

August 2020

IFRS[®] Foundation
Project Summary and Feedback Statement

Amendments to the *Due Process Handbook*



Introduction

In June 2020, the IFRS Foundation Trustees' (Trustees) Due Process Oversight Committee approved the publication of the revised IFRS Foundation *Due Process Handbook* (*Handbook*).

This document provides an overview of the amendments made to the *Due Process Handbook* and summarises how the Due Process Oversight Committee responded to feedback on the proposals exposed for public comment in April 2019.

What is the *Due Process Handbook*?

The *Handbook* sets out the due process that applies to the International Accounting Standards Board (Board) and the IFRS Interpretations Committee (Interpretations Committee) relating to standard-setting, the development of materials to support the consistent application of IFRS Standards, and the IFRS Taxonomy.

What is the role of the DPOC?

The Due Process Oversight Committee (DPOC) monitors the Board's and the Interpretations Committee's compliance with this due process. The DPOC also reviews and, if necessary, amends the due process in the light of evolving due process conventions and comments from stakeholders.

Why did the DPOC amend the *Handbook*?

The DPOC decided to review the *Handbook* to ensure that it remains fit for purpose as a result of developments in the Board's and the Interpretations Committee's processes and that it continues to reflect good practice. The DPOC last substantively amended the *Handbook* in 2013 and added an annex for the IFRS Taxonomy due process in 2016.

The main amendments to the *Handbook* are described in the next pages. The amendments do not represent a fundamental rewrite of the *Handbook*, reflecting the DPOC's view that the due process set out in the *Handbook* was thorough and robust.

Overview of the amendments to the *Handbook*

1 Agenda decisions

The revised *Handbook*:

- explains the objective of agenda decisions, which is to improve the consistent application of IFRS Standards;
- includes an improved description of agenda decisions that:
 - clarifies that the explanatory material in an agenda decision cannot add or change requirements in IFRS Standards;
 - explains that the explanatory material derives its authority from IFRS Standards and, accordingly, a company is required to apply the applicable IFRS Standards reflecting the explanatory material (subject to having sufficient time to implement that accounting);
 - explains that the explanatory material may provide additional insights that might change a company's understanding of how to apply IFRS Standards; and
 - reflects the Board's view that a company is entitled to sufficient time to determine and implement any necessary accounting policy change as a result of an agenda decision; and
- enhances the due process relating to agenda decisions by formally involving the Board in their finalisation.

🔍 About agenda decisions

When the Interpretations Committee decides that standard-setting should not be undertaken to address a question submitted to it, it publishes an agenda decision to explain why. An agenda decision typically includes explanatory material explaining how IFRS Standards apply to the question submitted, with the objective of improving the consistent application of the Standards.

2 Effect analysis

The revised *Handbook* reflects recent developments in the way the Board assesses and reports the likely effects of new requirements. These developments have been informed by the Effects Analysis Consultative Group's 2014 report. Specifically, the *Handbook*:

- clarifies that the process of analysing the effects occurs throughout the development of the new requirements, tailored to the nature of those requirements and the stage of their development.
- emphasises that the Board's analysis remains focused on assessing how financial statements are likely to change as a result of the new requirements, whether those changes will improve the quality of financial statements and whether those changes are justifiable given their expected costs. The *Handbook* also explains that when relevant, and to the extent appropriate, the Board also has regard to the effects on financial stability when assessing likely effects.
- explains how the Board reports its views on the likely effects throughout the development of the new requirements.

🔍 About effect analysis

Effect analysis is the Board's process for assessing the likely effects of a new or amended IFRS Standard that is undertaken as the new or amended Standard is developed.

3 Board's work plan

The revised *Handbook* enhances and streamlines the consultation required before the Board adds a major new project to the work plan. Specifically, it:

- requires the Board to consult the IFRS Advisory Council and the Accounting Standards Advisory Forum (ASAF) before adding a major project to the work plan (either to the research programme or the standard-setting programme) if that project was not specifically contemplated in the most recent agenda consultation; and
- no longer requires the Board to consult the Advisory Council and ASAF before moving a project from the research programme to the standard-setting programme if that project was contemplated in the most recent agenda consultation.

