

Strengthening the IASB's deliberative processes

24 March 2004

Introduction and invitation to comment

1 The Trustees of the International Accounting Standards Committee (IASC) Foundation have initiated a review of the organisation's constitutional arrangements. The IASC Foundation Constitution sets out the operating procedures of the IASC Foundation and the International Accounting Standards Board (IASB), and requires five-yearly reviews of the Constitution. In launching the review of the Constitution, the Trustees have emphasised that they are willing to examine any aspect of the Constitution and will be consulting a wide range of organisations. In November 2003 the Trustees published a consultative document *Identifying Issues for the IASC Foundation Constitution Review* for public comment. The Constitution Committee has already identified the IASB's consultative arrangements, including the mandatory steps of the IASB's due process, as a major issue for the Constitution Review, which will take some time to complete. For more information on the Constitution Review, please see www.iascfoundation.org.

2 While the Trustees are undertaking a review of the IASB's due process and have oversight over the IASB's operating procedures, the IASB itself is now undertaking an internal review of its own due process. Based on the experience of its first three years and on input from interested parties, the IASB has already identified several areas where reforms could enhance public confidence in its procedures. This paper describes those areas and explains the steps that the IASB is taking (or has already taken). The Standards Advisory Council (SAC) and the International Financial Reporting Interpretations Committee (IFRIC) are also examining their own role and the Trustees and the IASB will consider their operations and their conclusions. The SAC recently reviewed the IASB's proposals, and the IASB has incorporated its suggestions into this paper. The Trustees will review the IASB's conclusions as part of their broader consideration of possible changes to the IASC Foundation Constitution.

3 The IASB invites those with an interest in its work to comment in writing on the improvements being implemented or proposed in this paper. Comments should be submitted in writing so as to be received by **25 June 2004**.

4 All responses will be put on the public record unless the respondent requests confidentiality. However, such requests will not normally be granted unless supported by good reason, such as commercial confidence. If commentators respond by fax or email, it would be helpful if they could also send a hard copy of their response by post. Comments should preferably be sent by email to **CommentLetters@iasb.org** or addressed to:

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5 After the period of public consultation, the IASB intends to assemble and publish a handbook of policies and procedures related to its due process to augment existing

documentation in the IASC Foundation Constitution and the IASB's *Preface to International Financial Reporting Standards*. Such a handbook would be subject to Trustee approval.

The IASB's formal due process: background

6 Sections 29-32 of the IASC Foundation Constitution (reproduced in the Appendix to this paper) lay out guidelines for the IASB to follow in establishing procedures for its due process. The Trustees have oversight authority to ensure that the IASB follows the general guidelines in the Constitution.

7 The IASB has established more specific procedures to ensure that its due process is followed and that appropriate consultation takes place. The *Preface to International Financial Reporting Standards* states:

Due process for projects normally, but not necessarily, involves the following steps (the steps that are required under the terms of the IASC Foundation Constitution are indicated by an asterisk*):

- (a) the staff are asked to identify and review all the issues associated with the topic and to consider the application of the *Framework* to the issues;
- (b) study of national accounting requirements and practice and an exchange of views about the issues with national standard-setters;
- (c) consulting the SAC about the advisability of adding the topic to the IASB's agenda;*
- (d) formation of an advisory group to give advice to the IASB on the project;
- (e) publishing for public comment a discussion document;
- (f) publishing for public comment an exposure draft approved by at least eight votes of the IASB, including any dissenting opinions held by IASB members;*
- (g) publishing within an exposure draft a basis for conclusions;
- (h) consideration of all comments received within the comment period on discussion documents and exposure drafts;*
- (i) consideration of the desirability of holding a public hearing and of the desirability of conducting field tests and, if considered desirable, holding such hearings and conducting such tests;
- (j) approval of a standard by at least eight votes of the IASB and inclusion in the published standard of any dissenting opinions;* and
- (k) publishing within a standard a basis for conclusions, explaining, among other things, the steps in the IASB's due process and how the IASB dealt with public comments on the exposure draft.

Addressing public concerns

8 In developing the procedures listed above, the IASB has drawn upon best practice of national standard-setters. However, many constituents have called on the IASB to take steps beyond existing national practices, and the IASB accepts the need to develop internal working procedures that set a new global standard for transparency and consultation. At the same time, the IASB must balance steps to enhance its deliberative processes with the need for timely decision-making in an age of rapidly changing and increasingly complex financial markets.

