IFRS

AGENDA PAPER

Brussels	10 October 2012	Agenda paper 3A (i)

**THE TRUSTEES OF THE
INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
FOUNDATION
Analysis of the IASB and IFRS Interpretations Committee
Due Process Handbook
Consultation that closed on 5 September 2012**

1. Introduction

This paper analyses the feedback received in response to the Foundation's public consultation paper entitled "*Analysis of the IASB and IFRS Interpretations Committee Due Process Handbook*", which was issued in May 2012. The consultation closed on 5 September 2012.

2. Summary of respondents and geographic region

The Foundation received 50 comment letters from organisations as listed in Appendix 1 to this document. The letters are summarised below by type of respondent and geographic region.

Respondent Type	No. of respondents	Percentage of respondents
Standard-setter (including endorsement advice bodies such as EFRAG)	18	36.0%
Accountancy Body	10	20.0%
Preparer/Representative body	8	16.0%
Accounting Firm	6	11.0%
Individual	2	4.0%
Government or Policymaker	2	4.0%
Preparer/Industry	1	2.0%
Academic or Think Tank	1	2.0%
Regulator/Securities	2	4.0%
Total	**50**	**100%**

Regions	No. of respondents	Percentage of respondents
Europe (including Russia and European non EU member states)	20	40.0%
North America (excluding Mexico)	3	6.0%
Asia	9	18.0%
Oceania	5	10.0%
Latin America (including Caribbean, Central and South America)	4	8.0%
Global	8	16.0%
Africa	1	2.0%
Total	**50**	**100%**

Europe	No. of respondents	Percentage of respondents
UK	5	10.0%
France	2	4.0%
Germany	2	4.0%
Sweden	3	6.0%
Norway	1	2.0%
EU	3	6.0%
Netherlands	1	2.0%
Switzerland	1	2.0%
Spain	2	4.0%
Total	**20**	**40.0%**

Americas	No. of respondents	Percentage of respondents
United States	1	2.0%
Canada	2	4.0%
Brazil	2	4.0%
Latin America (GLASS)	1	2.0%
Mexico	1	2.0%
Total	**7**	**14.0%**

Asia	No. of respondents	Percentage of respondents
Hong Kong	1	2.0%
Japan	4	8.0%
Singapore	2	4.0%
Republic of Korea	1	2.0%
Malaysia	1	2.0%
Total	**9**	**18.0%**

Oceania	No. of respondents	Percentage of respondents
Australia	4	8.0%
New Zealand	1	2.0%
Total	**5**	**10.0%**

Africa	No. of respondents	Percentage of respondents
South Africa	1	2.0%
Total	**1**	**2.0%**

Global	No. of respondents	Percentage of respondents
Global Organisations	8	16.0%
Total	**8**	**16.0%**

Grand Total	**50**	**100%**

3. Questions

The Trustees requested comments on the questions, principles and recommendations in the following areas:

Question No	Question
1	The Trustees' have included an introductory section dealing with 'oversight', and the responsibilities of the DPOC (see paragraphs 2.1–2.15). Do you support the inclusion and content of this section? Why or why not?
2.	The DPOC have created a Due Process Protocol in the form of a table that shows the steps that the IASB must, or could, take, as well as reporting metrics to demonstrate the steps that they have taken; in meeting their due process obligations (see Appendix 4). Do you agree with the idea that such a table should be maintained on the public website for each project? Why or why not?

3.	A research programme is described, which we expect will become the development base from which potential standards-level projects will be identified (see paragraphs 4.9–4.22). In addition, a new section on maintenance has been added, which formalises the practice that the IASB and the Interpretations Committee have been following for addressing matters that are narrow in scope. It clarifies that the more formal project proposal processes were always intended to apply to new IFRSs and major amendments. The IASB has the discretion to initiate changes that are narrow in scope to IFRSs as part of the general maintenance of IFRSs. The new section also explains how the activities of the IASB and the Interpretations Committee are closely related (see paragraphs 5.11–5.20). Do you agree with the distinction between narrow-scope projects, which come under the heading of maintenance and comprehensive projects, which come under the heading of development of IFRSs? Why or why not? Do you agree with the introduction of a separate research programme that will likely be the development base from which potential standards-level projects will be identified? Why or why not?
4.	Two changes to comment periods are proposed. The first would increase the minimum comment period for exposing the draft of a rejection notice of a request for an Interpretation request from 30 days to 60 days (see paragraph 5.16). The other change relates to the re-exposure of a document. The DPOC is proposing to allow the IASB to have a reduced comment period of a minimum of 60 days for documents it plans to re-expose, if the re-exposure is narrow in focus (see paragraph 6.26). Do you agree with the changes in the comment period lengths for rejection notices and re-exposure drafts? Why or why not?
5.	Are there any other matters in the proposed handbook that you wish to comment on, including matters that are not covered by the handbook that you think should be?

4. Overview

The following summarises the main points that were made by the vast majority of respondents.

4.1 General support

On the whole respondents were enormously supportive of the main thrust of the proposed changes to the Due Process Handbook for the IASB and the IFRS Interpretations Committee (Handbook). Either tacitly, or expressly, respondents expressed agreement with the three principles of transparency, full and fair consultation and accountability.

Many noted that due process is an essential element to the standard-setting process and it serves to enhance the reputation of IFRSs, thereby facilitating their widespread adoption, as issued by the IASB, in their entirety and without modification.

A number of respondents commended the IFRS Foundation (Foundation) for taking the opportunity to undertake a comprehensive review of the due process procedures and documentation, following the conclusion of the Foundation's Strategy Review. The early review would further enhance the high quality of the existing due process.

4.2   Combined IASB and Interpretations Committee Handbook

Respondents also supported combining the IASB's due process procedures with that of the IFRS Interpretations Committee (Interpretations Committee) as it ensures an overall consistency of due process. One respondent noted that it was regrettable that the due process for XBRL was not also incorporated into the combined Handbook.

4.3   Due Process Oversight Committee's oversight function

A number of respondents supported restricting the role of the Due Process Oversight Committee (DPOC) to pure oversight, as opposed to auditing the due process procedures and signing off on all outreach documents. The view taken in supporting this approach is that the DPOC should not become involved in the technical standard-setting process.

This largely supportive view was not accepted by a few respondents who were of the view that there should be a better balancing mechanism between the independence of the IASB and its oversight.

Whilst the recent appointment of the Director of Trustee Activities was considered helpful in assisting the Foundation fulfil its oversight role, there was a concern expressed by a number of respondents that the DPOC's role remains passive and limited, as it relies on the IASB and its staff for information and has no independent information gathering function of its own to audit the due process of the IASB. In these respondents' opinion, the DPOC should have a far more robust role to gather direct evidence and information, ensure effectiveness and compliance, and not to rely solely on reports from the IASB and staff. The DPOC should have the authority to attend IASB meetings, assess the feedback received and ensure that the final standard is reflective of stakeholders' needs. One respondent viewed the Trustees' lack of willingness to address this shortcoming as a failing.

