RE: Invitation to Comment the IASB and IFRS Interpretations Committee Due Process Handbook

Dear Madam/Sir

We are pleased to comment on the above mentioned Invitation to Comment published by the IFRS Foundation to gather views on the proposed combined IASB and IFRS Interpretations Committee Due Process Handbook. Our answers to the specific questions are presented in the appendix attached to this letter.

We welcome the efforts made by the IFRS Foundation to improve the due process for setting the international accounting standards and interpretations.

Nevertheless, we would like to point out the following suggestions and comments that we feel would contribute to a further improvement of the due process. We believe that:

- the overall structure of the proposed Handbook should be reviewed in order to facilitate navigation and enhance the clarity of the due process;
- Due Process Protocol should be an integral part of the Due Process Handbook;
- consistency between the requirements of the Handbook and the Protocol should be enhanced in the final version of the Handbook;
- the boundary between narrow scope and major projects should be defined more clearly. Alternatively, the DPOC should be requested to challenge the classification proposed by the IASB;
if a true distinction between narrow scope and major projects is introduced, due process steps should be adapted to take into account such distinction (for example, some phases should be mandatory for major projects and optional for narrow projects);

- each project on the agenda of the IASB and the IFRS IC should have a clear objective and include a description of how it will address users’ needs;

- discussion papers should be required prior to the first exposure of all new standards;

- effect analyses should be carried out throughout the life-cycle of major projects;

- when finalizing a standard, care should be brought in making sure that all major comments expressed by constituents have been discussed during the redeliberations;

- re-exposure should be compulsory for projects which have been significantly modified during the redeliberation phase;

- all intermediary decisions (and not only the final ballot) should be subject to the super majority approval, thus impeding controversial decisions to be taken by a ‘weak’ simple majority.

- national standard setters and regulators should have a more active role in developing international standards and interpretations, especially during the research and outreach / public consultation phases;

- the Handbook should contain more guidance on the wording of rejection notices issued by the IFRS IC.

Our detailed comments and some additional remarks are provided in the appendix attached to this letter.

We would be pleased to discuss our comments with you and are at your disposal should you require further clarifications or additional information.

Yours sincerely,

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Head of Financial Reporting Technical Support
Appendix 1: detailed answers to the questions raised in the Invitation to Comment the proposed IASB and IFRS Interpretations Committee Due Process Handbook

Q1. The Trustees’ have included an introductory section dealing with ‘oversight’, and the responsibilities of the DPOC (see paragraphs 2.1–2.15).
Do you support the inclusion and content of this section? Why or why not?

We fully agree with the inclusion of an introductory section on due process oversight as it presents clearly and in a concise manner the due process oversight process, the different actors involved and the roles and responsibilities of the DPOC. We also welcome the creation of the Director for Trustee Activities function.

We think nevertheless that some sections should be developed in more detail.

For example, in paragraph 2.10 describing the process of communication between the IASB and the DPOC it is not clear enough what the notion reporting in a timely manner stands for. One could understand that the reporting by the IASB takes place only once a given project is finalized (which does not seem in line with the Due Process Protocol presented in Appendix 4). Having a complete final report with all measures taken is important. We think however that it should be more explicitly stated in the Handbook - and not only in the Protocol - that frequent reporting by the IASB and validation by the DPOC of intermediate steps are required also as the project goes along, for each important phase in the standard setting process. We suggest that, contrary to what is currently envisaged, Appendix 4 should be considered as an integral part of the Due Process Handbook.

Section 8 of the proposed Handbook deals with the protocol for Trustee action. As currently worded, it puts emphasis on DPOC action following a complaint by a third party. We think that this section should be revised to make clear that the procedure described from paragraph 8.5 is the general one that applies in all circumstances, either following a complaint or based on the DPOC own analysis.

We would also like to comment on section 2.14 which states that there is no intention to audit the information provided by the IASB. An independent review of the information provided seems necessary to us, but we understand that there might be a resource constraint issue. We therefore encourage the DPOC to put in place at least some internal control rules (and specify them in the Handbook), such as requiring that the reports on the due process steps taken for a given project be written by a staff member that was not involved in that particular project.
Q2. The DPOC have created a Due Process Protocol in the form of a table that shows the steps that the IASB must, or could, take, as well as reporting metrics to demonstrate the steps that they have taken, in meeting their due process obligations (see Appendix 4).

Do you agree with the idea that such a table should be maintained on the public website for each project? Why or why not?