9 The IASB's experience and comments from interested parties indicate that particular attention should be paid to the following matters:

- the accessibility and transparency of the IASB's deliberative process
- the IASB's responsiveness to constituents' comments
- the extent of consultation before releasing proposals and standards.

Accessibility and transparency of the IASB's deliberative process

10 The IASB Foundation requires that "meetings of the IASB shall be open to the public, but certain discussions (normally only about selection, appointment, and other personnel issues) may be held in private at the discretion of the IASB." Additionally meetings with the Standards Advisory Council (SAC) and national standard-setters are open to the public. The International Financial Reporting Interpretations Committee (IFRIC) has followed the same practice. To assist those observing their debates, the IASB and the IFRIC post agendas for each meeting in advance on the Website and provide a set of 'observer notes' that elaborate on the topics to be discussed at the meeting. After each meeting, the decisions taken are published on the Website.

Access to IASB discussions

11 The IASB recognises that the expense and time involved in travel, whether to London or to other meeting venues, prevent some interested parties from attending its meetings. The IASB has therefore explored ways to improve access to its meetings that are both cost-effective and technologically feasible. As a result, the IASB:

- now **posts all of its observer notes on its Website** in advance of the meeting.
- **broadcasts its meetings over the Internet.** Users will be charged a minimal fee to cover connection charges after the testing period is complete.
- **will archive the Web broadcasts** to enable those who cannot observe the live discussions to listen to the IASB's deliberations at a later time.

Availability of IASB documents

12 Meeting observers have asked to be given more information in order to follow IASB deliberations. Beginning in the second half of 2003, the IASB has **expanded its observer notes for meetings**. These notes now include:

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

As mentioned above, the IASB also makes these observer notes available on its Website in advance of its meetings.

Publication of comment letters

13 Comment letters play a vital role in the IASB's deliberative process. The IASB (and the IFRIC) invites public comment on all proposals, which are published as exposure drafts, preceded as appropriate by discussion papers, and the analysis of the responses informs the IASB's discussions. Until now, the IASB's practice has been, when the comment period has ended, to publish on its Website all comment letters received, but not to do so until Board members have received a presentation of the staff analysis of the comments. The reason for this delay was that, as Board members and staff are expected to devote equal attention to each letter and judge the merits of the arguments in an objective and dispassionate manner, this was thought more likely to be achieved if Board members read all the letters as a single package before individual letters were publicised.

14 The IASB has received numerous requests for letters to be published when they are received during the comment period. Responding to this demand for 'real time' access to comment letters, **the IASB has decided to change its policy and in future, beginning with the exposure draft ED 6 *Exploration for and Evaluation of Mineral Resources*, will make comment letters freely available on its Website as soon as they are received and scanned into .pdf format.** This will normally be done on a weekly basis during the comment period.

The IASB's responsiveness to constituents' comments

Response to comment letters

15 Because of the important role that comment letters play in the deliberative process, many interested parties have argued that the IASB should make public its own views on the main arguments outlined in comment letters, or clusters of them on the same subject. In this way, the public could better follow the rationale of the IASB's decisions.

16 The IASB's policy has been to acknowledge comment letters received, but not to respond to each one individually. It has adopted this policy because of the staff resources and time that would be required to respond to individual letters. However, in the Basis for Conclusions on each pronouncement the IASB addresses specific issues raised in comment letters. Additionally, the analysis of comment letters is discussed in detail during the public sessions of the IASB's meetings.

17 Recognising that many interested parties either are unable to attend the public discussion of comment letters or wish to have an indication of the IASB's views before the the Basis for Conclusions is published, **the IASB will in future post on its Website a summary of the Board's position on the major points raised in the letters, once they have been addressed.**

Publication on the IASB's Website of latest proposals for new standards

18 The IASB recognises that constituents wish to see the draft text of standards before the text is finalised, because there may be a lengthy period between the publication of an exposure draft and the appearance of the ensuing standard. Analogies have been drawn with the process of legislation.

