



Trustees of the IFRS Foundation
IFRS Foundation
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Dear Sirs,

We are writing to respond to the Invitation to Comment on the proposed update to the IFRS Foundation Due Process Handbook ("Handbook"). We appreciate the Trustees' initiative to invite comments on the Handbook as sound due process procedures are crucial for developing International Financial Reporting Standards.

Earlier, we raised some concerns about the process applied with respect to the development of IFRS 11. We made suggestions with general applicability regarding transparency, the approval of feedback statements and effect analyses, documentation of decisions to re-expose proposals and the process regarding outreach activities. These concerns are still valid and we therefore refer to our earlier letter, which you find enclosed for ease of reference. As requested in the response to this letter from the Chairman of the DPOC (30 July), we have reflected on these concerns where possible in our comments on sections 1-8 of the draft Handbook provided in the appendix to this letter. Certain of our comments may have consequences for the Appendices to the Handbook. In this connection we were disappointed to see that the IFRS Foundation has not been more forthcoming asking more pointed questions in its Invitation to Comment (for example in relation with effect studies, the status of IFRIC Rejection Notes, etc.), which could be misunderstood as indicating that the IFRS Foundation was not interested in addressing such points. We particularly regret that the document does not address at all the status of the mentioned IFRIC Rejection Notes and how such Rejection Notes should be drafted by the IFRIS Interpretation Committee ("IFRIC").

We believe that the IFRS Foundation and the IASB need to do anything and everything they can in order to avoid that in the development of accounting guidance, conclusions are drawn - or decisions taken - based on information which is not publically available to all stakeholders. Considering the importance of accounting standards, not in the least as a result of the financial crisis, the development process of such accounting pronouncement must not only follow high standards, but needs to follow the highest standards making it the "leader" with respect to the transparency applied to the due process. Consequently, the IFRS Foundation and the IASB must ensure that throughout the whole accounting pronouncement development process it is clear to whom the IASB and its Staff is speaking, what points were discussed, and even more importantly, what conclusions were drawn from this, how it has been ensured that all IASB members are aware of the input obtained and how it has been reflected eventually in the final accounting pronouncement. Many of our detailed comments in



the appendix reflect that view. In this connection we strongly object to some stakeholders receiving preferential treatment compared to other stakeholders, as the current draft of the Due Process Handbook seems to indicate.

In line with these concerns, we are not necessarily convinced that the current voting procedures reflected in the Handbook support that goal. For example, when up to five (or 6) members of the IASB can dissent from a standard proposed for publication, there are strong indications that the proposals remain very controversial and as such might not necessarily improve financial accounting, the ultimate goal, as indicated by the Handbook. In our view, a standard or interpretation requires the highest level of support from the relevant members to have the appropriate level of acceptance with constituents.

Finally, during our review, we felt that that the current drafting of the Handbook does not result in a document that is easy to read and consistent in style. It is actually inconsistent in terminology with other parts of the IFRS literature (e.g. the framework). In our view, the document would improve if the processes relating to e.g. the development of an IFRS and IFRIC were to be completely separated and not mixed in various chapters. In this respect, we felt that it was often also insufficiently clear why the processes described, e.g. in relation to a possible re-exposure, were different for the IASB and the IFRIC.

We remain at your disposal should you wish to discuss this subject further.

Yours faithfully,

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Director
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APPENDIX: DUE PROCESS HANDBOOK

Introduction:

- 1.1: if the objective is to develop a single set of high quality accounting standards, it would seem strange to us that the IASB also develops a different set of standards for SMEs (which are mentioned later in the document as well).

Oversight:

- 2.8 (a) and 2.9: it is not clear which “staff” is referred to in this paragraph. Is it the IFRS Foundation staff or the staff of the DPOC or the IASB staff? This should be clarified, as the latter should in our view not play a role in the review process. We believe that paragraph 2.11 is hinting in that direction, but believe the document needs clarification
- 2.10: “Any such report must be...”: we believe that it should be considered if the reports should not also be open for comment by constituents.

Principles:

- 3.2: the text should be clarified to indicate that members of the public may attend all open meetings.
- 3.3: both the IASB and the IFRIC Update should be enhanced to not only summarise the decisions reached, but also the reasons why they were reached.
- 3.7: the role of the IASB Staff warrants its own section, where the points mentioned here are laid out in greater clearance and in broader detail. Further, the staff should be required to explain from where they obtained their input (i.e. sources) and what that input was.
- 3.10: not the IASB Staff but rather the IASB (Vice-) Chairman should have the discretion to withhold papers from observers and explanations for that need to be given on the IASB website, as part of the staff paper published.
- 3.11: in line with the comment above on 3.10, it should be the IASB (Vice-) Chairman who reports to the IASB and the DPOC.
- 3.12: the points mentioned there should not be the exception, but rather the norm for the staff to gain insights from. However, as said before, the sources used and the conclusions drawn from them should be explained in the staff papers.
- 3.13: It is unclear why the IASB should not require a quorum, while the IFRIC seemingly would need one.
- 3.14: the paragraph explains that members can vote against technical issues but can still approve the project as a whole. We believe that there should be a requirement that IASB members that vote against specific technical issues explain why they could still approve the whole project and that an explanation cannot only be that “it improves financial reporting”.