4.4   Form over substance

A number of respondents expressed concern that the due process procedures set out in the Handbook, especially the Due Process Protocol document (Protocol), should not become mechanical, 'box-ticking' exercises, which, in substance, did not improve the IASB's due process or the DPOC's oversight, as this would be detrimental to the

reputation of IFRSs globally. The purpose of the Handbook should be to demonstrate to stakeholders that the IASB followed due process in the setting of a standard, what was learned from the various consultation activities and how the information gathered has influenced its thought processes and the final product.

4.5   Independence of reporting

A number of respondents expressed the view that any potential conflict of interest should be avoided, such that there should be no link between the staff of the IASB that support the IASB's due process procedures and the report of any potential breaches of due process to the DPOC. This separation of powers would ensure that there was sufficient objectivity and no possible conflict of interest.

4.6   Further themes

Numerous further themes emerged from the comments, which are listed in the section under Question 5 below.

5.   Detailed Analysis

A more detailed analysis of the comments and submissions received are set out in the report that follows, under the headings set out in the table in the Introduction above.

Question 1:

The Trustees' have included an introductory section dealing with 'oversight', and the responsibilities of the DPOC (see paragraphs 2.1–2.15).
Do you support the inclusion and content of this section? Why or why not?

5.1.1   Majority response

An overwhelming number of respondents expressed their agreement with the inclusion of the introductory section detailing the oversight and the responsibilities of the DPOC as they felt it would be important for constituents to understand the role of the DPOC, its responsibilities and the limits to its actions, especially since the DPOC's role has expanded considerably since its creation in 2006. Furthermore, it is in the public interest to ensure that the stakeholders understand and are able to scrutinise the manner in which the DPOC undertakes its role, and discharges its responsibilities.

5.1.2   Legitimacy of IFRSs

One European respondent noted that whilst the enhancements in the Handbook and the Protocol are a significant part of communicating to constituents the existence of checks within the system to ensure that the standard-setting process works effectively and transparently, there were still concerns about the legitimacy of the Foundation's

governance structure. The legitimacy provided by effective, transparent and accountable due process procedures and governance is essential to ensure that stakeholders have confidence in the quality of IFRSs and can adopt them in their entirety and without modifications.

This respondent suggested that no amount of enhancements of the due process procedures or the Handbook, however laudable, would address the basic flaw in the IASB's governance, namely that the IASB, a private body, is setting standards that are adopted and promulgated into legislation around the globe. As such the IASB is essentially a law-making body, but without the accompanying parliamentary process, democratic voting procedures and necessary checks and balances that usually accompanies that role.

At present the oversight provided by the Trustees and the Monitoring Board, can never extend to intervene in the independence of the IASB and its standard-setting process.

Whilst this respondent was not advocating a compromise on the independence of the IASB, merely a better balancing mechanism between the independence of the IASB and its oversight, another respondent went so far as to suggest that the Trustees should have the authority to carry out qualitative assessments of the final standards, before publication, to ensure that only "*approved strategic shifts were implemented*".

That respondent, and a number of others, also felt that the due process as described was too "passive".

5.1.3   *Timing of due process*

One respondent said that the section was important, as due process failings should be highlighted before the standards are finalised and not simply commented on by the Trustees after the event as part of their oversight function. In this regard, it was noted that paragraph 2.10 should be amended to clearly indicate that the DPOC should specifically sign off on the due process for each new or amended IFRS before they are finalised.

5.1.4   *Impeding development of IFRSs*

A number of respondents expressed concern that the due process procedures are very detailed and should not be allowed to impede the timely development of IFRSs. In this respect, one respondent suggested that the introduction of post-implementation reviews could potentially offer a valuable safety mechanism to address any issues overlooked in the consultation and development process, and thus mitigate the need to be overly cautious in developing the standards.

This comment is also discussed and reflected under question 2 below, concerning the Protocol.

5.1.5 Concerns about Indirect attack on IFRSs

Another respondent noted that the detailed due process procedures could, potentially, offer those who may be dissatisfied with the outcome of their lobbying on a particular issue to refer these matters to the DPOC. This could become just another delaying loop in the system. Notwithstanding this risk, the respondent concluded that it was far more desirable to have an oversight committee that looks exclusively at the process so that the IASB is not itself adjudicating its own behaviour. However, the respondent cautioned that if the DPOC's existence were abused in the future, the role and usefulness of the committee would need to be re-evaluated.

This comment is also discussed and reflected under question 2 below, concerning the Protocol

5.1.6 Auditing role of the DPOC

A number of respondents commented on paragraph 2.14, which states that "*there is currently no intention to audit the information provided [to the DPOC] by the IASB, because the transparent manner in which the IASB and DPOC operate and the role of the Director for Trustee Activities makes an audit unnecessary."*

Whilst many supported the present increased role and activities of the DPOC, it was noted that other, comparable organisations, operate different models for exercising oversight of their standard setting process[1]. As a consequence, some respondents suggested that the DPOC should sit in on IASB meetings and audit the Board's due process procedures.

Other respondents suggested that the Trustees should review, at appropriate intervals, the model of oversight adopted by DPOC, having regard to good practices and experience of comparable organisations.

5.1.7 Breaches of due process

A number of respondents referred to section 8 of the Handbook, which deals specifically with the Protocol for DPOC action in the event of receiving a complaint concerning breaches of due process lodged by a third party. The following comments were received concerning this section:

- **General application:** This section should be revised to make clear that the procedure described from paragraph 8.5 is the general one that applies in all circumstances, either following a complaint or based on the DPOC's own analysis. As currently drafted, this section is too limited in its remit.

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[1] For example, in contrast to DPOC's ex-post review, the Public Interest Oversight Board that oversees IFAC's public-interest standards setting boards follows a policy of direct observation of board meetings.

- **Authority to suspend pronouncements:** Where the IASB finds breaches of due process, which are not inadvertent in nature, the DPOC should have the authority to suspend pronouncements if publication has taken place before the breach of due process has been remedied, and a remedy is deemed necessary. Such circumstances would, in all probability, be extremely rare. One respondent noted that the Handbook should be revised as it currently suggests that a breach of due process can never lead to a pronouncement being invalidated, which must be wrong. The DPOC should require the IASB to remedy its noncompliance.

- **Consequences for non-compliance:** One respondent suggested that the Handbook should specify consequences for members of the IASB if they knowingly do not comply with due process requirements.

