

Mr. Michel Prada, *Chairman*
IFRS Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

5 September 2012

Dear Mr Prada

Invitation to Comment: IFRS Foundation Due Process Handbook

Deloitte Touche Tohmatsu Limited ('Deloitte') is pleased to respond to the Invitation to Comment on the IFRS Foundation Due Process Handbook. We commend the IFRS Foundation for taking the opportunity to undertake a comprehensive review of the documentation of the due process followed by the International Accounting Standards Board, the IFRS Interpretation Committee and the Trustees' Due Process Oversight Committee. In our July 2011 comments on the Trustees' Strategy Review we stressed that a 'rigorous, clearly-defined and documented system of due process that is transparent and operates throughout the life-cycle of a project' was 'an essential element for demonstrating that the IASB carries out its activities in an independent manner.' As such, we are pleased that one of the first things that the Trustees have considered after completing the Strategy Review is the Due Process Handbook.

While we agree with much of the content of the proposed Due Process Handbook, we disagree with incorporating into the Due Process Handbook amendments to the purpose of financial reporting standards proposed in the IFRS Foundation Trustees' Report *IFRSs as the Global Standards: Setting a Strategy for the Foundation's Second Decade* that have not been incorporated into the IFRS Foundation's Constitution or the IASB's Conceptual Framework. The latter are fundamental documents that may only be amended after formal due process related to the documents themselves.

We disagree with reducing the time period for re-exposure of proposed IFRSs or Interpretations. In our experience as a global professional services network, our member firms need time to consider potential changes to IFRSs and Interpretations not only from a purely technical perspective, but also to understand the effects they might have in the various regions in which those firms operate. Shortening re-exposure periods threatens the quality of IFRSs.

Finally, we are concerned that the Due Process Handbook appears in several places to constitute the Trustees' Due Process Oversight Committee and the IASB staff as separate bodies with explicit responsibilities and competences. While the Draft Due Process Handbook states explicitly that the DPOC is a committee established by and accountable to the IFRS Foundation Trustees, with a particular responsibility, there are places where this is not entirely clear. With

respect to the IASB staff, in our view the IASB staff always acts at the direction of the IASB and extensive reference to the IASB staff is unnecessary.

Our detailed responses to the invitation to comment questions are included in the Appendix to this letter.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 207 007 0884 or Joel Osnoss in New York at +1 212 492 3910.

Yours sincerely,



Veronica Poole
Global IFRS Leader—
IFRS Technical



Joel Osnoss
Global IFRS Leader—
IFRS Clients and Markets

Appendix

Questions raised in the Invitation to Comment

1. *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 support the inclusion of a section of the Due Process Handbook dedicated to explaining and documenting the oversight responsibilities and activities of the IFRS Foundation Trustees in general and the Trustees' Due Process Oversight Committee in particular.

We agree with much of the content of this section. We would, however, suggest that in paragraph 2.9 mention be made of the IFRS Interpretation Committee Chairman. Although the Interpretations Committee is officially accountable to the IASB, operationally the Interpretation Committee Chairman has a significant public-facing profile. The current incumbent is a member of the staff, and thus subsumed by the current wording of paragraph 2.9. Including the Interpretation Committee Chairman in the list of people with whom the DPOC enters into dialogue would address the situation in which this was not the case and is consistent with paragraphs 2.4 and 2.8.

To execute its oversight role effectively—and to be seen to do so—the DPOC itself needs to be able to demonstrate that the IASB's due process is operating effectively. At present, we are of the view that the transparent nature of the IASB's and DPOC's activities should generally guarantee that the information provided to the DPOC is evidence-based, balanced and objective and that further assurance-adding processes are unnecessary. As such, we would support the conclusion that an 'audit of the information provided by the IASB' to the Trustees is not necessary (paragraph 2.14). If experience proves that this is not the case, we would reconsider this position. However, the rationale provided in paragraph 2.14 is weak and not substantiated. The Director of Trustee Activities is a recent appointment whose role is not explained, nor have the Trustees explained why this person 'makes an audit unnecessary.' We are not certain what this paragraph adds and suggest that it be deleted or that a more robust justification of the conclusion be given.

The Due Process Handbook should be drafted with care to avoid any suggestion that the DPOC is anything but a committee of the IFRS Foundation Trustees and that ultimate responsibility for the due process rests with the IFRS Foundation Trustees collectively. This is clear from paragraphs 2.2 and 2.3. However, paragraph 2.15(b) suggests that the DPOC can report to outsiders, in particular the Monitoring Board, independently of the Trustees ('...and on an *ad hoc* basis as required'). We think that if the Monitoring Board (or a parliamentary committee, public authority, etc) were to request such an *ad hoc* meeting with the DPOC, other Trustees (e.g., the Chairman) should be expected to attend.

