



IFRS Foundation
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29 July 2019

Dear Chair,

Re: Exposure Draft - Proposed amendments to the IFRS Foundation Due Process Handbook

BUSINESSEUROPE welcomes the opportunity to comment on the proposed amendments to the IFRS Foundation Due Process Handbook.

We support many of the proposed amendments. However, we believe that the due process can be further improved. Therefore, we have the following suggestions.

- An effect analysis should be published at each step in a standard-setting process by the IASB. Transparency can also be improved regarding how information and data are collected and who is consulted by the IASB when assessing the effects.
- Significant decisions (including agenda decisions) by the IFRS Interpretations Committee should be based in an effect analysis.
- The IASB should share the final texts for proposed amendments of IFRS for fatal flaw checks with a wider population of constituents.
- The ambiguity regarding the nature of IFRS Interpretations Committee agenda decisions is not solved by the proposed amendments to the Due Process Handbook. In order to mitigate the problem, agenda decisions should be restricted to only make references to IFRS standards, in order to provide clarity around the application of a specific standard. If an interpretation is needed, taking into account non-binding material, then an IFRIC should be issued. If there are gaps in the accounting literature that creates diversity in practice, this should be addressed through standard-setting (e.g. annual improvements).
- A longer comment period should be mandated for IFRS Interpretations Committee draft agenda decisions. The standard should be a 120-day comment period.



- We are not convinced that introducing IASB Board agenda decisions is a necessary step to enhance the Board's ability to support the consistent application of IFRS standards given other existing forms of non-binding material published by the IASB. If, however, IASB Board agenda decisions are introduced, it is important that this is limited to certain situations. We propose that agenda decisions should be used when there is a need to address issues before the effective date of a new or an amended IFRS. This should be expressed in text of the Due Process Handbook. We propose that a 120-day comment period as a standard for IASB draft agenda decisions.

Our comments on the detailed questions posed in the ED are shown in the Appendix. If you require any further information on our comments, please do not hesitate to contact us.

Yours sincerely,

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ANNEX

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?

We note that the proposed amendments are intended to codify developments of how the IASB has performed and reported on its effect analyses in the past years, especially reflected in the work regarding IFRS 16 and IFRS 17.

We support the proposed amendments. We also encourage the IASB to further clarify the methods and the degree of depth at which the IASB should prepare an effect analysis during the standard-setting process and how this work should be published. We consider that an effect analysis should be published at each step in a standard-setting process. We also believe that transparency can be improved regarding how information and data are collected and who is consulted by the IASB when assessing the effects.

We propose that significant decisions (including agenda decisions) by the IFRS Interpretations Committee should be based on an effect analysis. The reason is that some decisions might have far-reaching effects for many preparers and it is therefore important that such effects are taken into consideration by the Interpretations Committee and also made public.

We also consider that it would be helpful if the IASB would share the final texts for proposed amendments of IFRS for fatal flaw checks with a wider population of constituents. We believe that this would help the IASB to avoid unnecessary vagueness or lack of clarity. This could help to reduce the need for the IASB or the IFRS Interpretations Committee to deal with questions regarding interpretation of new or amended standards.

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 an such change.*

Do you agree with these proposed amendments?



Some parts of proposed clarifications regarding IFRS Interpretations Committee agenda decisions are similar to what was proposed in ED/2018/1 Accounting Policy Changes - Proposed amendments to IAS 8. We refer to the text in the Handbook that an entity should be entitled to sufficient time to determine whether to make an accounting policy change as a result of an agenda decision. We note that IASB decided not to make any amendments of IAS 8 related to agenda decisions. Instead the issues were referred to the DPOC to handle.

The nature and objective of agenda decisions

The main issue of concern – as we also stated in our comment letter to the proposed amendments of IAS 8 – is the ambiguity of the status of the agenda decisions. In the current Due Process Handbook paragraph 5.22 is stated that agenda decisions (rejection notices) do not have the status of the IFRSs and they will therefore not provide mandatory requirements, but should be seen as helpful, informative and persuasive. A slightly amended text is proposed to be moved to paragraph 8.4 in the Due Process Handbook:

Explanatory material explains how the applicable principles and requirements in IFRS Standards apply to the transaction or fact pattern described in the agenda decision. By providing such explanation, additional information is provided. Agenda decisions (including any explanatory material contained within them) do not have the status of the Standards and therefore cannot add or change requirements in the Standards. However, such explanatory material should be seen as helpful, informative and persuasive.

