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International Accounting Standards Board
7 Westferry Circus, Canary Wharf
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United Kingdom

[XX July 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, provided that the assessments of macroeconomic effects and quantitative analyses are proportionate and do not unnecessarily delay standard setting.

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

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, provided that the analysis of the macroeconomic effects and quantitative analysis do not unnecessarily delay standard setting.

- 1 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.
- 2 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.
- 3 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. However, EFRAG notes 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, EFRAG suggests that caution should be taken when publishing an effect analysis throughout the entire standard-setting process so that the analysis is proportionate, particularly with respect to macroeconomic effects and quantitative analysis, so that the effect analysis does not unnecessarily delay standard setting.
- 34 EFRAG also suggest that, as part of a post-implementation review, the Handbook should require a comparison should be made between the identified actual effects and the final effect analysis report on issuance of a major IFRS Standard or amendment.

5 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 will 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.

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

46 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.

57 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.

68 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*. In order to minimise controversy when it is concluded that standard setting is not required, either due to clarity within IFRS Standards and/or the fact that there is no diversity in practice, EFRAG suggests that a broader consensus rather than a simple majority vote is required. A simple majority where the vote is close suggests that there is a lack of clarity and/or diversity in practice.

79 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 decisions should only provide explanatory material and should be concise and focused as the need for extensive explanation could indicate that standard-setting is required. It should also not limit the use for exercising judgement in order to decide on how to deal with an agenda decision. EFRAG also proposes that the Handbook should state that an accounting treatment that differs from an agenda decision does not necessarily constitute an error in prior periods, as defined in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

810 In paragraph 8.5 the Handbook 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***’.

911 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.

4012 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

4413 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.

4214 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 notes that the implementation of agenda decisions depends on the individual preparer and the fact pattern under consideration, therefore the mere reference to months is not considered sufficient as other factors include the time of the agenda decision and the entity’s reporting date. EFRAG considers that there are more appropriate means of providing clarification on such issues.

Board agenda decisions

15 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. This could add to complexity, placing unnecessary burden on users and preparers who would need to keep up to date with a growing collection of authoritative and quasi-authoritative requirements.

16 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 such as the reduced use of judgement. Also the prominence of Board agenda decisions over other agenda decisions and materials have not been clarified. EFRAG does not consider that a convincing case has been made for the introduction of Board agenda decisions.

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

4317 EFRAG supports updating the list of educational materials to reflect current working practices.

4418 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.

4519 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

4620 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.

4721 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

4822 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.

4923 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.

20—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:~~

21—~~To remove the line "updates (not) subject to Board approval" as the Board approval is already mentioned in the last column of the table;~~

2224 ~~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

25 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.

26 In addition, EFRAG suggests that the following be considered in finalising the amendments to the Handbook:

(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.

(a)(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.

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.

2327 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.