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Comments should be submitted 12 July 2019.

International Accounting Standards Board
7 Westferry Circus, Canary Wharf
London E14 4HD
United Kingdom

[XX Month 2019]

Dear Mr Liikanen

Re: IFRS Foundation ED *Proposed amendments to the IFRS Foundation Due Process Handbook*

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the IFRS Foundation Exposure Draft *Proposed amendments to the IFRS Foundation Due Process Handbook*, issued on 29 April 2019 (the ‘ED’).

EFRAG acknowledges that most of the proposals in the ED provide necessary clarifications to the existing processes, reflect recent developments in working practices and improve internal consistency and understandability of the Due Process Handbook.

However, EFRAG suggests that for major projects, detailed effect analysis reports should be issued at each stage when key due process documents are issued.

EFRAG is also concerned about the ambiguity of the status and objectives of agenda decisions of the IFRS IC. EFRAG considers that in its due process the IASB should ensure that agenda decisions only contain explanatory material and references to the mandatory content of IFRS Standards and that diversity in practice and IFRS-like guidance is addressed through standard-setting such as through the annual improvements process.

In addition, EFRAG does not consider that a convincing case has been made for the introduction of Board agenda decisions. Creating another type of document that is intended to be used rarely (although there are no limitations on its use) adds to the existing confusion over agenda decisions and might have unintended consequences when it comes to application.

EFRAG’s detailed comments and responses to the questions in the ED are set out in the Appendix.

If you would like to discuss our comments further, please do not hesitate to contact Galina Borisova, Joachim Jacobs or me.

Yours sincerely,

Jean-Paul Gauzès
President of the EFRAG Board

Appendix - EFRAG's responses to the questions raised in the ED

Effect Analysis

Notes to constituents – Summary of proposals in the ED

- 1 *The Due Process Oversight Committee (DPOC) proposes amending the Due Process Handbook (Handbook) to reflect how the IASB assesses and reports the likely effects of a new or amended IFRS Standard as well as to incorporate the Effects Analysis Consultative Group (EACG) recommendations.*
- 2 *With respect to the scope of the IASB's work, the DPOC proposes amending the Handbook to emphasise that the principal focus of analysis remains on assessing and reporting how general purpose financial statements are likely to change because of new financial reporting requirements, whether those changes will improve the quality of financial statements and whether those changes are justifiable taking into consideration costs.*
- 3 *The DPOC also proposes that the Handbook should reflect that the IASB also analyses how greater transparency in financial reporting is likely to affect financial stability.*
- 4 *The proposed amendments to the Handbook more clearly differentiate between:*
 - (a) *the process of assessing the effects of a new or amended IFRS Standard throughout the standard-setting process as those new requirements are developed, and*
 - (b) *the effect analysis report that is published on issuance of a major Standard or amendment.*
- 5 *The proposed amendments also emphasise that the effect analysis report focuses on the likely effects of the final Standard and the steps that the IASB undertook in carrying out its assessment. Because high-quality, transparent and comparable financial information about entities enhances financial stability in financial markets around the world, the DPOC proposes that the Handbook should reflect that the IASB also analyses how greater transparency in financial reporting is likely to affect financial stability. Further, the proposed amendments consider that it is generally impossible to quantitatively assess the possible broader economic consequences of new financial reporting requirements. However, it is suggested that the IASB may assess specific economic effects where relevant. The IASB is not required to make a formal quantitative assessment of the overall effect of a new or amended Standard because initial and ongoing costs and benefits are likely to affect different parties in different ways,*
- 6 *The proposed amendments to the Handbook further emphasise that the process of assessing and reporting effects takes place throughout, and is intrinsic to, the standard-setting process and that any assessment and reporting is tailored to the nature of a particular change to financial reporting and the stage in the development of a new or amended IFRS Standard (e.g. research phase and standard-setting phase).*

Question 1 – Effect analysis

The DPOC proposes to amend the section ‘Effect analysis’ to:

- embed explicitly the process of analysing the effects throughout the standard setting process;
- explain the scope of the analysis;
- explain how the IASB reports the effects throughout the process; and
- differentiate the effect analysis process from the final effect analysis report.

Do you agree with these proposed amendments?

EFRAG’s response

EFRAG agrees with the amendments proposed by the DPOC to clarify the scope and purpose of effect analysis in the Due Process Handbook. However, EFRAG recommends that the scope of the effect analysis should be extended over time.

Rather than waiting for the end of a major project, EFRAG encourages the IASB to publish a detailed effect analysis with key due process documents at each stage during the standard-setting process as a basis for constituents’ understanding of the likely impact.