Further, additional text is proposed in the ED. In paragraph 8.1 it is stated that:

The material described in this section does not have the status of IFRS Standards and cannot add or change requirements in the Standards. However, the objective of the material is to improve the consistency of application of the Standards.

In paragraph 8.5 it is stated that:

The process for publishing an agenda decision might often result in explanatory material that provides new information that was not otherwise available and could not otherwise reasonably have been expected to be obtained. Because of this, an entity might determine that it needs to change an accounting policy as a result of an agenda decision. It is expected that an entity would be entitled to sufficient time to make that determination and implement any change (for example, an entity may need to obtain new information or adapt its systems to implement a change).

We find these texts confusing and contradictory, which further underlines the ambiguity of the nature of agenda decisions. This creates problems and costs for preparers. As is well known to the IASB, only what is technically part of IFRS standards is endorsed by the EU. We believe that preparers should not be forced to comb through all kinds of non-binding material – including agenda decisions – from the IASB in order to establish an accounting policy for an item.

We wonder if the increasing production of additional non-binding material from the IASB in reality is a case of finding a cure for the symptom instead for the root-cause of the problem. We believe that the IASB should show constraint in its efforts to provide supplementary material to ensure consistent application of IFRSs and/or enhance comparability and instead pay more attention to how IFRS standards are drafted.

It is key that standards are principle-based and allow for judgement when applied to entity-specific circumstances. We understand that e.g. regulators and auditors are driving the IASB to produce more concrete answers to specific issues/questions and the IASB is answering the bell by producing a lot of non-binding material. The risk, however, is that this might turn a principle-based standard into more of a rule-based product.

Another concern is that stakeholders are given only 60 days to comment on draft agenda decisions which excludes most stakeholders from having any real possibility to give input on an agenda decision. This creates a situation where the IFRS Interpretations Committee make decisions with very limited external input. We believe that the time for comments is too short and therefore should be extended to 120 days as a standard.

To conclude, we consider that the state of ambiguity regarding the nature of agenda decisions and the process of how they are produced is not satisfactory. We consider that agenda decisions should be restricted to only make references to IFRS Standards, in order to provide clarity around the application of a particular standard. If an interpretation is needed, taking into account non-binding material, then an IFRIC should be issued. If there are gaps in the accounting literature that creates diversity in practice, this should be addressed through standard-setting (e.g. annual improvements). We also consider that a longer comment period should be mandated for draft agenda decisions.

Sufficient time

As we mentioned in our response to the ED on IAS 8, we appreciate that preparers should be given sufficient time to amend an accounting policy due to an agenda decision (cf. proposed paragraph 8.5 in the Due Process Handbook in the ED).

What is sufficient time is not explained in the ED regarding the Due Process Handbook. We agree that this should be a matter of judgement based on the facts and circumstances in each case.

Agenda decisions by the IASB

It is proposed that also the IASB should be able to make agenda decisions. It is stated that Board agenda decisions are not expected to be frequent, but there is no proposal to limit their use in the ED.

Introducing Board agenda decisions would create another type of material of ambiguous nature. We are not convinced that introducing IASB Board agenda decisions is a necessary step given other existing forms of non-binding material (BC, illustrative



examples, educational material, discussions in Transition Resource Groups etc.) published by the IASB.

If, however, IASB Board Agenda decisions are introduced, it is important that this is limited to certain situations. We propose that agenda decisions should be used when there is a need to address issues before the effective date of a new or an amended IFRS. This should be expressed in text of the Due Process Handbook.

As we have stated regarding decisions by the IFRS Interpretations Committee, it is important that constituents are given sufficient time to comment on the issue that dealt with through an agenda decision. We propose a 120-day comment period as a standard.

Webcasts

When speaking about non-binding forms of material from the IASB, we note that the status of webcasts by the IASB is not clear. We believe that a clarification is needed.

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

Today not all educational material is reviewed by the IASB Board. It is proposed in the ED to have different levels of educational material and that educational material should be reviewed by one to three board members, depending on the type of material. This is based on the observation by the DPOC that such material now being produced is more focused on supporting those using IFRS standards than in the past.

We support updating the list of educational materials to reflect current working practices.

Consultation on the work plan

We support the proposed amendments.

IFRS Taxonomy due process

We support the proposed amendments. We would also like to reiterate that it is of vital importance that the development of the taxonomy is not influencing or interfering with the process of developing IFRS.

Additional amendments

We support the proposed amendments.

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?

We support the proposed amendments.