- **Overriding authority of DPOC:** Aligned to the point above, the Handbook should clarify that the DPOC should conclude its investigation of any perceived breaches before any new standard or interpretation is issued.

- **IASB sign off:** One respondent recommended that the IASB should at least sign all staff reports on complaints and other breaches of due process in order to demonstrate responsibility for responses to complaints. This is considered to be important since there is no audit of the information according to paragraph 2.14.

- **DPOC to provide reasons:** There ought to be a requirement for the DPOC to publicly provide reasons when it concludes that a breach would not result in questioning the decisions already made by the IASB.

- **Time limit for complaints:** There should be a time limit in which complaints about due process can be made, to within 120 days of the perceived breach occurring in order to avoid any due process challenge being lodged after the issue of an IFRS. This was mainly raised by those jurisdictions which adopt IFRS through legislation and who therefore wish to avoid legal challenges or retrospective changes to legislation.

- **Technical issues and breaches of due process:** One respondent queried why technical accounting issues cannot be used as evidence of breaches of due process (paragraph 8.9 refers).

5.1.8 Continuous oversight – reporting in a timely manner

One respondent noted that paragraph 2.10 provides that the process of communication between the IASB and the DPOC is unclear since it merely refers to "*reporting in a timely manner*". This does not reflect the intention of the Trustees in ensuring continuous

oversight throughout the standard-setting process. This requires clarification and further definition.

The Handbook should state explicitly that frequent reporting by the IASB, and validation by the DPOC of intermediate steps, are required throughout the lifecycle of the project, for each important phase in the standard setting process. This should not be limited solely to the Protocol document.

5.1.9 Relationship between the Trustees and the DPOC and the DPOC's operating procedures

One respondent noted that the relationship between the Trustees, as a group, and the DPOC is not clear.

A number of respondents noted that the Handbook should provide greater clarity on matters concerning the procedures for the formation of the DPOC such as the selection criteria and process for those Trustees appointed to the DPOC. The decision-making process at DPOC meetings should also be clarified and there should be specific mention that staff supporting the DPOC should not be involved in the project subject to review.

Another respondent noted that this section should clarify that the DPOC is a sub-committee of the Trustees. This is not clear at present since paragraph 2.15(b) suggests that the DPOC can report to third parties, particularly the Monitoring Board, independently of the Trustees.

5.1.10 Handbook's relationship with the IFRS Interpretations Committee

One respondent noted that even though the Handbook applies to both the IASB and the IFRS Interpretations Committee, the substance of the Handbook does not specify this relationship clearly since some parts of the Handbook do not refer to the Interpretations Committee. This respondent said that it was necessary to clarify whether or not the review by the DPIOC is conducted together with the IASB, the IFRS Interpretations Committee and the staff.

5.1.11 Consultative groups

One respondent noted that the DPOC should also oversee and approve the formation and composition of the various consultative groups that support the IASB's work.

Another respondent noted that the Handbook should establish criteria as to when a group should be formed and how its members are selected. Aligned to this comment, another respondent noted that the purpose of the consultative groups were unclear and called for the Handbook to clarify this. The respondent suggested that consultative groups should be co-chaired by two IASB members, or at least three IASB members should be required to attend.

There was a query as to why the same transparency that applies to consultative groups is not also required for representative groups.

Finally one respondent noted that the Handbook should explain how the IASB incorporated recommendations from the consultative groups into its work. Whilst recommendations are not binding, the IASB should be required to explain if it disagrees.

5.1.12 IFRS Foundation Constitution

A number of respondents supported the introduction of a separate section on oversight in the Handbook, but recommend that the explanations in this section should focus on the effective due process, whilst all factual information pertinent to the general objectives (paragraphs 2.1-2.7) and the responsibilities of the DPOC (paragraphs 2.8 and 2.15) would be better placed in the IFRS Foundation's Constitution, rather than in the Handbook.

5.1.13 Excessive emphasis on check-box reporting

Aligned to similar comments noted in question 2 below (under the sub-heading *"Form over substance"*), which specifically refers to the Protocol, a number of respondents expressed a more general concern that the level of reporting proposed in the Handbook would introduce an excessive amount of reporting within the due process which may not necessarily improve the quality of the standards developed by the Foundation. This would lead to a "box ticking" mentality amongst staff.

Respondents believed that communication to stakeholders should emphasise and summarise when the critical points in the process have been achieved rather than mechanically show that each and every step has been completed, regardless of whether the step in question may improve due process and accountability.

5.1.14 Roles and responsibilities of the DPOC

A few respondents noted that the Handbook would benefit if it set out and clarified the DPOC's overall objectives, roles and responsibilities. This should fit with the overarching objectives of the Foundation and its constituent parts. Furthermore, the wording in the section should be checked for consistency. One respondent noted that the Handbook should be reviewed in light of the Constitution and all repetition should be removed.

5.1.14 Integration of DPOC work throughout the Handbook

One respondent noted that whilst it welcomed the inclusion of the DPOC's responsibilities in the Handbook in the introductory section, the DPOC's responsibilities have not been fully integrated throughout the rest of the Handbook. The only references to the DPOC's involvement in standard-setting are in in paragraphs 5.2 (reasons for non-issue of a discussion paper) and 6.24 (reasons for not exposing). This does not seem to

encourage the pro-active participation of the DPOC in the standard-setting process which is considered essential.

Question 2:

The DPOC have created a Due Process Protocol in the form of a table that shows the steps that the IASB must, or could, take, as well as reporting metrics to demonstrate the steps that they have taken; in meeting their due process obligations (see Appendix 4).

Do you agree with the idea that such a table should be maintained on the public website for each project? Why or why not?

5.2.1 Majority response

Once again, an overwhelming number of respondents agreed with the inclusion of the new due process Protocol table showing the steps that the IASB must follow, together with the reporting metrics, to demonstrate the relevant steps and accountably. Respondents agreed that it was important that the IASB is able to demonstrate that it has respected due process in respect of all aspects of its activities.

5.2.2 Integral part of the Handbook

A number of respondents expressed the view that if the Protocol table is to be a key element of the due process system then it should form a more integral part of the Handbook.

It was noted that the Protocol is a rich source of due process rules, which at times gives more precise information on mandatory and non- mandatory steps and obligations of the IASB and the Interpretations Committee, and the due process actions to be taken, than the Handbook itself. As such respondents expressed concern that the Protocol was not an integral part of the Handbook and suggested that it should be.

5.2.3 More detailed information

Whilst commending the introduction of the Protocol, one respondent suggested that the Protocol should be augmented with the following additional information:

- **Increased disclosures:** More disclosures should be made on whether consultations held at each stage were reflected in the final standard and, if not, why not.
- **Additional information:** A further table to clearly describe how the feedback received at agenda consultation was summarised and used for setting the direction.