🔍 About adding projects to the Board's work plan

The *Handbook* sets out the consultation required before the Board adds new projects to the work plan.

4 Educational material

The revised *Handbook*:

- updates the broad categories of educational material specified by the *Handbook* to better reflect the types of material the IFRS Foundation produces; and
- enhances the minimum amount of review required for each category of educational material, requiring that all material be subject to at least some Board member review.

🔍 About educational material

The IFRS Foundation publishes on its website educational material related to IFRS Standards, such as webcasts and articles. The *Handbook* specifies the amount of review required for this material depending on its nature.

5 Other amendments

Reference to these matters have also been updated in the *Handbook*.

The IFRS Taxonomy annex—To specify the DPOC’s role overseeing the due processes associated with IFRS Taxonomy content.

Advisory Council—To reflect that the Advisory Council advises the Board (and Trustees) on strategic matters and, especially since the establishment and activity of ASAF, no longer functions as a technical consultative body. The changed role of the Advisory Council has also required an amendment to the IFRS Foundation *Constitution*.

Consultative groups—To explain that the composition of a consultative group might develop in line with the progression of a project, so different expertise (and therefore different members) might be required at different stages of a project.

Discussion papers—To remove the sentence stating that discussion papers do not contain a basis for conclusions or dissenting opinions.

Drafts for editorial review—To clarify the purpose of this review.

Comment letter—To expand the definition in the Glossary of terms so as not to prohibit the future use of technology in the receipt of comment letters.

DPOC meetings—To reflect the DPOC’s current practice of holding its meetings in public.

IFRS Foundation website—To explain more clearly how the IFRS Foundation website informs stakeholders about ongoing due process activities.

Restructuring for navigability—To relocate all requirements relating to materials to support consistent application of IFRS Standards into a new section (8).

Feedback Statement

This section of the document summarises the significant matters respondents to the public consultation raised on the proposed amendments to the *Handbook* and how the DPOC responded.

In its Exposure Draft published in April 2019, the DPOC proposed amendments to the *Handbook* in relation to:

- agenda decisions;
- effect analysis; and
- other topics:
 - consultation required to add projects to the work plan;
 - educational material; and
 - IFRS Taxonomy due process.

Respondents agreed with many of the proposed amendments to the *Handbook* (subject to some comments). Most comments focused on the proposed amendments regarding agenda decisions.

Public consultation

- Exposure Draft proposing amendments to the IFRS Foundation *Due Process Handbook* published in April 2019 with a 90-day comment period
- 53 comment letters received and analysed
- Feedback considered by the DPOC in October and December 2019

1—Agenda decisions

Proposals in the Exposure Draft	Feedback	The DPOC's response
<p>1.1—Improving the description of agenda decisions—<i>authority</i></p> <p>The Exposure Draft proposed to clarify the objective and nature of explanatory material in agenda decisions. It proposed:</p> <ul style="list-style-type: none"> • that such material explains how the applicable principles and requirements in IFRS Standards apply to the transaction or fact pattern described in an agenda decision; and • that agenda decisions do not have the status of IFRS Standards and, therefore, cannot add or change requirements in the Standards. <p>The Exposure Draft also proposed to retain the description that explanatory material 'should be seen as helpful, informative and persuasive'.</p>	<p>Respondents generally agreed with the DPOC's objective to improve the description of agenda decisions.</p> <p>However, respondents found a tension between the proposed description of agenda decisions and how they are applied in practice—namely, accounting firms and regulators often consider their application mandatory.</p> <p>Some respondents also said the phrase 'helpful, informative and persuasive' could give the impression that explanatory material is optional and can be ignored. They indicated that this could be detrimental to consistent application and, therefore, counter to the stated objective of that explanatory material.</p>	<p>Explanatory material cannot add or change requirements in IFRS Standards—instead, it explains how to apply the <i>existing principles</i> and requirements in the Standards. Accordingly, its authority is derived from the Standards themselves.</p> <p>The DPOC has therefore amended the description of agenda decisions to avoid any impression that explanatory material, when applicable, can be ignored. Specifically, the DPOC has replaced the phrase 'helpful, informative and persuasive' with the explanation that a company is required to apply the applicable IFRS Standard(s), reflecting the explanatory material in an agenda decision (subject to it having sufficient time to implement that accounting—see 1.3 below).</p>