The proposed Due Process Protocol provides indeed great help in understanding the upcoming steps and progress already made in standard and interpretation setting process, and in particular it clearly distinguishes mandatory and non-mandatory steps. As a result, such information on projects being developed by the IASB and the IFRS IC can be very useful to different stakeholders. We therefore welcome the idea that such information be provided on the public website for each project.

We note however that paragraphs 3.33 to 3.35 of the proposed Handbook dealing with information to be found on the IFRS Foundation website, as currently drafted, contain no explicit reference to the Protocol. We therefore suggest to state explicitly in section 3.35 that obligatory information on due process includes an up-to-date Due Process Protocol to be presented on the dedicated webpage for each project.

In addition to our view on the question above, we have some broader comments related to the Due Process Protocol. In particular, we do not really understand why such a rich source of due process rules - which at times gives more precise information on mandatory and non-mandatory steps and obligations of the IASB and the IFRS IC and the actions to be taken in due process than the Handbook itself - is not part of the due process Handbook. We strongly encourage the IFRS Foundation to reconsider their statement in p. 48 and include the Due Process Protocol as an integral part of the Handbook.

Last, we note a lack of consistency between the terminology used in the proposed Handbook and the one used in the proposed Protocol. For example, the Handbook refers to non-mandatory (or ‘comply and explain’) and optional steps (cf. definitions in § 1.6), whereas both optional and non-mandatory steps are referred to as ‘optional’ in the Protocol. Besides, there are some contradicting statements in the two sections of the document. For instance, the section § 6.15 of the proposed Handbook mentions a 90-day comment period on annual improvement EDs, whereas the corresponding section of the Protocol (cf. p. 63) mentions a 120-day comment period (similarly, for exposure drafts, the possibility to shorten the comment period to 30 days mentioned in section 6.7 of the Handbook is not presented in the Protocol in p. 56). Special care should be brought in verifying that the terminology used in the Due Process Protocol and the description of the different steps do not contradict the provisions of the general Handbook.
Q3. A research programme is described, which we expect will become the development base from which potential standards-level projects will be identified (see paragraphs 4.9-4.22). In addition, a new section on maintenance has been added, which formalises the practice that the IASB and the Interpretations Committee have been following for addressing matters that are narrow in scope. It clarifies that the more formal project proposal processes were always intended to apply to new IFRSs and major amendments.

The IASB has the discretion to initiate changes that are narrow in scope to IFRSs as part of the general maintenance of IFRSs. The new section also explains how the activities of the IASB and the Interpretations Committee are closely related (see paragraphs 5.11-5.20).

Q3 a) 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?

We agree that a distinction between narrow-scope and major projects would be a valuable improvement to the due process.

We have difficulties, however, in finding such a distinction in the proposed Handbook. The narrow-scope projects (supposedly presented under the heading ‘Implementation and maintenance’ in p. 27) are not clearly defined. When it comes to the ‘comprehensive projects’ (presented under the heading ‘Criteria for new IFRSs or major amendments’ in p. 26-27 to our understanding), we are afraid that the criteria for their identification in paragraph 5.1 are not sufficiently prescriptive and too vague: for instance, how will the importance and pervasiveness of a matter be judged? In addition, the indicators provided are not referred to as criteria for determining major projects but rather as criteria for deciding whether a proposed agenda item will address users’ needs, which brings even more confusion. Alternatively, if it eventually turns out that defining a set of criteria is not practicable, a specific process should be put in place, with DPOC having the right and the obligation to challenge the IASB’s position as to whether a given project should be considered as a narrow scope or a major project.

Furthermore, supposing a clear distinction is introduced in the final Handbook, based on the current drafting we do not see what fundamental impact on the existing due process it would have (except for the possibility to shorten the comment period when exposing for comment projects that are narrow in scope). For example, the Due Process Protocol for exposure drafts and finalisation of IFRSs (please see pages 56 to 60) is identical be it a major or a narrow scope project; a separate ED phase protocol is so far envisaged only for one specific type of narrow scope projects, the Annual Improvements (p. 63). In our view, the due process steps should not be identical for narrow scope and comprehensive projects, especially in the more advanced phases of standard setting. For instance, taking the Exposure Draft phase as an example, we consider that the consultative meetings and fieldwork may not be necessary for narrow scope amendments; whereas they should be mandatory for major projects (we believe nevertheless that outreach activities for all projects in the initial, research phase might be necessary in order to distinguish between narrow scope and major projects).
As a result, we suggest redrafting the Due Process Protocol, as well as the corresponding sections of the Handbook, to reflect the consequences of a true distinction between narrow scope and major projects.