- **Flowcharts:** Additional flowcharts and diagrams to provide visual aids.
- **Metrics:** There should be some additional metrics information[2].

One respondent suggested that in additional to the Protocol, it should be obligatory to present an up-to-date due process table on each project webpage.

5.2.4 Opposition

Not all respondents, however, were enthusiastic about the Protocol. The following are a selection of further comments received:

(a) Cost benefit analysis

A few respondents noted that whilst it was clearly in the public interest to ensure greater transparency and accountability of the standard setting process, it was equally in the public interest to ensure that the cost of maintaining the Protocol should be kept down. The benefit should be weighed against the costs.

One respondent noted that since the Handbook provides for detailed procedures to ensure that the Trustees and the IASB discharge their due process obligations transparently and accountably to stakeholders, there should be little need for the very detailed Protocol document. Furthermore, there was the suggestion that there could be scope for the public to misinterpret the Protocol document such that questions and observations on this document could arise.

Aligned to this was the concern that since the Protocol must be a living document it would be necessary for staff to ensure that changes to the Protocol are highlighted in agenda papers and meeting summaries to maintain accountability. It would be important to manage stakeholder's expectations in this regard. This additional work would demand staff resources.

(b) Form over substance

Aligned to the sub-headed section entitled "*Excessive emphasis on check-box reporting*" (section 5.1.13 above), noted under question 1 above, a number of respondents expressed concern that the Protocol 'checklist' presented the danger that the Foundation and the IASB may concentrate too heavily on the measurement process and lose sight of the intended outcome. Although this level of reporting may be desirable for internal purposes, it is believe that this volume of information may be confusing to stakeholders and could detract from the real messages that need to be sent. Furthermore, updating and maintaining such detailed information would involve considerable effort on the part of the Foundation staff.

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[2] For example, there should be metrics for the consultation with the Advisory Council, as part of the three-yearly consultation.

The Protocol checklist should not become a 'box-ticking exercise' and a bureaucratic structure to divert attention away from evaluating whether the principles of good due process are being respected.

These stakeholders were of the view that it was far more important that stakeholder's views were listened to, analysed and evaluated, and then communicated to the IASB, rather than following a prescribed checklist. Stakeholders concluded that the DPOC should have a lighter touch regime for having due process steps reported to it, whilst maintaining a reasonable summary on each project page of the Foundation's website.

(c) ***Simplification***

Aligned to the concerns noted in paragraphs (b) above, under the heading *'Form over substance'*, a number of respondents suggested alternative approaches to the Protocol that would reduce the potential for an overly bureaucratic approach. The suggestions included:

- **Mandatory steps:** Only setting down the mandatory steps in the Protocol. This would assist those stakeholders who would prefer an "at a glance" guide that explains the key steps that must be followed in order for the IASB to issue a new accounting standard or interpretation.
- **Flowcharts:** To consider using a flowchart showing the passage of a project through the key required stages, rather than a table that could be perceived as a 'checklist'.
- **Redaction to principles:** Reducing the size of the Handbook to only the principles of due process and the key due process steps. The remainder of the material to be inserted into an operational guide, or appendices[3] , which could be used as a reference tool for reporting to the DPOC.

Related to this point, one respondent noted that the Handbook should recognise that simplifying or repealing a standard may be preferable in some cases, in order to achieve the required improvements in financial reporting. It should be about better standards and not about more standards. These recommendations should be taken on board and integrated into the Handbook.

(d) ***Managing stakeholder interests***

One respondent noted that the more elaborate the due process procedures, the greater the opportunity for the IASB's output to be challenged by those who disagree with

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[3] For example, much of the extensive material under the 'Principles' section on voting and balloting could be included in appendices, thereby making the Handbook itself more obviously principles-based.

the technical solutions. For example, the more 'optional' steps that are included in the process, the greater the potential for an interested party to argue that in their view a particular optional step should have been followed when the Board considered that this was not necessary.

The more the process is capable of being challenged, the greater the potential for the credibility of the Board and the resulting standards to be undermined. This makes it all the more important that the Handbook should be clear and capable of being widely understood by Board members, Trustees, staff and external constituents.

(e)   Consistency between the Handbook and the Protocol

A number of respondents noted that there is need to improve the internal consistency of the material in the main text and in the appendices to the draft Handbook[4].

Question 3:

A research programme is described, which we expect will become the development base from which potential standards-level projects will be identified (see paragraphs 4.9–4.22). In addition, a new section on maintenance has been added, which formalises the practice that the IASB and the Interpretations Committee have been following for addressing matters that are narrow in scope. It clarifies that the more formal project proposal processes were always intended to apply to new IFRSs and major amendments. The IASB has the discretion to initiate changes that are narrow in scope to IFRSs as part of the general maintenance of IFRSs. The new section also explains how the activities of the IASB and the Interpretations Committee are closely related (see paragraphs 5.11–5.20).

Do you agree with the distinction between narrow-scope projects, which come under the heading of maintenance and comprehensive projects, which come under the heading of development of IFRSs? Why or why not?

Do you agree with the introduction of a separate research programme that will likely be the development base from which potential standards-level projects will be identified? Why or why not?

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[4] For example, paragraph 3.42 provides a list of mandatory due process steps. However this excludes a number of other steps that, according to other parts of the handbook text, "must" be followed - these include:
- Taking additional steps to consult with investors (3.46)
- Issuing a press release to accompany an exposure draft (6.16)
- Informing the DPOC of the Board decision to proceed to ballot stage (6.24); and
- Preparing a Project Summary, Feedback Statement and Effect Analysis (6.35).

5.3.1 The distinction between narrow-scope projects, which come under the heading of maintenance and comprehensive projects, which come under the heading of development of IFRSs

(a) Majority response

The majority of respondents agreed that there should be a distinction between narrow-scoped projects, which come under the heading of maintenance, and comprehensive projects, which come under the heading of development of IFRSs. This would aid efficiency and ensure the appropriate use of resources.

However, a number of respondents were not in favour of reducing the comment period for re-exposure of narrow scoped items (paragraph 6.26). Many expressed concern that the reduced time scales would prevent stakeholders from submitting full and qualitative comments and it could disadvantage respondents from non-English speaking countries who would have to rely on translating the material before being able to comment substantively.

(b) Definition of "narrow scope" and "comprehensive projects"

A number of respondents noted that one individual's routine maintenance is another individual's substantive change. Furthermore, the definition of 'narrow scoped' projects is unclear and the criteria for 'comprehensive projects' is too vague and insufficiently prescriptive. The indicators provided are not referred to as criteria for determining major projects but rather as criteria for *'deciding whether a proposed agenda item will address users' needs'*, which brings even more confusion.