Proposals in the Exposure Draft	Feedback	The DPOC's response
<p>1.2—Improving the description of agenda decisions—<i>new information</i></p> <p>The Exposure Draft proposed to explain that the process for publishing an agenda decision often results in explanatory material that provides new information that was not otherwise available and could not otherwise reasonably have been expected to be obtained. This wording was intended to acknowledge that before an agenda decision is published, some companies, in good faith, might have applied the requirements in IFRS Standards differently and, therefore, that often a change in accounting policy resulting from an agenda decision would not be the correction of a prior period error.</p>	<p>Some respondents said the proposed reference to ‘new information’ would be inconsistent with stating that an agenda decision does not add or change requirements in IFRS Standards. Those respondents said if explanatory material provides new information, then it is difficult to understand how the material would not also add or change existing requirements.</p>	<p>Although an agenda decision reflects only existing principles and requirements in IFRS Standards, the way those principles and requirements are brought together in an agenda decision can provide additional insights, which might change a stakeholder’s understanding of the Standards.</p> <p>The DPOC has therefore amended the description of agenda decisions to refer to ‘additional insights’ rather than ‘new information’. ‘Additional insights’ captures better the benefits of an agenda decision in aiding a company’s understanding of how to apply IFRS Standards than ‘new information’, and yet continues to convey that a change resulting from an agenda decision is not necessarily the correction of a prior period error.</p>

Proposals in the Exposure Draft	Feedback	The DPOC's response
<p>1.3— Improving the description of agenda decisions—sufficient time</p> <p>As part of its project on IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> titled <i>Accounting Policy Changes</i>, the Board stated its view that a company should be entitled to sufficient time to both determine whether it is necessary to make an accounting policy change as a result of an agenda decision and implement any such change. The Exposure Draft proposed to include the Board's view in the description of agenda decisions in the <i>Handbook</i> to (a) provide wider visibility of that view, and (b) reflect the Foundation's approach to supporting consistent application of IFRS Standards, which is to provide materials to improve financial reporting going forward and minimise impediments to achieving that outcome.</p>	<p>Some respondents agreed with including the Board's view in the <i>Handbook</i>, noting that it is reasonable and pragmatic. Some respondents suggested clarifying what constitutes 'sufficient time' to ensure changes resulting from an agenda decision are applied at about the same time. Some respondents disagreed with including the Board's view in the <i>Handbook</i> because, in their view, an agenda decision should be applicable immediately unless impracticable.</p>	<p>The Board's view had been subject to due process as part of the Board's IAS 8 project on accounting policy changes. The DPOC concluded that it would be helpful to capture this view in the <i>Handbook</i>. The DPOC added some explanation about 'sufficient time' and emphasised that a company would be expected to implement any change on a timely basis. The DPOC noted that material has been published on the Foundation's website to explain what is meant by 'sufficient time' in a more accessible format for stakeholders than in the <i>Handbook</i>.</p>

