

September 5, 2012

IFRS Foundation
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

By email: commentletters@ifrs.org

INVITATION TO COMMENT: IASB AND IFRS INTERPRETATIONS COMMITTEE DUE PROCESS HANDBOOK

Dear Sir/Madam:

The International Federation of Accountants (IFAC) values the opportunity to provide a response to the *Invitation to Comment (ITC): IASB and IFRS Interpretations Committee Due Process Handbook*, May 2012.

Through its membership, currently 167 professional accountancy organizations in 127 countries and jurisdictions, IFAC represents approximately 2.5 million accountants in public practice, industry and commerce, government, and education. As the global organization for the accountancy profession, IFAC is committed to contributing to the highest quality professional services by the accountancy profession around the world. IFAC, through the independent standard-setting boards that it supports and in conjunction with the international regulatory community, sets international auditing and assurance, ethics, education, and public sector accounting standards. IFAC also issues guidance to encourage high-quality performance by professional accountants in business.

As an organization that supports four independent, international standard-setting boards,¹ IFAC recognizes the public interest imperative of having in place robust and transparent due process arrangements for standard setting. It offers the following general comments on the revised *Due Process Handbook* (the “handbook”).

General Comments

IFAC strongly supports the notion of shared private sector/public sector standard-setting arrangements in the public interest.² However, it notes that there is no one way in which such arrangements should be defined and should operate. Therefore, IFAC recognizes that the arrangements in place for the IFRS Foundation and International Accounting Standards Board (IASB) differ from the arrangements for the four independent, international standard-setting boards supported by IFAC. Both are robust systems that are developed and implemented to protect the public interest.

¹ The four standard-setting boards are: the International Auditing and Assurance Standards Board (IAASB); the International Accounting Education Standards Board (IAESB); the International Ethics Standards Board for Accountants (IESBA); and the International Public Sector Accounting Standards Board (IPSASB).

² Refer to IFAC Policy Position Paper 3 [International Standard Setting in the Public Interest](#); revised paper issued September 2011.



Length of Handbook

At 70 pages the proposed revised handbook provides considerable detail about the process undertaken by the IASB and IFRS Interpretations Committee (the “Interpretations Committee”), and is considerably longer than the principles-based approach currently in use. It is not clear that there are additional benefits to be derived from having such a long document, which is arguably less accessible and understandable for the general public. For example, it is not clear why it is necessary to list the mandatory parts of an International Financial Reporting Standard (IFRS) in paragraph 6.27, or to list the additional material that normally accompanies an IFRS in paragraph 6.29.

IFAC believes that a principles-based approach to describing due process, accompanied by arrangements whereby an oversight body ensures that the public interest is protected and respected through adherence to these principles, is most appropriate. This discourages standard setters from focusing on the administrative aspects of due process to the detriment of higher-level, quality objectives. IFAC suggests that consideration should be given to whether the handbook should be shortened in length by focusing on outlining a principles-based approach to due process.

Use of optional steps in process

IFAC notes that the handbook describes many parts of the process as being “optional” and uses language such as “normally” or “may” to identify such options. For example, paragraph 7.2 notes that three members of the IASB normally attend meetings of the Interpretations Committee. Additionally, paragraphs 6.16 and 7.12 indicate that it is normal for the IASB to announce publications by email alerts.

In a document that describes the process to be used for promulgating international standards, it can be argued that all processes are important. Therefore, rather than providing the standard-setting board with the option of taking particular courses of action, with, it seems, no requirement to explain decisions made not to exercise such an option, consideration should be given to requiring that all actions be undertaken and an explanation provided where they are not. This may require establishing “comply or explain” steps for the entire process, such as those required with respect to “Full and fair consultation” (refer paragraphs 3.43 and 3.44). Such decisions would be of keen interest to an oversight body. IFAC considers that a principle-based approach to describing due process arrangements potentially would not necessitate such a requirement.

