



European Financial Reporting Advisory Group ■

IASB and IFRS Interpretation Committee
proposed Due Process Handbook

Feedback statement from comment letters

31 October 2012

Introduction and summary of contents

Objective of the feedback statement

EFRAG published its final comment letter on the proposed IFRS Foundation Due Process Handbook on 20 September 2012. This feedback statement describes the main comments that it received and describes how these comments were considered by EFRAG during its discussions.

Background

During 2011 and 2012 the Due Process Oversight Committee has been reviewing its operating protocol, and requested the IFRS Foundation to update the Due Process Handbook for the IASB and the IFRS Interpretations Committee.

The invitation to comment on the proposed Due Process Handbook was published in May 2012 with a deadline of 5 September for comment. On 19 July 2012, EFRAG issued its draft comment letter with a comment deadline of 6 September and received a total of 11 comment letters.

Information to be considered together with this document

To view information related to this project, please access EFRAG's project webpage on IFRS Foundation Due Process Handbook by clicking [here](#).

Comment letters received

The comment letters received came mainly from National Standard Setters, a preparer, a national preparers' association and a European preparers' association.

Comment letters received are available on EFRAG's project webpage on IFRS Foundation Due Process Handbook.

Summary of contents

1. Consensus

- a) Objectives and principles (page 3)
- b) Shared due process (page 4)
- c) Field testing (page 5)
- d) Effect analysis (page 6)
- e) User needs (page 7)
- f) Respective responsibilities of Board and Staff (page 8)
- g) IFRS IC Transparency of submissions (page 8)
- h) IFRS IC Rejection notices (page 9)
- i) Transparency (page 9)
- j) Responsibilities of DPOC, breaches of Due Process (page 10)
- k) IFRS for SMEs (page 11)

Feedback received

1. Consensus

Respondents' comments

Objectives and principles

In its draft comment letter EFRAG recommended that the Due Process Handbook should explain the overall objectives of the due process, and made suggestions in relation to shared identification with constituents; allowing for proper consultation and discussion; and setting the legitimacy by gathering arguments and reference to evidence in the basis for conclusions.

Few commentators referred directly to the objectives of the IASB due process, but in their comments on the proposed Due Process Handbook several pointed in the same direction, or expressed views consistent with the objectives suggested by EFRAG.

In its draft comment letter EFRAG supports the three underlying principles identified in the proposed Due Process Handbook: transparency, full and fair consultation and accountability. However, EFRAG emphasises that the overarching principle is to bring improvement to financial reporting at an acceptable cost, where needs for improved, for revised or for new accounting requirements have been evidenced.

Several respondents agreed to emphasise the need to demonstrate improved financial reporting. One National Standard Setter indicated that the IASB needed to take into account, as early as possible in its process, the needs expressed by its constituents.

Our response

Objectives and principles

EFRAG considered the reactions and the overall direction of the comments received, and concluded that there was support in asking the IFRS Foundation to include a discussion of the objectives and overarching principle.

Feedback received

1. Consensus

Respondents' comments

Shared due process

In its draft comment letter EFRAG welcomed that involving, and coordinating with regional and national accounting standards bodies in IASB's technical activities in the research programme phase, in outreach activities and field testing, in post-implementation reviews and other surveys, is an effective way to promote the identified principles of transparency, full and fair consultation and accountability. EFRAG recommends that shared due process be identified as the way forward.

EFRAG received a number of comment letters supportive of the promoted shared due process between the IASB and regional and national accounting standards bodies.

One National Standard Setter supported a stronger involvement of National Standard Setters in due process activities, but did not agree with a mandatory shared due process since it believed that such a mandatory process would not improve the due process. It believed that involvement of too many parties in the due process would make it difficult to reach a consensus, and would delay the standard-setting process.

Our response

Shared due process

EFRAG considered the position of those who did not support the shared due process as promoted by EFRAG. It should be clear that a shared due process is not intended to take away any form of leadership from the IASB, nor is it intended to become either a mandatory or a necessary process.

EFRAG noted that increasing cooperation between the IASB and regional and national accounting standards bodies has several advantages such as stakeholders being asked for their views only once, as well as an increased mutual understanding, as everyone works with the same information, leaving less room for interpretation while being involved at the same time. EFRAG has welcomed the cooperative spirit found in the Due Process Handbook and referred to EFRAG's experience with outreach activities in partnership with National Standard Setters in Europe, and in cooperation with the IASB.