Proposals in the Exposure Draft	Feedback	The DPOC's response
<p>1.4—Due process relating to agenda decisions—enhanced due process</p> <p>The Exposure Draft proposed no change to the due process for publishing an agenda decision.</p>	<p>Some respondents suggested enhancing the due process for publishing an agenda decision because of how they are applied in practice. Some commented on the simple-majority vote required by the Interpretations Committee to publish an agenda decision—they said a simple-majority vote seems at odds with the reason the Interpretations Committee publishes many agenda decisions—namely, that IFRS Standards provide an adequate basis for a company to determine the required accounting. Some of those respondents suggested changing the voting requirement to a supermajority vote.</p>	<p>The DPOC agreed it would be appropriate to enhance the due process for publishing an agenda decision in the light of the amendments to the <i>Handbook</i>, which clarify how the Foundation expects agenda decisions to be applied. The DPOC concluded that this enhancement would best be achieved by formally involving the Board in the process of finalising an agenda decision. Specifically, the DPOC decided that before a (final) agenda decision is published, the Board should be asked whether it objects to that publication. The DPOC noted that the Board's involvement:</p> <ul style="list-style-type: none"> • would enable the Board, as the body responsible for standard-setting, to confirm whether it agrees with the Interpretations Committee's conclusion that standard-setting should not be undertaken in response to the question submitted; • act as an additional check (by the body responsible for standard-setting) that any explanatory material does not add or change requirements in IFRS Standards; and • enhance the perception that agenda decisions are important and, when applicable, must be applied.

Proposals in the Exposure Draft	Feedback	The DPOC's response
<p>1.5—Due process relating to agenda decisions—<i>criteria for standard-setting versus publishing an agenda decision</i></p> <p>The Exposure Draft proposed no change to the criteria the Interpretations Committee uses to determine whether standard-setting should be undertaken to address a question submitted to it.</p> <p>One of these criteria is to assess whether the principles and requirements in IFRS Standards provide an adequate basis for a company to determine the required accounting (considering that the Standards are principle-based).</p> <p>When developing new principles and requirements, the Board and the Interpretations Committee consider the usefulness of the information that would be provided by those requirements. However, this is not part of the Interpretations Committee's considerations when publishing an agenda decision.</p>	<p>Some respondents suggested the Interpretations Committee consider the significance of diversity in reporting in determining whether standard-setting should be undertaken. Some of those respondents said diversity in reporting, in itself, provides evidence that the applicable principles and requirements do not provide an adequate basis for a company to determine the required accounting.</p> <p>Other respondents suggested the Interpretations Committee consider the usefulness of the information resulting from the accounting reflected in an agenda decision before approving that agenda decision.</p>	<p>The DPOC decided to make no change to the criteria the Interpretations Committee uses to determine whether standard-setting should be undertaken to address a question submitted to it. This is because:</p> <ul style="list-style-type: none"> • a change to the criteria regarding the significance of diversity in reporting could result in unnecessary standard-setting. It could also create a different threshold for adding a standard-setting project to the work plan, depending on whether the matter is raised first with the Interpretations Committee or the Board, which the DPOC views as inappropriate. • considering the usefulness of information before approving an agenda decision could be viewed as standard-setting without adequate due process—it would imply that a company could ignore requirements in IFRS Standards when it decides that the information provided by applying those requirements is not useful. If in the course of its work the Interpretations Committee identifies a need to improve the Standards, it reports that need to the Board for its consideration.

Proposals in the Exposure Draft	Feedback	The DPOC's response
<p>1.6—Board agenda decisions</p> <p>The Exposure Draft proposed to give the Board the ability to publish agenda decisions. The Board does not currently have a mechanism to provide explanatory material with the same formality as an agenda decision. The DPOC noted the benefits of doing so—namely, that it would enhance the Board’s ability to support consistent application of IFRS Standards, particularly for a new IFRS Standard after it has been issued but before it becomes effective. The Exposure Draft proposed that the Board would apply a similar due process to that of the Interpretations Committee when publishing an agenda decision and would be expected to publish an agenda decision only in rare circumstances.</p>	<p>Some respondents agreed with the proposal, although some of those respondents indicated a need to clarify in the <i>Handbook</i> the situations in which the Board could publish an agenda decision. However, most respondents disagreed. Respondents said it would add unnecessary complexity, adding that the Board already has sufficient tools to respond to questions. Others said the proposal could create confusion between the role of the Board and the Interpretations Committee; they said the Board could refer application questions on new Standards to the Interpretations Committee.</p>	<p>The DPOC continues to hold the view that there would be benefits in giving the Board the ability to publish agenda decisions for the reasons stated in the Exposure Draft.</p> <p>The DPOC however acknowledged the concerns raised by stakeholders regarding complexity and the potential for possible confusion. Given the expectation that the Board would publish an agenda decision only in rare circumstances, the DPOC concluded that the cost of the additional complexity would appear to outweigh the potential benefits. The DPOC therefore decided not to proceed with the proposal to give the Board the ability to publish agenda decisions.</p>