Auditing financial statements prepared using IFRS

An important consideration by the IASB in the development of IFRSs is ensuring that financial statements prepared using the standards can be readily audited. Auditing is critical to ensuring that financial information is perceived as credible by those people who read and use published financial statements. However, the handbook does not refer to this aspect of the development of IFRSs, and revisions thereto. IFAC notes that the IAASB monitors the development of, and revisions to, financial reporting standards to assess the auditability of proposed reporting, and liaises with the IASB accordingly.

IFAC believes that consideration should be given to making reference in the handbook to the important need for financial reporting standards to produce financial statements that are auditable. It suggests that the Principles section (Section 3) might be the most appropriate part of the handbook in which to include such a reference.



Exposing annual improvements

IFAC supports the clarification provided in paragraphs 6.10 to 6.15 with respect to exposing the annual improvements to IFRSs and Interpretations, believing this to be a positive step in explaining the process.

Changes to the Conceptual Framework

IFAC welcomes the statement that an amendment to an IFRS is not an automatic consequence of revisions to the Conceptual Framework. It believes that this is an important principle that required clarity.

Responses are provided to the following specific questions, on the basis that they are asked in reference to sections in the proposed revised handbook. However, while answering these questions, IFAC notes that there are aspects of some questions and responses that may not be relevant if a principles-based document was developed.

Question 1

Do you support the inclusion and content of this section dealing with ‘oversight’, and the responsibilities of the DPOC? Why or why not?

IFAC supports the inclusion of a section dealing with the responsibilities of the Due Process Oversight Committee (DPOC). It is in the public interest to ensure that the manner in which the DPOC undertakes its role, and discharges its responsibilities, are subject to public understanding and scrutiny. Ultimately, it is the role of the DPOC to ensure that the public interest has been considered and protected in the standard-setting process. The public, being unable to perform “oversight” in its own capacity, relies on the DPOC to ensure that due process has been followed, and to report publicly that this is the case. Arrangements established in this way mean that the public need not be privy to all dealings and interactions (including all documents that are exchanged) between the IASB and DPOC, but it should be comfortable with the fact that the DPOC has properly exercised its oversight responsibilities. As the operation of the DPOC evolves, IFAC recommends that consideration be given to clearly committing to a review of oversight arrangements, and this handbook, at a specified date, for example, in three years’ time.

IFAC notes that the description of the process and DPOC responsibilities included in paragraphs 2.9 to 2.14 implies that the primary role of the DPOC is one that entails “after the event” review of documents prepared by the IASB. For example, it is not clear that the DPOC does any direct evidence gathering, such as by having members of the committee attend meetings of the IASB or the Interpretations Committee. IFAC considers that direct evidence gathering, through attendance at meetings, is a fundamental part of robust oversight arrangements for standard setting.³ A direct evidence gathering approach potentially enhances the credibility of the arrangements, especially as there is currently no specific verification of the information provided by the IASB to the DPOC (refer paragraph 2.14.).⁴

³ In exercising its responsibilities, the Public Interest Oversight Board (PIOB), which oversees the due process arrangements of three of the four independent standard-setting boards supported by IFAC that are subject to public interest oversight (i.e., the IAASB, IAESB, and IESBA), attends meetings of these boards and provides comments and input into matters pertaining to due process, as appropriate. This provides the PIOB with insight into the actual adherence to due process by the boards.

⁴ IFAC notes that the word “audit” is used in paragraph 2.14. Given the explicit meaning of this word in financial reporting circles, and the accountancy profession more generally, IFAC suggest that “verification” might be a more suitable word to use in this paragraph.



Finally, IFAC considers it important to clarify the timing of the review of the due process documents by the DPOC and whether the review by DPOC is required before the IASB can issue a new pronouncement. The wording of the handbook in paragraphs 2.9 to 2.14 is silent on this matter, while later paragraphs (e.g., paragraphs 8.1 to 8.9) imply that the report received and reviewed by DPOC is “after the event” or after each stage of the process. This suggests that a pronouncement may be issued prior to the review of the final report prepared by the IASB for the DPOC. IFAC considers that these arrangements should be clarified, and that it would be most appropriate for the DPOC to have completed its review of due process,⁵ and affirmed that it considers that due process has been followed, before a pronouncement can be issued.⁶

Question 2

Do you agree with the idea that such a table (i.e., Due Process Protocol in the form of a table – see Appendix 4) should be maintained on the public website for each project?