Feedback received

1. Consensus

Respondents' comments

Field testing

In its draft comment letter EFRAG has welcomed the inclusion of field testing in the standard-setting process as envisaged in the Due Process Handbook as it answers a number of questions such as (i) is the standard operational, (ii) what is the cost of implementation of the standard and (iii) is the standard difficult to apply, or not.

The reactions received by EFRAG are supportive of a further improvement in the field testing activity of the IASB. Some respondents are questioning a more timely reporting of what the IASB has learned from the fieldwork, and how this has been reflected in an exposure draft or standard. Respondents are also looking for a more balanced weighting of inputs given to jurisdictions that apply and those that do not apply IFRS. On the preparers' side there is a concern that fieldwork at every step of the due process could mean considerable extra work and effort for them.

Our response

Field testing

EFRAG acknowledges the reaction from the preparers' side. A balance is to be found between the benefits of field tests for preparers and the cost of participating in them, even when participation in such field tests is on a voluntary basis. EFRAG therefore proposes that field tests focus on all major changes to standards. Field tests should not necessarily be included at every step of the decision-making process.

Differentiation between jurisdictions using and those not using IFRS is included in the EFRAG letter at an overarching level.

Feedback received

1. Consensus

Respondents' comments

Effect analysis

In its draft comment letter EFRAG welcomed the inclusion of effect analysis at every step of the standard-setting process. EFRAG stressed the importance of the IASB Board being involved in the effect analyses. EFRAG also pointed out that the results of effect analyses should be publicly available prior to the decision by the IASB, and the results should be taken into consideration in the decision-making process.

EFRAG received support for its position that the results of effect analyses should be formally approved by the IASB Board. One respondent felt that effect analysis exercises should have more detailed components. Overall, several respondents supported assessing the cost/benefit balance as a criterion to proceed with a project. They also believed that the comments on effects analyses should have a more prominent place in EFRAG's comments to the IASB.

Our response

Effect analysis

Effect analysis should be integrated into the standard-setting process over the life-cycle of projects. UK ASB and EFRAG released in July 2012 a position paper "Considering the Effects of Accounting Standards", the main messages of which were supported by thirteen European National Standard Setters. In order not to duplicate work with this recently finished position paper, and in order not to make the comment letter too detailed and lengthy, EFRAG has chosen for a general reference to this position paper.

EFRAG agrees that the cost/benefit balance is an important criterion for preparers, and has addressed this in two ways. Firstly, EFRAG requests from the IASB that effect analyses take into account the principle of proportionality. Secondly, EFRAG asks from the IASB that the burden for preparers be taken into account.

Feedback received

1. Consensus

Respondents' comments

User needs

In its draft comment letter EFRAG requested that the notion of users needs should be better developed. The perspective of securing long-term stakeholder value aligns in many cases with the views of buy-side analysts, longer-term oriented users and preparers in their stewardship responsibilities. The Due Process Handbook should provide guidance on how users needs should be identified and analysed.

Some respondents questioned why analysts' needs were so relevant. Some emphasised the importance of balancing the positions of all stakeholders rather than focusing on a particular group.

One National Standard Setter believed that what they considered as a philosophical question of how to solve the conflict between users and preparers, should not belong to the proposed Due Process Handbook.

One National Standard Setter suggested to refer to the auditability of standards in addition to users needs.

Our response

User needs

EFRAG believes that the position taken into consideration by the various stakeholders in the standard-setting process should be balanced. However, efforts should be undertaken to get sufficient input from users.

In finalising its comment letter EFRAG has considered the reference to the auditability of the standards, but believes that auditability is part of enforceability and, therefore, is a kind of qualitative characteristic.

Feedback received

1. Consensus

Respondents' comments

Respective responsibilities of Board and Staff

In its draft comment letter EFRAG put forward that the roles of the IASB and its staff should clearly be distinct. In EFRAG's view the IASB is responsible for making decisions and for leading the standard-setting process in general. The IASB staff should support the decision-making process, but not be in a position of direction or decision.

Most respondents which reacted to this point agreed with EFRAG position to ask for clarification of the respective roles of Board and Staff. One respondent disagreed with this point of view and found the comments to be written in a far too defensive way.

IFRS IC Transparency of submissions

In its draft comment letter EFRAG highlighted that, at this moment, there is no clarity as to who submits issues to the IFRS Interpretations Committee, and that more transparency is needed in this area.