Aligned to this point, one respondent noted that minor or narrow scope amendments to IFRSs that propose a new principle or a change to an existing principle should not be included in the implementation and maintenance section, since such proposed amendments do not relate to the implementation and maintenance of IFRSs.

The suggested solutions put forward by respondents included:

- **Redrafting:** The suggestion was put forward to redraft the Protocol, as well as the corresponding sections of the Handbook, to reflect the consequences of a true distinction between narrow scope and major projects.

- **Adjudication:** One respondent suggested an adjudication mechanism to resolve disputes as to which category a proposed change should fall into, which could be worked out with the proposed consulting standard-setters and regulators. Advisory votes could be invited from the IFRS Advisory Council and the future standard-setter council, without the IASB devolving any authority to any other body.

- **DPOC Power to Challenge:** If it is impractical to define a set of criteria or definitions, a specific process should be put in place, with the DPOC having the right and the obligation to challenge the IASB's position as to whether a given project should be considered as a narrow scope or a major project.
- **Assessment Criteria:** A few respondents recommended incorporating assessment criteria or processes to differentiate "narrow scope" and "comprehensive projects" in the Handbook to facilitate fair and consistent decision making on comment periods.
- **Substantive Assessment:** Any assessment of the differentiation should be made on the substance of the amendment. The Board should have the flexibility to decide on a case-by-case basis, guided by a common set of indicators, such as those set out in paragraph 5.1.

(c) *Definition of maintenance projects, Interpretations and annual improvements*

A number of respondents noted that it is not clear what the difference between maintenance projects and Interpretations, as issued by the IFRS Interpretations Committee, are. Similarly it is also unclear how the IASB makes a distinction between a maintenance project and an annual improvement project. These should be clarified.

One respondent noted that the IFRS Interpretations Committee has been involved in the development of annual improvements quite extensively in that the initial consideration of a proposed amendment to be included as part of the annual improvements process is deliberated by the IFRS Interpretations Committee and recommended to the IASB for inclusion in the annual improvements. The Handbook however does not document and reflect this working relationship between the IASB and the IFRS Interpretations Committee.

(d) *Periodic review of all IFRSs and Interpretations*

One respondent recommended the introduction of a formal process where the IASB and the IFRS Interpretations Committee periodically review all IFRSs and Interpretations currently in issue to identify those that are no longer considered relevant and which can be withdrawn.

(e) *Exceptional circumstances*

One respondent said that this section should be re-written to stress that maintenance activities should only be expected to be undertaken in exceptional circumstances. It would be better for the Handbook to curtail such activity rather than to provide a framework for its proliferation.

(f)   Post-implementation review

One respondent noted that the Handbook classifies post-implementation reviews as a maintenance activity but believes that this is an integral stage of the project and should be reclassified as such.

5.3.2   The introduction of a separate research programme

(a)   Majority response - evidence based decisions

There was unanimous consent with the proposal to introduce a research programme.

A number of respondents were of the view that the introduction of a research facility would enable the IASB to move further in the direction of evidence-based decisions in terms of both initiating projects and in terms of making decisions in the final standards. This should give rise to much more knowledgeable and reasoned agenda decisions. It was noted that it would be highly desirable that any standards-level agenda proposal should be backed up by significant research as to the need for development, the feasibility of possible solutions and the effects of any proposed change or refusal to change. This should be emphasised in the Handbook.

Aligned to this is the concern that one respondent raised, namely that issues in financial reporting should be addressed in a proportionate way. If a problem can be adequately addressed by making a simple amendment, then this should be the chosen and preferred mechanism rather than rewriting a whole standard based on detailed research.

One respondent noted that the introduction of the research programme would allow topics to be considered by the IASB without the commitment to actually produce a new or amended IFRS.

(b)   Co-operation with third parties and analysis

An overwhelming majority of respondents welcomed the proposal that the IASB would work with third party organisations and national standard-setters, to carry out research on projects, as this would enable the IASB to take advantage of third party resources, which may be freely available, and to build on the pre-existing knowledge to the overall benefit of all stakeholders. It would avoid the need to duplicate the research efforts of others. Furthermore, it could potentially lead to a very useful development of studies and a body of research on accounting problems from around the globe, which, in turn, would facilitate the IASB considering a wider range of issues.

A few respondents urged the IASB to work more closely with universities and academics. By seeking a closer relationship with universities, there is scope for sponsorship or promotion of research applicable to the work of the IASB and the Interpretations Committee, which would benefit both the academic institutions and the IASB.

However caution was sounded for the need for the IASB to ensure the objectivity and independence of the research and the organisation carrying out the research and the need for the IASB to provide on-going strategic oversight of any project to ensure that the resulting research is useful. One respondent noted that research partners and third parties should, as a minimum, be subject to the same principles of full and fair consultation, as are applicable to the IASB.

On important projects, there should be a formal mechanism that enables the IASB to provide feedback to the research team to encourage work that is complete, neutral and will meet the IASB's expectations. Without such involvement, the IASB would likely need to carry out additional research before it could benefit from the third party research. However, the IASB's needs to obtain relevant and useful material needs always to be balanced against the need to ensure that nothing impedes the independence of the research of third parties.

The IASB should carry out its own analysis of any public feedback, before simply adopting any third party research, in order to make sure that diversity in practice exists and there is a global consensus as to the need to have specific guidance on the issue in question.

(c)   *Objectives and reasons for research*

A number of respondents suggested that the IASB should develop formal protocols so that the objectives (purpose and role), reporting requirements and other key elements concerning the issuance of research papers are clear to all involved.

One respondent suggested that the Handbook should set out criteria for when a research programme should be initiated, when to finish a research programme phase, what should occur if there is no reasonable result, and when the research conducted justifies the initiation of a standards-level project.

Aligned to this was the recommendation that the IASB should explain the reasons for issuing each research paper and also for mandating any particular third party to carry out research. If the IASB has already developed a view on a specific issue, this could also be specified in the introductory section of the research paper as a non-binding opinion.

(d)   *Inviting research topics*

Many respondents were of the view that whilst it was essential for the IASB to carefully direct and monitor any research being undertaken by third parties, there should be sufficient scope for third parties to seek to submit reports on issues not on the IASB's research list. It was noted that this was desirable because it would contribute to expanding the public knowledge base of current issues, and avoid the research activity being limited

to a particular view of what the IASB considers important, which could leave the Board open to criticism.

The invitation to submit topics to the research list could be treated as advisory, but the IASB should consider indicating that it has a broad interest in hearing of any issues in financial reporting and receiving evidence related to those issues.

