

8 November 2010

The Trustees
IFRS Foundation

Dear Sir/Madam,

Response to IFRS Foundation Consultation Document: *Criteria for Annual Improvements to IFRSs – Proposed Amendments to the Due Process Handbook for the International Accounting Standards Board*

1. I thank the Trustees of the IFRS Foundation (hereinafter referred to as the Foundation) for the opportunity to comment on the aforementioned Consultation Document (CD). Before I proceed to articulate my views on this CD, I would like to emphasise upfront that the comments that are expressed herein are solely my *personal views* and strictly do *not* reflect those of any organisation to which I may be associated presently and/or previously in various capacities.

2. I welcome the Foundation's current efforts at strengthening the International Accounting Standards Board (IASB or the Board)'s due process through the development of detailed criteria for invoking the Board's annual improvements process. I observe that the annual improvements process is an integral component of the IASB's standards-setting programme. It provides a pragmatic yet critical mechanism for the Board to initiate and implement minor improvements to the IFRS framework in an expeditious and timely fashion. Viewed from a quality management perspective, the annual improvements process represents the Board's *kaizen* process for fine-tuning and enhancing the quality of the IFRSs cyclically and incrementally.

3. The CD seeks constituents' views on the sufficiency and appropriateness of the proposed criteria for assessing whether an issue relating to the clarification or correction of the IFRSs should be addressed through the annual improvements process. In this regard, I would like to raise three key concerns on the proposed criteria. These concerns are set out in the subsequent paragraphs of this comment letter.

Concern #1: Annual Improvements versus Interpretations

4. In my view, a key weakness of the draft criteria is the failure to clearly distinguish between the annual improvements process and the interpretation process of the IFRS

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Interpretations Committee. It appears to me that the wordings of the draft criteria in paragraph 65A are somewhat similar in meaning to paragraph 24 of the *Due Process Handbook for the International Financial Reporting Interpretations Committee* (IFRIC). Specifically, I find it difficult to discern any significant difference between the proposed criteria in paragraph 65A(b) – (d) and the existing criteria in paragraph 24(d) – (f) in the IFRIC Due Process Handbook.

5. Semantics aside, what is perhaps of greater concern to me is the conflict and ambiguity that could potentially arise from this failure to clearly delineate the remit of the two Board processes. In particular, I foresee that potential ambiguity may arise in the context of an issue that requires clarification of a specific principle in the existing IFRSs. As I see it, an issue of such a nature would probably meet the proposed criteria in paragraph 65A to be addressed through an annual improvements amendment to the existing IFRSs. Concomitantly, it could well also satisfy the conditions in paragraph 24 of the IFRIC Due Process Handbook to be resolved via the interpretation process. Absent a clear set of supplementary guidance, I suspect that the Board would find it challenging to expeditiously decide on the appropriate course of action. The ultimate decision reached is also likely to be highly political and less objective, thereby weakening the Board's internal agenda-setting governance process.

6. ***I therefore strongly urge the Foundation to consider providing further supplementary guidance to facilitate the Board's decision on when a clarification of a specific principle in the existing IFRSs should be tackled through an annual improvements amendment and when it should be handled via the development of an Interpretation.*** In such a scenario, I would very much prefer that the issue be resolved through an annual improvements amendment. This would be more consistent with the overarching strategic vision to make the IFRSs a principle-based set of accounting standards. A key defining attribute of a principle-based set of accounting standards is that the principles and requirements are clearly promulgated in the text of the standards. It thus follows that clarifications of the principles should be effected through amendments to the text of the standards concerned. The development of Interpretations to accompany those standards should, as far as practicable, be minimised.

Concern #2: Exception from Existing IFRS Principle

7. Another concern that I have on the draft criteria relates to the statement in the last sentence of paragraph 65A(a)(ii), which states that a correcting amendment "...may create an exception from an existing principle". I firmly disagree with the proposition of allowing

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exceptions from existing principles to be introduced into the text of existing IFRSs through an annual improvements process. I am of the view that making exceptions from existing principles is tantamount to introducing significant changes to existing IFRSs, and this is clearly not within the remit of the annual improvements process. If the Board believes that tackling the issue in question may necessitate the introduction of exceptions from existing principles, then the issue should warrant more rigorous deliberation and debate through the initiation of a dedicated technical project. I say this because I believe that for the IFRS framework to be a robust set of principle-based standards, consistency in the application of the fundamental principles is paramount. Deviations from those fundamental principles, while seemingly innocuous when seen at a “standard-by-standard” level, could well trigger a creeping trend towards “rules” in standard-setting. This would be undesirable, as it vitiates the conceptual foundations of the IFRS framework over time. The Board should therefore take an extremely serious view of any need for exceptional treatment, and exercise the most stringent level of due process in permitting those exceptions. A recent case in point is ED/2010/11 *Deferred Tax: Recovery of Underlying Assets*.

8. *In view of the foregoing arguments, I strongly advise the Foundation to delete the phrase “...but may create an exception from an existing principle” from the last sentence of paragraph 65A(a)(ii).* I think this would unequivocally and rightfully restrict the remit of the annual improvements process to only making those amendments that do not propose a new principle or change an existing principle within the IFRSs. Deleting the said phrase would also ensure consistency with the last sentence of paragraph 65A(a)(i) in relation to a clarifying amendment.

Concern #3: Pressing Need

9. A further concern that I have with respect to the draft criteria pertains to paragraph 65A(d). Specifically, the paragraph allows the Board to make an amendment to the IFRSs on an issue that is the subject matter of a current or planned IASB project through the annual improvements process, if there is a “pressing need” to make the amendment sooner. Similar to my Concern #2 above, I am of the view that addressing issues of “pressing need” is clearly not within the remit of the annual improvements process. This also contradicts the principle in the second introductory paragraph of the CD, which explicitly mentions that “...Amendments are made to IFRSs through the annual improvements process when the amendment is considered *non-urgent* but necessary” (emphasis added). As I see it, “pressing need” is the antonym of “non-urgent”. Thus, it does not seem logical to me that a process that is intended to deal with “non-urgent” amendments to the IFRSs can also be invoked to tackle amendments of a “pressing” nature. For amendments of a “pressing” nature, I think it

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would be more appropriate for the Board to invoke the accelerated consultation process (as described in paragraph 100 of the IASB Due Process Handbook), rather than the annual improvements process.

10. *For the above reasons, I strongly urge the Foundation to review the rationale for including paragraph 65A(d) as one of the draft criteria for invoking the annual improvements process.* Unless the Foundation is convinced that there are valid reasons for including the said paragraph (which I may not be aware of), I would suggest removing this particular criterion. Should the Foundation decide to retain the criterion, I urge the Foundation to re-draft the paragraph so as to articulate its intention more clearly.

Yours faithfully,

LINUS LOW

Singapore

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