- 2 *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?

We are in favour of having a public document in which the on-going due process steps for IASB and IFRS Interpretations Committee projects are detailed. Such a document should provide a clear summary of the due process followed, and demonstrate the IFRS Foundation Trustees' effective oversight of the IASB's standard-setting activities. However, we are concerned that what should be a means of communicating that not only the letter, *but more importantly*, the spirit of due process has been followed will degenerate into a compliance tool.

We recognise that maintaining detailed records for each project represents an administrative burden. The IASB and the IFRS Foundation Trustees are seeking a balance between efficiency and being able to demonstrate to the Monitoring Board and the world at large that due process has been followed and to respond effectively to criticism when challenged. The protocol should permit the IASB to demonstrate to as wide a population of interested parties as possible how the IASB followed due process, what they learned and how this knowledge influenced the debate. The protocol should be a place to document due process events, a reminder mechanism, not a checklist.

It will be important to manage expectations with respect to the maintenance of this document (e.g., "this document will be updated quarterly/ within *x* days of a Trustees' DPOC meeting") and to have a 'date revised' in a prominent place, so that the public knows what to expect and the IASB is seen to be complying with its obligations.

With respect to the templates themselves, some have wording inconsistencies for similar due process steps. More importantly, some steps included in the *finalisation* of an IFRS are excluded from the *development* of an IFRS. In the table on page 59, 'Finalisation of an IFRS, Practice Guidance or *Conceptual Framework* chapter,' the 'DPOC meets with the Advisory Council to understand perspectives of stakeholders'. If (as expected) most IFRS-level projects will have a Discussion Paper stage, it would be logical that the DPOC would seek to understand how the views of constituents expressed in comment letters on the Discussion Paper and other outreach were reflected in the exposure draft of the IFRS. As we note in our comments on paragraphs 6.19-6.26 below, this is an important step in due process, one which has historically been seen as a weakness.

As noted in the preamble to Appendix 4, the Protocol is a living document and should be revised as experience dictates. We agree that this should be the case. However, to maintain accountability to constituents and stakeholders, changes to the Protocol, as they are approved by the Trustees' DPOC, should be highlighted in the agenda papers and meeting summaries of that Committee.

- 3 *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).

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?

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?

Research Programme (paragraphs 4.9–4.22)

We support the emphasis placed on strengthening the research programme, in particular the involvement of ‘national or regional financial reporting bodies, academics and other interested parties’ (paragraph 4.12). We agree also that, for this research effort to be effective, the IASB will ‘need to provide clear direction’ and set out its expectations. In the past, this lack of direction and close cooperation led national or regional bodies to develop material that could not be used effectively by the IASB, to the frustration of both sides. We recommend that the IASB creates a memorandum of understanding on involving national or regional financial reporting bodies, academics or other interested parties in the standard-setting process. In doing so, all parties will understand the expectations, roles, responsibilities, obligations and the benefits of participating in the standard-setting process. This memorandum should balance giving some clear directions to the party undertaking the work, whilst avoiding being too restrictive. At the same time, the IASB should establish what it will do with the work produced, whether it expects to release the work as a due process document and, if not, how the work will be used by the IASB in the standard-setting process.

These developments are consistent with comments to the Trustees in July 2011, in which we said:

We would support establishing a liaison group within the IASB focused on research activities and responsible for coordinating a global research network. It would be beneficial to the IASB if there was a truly global research network, capable of drawing on research wherever it was being undertaken.

However, the purpose and place of research does not come through in the draft Due Process Handbook. There is no acknowledgement that research is tied to the priorities assessed as part of the IASB’s triennial Agenda Consultation and that research, theoretical and practical, should inform all phases of a project. We think it important that, if research is truly to be integrated with other aspects of the development of IFRS and the related due process, such links should be explicit. One of the lessons from the IASB’s first decade was that the ‘research projects’ were often added to without rigor or accountability. In our view, one of the things the Agenda Consultation is designed to achieve is greater rigor and accountability for ‘research’ topics.

The Due Process Handbook should distinguish between empirical research about financial reporting practices and problems (mostly undertaken by academics) and identifying and exploring new or improved financial reporting techniques (which informs the array of potential projects or alternative financial reporting methods available). Both are important in the context of the IASB's standard-setting activities, but may occur at different stages in the development cycle of an IFRS.