2—Effect analysis

Proposals in the Exposure Draft	Feedback	The DPOC's response
<p>2.1—Effect analysis process</p> <p>The Exposure Draft proposed to update the requirements relating to effect analysis to reflect recent developments in how the Board assesses and reports the likely effects of new requirements. These developments have been informed by the Effects Analysis Consultative Group's 2014 report. Specifically, the Exposure Draft proposed to:</p> <ul style="list-style-type: none"> • clarify that the process of analysing the effects occurs throughout the development of the new requirements, tailored to the nature of those requirements and the stage of their development; and • explain how the Board reports its views on the likely effects throughout the development of the new requirements. 	<p>Most respondents agreed with the proposed enhancements to the requirements, commenting that the proposals appropriately reflected recent developments in the Board's effect analysis work (for example, the effect analyses relating to IFRS 16 <i>Leases</i> and IFRS 17 <i>Insurance Contracts</i>).</p> <p>Some respondents suggested additional changes to the <i>Handbook</i>. For example, some respondents suggested:</p> <ul style="list-style-type: none"> • the <i>Handbook</i> specify the methodology the Board should use in its effect analysis; • the Board be required to publish a separate effect analysis report at each stage of the standard-setting process; and • the effect analysis requirements apply to the work of the Interpretations Committee, specifically IFRIC Interpretations and agenda decisions. 	<p>The DPOC confirmed the amendments proposed in the Exposure Draft.</p> <p>The DPOC decided not to specify a methodology for the Board to use for effect analysis. The <i>Handbook</i> specifies the objectives for effect analysis rather than codifying specific, and potentially limiting, methodologies.</p> <p>The DPOC confirmed that a separate effect analysis report is required only for a major new IFRS Standard. Producing a separate report, rather than incorporating the Board's views in a discussion paper or in the basis for conclusions accompanying an exposure draft, would not add to the information reported by the Board and would be likely to impede the efficiency of the standard-setting.</p> <p>The effect analysis requirements apply to the development of IFRS Standards—these include IFRIC Interpretations. Because agenda decisions cannot add or change requirements in the Standards, effect analysis is unnecessary. Consideration of the effects of the Standards has already been incorporated in the Board's standard-setting.</p>

Proposals in the Exposure Draft	Feedback	The DPOC's response
<p>2.2—Scope of effect analysis</p> <p>The Exposure Draft proposed to emphasise that the focus of the Board's effect analysis remains on assessing how financial statements are likely to change as a result of the new requirements, whether those changes will improve the quality of financial statements and whether those changes are justifiable given their expected costs.</p> <p>Given that IFRS Standards result in the provision of high-quality, transparent and comparable financial information about entities and that this enhances financial stability in financial markets around the world, the Exposure Draft proposed specifying that the Board, when relevant, also analyses how greater transparency in financial reporting is likely to affect financial stability.</p>	<p>Some respondents agreed with the proposal to introduce a reference to financial stability, noting that it would reflect the Board's recent practice in the effects analysis report accompanying IFRS 17. However, some respondents disagreed with the proposal because, in their view, considering the effects on financial stability would be beyond the Board's remit and the objective of financial reporting as stated in the <i>Conceptual Framework for Financial Reporting</i>.</p>	<p>The DPOC continues to hold the view that there is a connection between developing high-quality IFRS Standards and financial stability. This connection is mentioned in the IFRS Foundation's mission statement and is supported by the basis for conclusions accompanying the <i>Conceptual Framework</i>.</p> <p>The DPOC therefore confirmed the amendment proposed in the Exposure Draft with further elaboration of the link between transparency and financial stability. The amendment will enable the Board to use the effect analysis process to explain how increased transparency in financial reporting as a result of new requirements is likely to affect financial stability when the Board decides this is relevant. For example, the Board may decide such explanation is relevant when it develops new requirements specifying a current value measurement basis.</p>

