

Comment Letters
IFRS Foundation
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Paris, 24 July 2019

Exposure Draft Proposed amendments to the IFRS Foundation Due Process Handbook

Dear Mr Liikanen,

Mazars welcomes the opportunity to comment on the IFRS Foundation's Exposure Draft (hereafter ED) *Proposed amendments to the IFRS Foundation Due Process Handbook*, issued in April 2019.

We agree with a number of the proposed amendments. However, whilst we welcome the fact that the DPOC is trying to clarify and rationalise the processes around elements falling in the "supporting consistent application" section, we have concerns around some of the proposals:

- we are not convinced by giving the IASB the possibility of issuing agenda decisions if it is expected to occur only in rare circumstances. To the contrary, we consider that, in conjunction with our concerns below on a specific type of "educational material", there would actually be a case for the IASB to issue agenda decisions in the context of the implementation of new standards, provided that this is clearly articulated as regards the IFRS IC's remit;
- we fail to understand the difference between educational material explaining or illustrating how the requirements in a standard might be applied in specific transactions or other circumstances (as described in paragraph 8.10(c) and agenda decisions. We consider that, if a distinction does exist between this type of educational material and an agenda decision, it should be better articulated. In addition, we note that their reach goes well beyond a simple education purpose and, consequently, they should not be labelled as "educational material". Rather, they should be clearly identified as a specific type of guidance supporting implementation of IFRSs, and they should be subject to a due process aligned with that of any agenda decision including public consultation. The validation process proposed in the Exposure Draft (review by three Board members) is largely insufficient, considering the objectives of these materials.

Whilst not asking for comments on this, we note that the Foundation is proposing to reduce the scope of the Due Process Handbook to documents relating to IFRS financial statements. Beyond this not being consistent with the scope of the Conceptual Framework, we are concerned that this leaves out of scope the Practice Statements the IASB develops which are currently subject to the same due process as IFRS standards, as well as potentially some other material.

We therefore consider that, before finalising the Due Process Handbook, the IFRS Foundation should ensure that all the materials produced by the Foundation are covered by it. Subsequent to such inventory, the specific section on “supporting consistent application” would warrant much clearer articulation of the role, status, process and objectives of the various forms of supporting material. We emphasise here that this is a very sensitive area for all stakeholders.

Finally, we note that a simple majority seems to be required to issue agenda decision as per the Due Process Handbook. Given the objectives and the content of such material which often concludes that the standards include sufficient guidance or are sufficiently clear to come to an answer for the issue it addresses, we are of the view that a simple majority may not be sufficient to justify that no standard-setting is required in the cases where the IFRS Interpretations Committee is split on an issue. We think the IFRS Foundation should reconsider this voting rule. In addition, should the Board be allowed to issue such agenda decisions, we consider that the same majority rules as for the IFRS Interpretations Committee should also be specified.

We provide our detailed responses to the individual questions in the Appendix to this letter.

Should you require further explanations, do not hesitate to contact us.

Yours sincerely,



Michel Barbet-Massin
Head of Financial Reporting Technical Support

Appendix

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 agree with the proposed scope of the effect analysis as being to assess and report how general purpose financial statements are likely to change because of new financial reporting requirements, whether those changes will improve the quality of the financial statements and are justifiable taking into consideration costs whilst also analysing how greater transparency is likely to affect financial stability.

We also think it is useful for constituents to articulate the fact that effect analyses are indeed carried out throughout a standard-setting project and that how such analysis is reported may take different forms depending on the magnitude of the changes proposed as well as on the stage of development of the proposed requirements. However, we consider that, even if effect analyses are part of a wider document such as a Basis for conclusions, it may be useful to constituents that the specific portions relating to effect analyses be explicitly identified.

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 any such change.*

Do you agree with these proposed amendments?

We agree with the statement made in § 8.1 that the material described in the section labelled “supporting consistent application” cannot add or change requirements in the standards.

We therefore welcome the explanations regarding the objective and nature of explanatory material in an agenda decision.

We also agree with the fact that, should an entity determine it needs to change its accounting policy, sufficient time would be granted to it for doing so. We think, however, that it may be useful to bring in more explanations as to what “sufficient time” means in the Due Process Handbook.

Process of agenda decisions

We note that a simple majority seems to be required to issue agenda decision as per the Due Process Handbook (§§ 5.17 and 5.19). Given the objectives and the content of such material which often concludes that the standards include sufficient guidance or are sufficiently clear to come to an answer for the issue it addresses, we are of the view that a simple majority may not be sufficient to justify that no standard-setting is required in the cases where the IFRS Interpretations Committee is split on an issue. Indeed, we note that for some of the agenda decisions published in the last years, the IFRS IC was rather split, which, in our view, demonstrates that the standard was therefore not clear enough and that some standard-setting may have been warranted.