Why or why not?

IFAC supports the ideal of greater transparency and accountability with respect to the due process arrangements for standard setting, which is clearly in the public interest. Another public interest consideration is assessing the costs and benefits associated with initiatives directed toward achieving this ambition. Additionally, IFAC considers that due process arrangements should be such that the public interest is seen to be protected by the DPOC properly discharging its responsibilities, and for the public to be assured that it has done so, in accordance with the description of its obligations (refer to response to Question 1). It is this effective discharging of responsibilities by the DPOC that is of utmost importance in maintaining the public’s confidence. As such, it is not clear to IFAC that there is a critical need for the publication of a very detailed Due Process Protocol document.

In assessing the costs and benefits of producing and making public such a detailed document as the Due Process Protocol (outlined in Appendix 4 of the ITC), it is important to consider the purpose of the document and other aspects of the due process arrangements. That is, the document is something which is prepared specifically by the IASB for the DPOC to discharge its accountability with respect to its due process obligations. It is the DPOC that in turn has a responsibility to the public to ensure that these obligations are met in accordance with the due process handbook. Without the benefit of an intimate knowledge that the DPOC possesses of the process, terms used, and issues encountered, there is potential for the public to misinterpret the contents of the protocol. Public review of such a document also means that the DPOC must have in place arrangements to receive and respond to questions about the protocol, including clarification of all matters included therein. Furthermore, when assessing the costs and benefits, consideration must be given to the other due process arrangements that exist. For example, agenda papers and minutes of meetings are made public and meetings of the standard-setting board are open to the public to attend. Additionally, there is potential to develop oversight arrangements in such a

⁵ Although IFAC recognizes that there may be exceptional circumstances where the issuance of a standard, or revised standard, is of such urgency that issuance prior to the DPOC review may be necessary.

⁶ IFAC refers to the arrangements in place for the standard-setting boards it supports that are subject to public interest oversight by the PIOB. These boards cannot issue a pronouncement until after the PIOB has considered the entire project and made a positive determination that due process has been followed.



way as to invite the DPOC to exercise direct observation and evidence gathering of due process (refer to response to Question 1). Public scrutiny of the protocol could become problematic as the public will not have been involved to the same extent, or have the same understanding of the process, as the DPOC.

Question 3

Do you agree with the distinction between narrow-scope projects, which come under the heading of maintenance and comprehensive projects, which come under the heading of development of IFRSs?

Why or why not?

Do you agree with the introduction of a separate research programme that will likely be the development base from which potential standards-level projects will be identified? Why or why not?

IFAC agrees with the distinction between narrow-scope projects, which come under the heading of maintenance, and comprehensive projects, which come under the heading of development of IFRSs. As noted, the clarification of this distinction is formalizing a practice that has been followed and considered appropriate for addressing matters that are narrow in scope.

With respect to the research program, IFAC supports the view that standards-level projects should have a sound development base, founded on a critical analysis and assessment of the issues at hand, in particular problems identified with, and shortcomings in, existing reporting requirements. Research and analysis undertaken to inform the work program and standard-setting process is an important part of developing high-quality standards. The paragraphs describing the research program seem to suggest that it is only staff that will “identify, review, and raise issues,” and will “direct” any research undertaken, even if they do not perform this research themselves. It is not clear from this wording, therefore, the extent to which the IASB is prepared to receive and respond to issues that are forwarded to them from outside of the IFRS structure, and which are based on independently performed research. It may be appropriate to consider wording which reflects the extent to which the IASB is prepared to consider items for its work program which have their origins from other than the IASB technical staff, for example, from the recently reconstituted International Forum of Accounting Standard Setters.

Question 4

Do you agree with the changes in the comment period lengths for rejection notices and re-exposure drafts?

Why or why not?