3—Other topics

Proposals in the Exposure Draft	Feedback	The DPOC's response
<p>3.1—Consultation required to add projects to the work plan</p> <p>The Exposure Draft proposed to enhance and streamline the requirements regarding the consultation required before the Board adds a major new project to its work plan. Specifically, the Exposure Draft proposed:</p> <ul style="list-style-type: none"> • requiring the Board to consult ASAF before adding a major project to the work plan (either to the research programme or the standard-setting programme) if that project was not specifically contemplated in the most recent agenda consultation; and • withdrawing the requirement for the Board to consult the Advisory Council and ASAF before moving a project from the research programme to the standard-setting programme if that project was contemplated in the most recent agenda consultation. <p>The proposal was intended to ensure that the Board continues to obtain formal input about the strategic direction and balance of its work plan but without the <i>Handbook</i> specifying duplicative formal consultation requirements.</p>	<p>Most respondents supported these proposed amendments.</p>	<p>The DPOC confirmed the amendments proposed in the Exposure Draft.</p>

Proposals in the Exposure Draft	Feedback	The DPOC's response
<p>3.2—Educational material</p> <p>The Exposure Draft proposed to:</p> <ul style="list-style-type: none"> • update the broad categories of educational material specified by the <i>Handbook</i> to better reflect the types of material the IFRS Foundation produces; and • enhance the minimum amount of review required for each of those categories, requiring that all material be subject to at least some Board member review. 	<p>Most respondents agreed with the proposed amendments. Some respondents suggested:</p> <ul style="list-style-type: none"> • the <i>Handbook</i> be clearer about the difference between agenda decisions and educational material; • the required level of review also reflect the complexity of the underlying IFRS Standard; and • some educational material be subject to public due process. 	<p>The DPOC confirmed the amendments proposed in the Exposure Draft subject to:</p> <ul style="list-style-type: none"> • enhancing the descriptions of the different types of materials supporting consistent application of IFRS Standards in section 8 of the <i>Handbook</i>; and • specifying that the quality assurance process regarding educational material also reflects the complexity of that material. <p>Given the nature of educational material, the DPOC confirmed that Board member review rather than public exposure is an appropriate level of due process scrutiny for educational material to ensure that it does not add or change requirements in IFRS Standards. The material also typically relates to new IFRS Standards not yet effective. Public exposure would therefore be unlikely to provide meaningful input and might reduce the Board's responsiveness to stakeholders.</p>

Proposals in the Exposure Draft	Feedback	The DPOC's response
<p>3.3—IFRS Taxonomy due process</p> <p>The Exposure Draft proposed:</p> <ul style="list-style-type: none"> • to specify the DPOC's role overseeing the due processes associated with IFRS Taxonomy content; and • to improve the clarity of the required approval and review process associated with IFRS Taxonomy updates by adding a table summarising the requirements. 	<p>Most respondents agreed with the proposed amendments.</p>	<p>The DPOC confirmed the amendments proposed in the Exposure Draft.</p>

Important information

The Feedback Statement has been compiled by the staff of the IFRS Foundation for the convenience of interested parties. The views within this document are those of the staff who prepared this document and are not the views or the opinions of the DPOC. The content of this document does not constitute any advice.

Other relevant documents

Due Process Handbook—the procedural requirements followed by the Board and the Interpretations Committee.

Notes



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