We therefore think the IFRS Foundation should reconsider this voting rule. In addition, should the Board be allowed to issue such agenda decisions, we consider that the same majority rules as for the IFRS Interpretations Committee should also be specified in the Due Process Handbook.

Board agenda decisions

We are not convinced by the usefulness of providing the Board with the possibility of issuing agenda decisions when it is only in rare circumstances that the Board is expected to resort to it.

It would have been useful had the ED provided examples of cases in the past where the Board would have resorted to such a tool. In our view, this would have been the case regarding modifications of financial liabilities (as opposed to being mentioned in a basis for conclusion of an unrelated amendment to IFRS 9) and the lease term (as opposed to issuing a webcast, which was heavily debated among constituents and ultimately may lead to the issuance of an IFRS IC agenda decision).

Moreover, it is not clear, in the proposed Due Process Handbook, how the Board would decide that it needs to publish an agenda decision, nor why it would be the body doing so as opposed to the IFRS IC. On this point, we note that §§ 21-25 of the introductory material to the ED frame this as relating mainly to new standards not yet in force and as to such situations being infrequent with issues being put to it for example through Transition Resource Groups. We note however that no such framing is present in §§ 8.6 and 8.7 of the proposed Due Process Handbook, except for the fact that publication of an agenda decision by the Board would occur in rare circumstances.

In this context, we wonder whether issues submitted to the IFRS IC relating to standards not yet in force would therefore be referred to the Board.

To the contrary of what seems to be the intention of the Foundation, we consider that, in conjunction with our concerns expressed in question 3 on a specific type of educational material, there would actually be a case for the IASB to issue agenda decisions in the context of the implementation of new standards, provided that this is clearly articulated in the Due Process Handbook as regards both the IASB's and the IFRS IC's respective remits. This could mean, for instance, that any such issue the IASB or the IFRS IC are made aware of during the implementation phase of a new standard, including the first year of application, would be dealt with by the IASB.

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

Whilst we think it is useful to categorise different types of educational material, we are concerned with the growing amount of non-mandatory guidance published in a variety of ways (basis for conclusions, implementation guidance, illustrative examples, educational material – articles, webcasts, etc. – and agenda decisions).

We take no issue with the types of educational material described in §§ 8.10(a) – high level summaries of requirements – and (b) – more detailed materials explaining the requirements in a standard.

However, regarding the type described in § 8.10(c) – material explaining or illustrating how the requirements might be applied in specific transactions or other circumstances – we fail to understand the difference in nature between this type of material and the proposed Board agenda decisions. We do note that there is a significant difference in process as the former would be subject to the review of only 3 Board members when the latter would be subject to a process with public consultation. We do not think there are sufficient explanations in the proposed Due Process Handbook to guide the Board towards one or the other or even to warrant these being anything other than an agenda decision. In addition, we note that some webcasts in the past have been the source of heated discussions amongst constituents on their role, status, relevance and the process around them (e.g. on the lease term). This leads us to believe that, should these two types of material be maintained, material described in § 8.10(c):

- should not be labelled as “educational material”, considering it being closer in nature with agenda decisions, illustrative examples and basis for conclusions than with educational material described in paragraphs 8.10(a) and (b); and
- should be subject to a due process similar to that of an agenda decision including public consultation.

Consultation in connection with adding projects to the Board’s work plan

We agree with the amendments in §§ 3.43, 4.6 and 4.7 requiring the Board to consult the IFRS Advisory Council and the ASAF on adding major projects to its workplan in between its five-yearly agenda consultations.

IFRS Taxonomy

We agree with the proposed clarifications regarding oversight and process relating to the IFRS Taxonomy.

We note in table in § A23 p 67-68 that there is an inconsistency as it indicates that the Board's approval is required referring to § A20 which mentions that the IFRS Taxonomy Update is not subject to Board approval.

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 agree with the proposed amendments relating to the more “strategy-oriented” role of the IFRS Advisory Council.

In § 45 of the Constitution, it is proposed to replace the Board by the Trustees on consulting the Advisory Council in advance of decisions of the Board on major projects. We do not understand why this change is proposed.

Other issues – Scope of the Due Process Handbook

We note that in § 1. 2 it is proposed to refer to “users of financial statements” as opposed to “users of financial information”. In conjunction with this in § 3.47 it is proposed to replace “the Board is responsible for developing financial reporting” with “[...] developing IFRS standards”.

It is unclear to us why the IFRS Foundation is proposing these changes. Beyond this not being consistent with the scope of the Conceptual Framework, we are concerned that this leaves out of scope the Practice Statements the IASB develops which are subject to the same due process as IFRS standards, as well as potentially other types of materials.

We therefore consider that, before finalising the Due Process Handbook, the IFRS Foundation should ensure that all the current materials produced by the Foundation are covered by it. Subsequent to such inventory, the specific section on “supporting consistent application” would warrant much clearer articulation of the role, status, process and objectives of the various forms of supporting material. We emphasise here that this is a very sensitive area for all stakeholders.