Distinction between narrow-scope projects and comprehensive projects (paragraphs 5.11-5.20)

We find this section generally unsatisfactory. It is a rather disjointed discussion of various procedures, which are not criteria for distinguishing between Annual Improvements/ 'narrow-scope' and comprehensive projects but more operational aspects of the Interpretation Committee's work. This discussion belongs in Section 7. This section should describe the criteria for implementation and maintenance of IFRSs (being complementary to the previous section on the criteria for new IFRSs or major amendments), and reflect the recommendations in the IFRS Foundation Trustees' report on their review of *Efficiency and Effectiveness of the IFRS Interpretations Committee*, issued in May 2012.

We agree that a distinction can be made between narrow-scope and comprehensive projects, but we do not think that this section of the draft Due Process Handbook articulates this difference in a manner that is comprehensible, nor does it explain why this distinction is important. We believe the distinction is important because there is a significant difference between the due process steps involved. Hence, in our view, more rigor is required around the terms used.

Narrow-scope projects, including Annual Improvements and Interpretations issued by the Interpretations Committee are instances in which the normal due process is less extensive than for a comprehensive IFRS project. The protocols in Appendix 4 make it clear that in some cases, the mandatory and normal 'optional' due process requirements will be less extensive than those contemplated for a comprehensive IFRS project. Given that the Protocols do not form part of the Due Process Handbook, the distinction, why it is important and the effects on required due process must be addressed in the body of the Due Process Handbook.

The section on Implementation and Maintenance (paragraphs 5.11-5.20) is devoted almost entirely to what are currently known as 'Interpretations'. It does not refer to the other aspect of the Interpretations Committee's activities, including the Annual Improvements Project and additional application guidance, which also comes under the general definition of 'maintenance' activities, in that they address narrowly-focused areas, but with a different outcome.

We recommend that the IFRS Foundation Trustees take this opportunity to incorporate the 'revised agenda criteria' and the 'supplementary criteria for items to be included in the Annual Improvements Process', proposed in Appendix A of the IFRS Foundations Trustees' report on their review of *Efficiency and Effectiveness of the IFRS Interpretations Committee*, issued in May 2012, in place of paragraph 5.13.

Finally, there is little or no apparent relationship between paragraphs 5.11-5.22 and Section 7, which addresses Interpretations, although both address the work of the Interpretations Committee. We find this confusing and unhelpful. We return to this topic in our response to Question 5.

- 4 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?

IFRS Interpretations Committee Agenda Decisions (paragraph 5.16)

We support the proposal to increase the minimum comment period for exposing the draft of an Interpretations Committee Agenda Decision from 30 days to 60 days, as proposed in paragraph 5.16.

Comment periods for Re-exposure Drafts (paragraph 6.26)

We do not support the proposal to permit the IASB to reduce the comment period to a minimum of 60 days for IFRS-level documents it plans to re-expose, if the re-exposure is narrow in focus. As a general principle, we do not support any comment period less than 90 days for IFRS-level due process documents. As a global professional services network, our member firms need time to consider the changes not only from a purely technical perspective, but also to understand the effects they might have in the various regions in which those firms operate and whether they can be understood in the local language.

We support the DPOC having an explicit responsibility to review the decision of the IASB to shorten a re-exposure period from the standard 120 days. We think it appropriate that a decision to shorten a re-exposure period be subject to review by the DPOC before the re-exposure draft released, and that such involvement is consistent with the ‘continuous oversight’ envisaged by paragraph 2.4 of the draft Due Process Handbook. In our view, when the DPOC and the IASB disagree about whether a shortened re-exposure period is appropriate, the Protocol in Section 8 should be invoked.

Consideration of comments received and consultation and the re-exposure decision generally (paragraphs 6.19-6.26)

We consider that one of the presumptive triggers for re-exposure of a proposed IFRS or Interpretation should be that the original proposals resulted in a substantial un-orchestrated opposition to a principle. In our comments to the (then) IASC Foundation Trustees of 31 March 2009, we said that:

one way in which the IASB could enhance its due process would be to require a substantive redeliberation of a preliminary view if there is a *substantial un-orchestrated* level of opposition to a principle. The IASB would need to debate why so many constituents were opposed to the IASB proposal. Nor should they ignore opposition on conceptual grounds: often opposition is based on practical considerations that the IASB may not have deliberated [p. 10, emphasis in the original].

We say ‘presumptive’ because the substantive redeliberation of the principle, in light of the comments received and other consultation might demonstrate that the principle remains appropriate. However, the credibility of the IASB and the IC and their due process in such circumstances would be enhanced if they had to demonstrate to the satisfaction of DPOC how this conclusion was reached. The arguments supporting their conclusion would be included in the agenda papers for the appropriate meeting and be in the public domain.