Only one respondent reacted to this point. The respondent did not support EFRAG's request that the type of submitter and the country of origin be indicated in the publication of submissions to the IFRS Interpretation Committee.

Our response

Respective responsibilities of Board and Staff

In finalising its comment letter EFRAG has considered that raised comments. EFRAG has clarified its position in order to reflect the balanced majority view held by respondents.

IFRS IC Transparency of submissions

In finalising its comments EFRAG has considered whether publication of further information would result in less requests for interpretation being submitted. The idea of identifying the submitter by name has been left aside and replaced with the proposal to publish the type of submitter and the country of origin.

Feedback received

1. Consensus

Respondents' comments

IFRS IC Rejection notices

In its draft comment letter EFRAG reflected that it is not sufficient to reaffirm that rejection notices have no authoritative status, as it ignores the fact that regulators make use of these rejection notices. Instead EFRAG believes that the Due Process Handbook should frame rejection notices to avoid that they become additional interpretations.

All respondents which reacted to this point agreed with EFRAG's point of view. One respondent added that rejection notices should be approved by the IASB.

Transparency

In its draft comment letter EFRAG mentioned that the meetings of all the consultative and advisory groups should be public, and the supporting documents they use should be publicly available.

Respondents reacting to this issue agreed with the principle of enhanced transparency, and the fact that it is not clear who the IASB and its staff are speaking to, what points are discussed and what conclusions are drawn from this. It was also requested that the same be done for outreach activities.

Our response

IFRS IC Rejection notices

In finalising its comment letter EFRAG considered the additional request that rejection notices should be approved by the IASB. However this was seen as a form of enhanced quality control, and no need was seen to mention this specific point. The IASB should, in its dialogue with auditors and regulators, ensure that the status of rejection notices is well understood and that auditors and regulators refrain from giving rejection notices an inappropriate status.

Transparency

The enhancement of transparency of the IASB due process is the key theme in EFRAG's comment letter.

Feedback received

1. Consensus

Respondents' comments

Responsibilities of DPOC, breaches of Due Process

In its draft comment letter EFRAG supported the inclusion of the oversight role and the responsibilities of the DPOC. EFRAG mentioned also that the oversight section would benefit from a more pro-active approach. Finally EFRAG welcomed the fact that a function Director for Trustees' activities has been created.

Some respondents mentioned that the review of the DPOC should not become overly formalised, or, in other words, a box-ticking exercise and supported a more proactive spirit.

It was also stated that the responsibility of the IASB was too limited in situations where there was a perceived breach of due process. Concerns were expressed on a statement of the Due Process Handbook that mentions that the DPOC will not perform any audit of the information from the IASB. Along these lines respondents were also asking for examples which could heal a breach of due process.

Finally, some respondents questioned whether the proposed Handbook was the right place to describe the role of the DPOC, and believed that the Handbook should focus more on the due process itself rather than on the role of the DPOC.

Our response

Responsibilities of DPOC, breaches of Due Process

EFRAG agrees with the comment that the due process should not become overly formalised. EFRAG also considers that the concerns of respondents with regard to the absence of audit on the information received from the IASB are covered by the request in the comment letter that the role of the DPOC and the IASB are distinct. In particular EFRAG finds it not appropriate for the staff involved in the standards to assess whether the due process on these standards is respected.

EFRAG shares the concern that the proposed Handbook may not be the right place to describe the role of the DPOC, and believes that the IFRS Foundation Constitution should describe this role.

Given the general view not to move to a box-ticking exercise, EFRAG considered it was not appropriate to include a request to add examples of breaches of the due process.

Feedback received

1. Consensus

Respondents' comments

IFRS for SMEs

In its draft comment letter EFRAG did not address IFRS for SMEs.

Some respondents mentioned that the Due Process Handbook should also cover IFRS for SMEs and should remove Q&A guidance.

Our response

IFRS for SMEs

EFRAG considered that even though IFRS for SMEs is not specifically allowed for use within Europe, a reference to IFRS for SMEs in the proposed Due Process Handbook may be appropriate, as a number of European countries are using IFRS for SMEs directly or indirectly in their National GAAP. EFRAG has therefore included in its comment letter, the observation that the Due Process Handbook should also cover IFRS for SMEs.

In addition EFRAG acknowledges the fact that between reviews of IFRS for SMEs, some issues might arise that would benefit from further guidance; and would support a body similar to the IFRS Interpretations Committee, but for matters related to IFRS for SMEs.