 in November, we are scheduled to give a presentation on the most recent information about the jurisdiction profiles and related information that is of interest to securities regulators.</p>
<p>E. Identify and explain, in the case of the Foundation, the aspects of the implementation of the IASB's new or significantly amended standards that the IASB staff anticipates are most likely to be of interest to securities regulators; and</p>	<p>Our meeting with Committee 1 for 2015 will take place in Hong Kong in November. Our agenda for that meeting includes presentations by us on those areas of new standards (or amendments to standards) that are most likely to be of interest to securities regulators.</p>

<p>F. Organize, in the case of IOSCO, an annual IFRS enforcers' discussion session, available to all IOSCO members and with IASB members and/or IASB staff as guests, to discuss the issues and standards that seem to be raised most frequently or most significantly in IFRS enforcement matters; and</p>	<p>Our meeting with Committee 1 for 2015 will take place in Hong Kong in November. Our agenda for that meeting includes a discussion with IOSCO members of common / significant enforcement matters. This session is scheduled to include by conference call, those enforcers unable to be physically present at the meeting.</p>
<p>G. Inform IOSCO, in the case of the Foundation, of the nature of any particularly time sensitive IFRS implementation matter that the IASB staff assesses to urgently require input from the group of securities regulators and promptly gather, in the case of IOSCO, the appropriate related regulatory input from the IOSCO members.</p>	<p>IASB staff working on issues for the Interpretations Committee have regularly sought input from IOSCO as part of routine outreach for research on new submissions. In response IOSCO has provided IASB staff with information on the experience of these issues from IOSCO members.</p>

## Fulfilment of statement of protocols between IFRS Foundation and ESMA

Protocol	Fulfilment
<b>Supporting the development of IFRS</b>	
ESMA staff is invited to participate in IASB working groups as appropriate.	ESMA staff are members of our Disclosure Initiative working group
ESMA submits comment letters to the IASB on proposed new standards and amendments, in response to exposure drafts (EDs) published by the IASB. In providing comments to the IASB, ESMA includes enforcers' views with a focus on the enforceability of the proposed standard or amendment.	ESMA has submitted a number of comment letters during the 11 months to 31 May 2015
ESMA coordinates the fatal-flaw review by European enforcers of the IASB's near-final drafts of new standards and amendments, when appropriate.	ESMA has been included in fatal flaw reviews of a number of our amendments and new Standards.
<u>Supporting the consistent application of IFRS</u>	
ESMA makes submissions to the Interpretations Committee on areas of application of IFRS where it has noted diversity in practice and where it judges to be beneficial that the Interpretations Committee provides guidance / clarification.	ESMA made a submission to the Interpretations Committee during the 11 months to 31 May 2015.
ESMA coordinates the response from European enforcers to outreach requests from Interpretations Committee staff about the prevalence of new issues submitted to the Interpretations Committee and diversity observed in practice. ESMA also responds to other ad-hoc informal outreach requests from Interpretations Committee staff.	ESMA provided responses to our many outreach requests on new issues submitted to the Interpretations Committee.
ESMA submits comment letters to the Interpretations Committee on draft Interpretations and, where appropriate, tentative agenda decisions. In submitting comments ESMA includes its views on the consequences of the draft Interpretation or tentative agenda decision on the consistent application and enforceability of IFRS.	ESMA submitted comment letters on a number of tentative agenda decisions during the 11 months to 31 May 2015.

<p>As part of the planning phase of a post-implementation review (PiR), IASB staff approach selected parties for input to help the IASB determine the focus of the PiR. IASB staff undertakes outreach to ESMA as part of this planning phase. IASB staff can also consider for that purpose ESMA's published enforcement decisions relevant to the standard being reviewed. ESMA provides feedback to the IASB during the outreach phase of the PiR.</p>	<p>N/A – no planning our outreach phases of PIRs during the year to 11 months to 31 May 2015</p>
<p><u>Enforcement coordination and support</u></p>	
<p>IASB members and staff meet with the European Enforcers Coordination Sessions (EECS) regularly, and as necessary for urgent matters, to discuss current enforcement issues, and to discuss current developments at the Interpretations Committee.</p>	<p>Meetings with EECS held in July 2014, February 2015 and June 2015.</p>
<p>Periodically ESMA host or co-host seminars or workshops for staff of securities regulators and others involved in enforcement. ESMA invites IASB members and staff to attend and contribute to such seminars and workshops.</p>	<p>N/A for 11 months to 31 May 2015</p>
<p>As part of its regulatory work and as appropriate, ESMA consults with the IASB before issuing its publications that relate to IFRS application in the EU.</p>	<p>ESMA has discussed with us its work relating to Alternative Performance Measures, and its common enforcement priorities for 2014.</p>

<b>Future interactions and cooperation</b>	
The Foundation and ESMA commit to develop their operational cooperation with regard to the consistent application of IFRS and intend to do so as follows:	
IASB staff will interact with ESMA as part of ESMA's assessment of the IFRS Taxonomy in the context of its mission of drafting Regulatory technical Standards for use in electronic filings by EU listed entities.	IASB staff has continued to respond to specific queries from ESMA on the IFRS Taxonomy. Monthly meetings with ESMA are scheduled which take place when needed. ESMA is an observer to the IFRS Taxonomy Consultative Group.
IASB staff will explain what pressure points they anticipate are most likely to arise in the implementation of its new or significantly amended standards.	Bilateral meetings held with ESMA staff in September 2014 and April 2015. Among agenda items were implementation matters relating to IFRS 9 and IFRS 15.
ESMA will bring to the IASB's attention emerging financial reporting issues arising from financial innovation and other new developments.	ESMA has highlighted a number of emerging issues to us as part of our ad-hoc communications.