(e) Definition and focus of research and guidance

One respondent noted that the term 'research' is applied to a very wide spectrum of potential activities, ranging from discussion papers, to narrow research around current practice in a very specific area of accounting, through to broader 'blue sky' thinking about the wider corporate reporting model. No clear definition of research is provided in the draft Handbook and having a definition of what is envisaged would be helpful.

The Handbook should also distinguish between empirical research and identifying and exploring new or improved financial reporting techniques.

A number of respondents suggested that the Trustees should consider the different types of research, the due process (if any) that should attach to the different types, and who might be best placed to conduct the research.

One respondent suggested that the Handbook should include guidance on managing a research project, including the need to clearly state the realistic project objectives, work plan and methodology. All research projects should be realisable in an appropriate length of time.

The respondents suggested that the IASB should focus on the type of research that involves outreach aimed at identifying specific problems and user needs. Certain types of research might be best performed with the assistance of the network of national and other accounting standard setting bodies and the academic accounting community (with appropriate supervision and accountability by the IASB), rather than by the IASB establishing its own research resources.

(f) Exceptional circumstances – dispensing with research

A few respondents noted that there may be some special instances where conducting research in advance may not be possible, for example in order to develop a standard that is urgently required. This might arise, for instance, during a financial crisis, where there is global consensus or where resources are simply unavailable. The Handbook, as currently drafted, does not provide a clear distinction between instances where advanced research would be required and the exceptional circumstances where research would need to be dispensed with.

These respondents suggested that the Handbook should clearly stipulate the conditions under which research could be dispensed with, in order to avoid the exception from being subject to abuse and the IASB and the Foundation subject to stakeholder criticism.

(g) Public consultation

A number of respondents suggested that the research programme phase should always be concluded by a public consultation phase on the issue and the possible approaches considered, in order to address the matter before deciding to add a project to the standard-setting programme.

The findings and conclusions reached should be publicly available. This would ensure that the IASB can demonstrate that changing requirements would lead to improved financial reporting at an acceptable cost. It was suggested that the requirement of public consultation leading to shared identification of required improvements and their prioritisation, should be introduced into the IASB' due process and reflected in the Handbook.

This would also ensure the prioritisation of the IASB's work programme on the basis of the needs of those who apply IFRS in practice.

(h) Criteria for adding projects and prioritisation of projects

One respondent recommended that the IFRS Foundation should articulate in the Handbook the criteria for adding projects to the IASB's research programme and the prioritisation of projects in the IASB's technical work programme.

It was noted that whilst the IASB has transparently consulted on its agenda, and indicated the prioritisation of the projects, the outcome of the deliberation process appears arbitrary given the absence of a set of prescribed criteria used by the IASB in making those decisions. In order to resolve this matter, a set of prioritisation criteria should ideally be included in the Handbook.

(i) Publication of research, fieldwork and feedback

A number of respondents indicated that it was essential for the IASB's due process that the research phase evidence is published and that it should include the results of fieldwork (paragraphs 3.67 – 3.70). One respondent suggested that an explicit requirement should be inserted in the Handbook, clarifying that fieldwork should be documented through staff papers.

A number of respondents welcomed the integration of field testing in the Handbook. The view was expressed that field tests are important to ensure that proposed accounting requirements are reasonably easily understandable and capable of being implemented at

operational level. These respondents were of the view that field testing should be a formal step in the standard-setting process, should be carried out at a very early stage before a standard or preferably an exposure draft is finalised and issued and the results should be considered by the IASB in the development of all major changes to standards. Field tests should be an integral part of the IASB decision-making process and should be publicly available.

One respondent suggested that the Handbook should include criteria for fieldwork, which would include:

- Input from a broadbase of constituents through in-depth interviews, detailed questionnaires or by parallel processing of selected transactions;

- Should not be limited to brief small group meetings with constituents; and

- Does not always require full-scale processing of all transactions through a company's system over an extended period or preparing financial statements using the proposed standard.

A few respondents said that small group meetings with constituents do not provide sufficient information to allow the IASB to make decisions on whether its conclusions on major projects are well understood and capable of being implemented and intended. These small group meetings should never be a substitute for field work.

It was noted that stakeholders give considerable time and resources in answering questionnaires in support of field tests and that it was therefore important for the IASB to acknowledge this effort by providing individual feed-back.

A few respondents suggested that fieldwork should be mandatory.

(j) Procedures and phases of research

One respondent noted that the procedure for passing from research to standard-level projects is not well defined in the Handbook. There are no clear criteria when the research phase will be considered as completed for a given issue. Specific guidance helping to identify when a given research issue should no longer be developed would also be helpful.

The suggestion was also put forward that the discussion paper phase should be compulsory (instead of just being a 'comply or explain' step) for all new standards. As a result, it was suggested that the structure of the Handbook should be revised by distinguishing new IFRSs from major amendments, and presenting specific due process protocols for each type of development.

(k)   Comment periods

One respondent noted that no comment period deadline is specified for research papers in paragraph 4.20. This is not consistent with paragraph 4.15[5] or the Protocol[6].

Question 4:

Two changes to comment periods are proposed. The first would increase the minimum comment period for exposing the draft of a rejection notice of a request for an Interpretation request from 30 days to 60 days (see paragraph 5.16). The other change relates to the re-exposure of a document.   The DPOC is proposing to allow the IASB to have a reduced comment period of a minimum of 60 days for documents it plans to re-expose, if the re-exposure is narrow in focus (see paragraph 6.26).

Do you agree with the changes in the comment period lengths for rejection notices and re-exposure drafts? Why or why not?

5.4.1   Increase the minimum comment period for exposing a rejection notice - paragraph 5.16

The majority of respondents agreed with increasing the minimum comment period for exposing the draft of a rejection notice of a request for an Interpretation request from 30 days to 60 days, since it will allow stakeholders sufficient time to consider the draft documents and formulate a valid and qualitative response.

A few respondents were of the view that the minimum comment periods should not be cast in stone and that the Interpretations Committee should retain the flexibility to use a more-than-minimum comment period in case of potentially controversial issues.

(a)   Alignment of meeting cycles

One respondent noted that whilst there was support to increase the comment period for rejection notices from 30 to 60 days, care should be taken to ensure that there is appropriate alignment of the frequency of meetings of the Interpretations Committee. An increase to 60 days, if that happens to coincide with the "wrong" point of the meeting cycle, could add considerably to the time needed to deal with a matter. It may be necessary to consider increasing the frequency of, or adjusting the timing of, Interpretations Committee meetings.

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[5] Which states that research papers typically include an invitation to comment.

[6] This requires a minimum comment period of 120 days for research papers - Page 50 of the Protocol.

(b)   Compulsory re-exposure

Aligned to this topic one respondent recommended that the Handbook should provide that re-exposure should be compulsory for projects which have been significantly modified during the deliberation phase.

