

Report of the IFRS Foundation® Due Process Oversight Committee Meeting

16 December 2019

This meeting of the DPOC was held via public conference call and the recording is available on the IFRS Foundation website. The key issues discussed in the public session were as follows.

1. Correspondence received on due process matters

The DPOC received a report from the Foundation staff (agenda paper 1) on two letters that had been received about the due process followed by the IFRS Interpretations Committee (the Committee) in finalising an agenda decision on lease term at the November 2019 Committee meeting. This report included a report from technical staff in response to the correspondence as required by paragraph 8.4 of the *Due Process Handbook* (the *Handbook*).

The two letters (one from Acteo, Afep and Medef in France and one from the 100 Group in the UK) dated 29 November 2019, which had been posted to the Foundation's website in accordance with paragraph 8.3 of the *Handbook*, raised the following matters:

- (a) the Committee's voting requirement. It is prejudicial to the general perception of the due process requirements for the Committee to approve an agenda decision by the very slenderest of margins (seven of the 13 members present voting in favour).
- (b) that the comment letters received in response to the tentative agenda decision on lease term show wide divergence in stakeholders' understanding of the lease term requirements in IFRS 16: there are two different readings of the requirements largely subscribed to by stakeholders. In these circumstances, it is necessary to provide clarification by undertaking standard-setting (ie either an amendment to the Standard or an IFRIC Interpretation); in such circumstances, an agenda decision is an inadequate means of resolving the matter.
- (c) the staff paper for the November 2019 Committee meeting did not convincingly justify the view that no alternative reading of the Standard is possible, and the heading of the paper 'Agenda decision to finalise' was tendentious in itself.

The letter from the 100 Group also raised concerns about the way that respondents' comments had been presented in the technical staff papers for the Committee.

The DPOC was informed that the Director for Trustee Activities had reviewed the technical staff's report and the papers discussed by the Committee, and was satisfied that the Committee had been provided with all of the comment letters received and that the staff paper was a fair and balanced presentation of the comments received on the tentative agenda decision and the matters before the Committee. The DPOC discussed this, also noting that there had been a lengthy discussion at the November 2019 Committee meeting and Committee members had fully engaged with the comments received in reaching their conclusion and had not limited themselves to the analysis in the staff paper.

The DPOC agreed that there had been no breach of due process, and that the November 2019 *IFRIC Update* including the agenda decision on lease term should be published.

The DPOC also had regard to the comments made on voting requirements for agenda decisions in their consideration of amendments to the *Handbook*, as set out below. However, they concluded that the current due process requirements in the *Handbook* had been met and so no further action was appropriate in this case.

The DPOC agreed that the Chair should respond to the two explaining the decision as required by paragraph 8.4 of the *Handbook*. (Those letters have been sent and posted on the IFRS Foundation website.)

2. Due Process Handbook – agenda decisions

The DPOC discussed agenda paper 2, which recommended amendments to the *Handbook* in respect of agenda decisions. The discussion followed from the DPOC's consideration in October 2019 of the feedback on the Exposure Draft *Proposed amendments to the Due Process Handbook* and focussed on three areas:

- Improving the description of agenda decisions in the *Handbook*;
- Whether to enhance the due process procedures for agenda decisions; and
- Whether to retain the proposal relating to Board agenda decisions.

The DPOC agreed that the *Handbook* should be amended to clarify that, although an agenda decision cannot add or change requirements in IFRS Standards, an agenda decision derives its authority from the Standards themselves, and therefore an entity is required to apply the applicable Standard(s), as reflected in the explanatory material in an agenda decision.

The DPOC discussed how best to enhance the due process procedures for agenda decisions, in particular considering stakeholders' comments on voting requirements. The DPOC agreed with the staff's proposal to involve the Board in the process of publishing a final agenda decision as an additional due process step—ie if the Board objects to such an agenda decision (which would be the case if four or more Board members object), an agenda decision would not be published.

The DPOC also agreed not to introduce a due process tool equivalent to an agenda decision for the Board, following consideration of the feedback on the Exposure Draft.

The DPOC discussed whether these decisions would need to be re-exposed. The DPOC concluded that this would not be necessary as no new information would be expected to be received, and re-exposure would delay the introduction of important improvements to due process.

It was agreed that the staff should revise the *Handbook* to reflect these changes for the DPOC's meeting in February 2020.