

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

Due Process Handbook Review - Summary and analysis of the comment letters received

- 1 Based on the comments received, the EFRAG Secretariat has developed a draft EFRAG final comment letter that is presented as agenda paper 01-03.

Structure of the paper

- 2 This comment letter analysis contains:
 - (a) Background;
 - (b) Summary of respondents;
 - (c) Summary of respondents' views;
 - (d) Main positions in EFRAG's proposed final comment letter;
 - (e) Appendix 1 - detailed analysis of responses to questions in EFRAG's draft comment letter, EFRAG Secretariat's recommendations and questions to EFRAG TEG; and
 - (f) Appendix 2 – list of respondents.

Background

- 3 The IFRS Foundation Due Process Handbook (Handbook) sets out the due process procedures that apply to the IASB and the IFRS IC. The Trustees of the IFRS Foundation committee - the Due Process Oversight Committee (DPOC) - is responsible for monitoring the IASB and the IFRS IC compliance with these due process procedures. The DPOC also reviews and, if necessary, amends the due process procedures in the light of changing due process conventions and comments from stakeholders.
- 4 On 29 April 2019 the IFRS Foundation issued an Exposure Draft *Proposed amendments to the IFRS Foundation Due Process Handbook* (the ED) with a comment period ending on 29 July 2019.
- 5 The ED's main proposed amendments to the Handbook are to:
 - (a) clarify the scope and role of the effect analysis throughout the standard-setting process;
 - (b) clarify the status of agenda decisions published by the IFRS IC and the nature of explanatory material contained therein;
 - (c) provide the IASB with the ability to publish its own agenda decisions;
 - (d) reflect that entities should be entitled to sufficient time to consider an agenda decision and if necessary, implement an accounting policy change;
 - (e) refine the categorisation and review of educational material produced by the IFRS Foundation;

- (f) refine the consultation required before adding major projects to the IASB's work plan;
 - (g) clarify the DPOC's oversight of the IFRS Taxonomy due process; and
 - (h) highlight the role of the IFRS Advisory Council as a strategic advisory body.
- 6 Further details are available on the EFRAG [website](#).
- 7 EFRAG published a [draft comment letter](#) on the proposals on 14 June 2019. In its draft comment letter, EFRAG acknowledged 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.
- 8 However, EFRAG suggested that for major projects, detailed effect analysis reports should be issued at each stage when key due process documents are issued.
- 9 EFRAG was also concerned about the ambiguity of the status and objectives of IFRS IC agenda decisions. EFRAG considered that the IASB should ensure in its due process 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 also raised concerns about the proposed Board agenda decisions.

Summary of respondents

- 10 At the time of writing, eight comment letters have been received. A list of respondents can be found in Appendix 2.

Summary of respondents' views

- 11 Consistent with the view taken by EFRAG, respondents generally agreed with the views in EFRAG's draft comment letter. However some respondents provided more corroborative information in order to support the EFRAG view.

Main positions in EFRAG's proposed final comment letter

- 12 In the proposed final comment letter, 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. Specific comments include:
- (a) for major projects, detailed effect analysis reports should be issued at each stage when key due process documents are issued, provided that the assessments of macroeconomic effects and quantitative analyses are proportionate and do not unnecessarily delay standard setting .
 - (b) the ambiguity of the status and objectives of agenda decisions of the IFRS IC needs to be addressed. 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.
 - (c) a convincing case has not 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.

Question to EFRAG TEG

- 13 Does EFRAG TEG agree with EFRAG Secretariat's recommendations in *Appendix 1: Analysis and Summary of Comments received*?

Appendix 1 - Detailed analysis of responses to questions in EFRAG's draft comment letter, EFRAG Secretariat recommendations and questions to EFRAG TEG

Question 1 – Effects 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?

Proposals in the ED

- 14 The DPOC proposes to amend the section 'Effect analysis' to:
- (a) embed explicitly the process of analysing the effects throughout the standard setting process;
 - (b) explain the scope of the analysis;
 - (c) explain how the IASB reports the effects throughout the process; and
 - (d) differentiate the effect analysis process from the final effect analysis report

EFRAG's tentative position

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.