5.4.2   *Reduce the comment period for re-exposing narrow focused items - paragraph 6.26*

(a)   Overall response to the proposal

The response to this proposal was mixed. The reasons given by those who supported the proposed reduction in the comment period included the view that a mandatory 120-day comment period would be a disincentive to re-expose. Some respondents suggested that the proposed re-exposures in the limited circumstances would still give stakeholders sufficient time to respond and give the IASB flexibility, whilst not delaying unnecessarily the completion of a project.

Some of the respondents that objected to the reduction in the comment period put forward alternative suggestions, which varied from a comment period of 120 days, to a period of 90 days. The latter time scale was based on the time allocated to annual improvements, which were considered to be very similar to narrow focused re-exposure items.

The reasons given by those respondents not in favour of the proposed reduction in the period allocated for comment periods included the following:

- Stakeholders require time to understand the whole proposals in order to assess the implications of the revisions.

- National standard-setters require time to discuss and evaluate proposals with stakeholders and committees to allow for an informed response, and compliance with their own due process.

- Stakeholders require more time to develop substantive and qualitative responses to the consultations, whilst balancing multiple priorities.

- Non-English speaking respondents require more time to allow for the translation of the proposals thereby enabling understanding in their native language.

One respondent took the view that a reduction in the comment period could be perceived as being fundamentally inconsistent with the need to re-expose.

One respondent noted that whilst it did not support the proposed reduced comment period, it would be important for paragraph 6.26 to specify that any proposal by the IAB to shorten the usual comment period[7] should be subject to approval by the DPOC.

(b) Definition of "narrow focus"

Many respondents, even those that agreed with this proposal, were of the view that the definition of "narrow focus" could, in itself, be controversial and problematic; that it was vague, undefined and could be subjectively interpreted. As such the words require definition and clarification. Some respondents were of the view that if there is a need for re-exposure, as specified in section 6.26, the topics being re-exposed are already of significance. As such, the words *"re-exposure draft that is narrow in focus"* is unclear.

A few respondents suggested that the Handbook should specify criteria to assess when re-exposure is narrow in focus, and thus minor and non-controversial, such that it might guide the IASB's decision. Criteria should include: the magnitude of the change, the magnitude of past controversy of the formal proposal and the size of the potential impact in practice. If any one of the criteria is not met, the comment period should be increased.

(c) Request for information

One respondent expressed concern at the proposed 60-day comment period for Requests for Information (paragraph 4.20). The view taken was that the period was too short, especially for more complex issues that would require deep discussion and several meetings. This respondent noted, as mentioned previously, that regional and national accounting standards bodies have to comply with their own due process obligations.

The current proposed time scales would mitigate against valuable qualitative responses to the IASB.

(d) Related points

There were a number of related comments on the topic, which did not directly concern any of the questions posed. These included the following:

- **Transparency of implementation and maintenance activities:** One respondent noted that whilst rejection notices are open for public comment, issues that are initially considered for, but are not included within the annual improvements process, might not follow the open-for-public comment process, as do the rejection notices. As such some called for clarification of these processes to ensure transparency of implementation and maintenance activities.

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[7] 120 days' comment period was suggested.

- **In-substance Interpretations:** One respondent noted that there was a risk that rejection notices would be viewed as in-substance Interpretations by auditors and preparers and this danger would need to be addressed.

- **Defined responsibility:** One respondent noted that it was not clear who bore the ultimate responsibility (the IASB or the Interpretations Committee) to decide that certain issues should be dropped whilst others may be addressed. This should be clarified.

- **Annual improvements process:** Some commented that there should be criteria to indicate which issues are channelled to the annual improvements process.

- **Timing of invitations to comment:** Consultation periods should avoid major holiday periods and financial reporting closing periods. However, if this is not possible, consultation periods should allow for more time than the minimum specified.

- **Re-exposure criteria:** One respondent proposed the enhancement of the re-exposure criteria, to include considering the significance and extent of changes made to exposure draft proposals and the benefit of identifying unintended consequences. A further enhancement was the recommendation that decisions not to re-expose should always have the formal approval of the DPOC.

- **Characteristics of re-exposure:** One respondent noted that the DPOC should identify the characteristics the IASB and the Interpretations Committee should consider in deciding whether to re-expose a proposal. Re-exposure is good due process on major projects where re-deliberations have resulted in significant changes since it reduces the risk of unintended consequences.

- **Numerical analysis of comment letters:** A few respondents called for a numerical analysis of comment letters being submitted to the IASB as this would assist the Board in understanding fully what stakeholders think of a proposal being re-deliberated.

> *Question 5:*
>
> Are there any other matters in the proposed handbook that you wish to comment on, including matters that are not covered by the handbook that you think should be?

There were numerous comments and suggestions, which were forwarded under this heading.

The following is a list of the main topics, which were raised:

5.5.1 Clarification of drafting

There were a large number of suggestions for drafting clarifications or improvements. Staff is working on a table of proposed drafting amendments and comments, which will be considered and discussed in the finalisation of this project.

5.5.2 Visibility of dissenting opinions in a draft Interpretation

A number of respondents expressed concern that dissenting opinions would be excluded from the Interpretations issued by the Interpretations Committee whilst others disagreed and took the view that the continuation of dissenting views is no longer justified.

One respondent who objected to the removal of dissenting opinions noted that paragraph 7.9 proposes to exclude dissenting opinions from a draft interpretation, leaving them, instead, to be set out in the Basis for Conclusions. The respondent was of the view that the mere identification of areas of opposition might not sufficiently articulate opposing views at the draft interpretation stage.

Concern also stemmed from the fact that paragraph 7.9 prohibits Committee members dissenting from an interpretation. However, at the final stage, the request for ratification sent to the Board members should identify how many Committee members objected to the interpretation being finalised and their reasons for doing so. Whilst the ultimate responsibility for publishing an interpretation lies with the Board, the respondent was of the opinion that Interpretation Committee members' objections should be made more visible.

Those who were in favour of removing dissenting opinions from a draft Interpretation noted that it was sound, given the developments in information technology, including webcasting of meetings and discussion in the Basis for Conclusions, which allowed for the diversity and differences in views being readily available to stakeholders.

There was concern amongst this group that the inclusion of dissenting views would detract from the presentation of a standard and carries with it the risk that dissenting views may be used as a signal for some jurisdictions and entities to not adopt the standards.

5.5.3 Visibility of DPOC proceedings and publication of due process complaints

A number of respondents suggested that DPOC meetings should be held in public. Aligned to this, some respondents suggested that there should be greater visibility of the DPOC's work and that it ought to be publicly communicated regularly in order to ensure increased public confidence in the IFRS Foundation's oversight function and its commitment to a high quality and transparent due process of the IASB's standard-setting activities.