Q3 b) 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?

In our opinion the introduction of a separate research programme is a valuable improvement to the due process.

We note however that the procedure for passing from research to standard-level projects is not well defined. It is not clear, based on what criteria the research phase will be considered as completed for a given issue. We would also appreciate specific guidance helping to identify when a given research issue should no longer be developed.

Concerning the discussion paper phase, we believe that it should be compulsory (instead of just being a 'comply or explain' step) for all new standards. As a result, we suggest revising the structure of the Handbook, by distinguishing new IFRSs from major amendments, and presenting specific due process protocols for each type of development. Combining this proposition with our previous comment on question Q3a, we would appreciate distinct due processes for (1) narrow scope projects, (2) major amendments and (3) new standards development. For such a distinction to work in practice, the Handbook should also provide clear guidance on when a development is so important that it will result in replacing an existing standard by a new IFRS (to our view, this could be the case when core principles are introduced or changed).

When it comes to research papers, we think that their purpose and role as described in the proposed standard setting process (§ 4.15-4.16) should be clarified, as well as some elements of the due process regarding their issuance. We also consider that more guidance should be given on research papers prepared exclusively by the staff or third persons (i.e. which do not represent the official views of the Board): for instance, for each research paper the IASB should explain the reasons for issuing it and also for mandating that particular third party to carry out research. If the IASB has already developed a view on this specific issue, this could also be specified in the introductory section of the research paper as a non-binding opinion. Furthermore, we believe that before including an issue which was covered by a third-party research paper in its standard-level agenda, the IASB should carry out its own analysis of public feedback received following the publication of the research paper in order to make sure that diversity in practice exists and there is a global consensus as for the need to have specific guidance on this issue. It could also be specified in the Handbook that whenever comments on the research paper do not give enough evidence, the Board could also envisage issuing its own discussion paper presenting a more in-depth analysis and views of the IASB on this research issue (i.e. this could be a 'comply or explain' step).
We also note that no comment period deadline is specified for research papers in § 4.20; this is not consistent with section § 4.15 which states that research papers typically include an invitation to comment (please note that the Due process Protocol in p. 50 requires a minimum comment period of 120 days for research papers and is therefore inconsistent with section Research of the proposed Handbook).

Q4. Two changes to comment periods are proposed. The first would increase the minimum comment period for exposing the draft of a rejection notice of a request for an Interpretation request from 30 days to 60 days (see paragraph 5.16). The other change relates to the re-exposure of a document. The DPOC is proposing to allow the IASB to have a reduced comment period of a minimum of 60 days for documents it plans to re-expose, if the re-exposure is narrow in focus (see paragraph 6.26). Do you agree with the changes in the comment period lengths for rejection notices and re-exposure drafts? Why or why not?

Q4 a) extension of comment period for IFRS IC rejection notices

We agree with extending the comment period on rejection notices, as this will give more time to different interested parties to better prepare their arguments and more widely express their concerns on issues for which a need for an interpretation by the IFRS IC might be revealed thanks to comment letters.

Please note that the invitation to comment fails to draw the attention of the constituents to some other important changes. The existing IFRS IC Due Process Handbook (cf. § 39 of the 2007 version) sets a 60-day period as the minimum comment period for draft interpretations. According to paragraph 7.11 of the proposed Handbook, a comment period on draft interpretations which are not ‘narrow in scope and urgent’ would be extended from 60 days to 90 days. We welcome this change as it gives more time to constituents and thus permits gathering feedback of better quality. When it comes to draft interpretations which are narrow in scope and urgent, the new Handbook proposes a comment period of no less than 30 days (with comment periods inferior to 90 days being subject to obtaining approval from the DPOC). We agree with this proposal as the current Handbook of the IASB (§ 100) does not define any limit for a shorter period on draft interpretations and the proposed minimum comment period for draft interpretations is aligned with the one proposed for urgent and narrow in scope exposure drafts (cf. § 6.7). We nevertheless suggest adding a statement that circumstances where such a procedure would apply should be exceptional.
Q4 b) shortening of comment period for re-exposure drafts

First of all, we would like to note that the wording of question n° 4 underlined above is misleading: it suggests that solely re-exposures that are narrow in scope might be subject to the shortest possible comment period of 60 days. The wording of the paragraph 6.26 of the proposed Handbook to which this question refers seems to indicate that there could be other cases of re-exposure in which the comment period might be shortened to 60 days.