Summary of constituents' comments

- 15 All eight respondents agreed that the proposed amendments.
- 16 Also all respondents agreed with EFRAG's recommendation on publishing an effect analysis throughout the entire standard-setting process. However, one respondent noted that, although they agree with the inclusion of macroeconomic effects and quantitative data in the effect analyses in case of major changes in the Standards, they acknowledge that such analyses could delay the issuance of final standards, as thorough and accurate execution of these analyses could require substantial time and resources. Therefore they noted that the IASB must ensure that quantitative assessments should only be undertaken where relevant and in a proportionate way, to which they would add that it should not unnecessarily delay standard setting.
- 17 One respondent noted that the Handbook should differentiate between the *process of assessing the effects of a new or amended IFRS* throughout the standard-setting process as new requirements are developed, and the *effect analysis report that is published* on issuance of a major Standard or amendment. The respondent noted that it is challenging to perform an effect analysis on all the matters described in paragraph 3.79 of Appendix A of the Exposure Draft. As such, the respondent suggested to reassess the impacts as part of the Post Implementation Review of

each standard and to benchmark it to the effect analysis published with the Standard.

EFRAG Secretariat's recommendations to EFRAG TEG

- 18 Considering the comments received, the final position in the draft comment letter was not changed. However, additional text was added to:
- (a) include the fact that caution should be taken when publishing an effect analysis throughout the entire standard-setting process so that the analysis of the macroeconomic effects and quantitative analysis do not unnecessarily delay standard setting; and
 - (b) suggest that a comparison should be proposed in the Handbook between the effects analysis report and the assessment of the effects of a new or amended IFRS.

Please refer to paragraphs 3 and 4 of the proposed final comment letter

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 tentative position

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.

Summary of constituents' comments

- 19 All eight respondents generally agreed with the proposed view taken by EFRAG. However they have provided the information below to corroborate the view:

Introduction

- 20 Respondents made the following remarks:
- (a) They recommended adding a statement that explanations within agenda decisions should be short and focused as they considered that, if extensive explanations are required, an IFRIC Interpretation or an amendment of a standard or its accompanying documents would be the most appropriate solution. One respondent noted that IFRS IC agenda decisions should only state that a project will not be executed.
 - (b) One respondent proposed that explanatory material should not be contained in an agenda decision.

- (c) One respondent noted that general consensus should be obtained through public consultation.
- (d) Other comments included that the Handbook should be expanded to state that:
 - (i) a preparer may and must exercise judgement in order to decide on how to deal with an agenda decision;
 - (ii) an accounting treatment that differs from an agenda decision does not necessarily constitute an error in the accounting in the prior periods according to IAS 8 *Accounting Policies, Changes in Estimates and Errors*. The conclusion on the nature of the changes that may follow from the application of an agenda decision depends on specific facts and circumstances;
 - (iii) one respondent noted the balloting procedure for agenda decisions requires only a simple majority vote. This respondent recommended support for a broader consensus as a simple majority vote inherently reflects that there is ample discussion on the clarity of the standards under review. This respondent is of the opinion that this in itself should justify adding a separate (small) project to the standard setting agenda, instead of an agenda decision. Another respondent expressed a similar concern stating that an agenda decision should not be controversial and should not have more than three to four opposing views;
 - (iv) a test should be performed to assess whether a proposed agenda decision could create more diversity and whether it improves the quality of financial reporting. The respondent did not provide further details on the procedures that have to be taken in order to perform the test (the counterparties who will execute the test, when exactly it should be performed, etc.); and
 - (v) one respondent noted that clear definitions should be provided to distinguish between an:
 - agenda decision; and
 - IFRIC Interpretation.

Timing of implementing agenda decisions

- 21 Respondents suggested that the Handbook should also clarify that what sufficient time means depends on the circumstances of the individual preparer and the fact pattern under consideration.
- 22 One respondent quoted a statement made by one IASB Board member where sufficient time referred to months rather than years. This respondent noted that it is unreasonable that preparers should be forced to amend their accounting policies within a couple of months therefore they deemed the proposed guidance in the Handbook to be insufficient.
- 23 Two respondents noted that because agenda decisions are not authoritative in nature and do not have an effective date, there is no reason to give preparers sufficient time to implement them.

IASB agenda decisions

- 24 Apart from agreeing with the EFRAG view that IASB agenda decisions should not be introduced:
 - (a) One respondent was concerned that IASB agenda decisions would contribute to a continuous fragmentation of IFRS Standards as they explain explicitly

how certain requirements of IFRS Standards have to be applied in specific circumstances or under unique fact patterns. This respondent noted that such a task is a task of the IFRS IC.