- 3.16: the last sentence (“Other decisions...”) should be part of 3.15, which discusses simple majority voting.
- 3.18-3.19: given that 3.18 covers both the IASB and the IFRIC, should not the order of these paragraphs be reversed? Also it seems superfluous to say each voting member has 1 vote.
- 3.28: it should not be allowed that changes are made by the IASB Staff to an approved ballot draft and the consequently, the IASB should only approve a ballot draft, once final.
- 3.29-32: we believe that in the IASB’s report to the DPOC (which is publically available) the IASB should indicate who reviewed the documents, why and what their comments were and what the IASB (not the IASB Staff) has done with these comments. We therefore disagree with 3.30 indicates that their comments are not normally made public.
- 3.37: for clarity, we believe that this paragraph should it read as “Education sessions are sometimes held as part of IASB meetings”? They are not necessarily held before the non-educational parts of any meeting, and the change would make it clear that normal requirements for all IASB members to attend (3.13) do apply.
- 3.38: private and small group meetings should not be part of the “normal” due process. The IASB must, under any circumstances, try to avoid creating the impression that things are discussed and decided not in public. IASB meetings should be the place, where technical differences, understanding questions etc. should be discussed in public. It is also not clear whether this paragraph is referring to IASB members meeting as a body or whether to any meeting in which at least one IASB member is present.
- 3.42: the document states that the standard setting process requires for all standards issued that “any proposed new IFRS, proposed amendments to an IFRS ...” are to be exposed for public comments: if that is so, than technical corrections should be open for comment, which we believe is not intended. However, and more importantly, this statement sits strongly at odds with the recent example of IFRS 10-12 amendments, where there was no public discussion at any given point in time on changes to IFRS 11 and 12 resulting from a document that initially only discussed amendments to IFRS 10.
- 3.44: we believe that the DPOC should request comments before an exposure draft or standard is issued on steps of the process that the IASB decides to skip.
- 3.45: the document should use the framework language and not some vague own language on the question for whom the standards are developed.
- 3.45-3.47: We strongly object to a due process which seems to indicate that one stakeholder group receives preferential treatment and can by-pass arrangements that other groups must follow (as also highlighted in 6.19). We also find it unclear why the IASB believes that “investment intermediaries” (analysts) are so relevant. The framework refers to investors and not investment intermediaries. It remains unclear how actual investors are considered.
- 3.53-56: the document states that IFRSs need to be enforceable and then sets this equal with securities regulators. It is unclear, why enforceability equals regulator. What does enforceable actually mean? It is also unclear why “prudential



supervisors” are important and what they actually are. The whole section would require better backing and support.

- 3.60-3.62: it remains unclear to us what the actual purpose of the consultative groups is, as “access to additional practical experience and expertise” sounds rather vague. But more importantly, it remains again unclear what is done with the work carried out by the groups and how it is made sure that both the IASB but also the constituents are clear on what conclusions have been drawn from the insights obtained in these groups. All groups should be (co-)chaired by two IASB members, at least, or at least three IASB members should be required to participate in each meeting.
- 3.63: we assume that if there are believed to be deficiencies then action will be taken as a result of the review; it is also not clear who would take such action.
- 3.64-66: considering that comment letters are playing “a pivotal role”, we regret that the relevant section is relatively short. It does only indirectly indicate that the IASB Staff carry some sort of review but it does not explain how the comment letters are to be used by IASB members, how the staff ensures that all views presented are reflected in their analysis, how it is made sure that a balanced analysis is taking place and that there is no “cherry-picking” by the staff.
- 3.67-3.70: the due process handbook should require that the IASB explains in a timely manner for constituents what it has learned from the fieldwork, how this has been considered and will be reflected in an exposure draft or a standard.
- 3.71: it is not clear how many IASB members need to be present at the public meetings or discussion forums (and who chairs the meetings or leads the discussions) and how the outcome is used and it is made sure that all IASB members get the input from the meetings. As currently drafted, it would seem that the “discussion forums” are actually not part of the due process, as educative for constituents. The usefulness of the “round tables” is equally unclear in the document.
- 3.72-75: the effect study section should be enhanced. It is not clear who is responsible for the effect studies and the approach described is rather vague. We also believe that the publication (3.73) should be formally approved by the IASB. (It appears that, consistent with 6.35, this section – and the title in 3.73 - should be labelled Feedback Statement and Effect Analysis.) Finally we would like to emphasise again that the Due Process Handbook should not try to invent anything or use different words (e.g. in 3.72 (a)-(b) and 3.74 (a)-(f)) if appropriate and accepted language is already set out in Framework.
- 3.76-3.80: we believe that 3.76 is correct when it explains the purpose, however it should be made clear that the Basis for Conclusions (BC) should be written with the thought in mind that the future reader of a standard (including the BC), will not necessarily have participated in the whole debate on the development of the standard, including reading staff papers, and therefore will need to rely on the standard and BC to understand why certain things have been done. Currently, the standards and BC are not meeting this requirement and are not real standalone documents.
- 3.78: this seems to contradict the point made in 3.14 and supports our concern raised above on that topic. 3.79 then tries to bridge the point and solely focuses on

“improving financial reporting”. This is very vague. Improving for whom, how and at what cost? We further do not believe that the hurdle to dissent should be deliberately high and the IFRS Foundation should explain why it thinks otherwise.