We also remind the Trustees of our comments in July 2011 to the Strategy Review, in which we addressed concerns about the re-exposure decision generally:

An area in which improvements to the IASB’s Due Process Handbook are necessary is re-exposure of proposed IFRSs. We are concerned that the IASB has been tempted to avoid re-exposure during a project by posting a ‘Staff Draft’ of a proposed IFRS on the relevant project Internet page in place of full re-exposure. An example of this approach was ED/2010/01 *Measurement of Liabilities*, in which the IASB exposed parts of the proposed standard, without the scope, definitions and recognition criteria to which this guidance was expected to be applied. After severe criticism from constituents, the IASB issued a ‘Working Draft’ of the remainder of the proposed IFRS, but did not issue a formal invitation to comment on that document. In our comment letter to the IASB, we criticised this approach, concluding that “we do not believe that the Board has adhered to the spirit of due process”. We were not alone, and as a result of severely critical comments the project was deferred entirely. We do not believe that abbreviating due process in this way leads to high-quality financial reporting standards nor does it serve the public interest. [Answer to C1]

Paragraph 6.24 requires the IASB to ‘inform the DPOC of its decision to proceed to ballot stage for an IFRS, explaining why it is satisfied that re-exposure is not necessary’. In our view there should be a similar onus on the IASB (or the IC) to explain, when re-exposure is necessary, why a reduced comment period might be justified (see also our comments on paragraph 6.26, above).

In our view, reduced comment periods should be rare and should be supported and justified by well-documented evidence demonstrating broad-based support from constituents for the proposed changes. By broad-based, we mean that users, preparers, regulators and supervisors, national and regional standard-setters and professional accountants are likely to support the changes made to the original proposals and that they are likely to be operational, capable of rigorous and consistent application and would enhance financial reporting across IFRS jurisdictions. Such evidence would have been collected by the IASB staff as a result of its outreach activities during and subsequent to exposure, and compiling it for the Board and/ or IC would be an activity we would expect in any event. Consequently, it should not pose a significant additional burden on the staff nor the IASB and IC. This documentation should be presented to the IASB and/or IC at the public meeting during which the comment period for re-exposure is discussed.

We have related concerns about the post-redeliberation/ pre-release phases of due process, in particular the role of ‘review drafts’ (what have been known as ‘staff drafts’ or ‘fatal flaw review drafts’). These are addressed in our general comments on paragraphs 3.29—3.32, below.

- 5 *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?*

Pervasive comment: the roles and responsibilities of the IASB and the Staff

We are concerned that the Due Process Handbook appears in several places to constitute the IASB staff as a separate body with explicit responsibilities and competences. It appears to grant, the Staff explicit responsibility for actions that we think should be the responsibility of the Board, even if the Board chooses to delegate those responsibilities to the Staff. This concern is manifested in several references in the draft Due Process Handbook to the staff making decisions or determinations that we think properly belong to the Board, or that should be made in close consultation with the Board. We highlight particular instances in our comments that follow. In our view, the IASB staff acts at the direction of the IASB and extensive references to the IASB staff are unnecessary. We would suggest that the phrase (also used in the draft) ‘the IASB and its staff’ is more appropriate in circumstances in which the IASB thinks that referring explicitly to the IASB staff is necessary.

Principles: Transparency

Notice period for IASB meetings (paragraph 3.5)

This paragraph states that “Occasionally the IASB will need to hold a meeting at short notice”, that the IASB Chair “can convene such meetings at any time” and that the IASB will make its “best efforts” to notify constituents of such meetings. For this paragraph to have any real effect there must be a minimum notice period. We would suggest 36 hours (which allows for a full working day in all time zones) should be the minimum notice period.

Staff papers (paragraph 3.10—3.11)

We commend the IASB and the staff for releasing the vast majority (in 2011-2012, all) Board and Interpretation Committee papers and related material to the public without redaction. As this is the staff’s preferred approach, we suggest that paragraph 3.10 be phrased more positively, to state that the IASB and the staff *shall* release all material discussed by the IASB or Interpretations Committee members in their public meetings in full, and then go on to explain the limited circumstances in which and the specific reasons why this expectation might be varied. Thus, transparency is emphasised, rather than the exceptions to it, which is how paragraph 3.10 reads at present because of the use of the weak qualifier ‘normally’.

