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Mr. Jean-Paul Gauzès
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Submitted via websites

Brussels, 15 July 2019

Subject: Proposed amendments to the IFRS Foundation Due Process Handbook

Dear Mr. Liikanen, Mr. Gauzès,

We are pleased to respond to the IFRS Foundation's Exposure Draft concerning Proposed amendments to the Due Process Handbook (*Handbook*) and EFRAG's Draft Comment Letter thereon.

Generally speaking, Accountancy Europe welcomes amendments to the due process procedures in the light of changing due process conventions and comments from stakeholders.

Effect analysis

We think the *Handbook* should more clearly differentiate between two related but different matters: the process of assessing the effects of a new or amended IFRS throughout the standard-setting process as those new requirements are developed, and the effect analysis report that is published on issuance of a major Standard or amendment. This is to avoid giving a false impression that the International Accounting Standards Board's (Board) analysis of the effects takes place only at the end of the standard-setting process when the effect analysis report is published; rather than occurring throughout the standard-setting process.

Agenda decisions

At the Board level

We are of the opinion that this new due process tool, i.e. Board agenda decisions, is not necessary at Board level. Accountancy Europe thinks that the IFRS Interpretations Committee's (Committee) existing process (i.e. issuing an interpretation or publishing an agenda decision) for dealing with application questions is fit for this purpose. We also suggest that the Board should submit application issues, which are raised at the Board level, to the Committee. The Committee should then address these application questions in line with its existing process (i.e. standard setting or publishing an agenda decision).

At the Committee level

Accountancy Europe thinks it would be helpful to establish a clear definition of an agenda decision issued by the Committee compared to an IFRIC Interpretation issued by the same body. We recommend that an agenda decision should only explain the application of existing requirements without adding new information or explanatory material. Adding new information or explanatory material would result in standard setting.

We believe that when the Committee concludes that a standard setting project is not needed since the Standard itself is clear enough and/or there is no diversity in practice, the agenda decision that explains the existing requirements should not be controversial; there for a 'broader consensus' (e.g. not more than 3 or 4 members vote against) would be expected for such agenda decisions. A 'tight' majority, like what we have seen in the recent past, is indeed hard to reconcile with a communication indicating that the existing requirements are clear and do not require interpretation.

We kindly refer to the annex to this letter for our detailed responses.

Please do not hesitate to contact Ben Renier (Ben@accountancyeurope.eu) in case of any additional questions or remarks.

Sincerely,



Florin Toma

President



Olivier Boutellis-Taft

Chief Executive

ABOUT ACCOUNTANCY EUROPE

Accountancy Europe unites 51 professional organisations from 36 countries that represent **1 million** professional accountants auditors and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18).

ANNEX 1 – DETAILED RESPONSE

- (1) We are pleased to provide below our detailed responses to the questions.

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 Board 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?

- (2) Accountancy Europe supports amending the IFRS Foundation Due Process Handbook (*Handbook*) to reflect how the International Accounting Standards Board (Board) assesses and reports the likely effects of a new or amended IFRS as well as to incorporate the Effects Analysis Consultative Group's recommendations. We also believe that an effect analysis would be useful in the context of the development of important IFRIC Interpretations by the IFRS Interpretations Committee (Committee).
- (3) With respect to the scope of the Board's work, we concur with amending the *Handbook* to emphasise that the principal focus of the Board's 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. The *Handbook* should also reflect that the Board analyses how greater transparency in financial reporting is likely to affect financial stability. This is consistent with the Board's recent work in developing the effect analysis for IFRS 17 *Insurance Contracts*.
- (4) The amendments to the *Handbook* should also further emphasise that the process of assessing and reporting effects takes place throughout, and is intrinsic to, the standard-setting process.
- (5) The *Handbook* should indeed more clearly differentiate between two related but different matters: the process of assessing the effects of a new or amended IFRS throughout the standard-setting process as those new requirements are developed, and the effect analysis report that is published on issuance of a major Standard or amendment. This is to avoid giving a false impression that the Board's analysis of the effects takes place only at the end of the standard-setting process when the effect analysis report is published; rather than occurring throughout the standard-setting process.
- (6) Accountancy Europe also thinks it is challenging to perform an effect analysis on all the matters described in 3.79 of Appendix A of the Exposure Draft. As such, we believe it would be a good governance practice 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.

Question 2: Agenda decisions

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

- *to provide the Board 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?