- 7 In EFRAG’s view the proposed amendments provide clearer information about the scope and purpose of effect analysis and its potential impact on different stages of the standard-setting process.
- 8 EFRAG has been urging the IASB to improve its approach to effect analysis on major Standards throughout the standard-setting process. Accordingly, EFRAG supports the proposed clarifications and updates to the Handbook in respect to the recent developments in how the effect analysis is used in the IASB current work. We especially welcome an analysis of the problem being addressed and the various options considered in developing a solution to that problem.
- 9 EFRAG would encourage the extension of the effect analysis process over time to include relevant macroeconomic effects and expanded quantitative data as these are essential to a full analysis and understanding of the of the effect of a major change to IFRS Standards.
- 10 EFRAG notes that assessing the effects of new proposals takes place during the standard-setting process. It is not clear from the proposals the method and depth at which the IASB should prepare an effect analysis report during the standard-setting process and how this would be published. The EFRAG experience in preparing a Working Paper that provides an early-stage analysis of some possible effects of the IASB Discussion Paper DP/2018/1 *Financial Instruments with Characteristics of Equity* has shown the value of such a detailed analysis early in the process. Our analysis informed the EFRAG comment letter and was a key basis for outreach with our constituents.

Agenda Decisions

Notes to constituents – Summary of proposals in the ED

- 11 *The IASB has confirmed the current status and role of agenda decisions, i.e. that they do not add or change requirements in IFRS Standards and therefore do not have the same status of IFRS Standards. Nonetheless, as currently explained in the Handbook, they should be seen as ‘helpful, informative and persuasive’.*
- 12 *The IASB noted that an agenda decision is published only after the IFRS IC has decided not to undertake standard-setting activity because amending IFRS Standards (including issuing an Interpretation) is not considered necessary.*
- 13 *The DPOC has confirmed its view that the due process relating to agenda decisions is appropriate. However, the DPOC noted that the Handbook currently provides limited information about agenda decisions and the explanatory material that they may contain. Therefore, the DPOC proposes to update the Handbook to clarify:*
 - (a) *the objective of including explanatory material in agenda decisions—i.e. to improve consistency in the application of IFRS Standards; and*
 - (b) *the nature of explanatory material in an agenda decision—i.e. such material should explain how the applicable principles and requirements in IFRS Standards apply to the transaction or fact pattern described in the agenda decision; and although explanatory material often provides additional information, it cannot add or change requirements in IFRS Standards.*

Timing of implementing an agenda decision

- 14 *In the IASB’s view, even though agenda decisions cannot add or change requirements in IFRS Standards, the explanatory material in an agenda decision might provide new information. As a result, an entity might determine it needs to change its previous accounting policy. Agenda decisions do not have an effective date like a Standard and, therefore, some entities might view the information provided in an agenda decision as having immediate effect upon its publication. If so, an entity could find it difficult in some circumstances to consider the information and determine whether to change its accounting because of it, and implement any resulting change.*
- 15 *The IASB concluded that there was no obvious way to address this matter through the standard-setting process because agenda decisions are not part of IFRS Standards. However, the IASB expects an entity to be entitled to sufficient time both to determine whether to make any accounting change as a result of an agenda decision and to implement any such change. Given that the Handbook provides the authoritative explanation about the role of agenda decisions, the DPOC proposes to capture in the Handbook the IASB’s expectation about the timing of application of accounting policy changes that result from an agenda decision.*

Board agenda decisions

- 16 *The DPOC proposes to amend the Handbook to enable the IASB also to publish an agenda decision—a Board agenda decision. This proposed amendment is intended to enhance the IASB’s ability to support the consistent application of IFRS Standards.*
- 17 *It is expected that Board agenda decisions will cover application questions in the period after a Standard is issued but before the Standard becomes effective or has become widely implemented, such as for example the questions from a Transition Resource Group.*

- 18 Therefore, the DPOC proposes that the Board agenda decisions follow the same due process as currently applied to IFRS IC agenda decisions. In particular, Board agenda decisions would be subject to public deliberation and public comment.
- 19 The proposed amendments also clarify that:
- (a) Board agenda decisions would not supplant the existing IFRS IC process for dealing with application questions. Stakeholders will continue to submit such questions directly to the IFRS IC.
 - (b) The IASB is not expected to publish agenda decisions as often as the IFRS IC. Rather they are expected to be published infrequently when the IASB both:
 - (i) considers an application question and concludes that standard-setting is not necessary; and
 - (ii) concludes that it should publish some explanatory material to support the consistent application of IFRS Standards. Stakeholders would have the ability to comment on a tentative Board agenda decision if they thought the IASB was not holding itself to this threshold.