We agree with the obligation in paragraph 3.11 that the staff report to the IASB and the DPOC “at least annually on the extent to which to which material discussed by the IASB or the Interpretations Committee has not been made available to observers and the main reasons for doing so.” We suggest that the IFRS Foundation Trustees’ commitment to the principle of transparency could be enhanced here by stating that the Trustees (acting on their own initiative or through the DPOC) or the IASB have the absolute right to order the release of meeting materials withheld from the public.

Balloting (paragraph 3.21—3.22)

We note that the formal ballot ‘takes place outside of meetings’ (paragraph 3.21). This can give the impression that some negotiating takes place outside of public meetings. While we do not believe this to be the case, we think that the Due Process Handbook should state that, at the conclusion of deliberations, the staff presents the IASB with a decision summary that includes all technical decisions related to a particular project and asks the IASB whether this should be the basis for preparing the ballot draft of the proposed standard and whether, based on the decision summary, any IASB member intends to dissent (or present an alternative view in an exposure draft). This decision summary should be voted on during the meeting at which it is presented.

We disagree with the inference in paragraph 3.22 that the IASB staff is responsible for ensuring that the final publication reflects the ‘technical decisions that relate to recognition, measurement and disclosure matters.’ As noted above, the IASB (and Interpretation Committee members) must be satisfied that the final document reflects their decisions: this is not a task that can be delegated.

Review Drafts (paragraphs 3.29—3.32)

We encourage the use of Review Drafts, but consider that the role and purpose of review drafts is not well understood by IASB constituents generally. Consequently, this section should have a coherent explanation of how the IASB and its staff use Review Drafts and how they use they use the ‘drafting feedback’ they receive. The IASB and its staff and the DPOC must exercise diligence such that a Review Draft is not used when a Re-exposure Draft is the more appropriate due process document.

This section would also benefit from combining the first part of paragraph 3.31 and 3.29, since both refer to the practice of involving external reviewers rather than what the reviewers do with such a draft. The third sentence of 3.31 (‘The staff must also decide...this purpose’) is confusing and could be deleted without loss of meaning.

In paragraph 3.32, we recommend including in the report to the DPOC the extent to which the external review resulted in changes to the draft. Many of the IFRSs released in the 2010-2011 period were criticised for poor drafting which survived in the final IFRS. The use of Review Drafts is an opportunity to avoid such situations, but the DPOC should be aware that such things were identified during the review process. In particular, the DPOC should be made aware of matters subsequently submitted for limited scope amendments, annual improvement or interpretation that were identified at the Review Draft stage, but which (for whatever reason) were not reflected in the final IFRS or Interpretation.

Principles: Full and Fair Consultation

In this section, the draft Due Process Handbook mentions explicitly consultation with investors and other users, national and regional networks of financial reporting standard-setters, the IFRS Advisory Council, securities and other regulators and consultative groups established for particular projects: preparers and auditors are not mentioned. Preparers are represented through national and regional business forums and the IASB should explore addressing issues with these forums explicitly. We think it would aid the principle of transparency if a formal channel for

dialogue was established with auditors. International audit networks will often bring to a technical issue insights gained from a variety of practice and business environments that would be useful to the IASB throughout its standard-setting process.

Working with national standard-setters and regional groupings of standard-setters (paragraph 3.49)

We agree that the IASB should share information, consult and participate in meetings with national standard-setters and regional groupings of standard-setters, and we are encouraged by the increased bilateral and multilateral interaction that has developed over the past several years. Our comments on the IASB's research programme (paragraph 4.9—4.22, above) and the proposed use of a memorandum of understanding between the IASB and other parties might also be considered in the present context.

We do not fully understand the meaning and intent of the last sentence in this paragraph, which states that "Close co-ordination between the IASB's due process and the due process of other accounting standard-setters is important to the success of the IASB." Given that the IASB-FASB Convergence Project and related Memorandum of Understanding will come to an end relatively shortly, we question how a requirement to co-ordinate the IASB's due process with that of other standard-setters will enable the IASB to develop standards on a timely basis.

Securities and other regulators (paragraph 3.55)

We think that this paragraph, as phrased, is contradictory to both the IFRS Foundation's Objective of requiring "high-quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the world's capital markets and other users of financial information make economic decisions" [Constitution 2(a)] and the IASB's Conceptual Framework. In particular, we disagree with the inclusion in this paragraph of "global financial stability and sound economic growth."