IFAC agrees with the proposal to extend the comment period from 30 to 60 days for exposing the draft of a rejection notice for a submitted request for an Interpretation request. A 30 day exposure period for an international body—which aims to seek global feedback and, ultimately, global acceptance—appears to be too short. For example, it may not provide sufficient time for rejection notices and re-exposure drafts to be translated into languages other than English, and subsequently discussed and commented upon by non-English speaking jurisdictions.



Question 5

Are there any other matters in the proposed handbook that you wish to comment on, including matters that are not covered by the handbook that you think should be?

IFAC offers the following comments on specific paragraphs of the proposed handbook.

- Paragraph 3.13. This paragraph includes the sentence “*There is no quorum for an IASB meeting but there are minimum voting requirements for all important IASB decisions.*” IFAC considers that it would typically be good practice to establish a quorum requirement at all meetings, regardless of whether matters are being voted upon at that meeting. As meetings are open to the public, and agendas and minutes are made available to the public, discussions forming part of any meeting are potentially influential, and without a minimum number of attendees such discussion may not reflect a sufficiently broad cross section of views. Furthermore, it may be implied from the paragraphs that follow that “important” decisions are only those for which voting requirements are detailed, for example, in paragraph 3.18. However, it may be appropriate for the handbook to clarify that this is the case or otherwise define what constitute “important decisions.”
- Paragraphs 3.13 to 3.28. In the description of the voting and ballot process, it is unclear whether the chairman of the board exercises a deliberative or casting vote. IFAC believes that this point should be clarified.
- Paragraph 3.49. This paragraph includes the sentence “*Close co-ordination between the IASB’s due process and the due process of other accounting standard-setters is important to the success of the IASB.*” IFAC suggests that the objective of the close coordination is not so much about making the IASB a “success,” but is rather about ensuring that the objectives of the IASB are achieved—namely producing high-quality, credible, internationally-accepted financial reporting standards.
- Paragraph 3.79. In this paragraph, the “test” for IASB members in determining whether they think that new requirements will improve financial reporting takes into account only the likely effects of the new requirements. To be consistent with the foremost objective of the IASB to develop standards in the public interest, IFAC believes that the “test” should be described in those terms, and, as such, will implicitly incorporate consideration of the likely effects. That is, that IASB members must consider that the new requirements have been developed in the public interest, ensuring that the public interest has been considered and protected.⁷
- Paragraph 5.12. IFAC is not clear why it is necessary to include the discussion with respect to the IASB and Interpretations Committee sharing a common view about the role of the Interpretations Committee.
- Paragraph 7.16. IFAC is not clear why it is the responsibility of staff to determine when the Interpretations Committee has reached general agreement on the technical matters in the Interpretation, rather than the committee itself, under the direction of its chair.

⁷ IFAC recently issued Policy Position Paper 5 [A Definition of the Public Interest](#), in which it outlines two assessments that can be used to assess the extent to which any action, decision, or policy is in the public interest.



- Paragraph 7.19. The rationale for not permitting dissenting views with an interpretation is not clear, particularly when one considers that finalized IFRSs include dissenting opinions.
- Paragraph 7.22. This paragraph states that in terms of voting, general agreement by the Interpretations Committee is achieved “*when no more than four members have voted against the proposal.*” It is not clear why a negative vote should determine decision making by the Interpretations Committee, rather than a positive vote (e.g., x number of members in favor, or a specific majority), as is required for voting by the IASB. At the very least, if a negative vote arrangement is to be retained, it would seem necessary to ensure that a quorum for Interpretations Committee meetings be established.
- Paragraph 8.5. This paragraph states that “*the IASB must do its best to adhere to these policies and to the requirements and to inform the DPOC of its actions.*” IFAC considers that it would be more appropriate for the IASB to be required to “adhere,” rather than “do its best to adhere” to policies and requirements and to explain where adherence has not been achieved.

Please contact us should you require further information on any of the information included in this letter.

Sincerely,

A handwritten signature in black ink, appearing to read "Ian Ball".

Ian Ball
Chief Executive Officer