19 The IASB is exploring ways to make the drafting process more transparent to the general public. However, it is important to bear in mind that the process of drafting standards is different from that of preparing legislation. Legislation is generally framed by building on a proposed body of text (which is subject to extensive redrafting before enactment). In standard-setting, the text of proposals or of the subsequent conversion of an exposure draft into a standard is not created until the final stages of the project. The great majority of the IASB's time is spent in developing a series of decisions on issues arising on the project. Once it has addressed those issues, it reconciles the decisions to ensure consistency and coherence. It is only at that point that the staff are instructed to begin drafting an exposure draft or standard. In short, with legislation the policy debates usually take place on the basis of a complete draft enactment; with accounting standards, debates usually take place on the basis of technical questions before drafting begins.

20 Already the IASB's technical decisions, which are to be subsequently incorporated into drafts, are published immediately after its meetings. However, the IASB recognises that it may be difficult for interested parties to follow the cumulative effect of those decisions. The IASB is therefore taking the following steps.

- First, the IASB will attempt an experiment with upcoming projects, with the aim of adopting the practice as regular policy if it proves useful to interested parties. On its Website, the IASB will link the effect of particular Board decisions made since the exposure draft to help interested parties to follow the likely effect of proposed changes on specific text by using a two-column format. The first column will set out the text of an exposure draft, and in the column opposite it will be indicated whether any subsequent amendment has been agreed. The purpose of such an approach is to enable interested parties to follow the cumulative effect of IASB decisions before a final text is agreed.
- Second, the IASB will **make available near-final drafts of forthcoming exposure drafts and standards** on its Website before the Board approves them for publication. This new policy will be implemented after 31 March 2004.
- Third, the IASB will **use existing advisory groups (see below) or an appropriate expert group to discuss near-final drafts of exposure drafts and standards**. The task of the advisory group would be to identify any 'fatal flaws' or drafting issues in the text. These discussions would not, however, be used to re-deliberate technical issues already decided as part of the IASB's due process. Instead, the IASB would use these sessions to ensure that the drafting fairly represents its public decisions and does not include language that would make the standard inoperable.

The extent of consultation before releasing proposals and standards

21 The IASB has adhered to the procedures on consultation set out in the IASC Foundation Constitution and the IASB's *Preface to International Financial Reporting Standards*. In some cases, for example the improvements to IASs 32 and 39, the IASB has extended its normal due process to include public round-tables, the establishment of issue-specific working groups, and continuing *ad hoc* discussions with interested parties.

22 In its first three years, the IASB has received comments from interested parties requesting either clarification or more intensive use of:

- Steering committees/working parties/advisory groups

- Public hearings, field visits, and field tests
- Discussion papers
- Re-exposure of proposals, if significant changes are made

Use of steering committees/working parties/advisory groups

23 Interested parties have stressed the value that advisory groups can offer in providing access to recognised practical expertise. The IASB's due process requires it normally to form such advisory groups, and the IASB has established many such groups already. Examples include the committees established for Insurance, Share-based Payment, and Disclosures by Financial Institutions. Additionally, the IASB has turned to informal groups, such as a working party with financial institutions to address issues of concern on IASs 32 and 39. Such groups were not thought necessary for the Improvements project, because the improvements addressed existing standards and did not generate much controversy.

24 The IASB intends to make regular use of advisory groups on key topics now that the Improvements project is complete and the workload related to the March 2004 deadline is discharged. To emphasise the role that these advisory groups will play, the IASB will formalise the establishment of such groups on a particular project, if deemed necessary, and will announce the advisory group's membership. The IASB will provide these groups with a clear mandate and objectives. The IASB will need to examine further ways to ensure that the membership of advisory groups best reflects the diversity and breadth of interests involved in a particular area. Additionally, the IASB wishes to examine how existing advisory groups might be made more effective.

Public hearings and field-testing

25 Interested parties have suggested making public hearings and field-testing a more regular feature of the IASB's due process. The IASB must consider the use of public hearings and field tests as part of its due process. The IASB has already used field visits for its Business Combinations, Insurance, and Performance Reporting projects and their results have significantly influenced its decisions. For example, field visits caused the IASB to re-evaluate its position on the Performance Reporting project. The IASB held public hearings on the proposals on financial instruments, in addition to informal discussions with various constituent groups.