- 3.80: we are wondering about the purpose of this paragraph in a public due process document.

Technical Work Programme:

- 4.3: it is stated that the IASB “normally” undertakes consultation on its work programme by Request for Information. Unfortunately, there is no indication of when/why and what it would do if it does not use the Request for Information route. We are wondering if a three year period is not too short bearing in mind how long a standard takes to develop. Finally, it should be documented here that the outcome of the review could also be to remove a specific project from the work programme.
- 4.6: as indicated before, it is unclear to us why the handbook would use different text from that included already in the framework.
- 4.7 again, it seems unnecessary to vary from the framework language when describing the requirements of standards.
- 4.7-14: it is not clear how the research programme relates to the work of the Interpretations Committee.
- 4.9-11: the handbook speaks generally about “problems”, which is rather vague, what does it mean by that term, when is there a problem? Paragraphs 5.11-5.13 provide somewhat clearer language with regards to matters to be referred to the IFRIC.
- 4.11: It would seem from how this paragraph is drafted that the IASB could not consider letters from other constituents than those mentioned here when developing the work programme. We believe that this cannot be the intention of that paragraph.
- 4.12: this is rather unclear to us. We presume that it is meant to mean that the IASB might ask someone else to perform the research for it. However, in that case it should be clearer that the questions asked in such documents are those of the IASB and not of the author, as 4.15 would seem to indicate.
- 4.15-18: we believe that this section is rather vague and unclear, particularly what the “those who have been seconded” could be.
- 4.20: the current wording indicates that the IASB does not need to consult with the DPOC if in urgent cases a shorter comment period is set. We believe that they should consult.
- 4.22: as noted in our response on paragraphs 3.64-66, there is a need to improve the visibility on what is subsequently done with the comments.

Standards-level projects

- 5.2: we believe that the reason for not publishing a discussion paper should both be reported to the DPOC and made open for comment to allow constituents to raise concerns, if any.

- 5.4: the paper is silent on how the benefits or costs are established and therefore how a conclusion can be and is drawn.
- 5.10: It is not clear why the Monitoring Board is not allowed to challenge the decision made by the IASB and the document should explain that in more detail.
- 5.12: the relevance of this paragraph is unclear to us.
- 5.13: the wording used here to explain the criteria an issue needs to meet to be addressed by the IFRIC is slightly different from that used in the current IFRIC due process handbook. It is particularly unclear why point 24.b has been removed and if moving the second half of the old 24.d into 5.14 (which is not part of the listing of the agenda criteria) means that the point currently mentioned there is no longer of the same importance as the other points mentioned in 5.13? We are further wondering, why 5.13 asks constituents to refer such matters to the IASB or the IFRIC; should it not clearly be one or the other? The 2nd sentence of 5.20 seems to imply that the IASB can keep some for itself, which in turn would indicate that it should be the first point of contact!
In general, we recommend that a line-by-line comparison is carried out with the IFRIC handbook.
- 5.15: the current due process handbook is different as it refers to a simple majority of the members present (with the IFRIC having a quorum requirement, contrary to the IASB). It is unclear to us, if that is an intended change or not and the Due Process Handbook should explain this.
- 5.16: the IFRIC update should be enhanced to reflect the discussion that took place, the different views discussed and reasons for conclusions.

New or amended IFRSs

- 6.6/6.22/7.7: in our view it should be the IASB (or the Interpretation Committee), not the IASB Staff, that considers whether or not general agreement has been reached on the technical matters.
- 6.7: we recommend that the period for matters which are narrow scope and urgent is extended from 30 days to 60 days.
- 6.8: having a comment period below 30 days should not be allowed under any circumstances.
- 6.10: the role of the IFRIC with respect to Annual Improvements should have been explained here.
- 6.25-26: we refer to our comments made in our letter of 11 June, explaining that the IASB needs to have a more robust process in place to conclude on the necessity, or otherwise, of re-exposure?
- 6.49: we wonder if this is the right timing and suggest that this point is re-exposed for discussion, once experience with the first PIR has been gained.
- 6.60: we wonder why the PIR report is not open for comments?

Interpretations

- 7.11: in line with our comment on paragraph 6.7, we recommend that the period for matters which are narrow scope and urgent is extended from 30 days to 60 days.
- 7.17: we wonder why the criteria for re-exposure are not the same - or at least similar - as for the IASB? The current wording is very vague.
- 7.19: it is not explained why a Committee member cannot dissent from an interpretation.

Protocol for Trustee Action

- 8.8: we recommend that the paper gives examples of what the things could be that could heal a breach in due process noted by the Trustees.
- 8.9: It is unclear to us why technical accounting issues cannot be used as evidence of breach of the due process. We believe that if it was mentioned during the process but ignored by the IASB, that this should still be possible.

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