

Memo

To: International Accounting Standards Board

From: Accounting Standards Board – Canada, Staff

Date: June 23, 2004

Re: **Strengthening the IASB's deliberative processes**

The following comprises the response of Accounting Standards Board – Canada staff (AcSB staff) to the IASB's Invitation to Comment on Strengthening the IASB's Deliberative Processes, dated March 24, 2004.

We commend the IASB on the initiatives it has taken to enhance its deliberative processes. Not only are many of the proposals in the Invitation to Comment valuable enhancements to the process, but together with the initiatives that the IASB has implemented in recent months, demonstrate the IASB's desire to develop procedures that set a new global benchmark for transparency and consultation.

The desire for the best in transparency and consultation needs, however, to be balanced with the efficiency of the process. In this regard, we believe that the deliberative process needs to be sufficiently flexible to deal with a multitude of situations. As noted in the extracts from, AcSB Chair, Paul Cherry's views on consultative arrangements of the IASB, as expressed in his letter to the IASC Foundation Trustees, dated June 23, 2004, attached as an Appendix to this

memorandum, there are instances in which specific due process steps need to be tailored for a particular project. In particular, in that letter, he comments on the use of field-testing. While the IASB needs to be accountable to its constituents, via the Trustees, for the processes followed, it should also have the flexibility to depart from some of its established processes for specific reasons.

Accessibility and transparency of the deliberative process

We support the IASB's initiatives regarding accessibility and transparency of the deliberative process. In particular, we have found Internet and web access to its meetings to be most useful and believe that constituents have found the more extensive Observer Notes invaluable in following discussions. We note that archiving of web broadcasts is particularly important, since observers are not always available to observe a live broadcast, particularly when they are in different time zones.

We support the publication of comment letters as they are received. However, it should be made clear that Board members will not necessarily have analyzed or formed an opinion on individual comment letters as received, as they are required to consider the whole range of views before reaching conclusions on the need for change, or otherwise, in a particular proposal.

Responsiveness to constituent comments

We support the proposal to post a summary of the Board's position on major points raised in comment letters once they have been addressed, but caution that this should not establish an expectation that each and every comment raised will be included in this analysis. While all points will be dealt with by the Board, it would be of marginal usefulness to divert time to preparing written responses to less significant points.

The proposal to link a record of decisions made during redeliberations with the original exposure draft sounds promising and we look forward to seeing this experiment in action.

We understand that constituents desire access to near-final drafts of forthcoming standards. However, we also hear from our constituents that they are not prepared to commence

implementation planning until they have the final standard. If constituents truly desire these near-final drafts to commence implementation planning, then the appropriate response may be to provide longer implementation periods. On the other hand, if constituents desire near-final drafts because they believe that this will give them some continued ability to influence the final standard, then this is probably too late in the process and refocusing attention on up-to-date decision and project summaries may be a better response to this issue.

We fail to see the benefit in posting near-final drafts of exposure drafts. Since any comments related to them will only be considered together with all other comments, this merely seems to lengthen the exposure period — but with an imperfect document. The exposure period should be adequate without this preliminary posting.

We suggest that the IASB re-think the merits of the proposals to post near-final drafts of exposure drafts and standards.

Extent of consultation before releasing proposals and standards

We have noted, in our general comments, above, our view that due process should be sufficiently flexible for variation in justified circumstances. Some steps in due process, such as the publication of an exposure draft, are desirable in all but the rarest circumstances and any deviation from such a step should require strong justification. However, the merits of other steps in due process, such as field visits and field testing, need to be assessed based on the probable effectiveness in enhancing the quality of a standard. These aspects may not be essential in all cases, although it might be beneficial for the Board to set out its intent regarding each step and justify its reasons for not including them in the process for a particular project.

We support the greater use of advisory groups (as long as each has a clear mandate and objectives and appropriately reflects the diversity and breadth of interests involved in a particular area), the use of public hearings, field visits and field -testing, when appropriate, and the greater use of discussion papers on new and complex topics. We believe that all such initiatives should involve constituents across the spectrum of those likely to be affected, and not just those in a particular geographical region or industry.

We believe that it would be useful for the IASB to document its criteria for assessing whether a proposal modified during redeliberations following exposure requires re-exposure, and that it should justify in its Basis for Conclusions, by reference to those criteria, why a particular modification to a proposal has not been re-exposed. Reasons may include the fact that changes to the original proposals are insignificant, or that all points of view have been adequately taken into account and differences of view resolved.

We would be pleased to elaborate on these points in more detail if you require. If so, please contact Paul Cherry, AcSB Chair at +1 416 204 3456 (e-mail paul.cherry@cica.ca), Ron Salole, Director Accounting Standards at +1 416 204-3277 (e-mail ron.salole@cica.ca), or Ian Hague, Principal Accounting Standards at +1 416 204-3270 (e-mail ian.hague@cica.ca).

Appendix

Extract from Paul Cherry's views on consultative arrangements of the IASB as expressed in his letter to the IASC Foundation Trustees, dated June 23, 2004

7. Consultative arrangements of the IASB

... I commend the IASB for the initiatives it has taken in the last few months to enhance its processes.

...

I believe that the Constitution should establish a general requirement for rigorous due process procedures, but do not believe that rigid due process requirements should be included in the Constitution itself. Due process needs to be sufficiently flexible to deal with a multitude of situations. The Trustees should oversee that process and the IASB should be accountable to the Trustees for variations in the process (and should probably also advise constituents of its intended process). Unpopular decisions should not be confused with a lack of due process. In some recent instances, the due process has been criticized, because constituents do not like the result of that process. A careful distinction needs to be made between whether an appropriate process was followed (to be overseen by the Trustees) and what the eventual answer happened to be. Drawing on my personal experience as chair of the AcSB in the last three years, there have been a few instances when the AcSB has tailored the specific steps in the due process for a particular project. In each case, we were satisfied that the public interest was better served and that the basic principle of full and rigorous due process was not compromised. So I would urge you to allow the IASB some flexibility in this regard.

A number of constituents have commented on the desirability of field-testing. I believe that consultation with constituents is very important and in the right circumstances field-testing can provide valuable additional input on a proposed IFRS. However, I do not believe that it is automatically necessary in all instances and would not expect that it be conducted on all projects. Formal field-testing does not always provide significant additional information to that which can be obtained from preparers without field-testing. Meaningful field-testing can be a significant effort for a preparer to undertake and can give a false sense of security if testing is in somewhat artificial conditions, which may differ when full implementation of a standard has taken place. Because of this, it is not always easy to find companies prepared to undertake a meaningful field-test. In addition, a requirement for field-testing might, in some cases, result in undue delay, when prompt action is necessary. For these reasons, field-tests should be used in the appropriate circumstances, but not required for all projects.