



Overview

1. The Council spent considerable time at its last two meeting discussing the post-June 2011 work plan for the IASB. The focus of these discussions has been on the strategic aspect of the work plan, not on individual topics that the IASB should consider. It has become clear in the discussion that members of the Council think that it is important to review the criteria for adding new projects to the IASB's agenda, as set out in the IASB's *Due Process Handbook*.
2. The Council and the IASB have also received letters from FEE (Fédération des Experts Comptables Européens) (Federation of European Accountants) and ACCA (Association of Chartered Certified Accountants), which both suggested that a review of the agenda-setting process is necessary.
3. This paper summarises the views expressed by Council members in previous meetings. These discussions have indicated support for developing different and more stringent criteria that could be used by the IASB in its upcoming public consultation on agenda-setting.
4. The intention is that the results of the discussion at the meeting will be reported to the IASB and the Trustees as the advice of the Council.

Current criteria for the IASB's agenda

5. The IASB *Due Process Handbook* specifies in paragraph 55 the factors that the IASB must consider when adding agenda item. These factors are:

This paper has been prepared for discussion at a public meeting of the IFRS Advisory Council of the IASB.

The views expressed in this paper are those of the authors.

Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in *IASB Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

IFRS Advisory Council meeting

- (a) the relevance to users of the information and the reliability of information that could be provided;
 - (b) existing guidance available;
 - (c) the possibility of increasing convergence;
 - (d) the quality of the standard to be developed; and
 - (e) resource constraints.
6. The current criteria for the agenda process have not been changed since they were first issued in 2006.

Input from other organisations

7. The Council received a letter from FEE in November 2009 as an input into its discussion on the post-June 2011 work plan. In that letter, the FEE questions the appropriateness of the criteria, especially convergence, which it believes is no longer relevant to the agenda-setting process and should therefore no longer serve as a criterion.
8. FEE therefore suggests that the following criteria should be used in future agenda-setting:
- (a) that there is objective evidence that the existing standards are creating significant problems for stakeholders, notably for users and preparers, or that a significant gap exists in current IFRS;
 - (b) that there is a contribution to simplification, reduction in complexity or cost reduction, without loss of relevance of the outcomes to users;
 - (c) that there are sufficient resources and capacity at market participants and at the IASB, and a practical timeline to fully engage with all stakeholders; and
 - (d) the implementation costs will not be disproportionate to the benefits expected to be obtained.

IFRS Advisory Council meeting

9. The IASB also received a letter from the ACCA in January 2010 on the same topic. In that letter it is suggested that the IASB needs to put in place a rigorous and evidence-based system for deciding whether changes to standards are needed. It also suggested that the current agenda criteria are not sufficient in this regard, and that the greatest significance must be given to demonstrating the need for a new standard.
10. The ACCA also think that the default position should be one of no change unless one of the following criteria is met to an unambiguous and decisive extent:
 - (a) that there is a significant gap in IFRS where there is no guidance;
 - (b) that there is a fundamental problem with the existing standards; or
 - (c) that there is a chance of significant gains in terms of simplification of the standards, consistency of presentation or reduction in complexity.
11. The ACCA also says that if a potential project meets at least one of the above criteria, the costs and benefits should be considered, and the net advantage needs to be overwhelming. Each of these steps needs to be justified on the basis of research and objective evidence. The IASB must therefore develop methodologies to:
 - improve the assessment of costs and benefits of changes to standards;
 - measure complexity; and
 - identify key areas where complexity could be reduced.

Council discussions

12. At its last two meetings, the Council has discussed the strategic direction of the IASB in preparation for advising the Board on the post-June 2011 work plan. In that discussion the question of the criteria for the IASB's agenda has been

IFRS Advisory Council meeting

raised. It is clear from the discussions that Council members think that the selection criteria should be reviewed.

13. In the Council's previous discussions, members have raised the following matters regarding the agenda-setting process:
- (a) that the agenda-setting process should be more transparent (this would include how priorities are set);
 - (b) that the criteria should logically tie in with the objectives of the IFRS Foundation, which are set out in its Constitution;¹
 - (c) that the IASB should listen more to its constituents to avoid the perception that the agenda differs from the majority view;
 - (d) that the objective of any standard-setting project should be a significant enhancement to decision-usefulness (ie relevance), with appropriate balancing of costs and benefits; and
 - (e) that the IASB should evaluate its process for selecting projects and consult interest groups in the agenda-setting process.
14. There also seems to be a consensus among Council members and among those that have commented on this issue that convergence should no longer be a primary consideration for agenda selection.

¹ The objectives of the IFRS Foundation are:

- (a) to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles. These standards should require 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.
- (b) to promote the use and rigorous application of those standards.
- (c) in fulfilling the objectives associated with (a) and (b), to take account of, as appropriate, the needs of a range of sizes and types of entities in diverse economic settings.
- (d) to promote and facilitate adoption of International Financial Reporting Standards (IFRSs), being the standards and interpretations issued by the IASB, through the convergence of national accounting standards and IFRSs.

IFRS Advisory Council meeting

15. The two organisations that have offered input into the agenda setting process, the FEE and ACCA, do also seem to emphasise similar criteria for the IASB's agenda setting:
- (a) that there is a significant gap in existing IFRSs where there is no guidance, or that current standards are creating significant problems in practice;
 - (b) that there is a significant enhancement in terms of simplification of the standards, consistency in presentation or reduction in complexity; and
 - (c) that the costs and benefits should be considered, and the net advantage needs to be significant (overwhelming).
16. Although there seems to be a consensus as to the main emphasis for the possible new agenda criteria, additional issue need further consideration. The FEE, ACCA and many Council members have used the word 'significant' on a number of occasions in reference to the agenda criteria, for example, identifying problems with current standards, simplification of current standards and how benefits of projects should outweigh the costs.
17. How should 'significant' be defined and applied when using the proposed agenda criteria? In context, it seems to be intended as a filter for discrete standard setting projects. If taken literally, however, it might preclude improvements in financial reporting such as relatively narrow amendments of existing standards that might not be considered significant individually even though the combined effect of several individually insignificant changes might be significant. Is this to be interpreted in such a way that small improvements will not be taken on?
18. The annual improvements project was designed to accommodate precisely this type of situation. Feedback to date suggests that it has been very well received by stakeholders. Perhaps the 'significant' criterion should be applied to the annual improvements standard as a whole. Consideration might also be given to

IFRS Advisory Council meeting

lengthening the interval between improvements projects if annual changes are too disruptive.

19. There are also other projects/possible projects that would probably not meet the 'significant' criterion simply because it is very difficult to quantify the benefits and therefore show that the benefits are significantly greater than the costs. Examples could be rate-regulated activities, common control business combinations and even the framework project.
20. It is important that the Council discuss how it sees 'significant' being used and interpreted in the agenda selection process before making recommendation to the IASB.

Questions to Council members

1. Do you agree that the current criteria for the IASB's agenda should be revised?
If yes, what should be changed and why?
2. Do you think that all criteria should rank equally?
If not, how should they be ranked and why?
3. Should certain projects such as annual improvements and the framework not be subject to the cost – benefits criteria?
4. Do you agree with the criteria suggested in paragraph 15?
If not, why, and which criteria do you not agree with?
5. Do you agree that the IASB should apply a revised set of criteria in setting the post-2011 agenda?
If not, why should it not do so?