We note that the phrase "global financial stability and sound economic growth" is in Principle A1 *Purpose of Financial Reporting Standards* of the IFRS Foundation Trustees' Report *IFRSs as the Global Standards: Setting a Strategy for the Foundation's Second Decade* (the 'Strategy Review Report'), issued in February 2012. However, none of the Report's recommendations has yet been incorporated in the IFRS Foundation's Constitution. In addition, such a change in the purpose of financial reporting standards would require a change to the IASB's *Conceptual Framework for Financial Reporting* and some IFRSs. It is not for the Due Process Handbook to introduce objectives or information needs that do not appear in official pronouncements that have been issued by the IFRS Foundation Trustees and the IASB.

We suggest that the sentence end at "transparency and integrity of those statements."

We think that clarification of the role that the 'enhanced dialogue' between the IASB and prudential supervisors (paragraph 3.56) has in the IASB's due process is needed. We suggest that the Strategy Review Report's comment that such a dialogue might assist the IASB to understand 'issues concerning the interaction of financial reporting and prudential concerns' (page 10) together with identifying what changes to an IFRS or an IASB proposal would

improve ‘the transparency and comparability of information in financial statements’ (cf IFRS Foundation Constitution, 2(a)) would place this comment in context.

With respect to the interaction with securities regulators and prudential supervisors generally, the IFRS Foundation Trustees need to consider carefully how to ensure transparency around these meetings is to be achieved, documented and monitored.

Consultative Groups (paragraph 3.57—3.63)

In paragraph 3.57 there should be a *presumption* that consultative groups will be appointed for each of the IASB’s major projects. In addition, there should be a presumption in paragraph 3.62 that they will meet in public.

There is an inconsistency between paragraph 2.8(c) and paragraph 3.59, which should be resolved. In paragraph 2.8(c), the DPOC is *responsible* for ‘approving the composition of the IASB’s consultative groups to ensure an appropriate balance of perspectives and monitoring the effectiveness of those groups.’ In paragraph 3.59, the DPOC only ‘*reviews* the proposed composition of each group to ensure that there is a satisfactory balance of perspectives’ [our emphasis]. We think paragraph 3.59 is better: it avoids involving the DPOC in approving consultative group membership, which allows it to be more objective and critical of their contribution subsequently. We suggest that paragraph 2.8(c) be amended to conform to paragraph 3.59.

We find paragraph 3.61 odd: having decided to establish a consultative group (3.57-3.58), determined its membership (3.59) and terms of reference and objectives (3.60), we are told that the group will only be consulted “when the staff consider that it would be beneficial to the project to do so.” Indeed, the record of interaction with Consultative Groups (only four meetings in the period July 2011—June 2012, and none with the Financial Instruments: Impairment expert advisory group) [IFRS Trustees’ Meeting July 2012 Agenda Paper 4A and attachments refers], suggests that the degree of discretion exercised by the IASB staff implied in paragraph 3.61 may be undermining the effectiveness of Consultative Groups. Given that meetings of consultative groups are addressed in paragraph 3.62, we think paragraph 3.61 is unnecessary and could be deleted without loss to the Due Process Handbook as a whole.

Paragraph 3.63 should be clarified to state that the IASB staff reviews the composition and terms of reference of consultative groups on an annual basis. The outcome of this review, *together with any recommendations, is presented to the IASB for approval*. The IASB established the groups and their terms of reference, and is the appropriate body to approve any changes to them. The IASB would include the results of the staff review, the staff’s recommendations and any changes made in the composition, terms of reference, or elimination of a consultative group to the DPOC.

The record of interaction with consultative groups referred to in the previous paragraphs goes to a related concern: how the IASB and its staff can create an environment which is conducive to having substantive contributions with its advisory groups. This is not necessarily a matter for the Due Process Handbook itself, but is a concern we think needs to be addressed.

Principles: Accountability (paragraphs 3.72—3.80)

While we do not disagree with the observations in this section, there is no discussion here about how the principle of accountability is established or why effects analyses and/ or the basis for conclusions and dissenting views support the principle of accountability.

In our view, there should be a clear statement in this section that accountability of the IASB is established by its operating under a rigorous, open, transparent and well-documented system of due process, overseen by the Trustees. The principles of transparency and full and fair consultation (see paragraph 3.1) are designed to establish not only lines of communication between the IASB and its constituents, but also lines of accountability by the IASB for their technical decisions to constituents, to the Trustees and ultimately to the Monitoring Board.

Effects analyses, the basis for conclusions and dissenting views are some of the documents in which the views of constituents are summarised, but there are other documents and means of communication that are, together, designed to achieve the principle of accountability.