We are of the opinion that re-exposures of new standards and major amendments should always have a minimum comment period of 120 days, similar to the one proposed in § 6.7 for the initial exposure drafts. As a result, we suggest modifying the wording of the paragraph 6.26 to avoid confusion.

Moreover, when it comes to re-exposures of projects which are narrow in scope, we think it is important to specify in § 6.26 that any proposal by the IASB to shorten the usual comment period of 120 days should be subject to an approval from the DPOC.

Q5. 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?

Please find below our additional comments.

Overall structure of the proposed Handbook

The organisation of sections 4 'Technical work programme', 5 'Standards-level projects' and 6 'New or amended IFRS' does not seem optimal to us. Indeed, the research phase, the identification of standard-level projects and the development of final projects make all part of the technical work programme of the IASB (the paragraph 4.1 confirms this fact), so it is not clear why standard-level projects and final projects are being presented separately from the technical work programme.

As a further remark, we note that although the Due Process Protocol gives a clear plan of steps to follow for each standard development phase (eg. DP/ ED etc.), the timing and sequence of different important phases is not described clearly: to our opinion, the standard and interpretation setting procedure (consisting of several clearly differentiated steps: step 1, step 2 etc.) as defined in existing handbooks is relatively easy to understand and follow. We suggest including a brief description of these steps before going into detail of each step (i.e. before section 4 'Technical work programme').

Besides, it is not always clear whether a particular section is specific to the IASB, to the IFRS IC, or concerns the projects of both bodies. For the sake of clarity and easier navigation within the Handbook, we suggest clearly indicating (for example, within headings) the sections which concern only the IASB, or only the IFRS IC, and not both the IASB and the IFRS IC.
Finally, as already expressed in our previous comments, in order to guarantee a better quality control and consistency we strongly advise that the Due Process Protocol be considered as an integral part of the Due Process Handbook.

Coordination between the IASB, the IFRS IC and the national standard setters and regulators

Although the Handbook indicates already that some decisions of the IASB (such as the identification of standard-level projects, cf. § 5.3) necessitate a consultation with accounting standard-setting bodies, we believe that national standard setters (and why not regulators) should be entrusted an even more active role in developing international standards and interpretations. For example, on some issues it would be sound to ‘delegate’/ ‘outsource’ the consultation and outreach activities to the national standard setters. Such coordinated actions would help avoid over soliciting stakeholders on the same subject by different organisations. Besides, entrusting local authorities with some phases of the standard setting process (for example, research and outreach) could also result in a reduction of the resources constraints of the IASB and the IFRS Interpretation Committee by leveraging on their resources.

IFRS IC related comments (wordings for rejection and other issues)

As already expressed in our comment letter dated February 24 2011 on Status of Trustees’ strategy review, we are concerned that in the last few years the wordings for rejection have tended to be very short, without the IFRS Interpretation Committee giving an explanation of the reasoning that conducted to the published answer. This contrasts with the previous practice of the IFRS IC whereby wordings for rejection gave too much technical information and thus tended to be considered by the public as interpretations. In our opinion, the right compromise should be found in between these two extremes. We therefore believe that the Due Process Handbook should give explicit guidance on the content and purpose of wordings for rejection.

We note also that in section § 7.17 the possibility to re-expose draft interpretations is mentioned, but the related practical issues are not detailed (for example, what would be the minimum comment period for a re-exposed draft interpretation?).

Finally, we believe that currently there is not enough transparency on who submits issues to the IFRS IC. We suggest that for transparency reasons, at least the type of submitter (preparer, auditor, regulator etc.) and its country of origin should be disclosed by the IFRS IC.
Public consultation on identifying standard-level projects that have not been covered by the three-yearly agenda consultation

We believe that there should be more broad public consultation during the research phase, and even more so when setting priorities among different standard-level projects. That is, when preparing the technical work programme, the IASB should let every stakeholder express its view on the importance of the issues proposed, and not only consult the Advisory Council and other accounting standard-setting bodies (as currently proposed in § 5.3). Public consultation on every item of the standard-level agenda should be a compulsory step of the due process. It is to be noted that the proposed Handbook (§ 4.3) already requires undertaking a public consultation on the programme of the IASB every three years, but this consultation is not designed to add individual projects to the IASB’s work programme. Besides, since such consultation takes place every three years only, there is a risk that in between two three-yearly consultations new standard-level projects may be included in the IASB agenda without getting a prior broader public view as to the importance and pervasiveness of the issue and the difficulties encountered by the constituents in relation to this issue.

