



Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

11 January 2011

Dear Sir,

Re: Due Process and the publication of staff papers

The rapid and successful expansion of the international financial reporting standards (IFRSs) worldwide obliges the IASB to comply with its due process in substance. The general acceptance of developments in the IFRSs or amendment of existing IASs and IFRSs depends on the existence of a transparent evaluation and communication procedure. The backbone of a thorough international consultation procedure is the “due process”. Interested individuals, companies and organizations have the opportunity to participate in several stages of the process by which financial reporting standards are developed. The due process is a dynamic mechanism involving feedback and comments from these interested parties and enables the Trustees to ensure compliance at various points.

The steps prescribed in the Due Process Handbook for the IASB of the IASCF (HB), approved by the Trustees in March 2006 and amended in October 2008, are: setting the agenda, planning the project, developing and publishing the discussion paper, developing and publishing the exposure draft, developing and publishing the standard, and procedures after the standard is issued. We believe that this is the appropriate process to ensure that stakeholders in an equal manner are able to provide their input in an organized and balanced approach. According to our understanding, there is no mention of staff papers of any kind referred to below being part of the due process.

Interested parties have the opportunity to comment on the publications of the IASB at the third and fourth stages, i.e. the development and publication of the discussion paper and the exposure draft, respectively, the discussion paper not being a mandatory step. Typically, a discussion paper includes an invitation to comment (HB paragraph 31). Paragraph 41 of HB states that an exposure draft should contain an invitation to comment if a draft IFRS, or draft amendment to an IFRS, proposes new or amended requirements relating to recognition, measurement and/or disclosures. If the IASB sees the need for further evaluation it can conduct field visits and arrange public hearings or round-table meetings. Another option is to publish a second exposure draft that again contains an invitation to comment.

Recently we have noticed that the IASB staff is increasingly publishing on the IASB website, with corresponding promotion to the outside its “own” papers i.e. papers that are clearly marked as papers of the IASB staff and are not simply IASB meeting agenda papers. For example, there is an IASB staff paper for the project “Liabilities -



IFRS to replace IAS 37”, especially the topic “Recognising liabilities arising from lawsuits”. This staff paper explains the new recognition criteria for liabilities, focusing on how the proposed standard would be applied to liabilities arising from lawsuits and we noted that reference by IASB members is made to this paper. However, this paper is not an official pronouncement of the IASB and does not constitute official guidance for applying the IFRS once it has been finalised. A further example is the staff draft of the “exposure draft IFRS X Financial Statement Presentation”, which was published on July 1, 2010 as a basis for extended stakeholder outreach activities. It includes no formal invitation to comment, although the IASB welcomes input from interested parties. Furthermore, we understand that several other staff drafts, such as a near-final draft for Joint Arrangements, have been sent to selected companies.

In our opinion, the overall meaning/role of staff papers is unclear because they may result in a deterioration of the due process. In line with the due process, the exposure draft should be the main vehicle for consulting the public (HB paragraph 38). Nonetheless, we believe that staff papers can provide an additional and indeed meaningful way to include ideas in the due process, which we have always favoured. However, as long as they are not formalized and are issued sporadically, their overall contribution could be problematic under certain circumstances.

In our view, a staff draft like the one on Financial Statement Presentation is acceptable as this draft currently was publicly available and served as the basis for certain outreach activities. Then, the IASB constituents would be able to react when the ED would be exposed for comments. However, in the case of a near-final draft (e.g. for Joint Arrangements), it is not clear how companies have been selected and this leads to unfair and unequal treatment. Furthermore, when the preparers require comments on the clarification of a near final draft, the staff is saying that there is no guarantee that the preparers’ comments would be taken in the final standard because this is left at the discretion of the reviewers. We believe that there is no interest for the preparers just to take part to a final fatal flaw review of a future IFRS. If the IASB seeks further comments when it is drafting a final standard, we believe it should publish an official request made available to all its constituents. We recommend that the HB should be updated to clarify in which circumstances staff drafts may be issued to the IASB constituents.

We are addressing these issues in the hope that there will be a transparent due process in standard-setting as formalised in the HB. We are convinced that only this due process can form the basis for the work of a globally accepted standard-setting body that is able to develop and issue new requirements for the benefit of all concerned.

Yours sincerely,

Best regards

Philippe de Buck