The IASB's consideration of likely effects (paragraph 3.74)

We would expect to see in this section some evaluation by the IASB of evidence from the auditing community on their assessment about whether the financial information produced is capable of being audited in accordance with International Standards on Auditing or national equivalents and the related costs to preparers. This issue could be subsumed in paragraph 3.74(e) ('the likely effect of compliance costs for preparers...'), but we think that compliance costs for the preparer and the ability to audit the information produced are distinct and should be addressed separately.

Basis for Conclusions and dissenting views (paragraphs 3.76—3.80; paragraph 7.9)

The draft Due Process Handbook notes (paragraph 7.9) that:

Because Interpretations are developed on the basis of the Interpretations Committee reaching general agreement on the particular matter, a draft Interpretation does not include any dissenting views. However, the invitation to comment and the Basis for Conclusions would be expected to identify areas where some members held strong views opposing the draft Interpretation.

We think that, in light of the 'enhanced toolbox' of the Interpretations Committee, it would aid the transparency of the Committee's activities if alternative views of Committee members were labelled as such (even if non-attributed) when a draft Interpretation is exposed, so that they are apparent to all constituents. There is a precedent for such an approach in the recent changes to the operating procedures of the US Emerging Issues Task Force. We acknowledge that dissents to IASB authoritative documents, including Interpretations, are reserved to IASB members; however, when the IC sends a proposed final Interpretation to the IASB for approval, we think it appropriate that the IASB is aware of strongly-held minority views of IC Members.

Technical work programme

Consistent application of IFRSs (paragraph 4.7)

Paragraph 4.7 is paraphrasing material from the Strategy Review Report, in particular Principle A5, which states that “the IFRS Foundation has a vested interest in helping to ensure the consistent application of IFRSs internationally”. In our view, this commitment is substantively different from that proposed in the Due Process Handbook: that ‘the IFRS Foundation renders all assistance to ensure the consistent application of IFRSs internationally’ (paragraph 4.7).

As we note above in our comments on paragraph 7.9, none of the Trustees’ Strategy Review Report’s recommendations has been incorporated in the IFRS Foundation’s governing documents. We recommend that the Due Process Handbook should use the words in the Trustee’ Strategy Review Report without modification. Consistently with this view, the second sentence of paragraph 4.7 should be amended to read ‘the aim of the IASB is that it *should* issue standards that are clear, understandable and enforceable...’

Conceptual Framework (paragraphs 4.23—4.26)

We would suggest clarifying paragraph 4.23, which describes work on the Conceptual Framework as a ‘standing activity’, to avoid the possible inference that the Conceptual Framework will never be finished. We advocated in our comment letter of 17 November 2011 to the IASB on their Agenda Consultation that the Conceptual Framework should be a ‘living document’, informing and being informed by standards-level projects. We did not intend thereby to infer that the Framework never reached maturity.

Standards-level projects

Criteria for new IFRSs or major amendments (paragraphs 5.1—5.5)

Paragraph 5.3 states, in part, that prior to ‘reaching such decisions the IASB consults its Advisory Council and accounting standard-setting bodies on proposed projects for the technical work programme.’ We suggest that the Due Process Handbook be clarified to give the Advisory Council primacy. In addition, we recommend that a phrase used in the Trustees’ Strategy Review Report (Principle C5) be used to describe the standard-setting bodies. Consequently, paragraph 5.3 would read (in part):

The IASB’s discussion of potential projects and its decisions to adopt new projects take place in public IASB meetings and may include discussions with accounting standard-setting bodies and regional bodies involved with accounting standard-setting. Before reaching such decisions the IASB consults its Advisory Council on proposed projects for the technical work programme.

Issues referred by the Monitoring Board (paragraphs 5.6—5.10)

We acknowledge that the Monitoring Board is permitted under the Memorandum of Understanding with the IFRS Foundation to refer technical financial reporting matters to the Trustees and the IASB Chair. We also acknowledge that the Trustees and the IASB Chair

should ensure that any such referral is addressed in a timely manner. In such circumstances, we agree that the process steps in paragraphs 5.1 and 5.2 need not be followed.

We note that, while the Memorandum of Understanding, Section 9B(i) states that the ‘Trustees will work with the IASB to ensure these matters are addressed in a timely manner’, we cannot determine, nor have the Trustees explained, where the ‘normally within 30 days but sooner if the matter is more urgent’ (paragraph 5.8) originated. No such time limit was mentioned in the Monitoring Board’s Governance Review Report.

We think that the Memorandum of Understanding’s requirements are sufficient and that paragraph 5.8 is an example of an area in which the IASB and its staff have over-formalised operational aspects of its due process to a level of detail that is neither necessary nor desirable.