Question 2 – Agenda decisions

The DPOC has proposed the following amendments relating to agenda decisions:

- to provide the IASB with the ability to publish agenda decisions;
- to better explain the objective and nature of explanatory material in an agenda decision; and
- to reflect in the Handbook that an entity should be entitled to sufficient time both to determine whether to make an accounting policy change as a result of an agenda decision, and to implement any such change.

Do you agree with these proposed amendments?

EFRAG's response

EFRAG considers that in its due process the IASB should ensure that agenda decisions only contain explanatory material and references to the mandatory content of IFRS Standards and that diversity in practice and IFRS-like guidance is addressed through standard-setting such as through the annual improvements process.

EFRAG questions the usefulness of creating an additional type of agenda decisions for the IASB Board that is expected to be used only rarely. Instead, EFRAG proposes that the IASB uses existing processes and means of communication.

Introduction

- 20 EFRAG has consistently expressed concerns about the status of agenda decisions. For example, in its comment letter on IASB ED 2018/1 *Accounting Policy Changes* EFRAG considered that the proposals in the ED raised broader questions including the status and objectives of agenda decisions. EFRAG also observed that the IASB and the IFRS IC are increasingly developing non-mandatory guidance in a variety of ways which can include implementation guidance, illustrative examples, educational material, or agenda decisions.

- 21 Some agenda decisions provide direct responses to the specific questions and fact patterns in the submission (e.g. the three agenda decisions on IFRS 15 *Revenue from Contracts with Customers* approved by the IFRS IC in March 2018). In other cases, the agenda decision essentially identifies the relevant guidance and literature applicable to the fact pattern and provides explanatory material without indicating a specific accounting treatment in response to the fact pattern.
- 22 However, some agenda decisions have been issued on controversial topics and/or provide new IFRS-like guidance. Recent examples include the tentative agenda decision on IAS 19 *Employee Benefits: Effect of a Potential Discount on Plan Classification*, the tentative agenda decision on *Holdings of Cryptocurrencies* and the agenda decision on IFRS 9 *Financial Instruments: Physical Settlement of Contracts to Buy or Sell a Non-financial Item*.
- 23 In this exposure draft, the DPOC has confirmed that an agenda decision does not have the status of IFRS Standards as it is only issued when the IFRS IC considers that IFRS Standards already provide ‘*an adequate basis for an entity to determine the appropriate accounting*’. Thus, agenda decision should only provide explanatory material.
- 24 The IASB also mentions that an agenda decision might often contain ‘***explanatory material that provides new information that was not otherwise available and could not otherwise reasonably have been expected to be obtained***’.
- 25 EFRAG considers that the above sentence raises questions as to whether the appropriate response to diversity in practice is to issue an agenda decision. If this new information could not ‘*reasonably be expected to be obtained*’, it means that this information is not included in and cannot be derived from existing IFRS Standards (as distinct from accompanying guidance). In such cases EFRAG recommends that standard-setting is required and the relevant IFRS Standard should be amended through a process such as the annual improvements process.
- 26 EFRAG notes, that the comment period of 60 days for tentative agenda decisions is appropriate only if the nature of agenda decision remains unchanged, i.e. it does not include any IFRS-like guidance. For IFRS-like guidance, EFRAG would expect that a more extended comment period would be provided.

Timing of implementing an agenda decision

- 27 EFRAG notes that some agenda decisions only make reference to existing requirements of IFRS Standards such as paragraphs that should be read in conjunction with each other in order to provide clarity around the application of a particular IFRS Standard. In such cases EFRAG considers that standard-setting is not required and an agenda decision is sufficient. In these cases, paragraphs 7.21 and 7.22 of Due Process Handbook address the issue generically but not the practical application as they refer to ‘*sufficient time to incorporate the new requirements into the legal systems*’ of preparers and cover transition provisions.
- 28 EFRAG notes that further clarifications about the timing of implementing an agenda decision were given in the article *Agenda decisions—time is of the essence* on 20 March 2019. EFRAG considers that there would be more appropriate means of providing clarification on such issues.

Board agenda decisions

- 29 EFRAG expresses the same concerns in relation to Board agenda decisions as are raised for agenda decisions issued by the IFRS IC. Further, although the Handbook suggests that such Board agenda decisions would not be frequent, there is no proposal to limit their use.

- 30 EFRAG acknowledges that in some particular cases the IASB might need to provide additional information explaining the application of the requirements in IFRS Standards. In EFRAG's view, the IASB should concentrate on existing ways of providing this information, such as amendments to IFRS Standards, Illustrative Examples or Basis for Conclusions. Creating one more type of document that will rarely be used will be confusing and might have unintended consequences when it comes to the application. EFRAG does not consider that a convincing case has been made for the introduction of Board agenda decisions.