26 The IASB will make use of public hearings, field visits, and when appropriate, field-testing. As the IASB tackles new and complex issues (unlike the Improvements project) and the March 2004 time constraint is removed, it is likely that public hearings and especially field visits will become a more common feature of its work.

Discussion Papers

27 The Constitution requires the IASB to consider publishing discussion papers before issuing exposure drafts. The IASB has not yet published a discussion paper of its own, because most of its work programme until now has related to changes to existing standards. It is worth noting that the IASB had used the Discussion Papers or Draft Statement of Principles of the former IASC and G4+1 for its Share-based Payment and Insurance projects. The IASB has also not made greater use of discussion papers, because of time constraints related to the March 2004 deadline.

28 The IASB will make greater use of discussion papers in the future as it undertakes work on new projects that address complex topics, which would require a major shift from existing international (or national) practice. Decisions on the need for a discussion paper will be made project by project.

Re-exposure of proposals

29 Some commentators have questioned the criteria for re-exposure of proposals, if changes have been made. The objective of exposure of IASB proposals is to ensure that the Board is fully informed about the particular issue(s) involved, and is able to reach a conclusion based on all the relevant facts that it can assemble. Additionally, it assures all constituents that they have had an opportunity to make their views known to the Board before it reaches a final conclusion.

30 It follows that substantial changes in any proposal that result from deliberations after the publication of an exposure draft constitute potential grounds for a decision to re-expose.

31 In determining the need to re-expose an issue, the IASB assesses the evidence that it has considered and whether it has understood the issues and actively sought the views of constituents. It also considers whether the various points of view were aired in the original exposure draft, adequately discussed with constituents during the exposure period, and reviewed in the Basis for Conclusions of the proposed standard.

32 A formal vote in a public meeting is required for re-exposure. The IASB must therefore decide in a public meeting whether, in the light of any changes made, re-exposure is required. Publication of a re-exposed draft is subject to the same voting requirements as the publication of an exposure draft, as set out in Section 31 of the IASC Constitution.

APPENDIX – Sections 29-32 of the IASC Foundation Constitution

- 29 The IASB shall meet at such times and locations as it determines: meetings of the IASB shall be open to the public, but certain discussions (normally only about selection, appointment and other personnel issues) may be held in private at the discretion of the IASB.
- 30 Each member of the IASB shall have one vote. On both technical and other matters, proxy voting shall not be permitted nor shall members of the IASB be entitled to appoint alternates to attend meetings. In the event of a tied vote, on a decision that is to be made by a simple majority of the members of the IASB present at a meeting in person or by telecommunications, the Chairman shall have an additional casting vote.
- 31 The publication of an Exposure Draft, International Accounting Standard, International Financial Reporting Standard, or final Interpretation of the International Financial Reporting Interpretations Committee shall require approval by eight of the fourteen members of the IASB. Other decisions of the IASB, including the publication of a Draft Statement of Principles or discussion paper, shall require a simple majority of the members of the IASB present at a meeting that is attended by at least 60% of the members of the IASB, in person or by telecommunications.
- 32 The IASB shall:
- (a) have complete responsibility for all IASB technical matters including the preparation and issuing of International Accounting Standards, International Financial Reporting Standards, and Exposure Drafts, each of which shall include any dissenting opinions, and final approval of Interpretations by the International Financial Reporting Interpretations Committee;
 - (b) publish an Exposure Draft on all projects and normally publish a Draft Statement of Principles or other discussion document for public comment on major projects;
 - (c) have full discretion over the technical agenda of the IASB and over project assignments on technical matters: in organising the conduct of its work, the IASB may outsource detailed research or other work to national standard-setters or other organisations;
 - (d)
 - (i) establish procedures for reviewing comments made within a reasonable period on documents published for comment,
 - (ii) normally form Steering Committees or other types of specialist advisory groups to give advice on major projects,
 - (iii) consult the Standards Advisory Council on major projects, agenda decisions and work priorities and
 - (iv) normally issue bases for conclusions with International Accounting Standards, International Financial Reporting Standards, and Exposure Drafts;
 - (e) consider holding public hearings to discuss proposed standards, although there is no requirement to hold public hearings for every project; and
 - (f) consider undertaking field tests (both in developed countries and in emerging markets) to ensure that proposed standards are practical and workable in all environments, although there is no requirement to undertake field tests for every project.