- (b) Another respondent was concerned that IASB agenda decisions might limit the possibility for preparers to exercise judgements, because their auditors might expect them to exercise judgements in a certain way considering an agenda decision of the IASB.
- (c) Even if IASB agenda decisions would be rare as expected by the ED, they might accumulate to a substantial number as time goes by which would increase complexity, placing unnecessary burden on users and preparers who would need to keep up to date with the various documents.
- (d) Respondents noted that introducing IASB agenda decisions would create another type of document with unclear status. One respondent therefore strongly opposed the introduction of IASB agenda decisions, while the other noted that clarification is needed on the prominence of agenda decisions by the IASB and the IFRS IC together with other explanatory material.

Other matters

- 25 One respondent was of the view that the work of Transition Resource Groups (TRGs) provides useful educational material to promote the consistency in application of new standards. However this respondent noted that the Handbook is silent on the existence and the role of these groups.

EFRAG Secretariat's recommendations to EFRAG TEG

- 26 Although EFRAG's position did not change, EFRAG Secretariat proposes to amend the comment letter to add additional text to supplement the view taken in the draft comment letter. Please refer to paragraphs 8-9 and paragraphs 14-16 of the proposed final comment letter.

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 tentative position

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.

Summary of constituents' comments

- 27 Consistent with EFRAG's response, all five respondents who answered the question supported the proposed amendments.

- 28 Two respondents also highlighted the fact that the development of educational material in their view should not result in standard setting, nor should it add or change requirements in existing standards. One of these respondents noted that such changes should follow the regular standard setting procedures.
- 29 One respondent made the following additional remarks:
- (a) paragraph 4.6 of Appendix A to the ED mentions the consultation procedure only if the IASB intends to add a project to its work plan, but it does not address with equal detail the situation in which the IASB decides to change its priorities in response to changing circumstances.
 - (b) To ensure that the IASB maintains open dialogue, it is suggested to retain the reference to the establishment of regular meetings with security regulators in paragraph 3.56 of Appendix A to the ED;
 - (c) It is important for the correct understanding by stakeholders of the progress in any standard-setting process to continue to clearly indicate whether or not the decisions of the IASB are tentative or final therefore the deletion of the word 'tentative' in paragraph 3.3 of Appendix A to the ED is questioned;
 - (d) The respondent suggested that more detail is provided on the role of Board Advisors in paragraph 3.41 of Appendix A to the ED; and
 - (e) With regards to paragraph 7.7 of Appendix A to the ED, the respondent is of the view that the dismissal of an issue for which the IFRS IC has identified relevant concerns about the consistent application of IFRS Standards, should take place only when the standard setting work to address that issue has already been initiated and it is expected to be finalised in the short term.

EFRAG Secretariat's recommendations to EFRAG TEG final position

- 30 Although EFRAG's position did not change, EFRAG Secretariat proposes to amend the comment letter to add the additional text in paragraph 26 of the proposed final comment letter.

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 tentative position

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

Summary of constituents' comments

- 31 All five respondents who answered the question agreed with the EFRAG view to support the proposed consequential amendments.
- 32 However, one respondent noted that the reference to the fact that the IFRS Advisory Council would be in charge of strategic matters is not very informative. Therefore this respondent suggested that more clarity is provided on the expectations regarding the strategic role of the IFRS Advisory Council and of its composition.

EFRAG Secretariat's recommendations to EFRAG TEG

- 33 Considering the comments received from respondents, the final position in the draft comment letter has not been changed.

Appendix 2 – List of respondents

- 1 Respondents whose comment letters were considered by the EFRAG Board before finalisation of the comment letter were as follows:

<i>Name of constituent</i>	<i>Country</i>	<i>Type / Category</i>
DZ Bank	Germany	Preparer
Swedish Enterprise Accounting Group (SEAG)	Sweden	Preparer
Dutch Accounting Standards Board (DASB)	The Netherlands	Standard Setter
CNC	Portugal	Standard Setter
ICAEW	United Kingdom	Accounting Association
Accountancy Europe	Europe	Accounting Association
ESMA	Europe	Regulator
OIC	Italy	Standard Setter