Other matters

Notes to constituents – Summary of proposals in the ED

Educational material

- 31 *The DPOC notes that some of the newer types of educational materials being produced, such as webinars and articles developed to support implementation of new IFRS Standards are not currently addressed in Handbook.*
- 32 *The DPOC therefore proposes to update the Handbook to specify three broad categories of educational material and their level of review as follows:*
- (a) high-level summaries of the requirements in an IFRS Standard, such as an introductory webcast on a new Standard, are reviewed by an IASB member;*
 - (b) more detailed materials explaining the requirements in an IFRS Standard, such as a webcast on specific aspects of a Standard, are reviewed by two IASB members; and*
 - (c) material explaining or illustrating how the requirements in an IFRS Standard might be applied to particular transactions or circumstances, such as a new example demonstrating how the requirements might be applied to a particular fact pattern, are reviewed by three IASB members.*
- 33 *In the DPOC's view, these categories capture the type of materials currently produced and are expected to be sufficiently generic to accommodate different types of educational material about IFRS Standards that might be produced in the future.*
- 34 *The DPOC also proposes that all educational material should be subject to at least some level of the IASB member review.*

Adding projects to the IASB's work plan

- 35 *The DPOC proposes amending the Handbook to streamline the process of adding a new project to the IASB work plan.*
- 36 *The DPOC proposes to remove the difference in treatment of research and standard-setting projects by amending the paragraph 5.6 of the Handbook and adding the new requirement in paragraph 4.6 to:*
- (a) require the IASB to consult before formally adding a major project to the work plan (either the research programme or the standard-setting programme) if that project was not specifically contemplated in the most recent agenda consultation; and*
 - (b) explain in cases in which a project was specifically contemplated in the most recent agenda consultation, the IASB is not required to consult the Advisory Council and ASAF when it moves a project from the research programme to the standard-setting programme.*

IFRS Taxonomy

- 37 *The DPOC proposes to amend the IFRS Taxonomy due process annex to specify the DPOC's role overseeing the due processes associated with IFRS Taxonomy content.*
- 38 *The DPOC also proposes adding a table to summarise the approval and review process associated with IFRS Taxonomy updates. No substantive changes are proposed to the process for approval and review, but the added table will enhance its clarity.*

Additional amendments

- 39 *The DPOC proposes other minor amendments to bring the Handbook in line with current practice and to improve its understandability. In particular:*
- (a) *Consultative groups—paragraph 3.60 (formerly paragraph 3.59) explains that the composition of a consultative group might develop in line with the progression of a project, such that different expertise (and therefore different members) might be required at different stages of a project;*
 - (b) *Public nature of DPOC meetings—paragraph 2.15(a) reflects the DPOC's current practice of holding its meetings in public, except when it discusses personnel and other private issues in a private session;*
 - (c) *Remit of the Advisory Council—the amended references to the role of the Advisory Council reflect that it now advises the IASB (and Trustees) on strategic matters and, especially since the establishment and activity of ASAF, is no longer used as a technical consultative body. The changing role of the Advisory Council has also required a consequential amendment to the IFRS Foundation Constitution (see Appendix B);*
 - (d) *Role of the IFRS Foundation website in transparent communication—paragraphs 3.34–3.37 (formerly paragraphs 3.34–3.36) have been extended to explain more clearly how the IFRS Foundation website is used to inform stakeholders of ongoing due process;*
 - (e) *Discussion papers—the sentence stating that discussion papers do not contain a basis for conclusions or dissenting opinions has been removed from paragraph 4.13;*
 - (f) *Restructuring for navigability—material relating to supporting implementation and application of IFRS Standards has been relocated into a new section (8).*
 - (g) *Drafts for editorial review—paragraphs 3.31–3.33 have been updated to clarify the purpose of this particular type of review; and*
 - (h) *Comment letter—the definition in the Glossary of terms has been extended so as not to prohibit the future use of technology in the receipt of comment letters.*

Question 3 – Other matters

The DPOC has proposed to amend the Handbook on other matters including:

- the type of review required for different types of educational material;
- consultation in connection with adding projects to the Board's work plan;
- clarifications of the IFRS Taxonomy due process and Taxonomy updates and the role of the DPOC in overseeing Taxonomy due process.

Do you agree with these proposed amendments?