Identification of matters (paragraph 5.17)

To avoid confusion between ‘principles-based’, the authority of the Conceptual Framework and individual standards when providing interpretative guidance, we suggest combining the first two sentences, such that: ‘In providing interpretative guidance, the Interpretations Committee considers the principles established in the relevant IFRSs...’

New or amended IFRSs/ Interpretations

Developing an exposure draft (paragraph 6.6)/ Completion of the deliberations (paragraph 6.22); Developing a draft Interpretation (paragraph 7.7)/ Consideration of comments received (paragraph 7.16)

The implied discretion of the IASB staff in these paragraphs is unhelpful. We think that the decision about whether the IASB has reached general agreement on the technical matters in its project is a matter for joint consideration between the Board (or Board Project Advisors) and staff and ultimately decisions by the Board. To avoid this perception, we would suggest using the construction ‘the IASB and its staff’, as used elsewhere in the Due Process Handbook.

Similar comments apply to the section on the development of Interpretations. In the case of Interpretations, the construction ‘the IC and the staff’ would be appropriate.

Post-implementation reviews (paragraphs 6.49—6.60)

We support the principle that new IFRSs and major amendments to existing standards be subject to post-implementation reviews. We also accept the approach being adopted for the post-implementation review of IFRS 8 *Operating Segments* and understand that the IASB is developing its approach to such reviews and experimenting with possible approaches to their components.

Given that the IASB is in the early stages of undertaking post-implementation reviews, we think that it is too early to be definitive about the process in the Due Process Handbook, and we encourage the IFRS Foundation and the IASB to explore different approaches before deciding on

a particular one. In particular, we refer the IFRS Trustees to the alternative models we suggested in our letter to them of 22 July 2011:

Under one model, the Interpretations Committee would play a larger role in this process than suggested by the Report. We draw the Trustees' attention to our comments in response to the Interpretations Committee's review, in which we suggested that the Committee should be able to make a significant contribution to post-implementation reviews. With their practical experience and first-hand knowledge of areas of difficulties and conflict, they could act as a steering group or assessment/ triage centre as issues are assessed for inclusion in any amendment project of the IFRSs affected.

An alternative model would place the post-implementation review somewhat later in the standard-setting process, after the initial round of implementation issues has been identified and addressed by the Interpretations Committee or through the Annual Improvements Process (potentially a year or two after implementation of the IFRS). Under this approach, the IFRS Foundation Trustees would establish a separate committee (similar to the Due Process Oversight Committee) that would be responsible for conducting post-implementation reviews. Being composed of IFRS Foundation Trustees (with staff independent of the IASB), this committee would be independent of the IASB and would report directly to the Foundation. In performing a post-implementation review, the committee might engage national standard-setters, the audit profession, users and/or securities supervisors to assist in collecting information. However, the findings of the post-implementation review should be the sole judgements of the committee. Findings of this committee would be of two types – (i) further implementation issues that the IASB may consider for adding to its or the Interpretation Committee's agenda and (ii) ways to improve the setting of future standards. [Response to C4]

It is important that the Due Process Handbook establishes the Objectives of post-implementation reviews generally and the fundamental principles on which these reviews should be based (many of which are in paragraphs 6.49—6.60). We agree, in particular, that one of the Objectives against which an IFRS should be assessed is that it improves the quality of financial reporting (cf. Paragraph 6.52). However, at this stage, we would support a lack of specificity about which part of the IFRS Foundation undertakes specific activities, provided that the IFRS Foundation Trustees (not only the DPOC) are satisfied that objective of the post-implementation review has been achieved.

Linkages within the draft Due Process Handbook

In our response to Question 3, we commented that 'there is little or no apparent relationship between paragraphs 5.11-5.22 and Section 7.'

We have an over-arching concern that the draft Due Process Handbook is disjointed (as indicated above), repetitive in places (in particular Sections 5, 6 and 7) and generally difficult to follow. In addition, topics are discussed in slightly different terms in different places in the document. For example, comment letters and the processes around them are discussed in at least four places, but using different words: why should this be so?

To remedy this, the Due Process Handbook should seek to link the Principles in Section 3 to the process activities in later sections, and that there should be an explicit statement that explains the procedures in light of the principles.

The Due Process Handbook would be greatly improved if common elements of due process were discussed in one place and then, when a common element is discussed in the context of a particular example, the reader is referred back to the common element, rather than explaining it again, often using slightly different words, suggesting that there is some subtle difference in process. Common elements would include at least all mandatory steps as defined in the IFRS Foundation Constitution.