Consideration of comments received and consultations

We think that the Handbook should contain more guidance on the actions to be taken by the IASB when finalizing an IFRS, after an exposure draft has been issued and comments from different interested parties have been collected, analysed and deliberated.

In particular, we believe that the Handbook should state explicitly in sections § 6.19 to § 6.26 that the deliberations of the IASB should cover all major concerns and remarks formulated by constituents in their comment letters and during other outreach activities, even if some arguments have already been analysed before the issuance of an Exposure-Draft. For this purpose, the DPOC could use thresholds for judging the importance of a given issue (for example, in terms of number of received comment letters mentioning this issue or in terms of percentage of letters containing reference to this specific issue). One way to better identify the key areas needing further developments would be by requiring in paragraph 6.19 that the staff provide a more quantitative summary of issues raised by different commentators (e.g. issue no 1: how many comments in total? of these, (a) what percentage contains a disagreement with the Board’s proposals?, and (b) what percentage proposes alternative treatment/solutions etc.), or by otherwise standardizing the format of the comment letter review document. It would then be up to the DPOC to ensure, once the deliberations are over, that all major issues have been addressed (for example, by requiring a final report containing a list of main issues identified in comment letters or during other outreach activities, and a description of how these issues were addressed during the deliberations and what has been tentatively decided by the IASB).
When it comes to re-exposure requirements in paragraph 6.25, we are afraid there might be too much room left for a unilateral decision of the IASB not to re-expose an exposure draft, even after it has been significantly modified. Such situations could be avoided by requiring re-exposure whenever any major proposal is modified during the deliberations phase and the tentative decision is not in line with the views expressed by the majority of constituents having commented on the issue.

Establishing a clear objective for each project

We have noticed that in general the objectives described in the section ‘Objectives’ (or in the section ‘Introduction’) of existing IFRSs tend to be rather succinct and do not always explain for which identified needs of the users a particular standard has been developed, or how the new provisions are expected to improve the qualitative characteristics of financial statements. The absence of such information does not help enhance the transparency and the accountability of the standards setting process. As a result, constituents sometimes question the usefulness of and the need for introducing some standards or specific provisions.

We therefore deem it extremely important that, already from the research phase, the objective of each project be clearly formulated and approved by the Trustees. In particular, the IASB should be able to demonstrate why the project was initiated, how it is expected to improve the existing set of IFRS standards and how it will address users’ needs (i.e. the needs of those who apply the IFRSs in practice), and in particular the needs of preparers and investors.

Carrying out effect analyses all along the standard setting process

We are of the opinion that effect analyses should be integrated into the standard setting process over the life-cycle of major projects, from the agenda proposal stage through to the final standard stage, so as to further enhance the transparency of the due process and to increase the accountability and credibility of the standard setter. Effect analyses could be used to assess the extent to which a standard will meet its intended objectives (cf. our previous remark). They could be carried out by other institutions (such as national standard setters or regulators), not necessarily the IASB, but it is important that the Board is involved in effect analyses, considers the results of such analyses in public meetings and reflects those results in its decisions.

Meeting votes and the ballot process

We believe that the current decision making process leaves too much room for defects or shortcomings, as detailed tentative decisions are being made on the basis of a simple majority. For example, some non-optimal proposals may be approved during the deliberations of the IASB by a ‘weak’ simple majority vote (almost half of the Board members being against the proposal), whereas requiring a super majority vote for tentative decisions would lead to the controversial issue being developed in more detail (for example, by means of additional outreach activities) and the final proposal being more likely to meet users’ needs. We therefore suggest requiring that all intermediary decisions – and not only the final decision made for the publication of the whole standard – be subject to the super majority approval.
Distinction between the roles of the IASB and its staff

We are concerned that at times the IASB delegates too many important tasks to its staff. The Due Process Handbook should therefore give a clear definition of the roles of the IASB and its staff. In our opinion, the IASB should be responsible for decision making, leading the projects and at the same time giving proper directions on the development of standards to the staff, whereas the staff should make sure that the due process is respected and should present information to the Board in an objective and comprehensive manner.