EFRAG's response

EFRAG agrees with the proposed amendments to the Handbook covering streamlining the process of adding the new projects to the IASB's work plan and clarification of the IFRS Taxonomy due process. These amendments will make the Handbook up to date with current working practices and will improve its consistency and understandability.

EFRAG considers that the level of review proposed for educational material implies that some educational material is similar to agenda decisions and is issued without any external due process.

Educational material

- 40 EFRAG supports updating the list of educational materials to reflect current working practices.
- 41 EFRAG considers that the introduction of different levels of review of educational material (from one to three IASB members) implies that some educational material will have a pervasive effect. In these cases, EFRAG considers that some external formal due process is warranted, depending on the type of educational material. This is particularly relevant for educational material that is similar to the Implementation Guidance attached to an IFRS Standard, which is subject to due process before the Standard is issued.
- 42 Further, EFRAG questions the reason for removal from existing paragraph 8.9 the mention that '*the IASB staff have a responsibility to ensure that any educational material is not confused with an IFRS or **perceived as being mandatory***'. This was replaced by '*educational material is subject to quality assurance processes, including to ensure that it does not add or change requirements in the Standards and is clearly distinguished from the Standards*'.

Adding projects to the IASB's work plan

- 43 EFRAG notes that the five-yearly agenda consultations are the principal means of determining the IASB work plan. EFRAG also notes that currently, outside the five-yearly agenda consultation, the IASB is not required to consult before adding a project to its research programme, even if that project was not considered in the previous agenda consultation. EFRAG therefore welcomes the proposed amendments in paragraphs 4.6 and 5.6 of the Handbook to require the IASB to consult before formally adding a major project to the work plan (either the research programme or the standard-setting programme) if that project was not specifically contemplated in the most recent agenda consultation. EFRAG considers that this will ensure that the IASB only focuses on projects that portray the current requests

of users of IFRS Standards. Accordingly, this will also ensure that the IASB continues to obtain the necessary formal input about the strategic direction and balance of its work plan.

- 44 EFRAG also supports the proposed amendment not to require the IASB to consult the Advisory Council and ASAF when it moves a project from the research programme to the standard-setting programme as this will streamline and eliminate duplication in the formal consultation process and be aligned to current practice.

IFRS Taxonomy

- 45 EFRAG agrees with the proposed amendment to specify the DPOC's role in overseeing the due processes associated with IFRS Taxonomy content. EFRAG notes that the proposed amendments will keep the DPOC up to date with the:
- (a) taxonomy publications issued within the period;
 - (b) annual review process of the IFRS Foundation staff;
 - (c) role and effectiveness of the IFRS Taxonomy Consultative Group; and
 - (d) membership of the various consultative groups.
- 46 EFRAG notes that some minor changes are proposed to the process for approval and review of IFRS Taxonomy updates which enhance the clarity of the process.
- 47 Therefore, EFRAG supports the proposed amendment to add a table to summarise the approval and review process associated with IFRS Taxonomy updates. However, EFRAG considers the table provided in paragraph A23 of the Annex to the ED is confusing and suggests the following revisions:
- (a) To remove the line "updates (not) subject to Board approval" as the Board approval is already mentioned in the last column of the table;
 - (b) For the "updates not subject to the Board approval" it is stated in the last column that the Board approval is required and the paragraph A20 is referenced, which states that "*the Board does not review or approve to proposed IFRS Taxonomy files*".

Additional amendments

- 48 EFRAG notes that the ED also proposes other amendments to bring the Handbook in line with current practice and improve understandability. EFRAG considers that such minor but necessary amendments are needed to contribute in keeping the Handbook updated and make it more user friendly.

Consequential amendments—the IFRS Foundation Constitution

Notes to constituents – Summary of proposals in the ED

- 49 *As a result of the proposed amendments to the Handbook relating to the IFRS Advisory Council, the IFRS Foundation Trustees are proposing consequential amendments to the IFRS Foundation Constitution. These amendments align to the proposed amendments of the Handbook that describe the Advisory Council as a strategic advisory body to the Trustees and the IASB.*

Question 4 – Consequential amendments to the IFRS Foundation Constitution

The Trustees of the IFRS Foundation have proposed to amend the IFRS Foundation Constitution as a result of the proposed amendments to the Handbook relating to the role of the IFRS Advisory Council.

Do you agree with these proposed consequential amendments?

EFRAG's response

EFRAG agrees with the proposed consequential amendments to the IFRS Foundation Constitution regarding the strategic role of the IFRS Advisory Council.

- 50 EFRAG agrees with the consequential amendments of the IFRS Foundation Constitution that would reflect the strategic role of the IFRS Advisory Council. This amendment will ensure consistent internal governance.