Board agenda decisions

- (7) An agenda decision is currently a due process tool available only to the Committee. The Due Process Oversight Committee (DPOC) proposes to amend the *Handbook* to enable the Board also to publish an agenda decision, i.e. a Board agenda decision.
- (8) We do not believe that this new due process tool, i.e. Board agenda decisions, is necessary at Board level. Accountancy Europe thinks that the Committee's existing process (i.e. issuing an interpretation or publishing an agenda decision) for dealing with application questions is fit for this purpose. We also suggest that the Board should submit application issues, which are raised at the Board level, to the Committee. The Committee should then address these application questions in line with its existing process (i.e. standard setting or publishing an agenda decision).

Objective and nature of explanatory material in an agenda decision

- (9) Firstly, Accountancy Europe thinks it would be helpful to establish a clear definition of an agenda decision issued by the Committee compared to an IFRIC Interpretation issued by the same body. We recommend that an agenda decision should only explain the application of existing requirements without adding new information or explanatory material. Adding new information or explanatory material would result in standard setting.
- (10) We believe that when the Committee concludes that a standard setting project is not needed since the Standard itself is clear enough and/or there is no diversity in practice, the agenda decision that explains the existing requirements should not be controversial; there for a 'broader consensus' (e.g. not more than 3 or 4 members vote against) would be expected for such agenda decisions. A 'tight' majority, like what we have seen in the recent past, is indeed hard to reconcile with a communication indicating that the existing requirements are clear and do not require interpretation.
- (11) Accountancy Europe also thinks it is currently sometimes challenging to determine the difference between an agenda decision, an IFRIC Interpretation and an amendment.
- (12) As such, we would suggest that anything which consists of 'explanatory material' (paragraph 8.3 of Appendix A of the Exposure Draft), 'additional information' (paragraph 8.4 of Appendix A of the Exposure Draft), or 'new information that was not otherwise available and could not otherwise reasonably have been expected to be obtained'¹ (paragraph 8.5 of Appendix A of the Exposure Draft) would likely result in some form of standard setting project, not in an agenda decision.
- (13) A 'common sense' test should also be performed, when about to issue an agenda decision, to identify (1) whether the agenda decision could create more diversity in practice and (2) whether the agenda decision is improving the quality of financial reporting. An agenda decision that results in acknowledging that different approaches are possible, shortly followed by a standard setting project to reduce the scope of the possibilities might end up being counterproductive. Equally, if an agenda decision is technically correct but does not improve the quality of financial reporting, a standard setting project might be more appropriate. Not issuing an agenda decision should be considered in those cases.

¹ Is this wording correct? Does this concern new information?

Timing of implementing agenda decisions

- (14) An entity might determine it needs to change its previous accounting policy due to an agenda decision. However, agenda decisions do not have an effective date like a Standard.
- (15) Accountancy Europe agrees with the proposal 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.

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?

Educational material

- (16) Accountancy Europe supports the proposal to update the *Handbook* to specify three broad categories of educational material. Different levels of review apply depending on the nature of the material.
- (17) We also concur with the proposal that all educational material should be subject to at least some level of Board member review, considering that the material is now more focused on supporting those using IFRS Standards than in the past. On the other hand, we would like to underline that the development of educational material should not result in standard setting, i.e. the educational material should not add or change requirements in the Standards. Standard setting indeed requires an appropriate due process, including the involvement of external stakeholders.

Adding projects to the Board's work plan

- (18) We support the requirement that the Board should consult before formally adding a major project to its work plan (either a research programme or a standard-setting programme) if the project was not specifically contemplated in the most recent agenda consultation.
- (19) On the other hand, Accountancy Europe agrees that in cases in which a project was specifically contemplated in the most recent agenda consultation, the Board is not required to consult the Advisory Council and Accounting Standards Advisory Forum (ASAF) when it moves a project from the research programme to the standard-setting programme.

IFRS Taxonomy

- (20) We agree to amend the IFRS Taxonomy due process annex to specify the DPOC's role overseeing the due processes associated with IFRS Taxonomy content.
- (21) Accountancy Europe also supports adding a table to summarise the approval and review process associated with IFRS Taxonomy updates. No substantive changes are proposed to this process for approval and review, but the added table will enhance its clarity.

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?

- (22) Accountancy Europe agrees with the proposed consequential amendments to the IFRS Foundation Constitution that the Advisory Council acts as a strategic advisory body to the Trustees and the Board.