One respondent suggested that consideration should be given to whether paragraph 2.10 should provide that due process reports should be open for comment by constituents.

On the other hand a few respondents questioned whether the Foundation's commitment to transparency and publication of the names of those individuals raising due process complaints or concerns might act as a disincentive for potential complainants to come forward in the future.

One respondent noted that it is important for stakeholders to understand how their concerns will be addressed. To this end, it would be helpful if the Handbook included a standard template for complaints to enhanced stakeholders' understanding of the complaints process.

5.5.4 *Principles and objectives of due process*

(a) Principles

Many respondents supported the principles set down in the Handbook that govern the IASB's due process, namely transparency, full and fair consultation and accountability.

A few respondents suggested that the overarching principle that should be assigned to the work of the IASB should bring "improvement to financial reporting at an acceptable cost", where needs for improved, revised or new accounting requirements have been evidenced. These respondents suggested that this principle should be the sole driver for changes to standards and Interpretations.

(b) Objectives of due process

A number of respondents noted that whilst the Handbook sets out the underpinning principles, it does not address the overall objectives of the due process. These respondents proposed the following objectives:

- Ensuring a shared identification with constituents of well-defined needs for improvement of financial reporting, in a way that allows clarity in how objectives assigned to a project are set;

- Allowing for proper consultation and discussion, prior to, and after, the publication of proposals;

- Setting the legitimacy of the resultant standards or Interpretations by gathering arguments and reference to evidence in a basis for conclusions that:

  o justify (and not assert) how the new requirements do indeed fulfil the original objectives and serve user needs;

  o explain how specific issues raised by various jurisdictions/ constituents have been addressed;

o argue why alternatives supported by constituents would not achieve the same outcome or why the final requirements should be preferred;

o properly assess the results of effect studies and other field work including field tests, so that there is reasonable assurance that implementation of the final requirements will not cause uncertainty or inconsistency in practice, and that the costs involved are justified by the improvements brought in financial reporting.

A number of respondents noted that each project on the agenda of the IASB and the Interpretations Committee should have a clear objective and include a description of how it will address users' needs.

5.5.5 Use of due process to attack technical standards

A number of respondents were of the view that with the development of the IASB and the Interpretations Committee's due processes and the Protocol, there is the potential for stakeholders to use complaints about due process non-compliance to seek to influence the technical deliberations of the IASB and/or delay the development of a standard.

However, many were of the view that given the public commitment and the importance of due process to the transparency of the IFRS Foundation and the acceptance of its decisions, breaches of the Protocol would likely only occur in rare and exceptional circumstances.

5.5.6 Separation of powers

Whilst the matter of separation of powers and independence of the staff carrying out the investigations on behalf of the DPOC has been discussed previously under the specific questions posed, A number of respondents made the following additional suggestions:

- **Definition of roles and responsibilities:** The Handbook should give a clear definition of the roles and responsibilities of the IASB and its staff. The IASB should be responsible for decision making, for leading the standard-setting process, and giving proper directions on the development of standards to the staff, whereas the staff should ensure that due process is respected and that all relevant opinions and concerns, including the views of smaller groups of stakeholders and jurisdictions, are presented to the IASB in an objective and comprehensive manner. Staff should only make recommendations to the IASB. Accordingly, the IASB should be responsible and accountable for all documents issued for public consultation, including Feedback Statements. The IASB staff should have no role to play whatsoever.

- **Director of Trustee Activities:** Aligned to the point noted above, a few respondents welcomed the appointment of the Director of Trustee Activities, as this will bring to the DPOC the resources of dedicated staff that it needs to lead an independent review.

- **Independence:** In order to avoid the potential for any conflict of interest, all complaints about perceived non-compliance with the Protocol should be addressed by Trustee staff and not by the IASB itself. This suggestion would ensure that the due process procedures were seen to be entirely independent of the IASB.

- **IASB responsibility**: The IASB, and not the staff of the IASB, should be responsible for reports on breaches of due process.

5.5.7 *Outreach*

Most respondents welcomed the IASB's increased and extensive outreach in recent years and more particularly the proposed increased co-operation with national standard-setters and regional bodies. Respondents urged the IASB to ensure obtaining all possible divergent views and taking them into account, including views expressed by minorities, jurisdictions, industries and stakeholder groups and providing proper feedback, with reasons, when views are not taken into account. In addition, the following suggestions were put forward:

- **Field testing and effect analyses:** A number of respondents encouraged the IASB to continue to develop its outreach activities, particularly the field-testing of proposals and undertaking effects analyses in the development of standards and post-implementation reviews of major projects.

- **Stakeholder needs:** Respondents emphasised the importance of the IASB taking into account as early as possible the needs expressed by its stakeholders and ensuring that these have been discussed during all deliberations or re-deliberations. Evidence of the need to improve financial reporting should be the starting point for the development of a standard. Throughout the cycle of development of a standard, stakeholder input, via national accounting standard-setters, should be incorporated with a view to refining the proposals made.

- **Proper application of due process:** One respondent noted that the Handbook should specifically note that informal outreach should never be a substitute for the proper application of required due process steps.

- **Transparency of outreach:** It would be useful if the transparency that characterises the IASB's other activities were extended to its outreach, for example, where additional contacts and meetings have been organised to reach

users, information on the additional activities and events organised, the identity of those taking part in the various activities and events and the results of those activities and events should be publicly available. In addition, the Handbook should contain more guidance on actions to be taken by the IASB in response to comments received and outreach.

- **Proportionality:** The IASB should clarify how proportionality is applied in assessing the comments received, not only in terms of jurisdictions but also in terms of comments received from organisations and individuals. In this regard, one respondent noted that all stakeholders should be treated equally and expressed concern that investors would be given preferential treatment.

- **Asia-Oceania office**: Stakeholders from Japan welcomed the creation of the Asia-Oceania office and noted that it should serve a central function in co-ordination and outreach in the region. The Handbook should therefore make express reference to this office.

- **Dialogue with other regulators:** One respondent suggested that the IASB should identify public policy issues (including macro-prudence and pro-cyclicality) and present them to interested parties. Furthermore, post-implementation reviews should draw on the financial supervisory and regulatory authorities, such as the Financial Stability Board, in addition to the broader network of IFRS-related bodies and interested parties described in paragraph 6.53.

5.5.8 *Co-operation with national standard-setters and regional bodies*

A number of respondents were of the view that the IASB and the IFRS Foundation should do more to acknowledge the role that can be played by regional bodies and national standard-setters since greater involvement with these bodies would enhance the effectiveness of the IASB and acceptance of the outcomes by stakeholders.

To a large extent this has already been acknowledged in the 2011 Trustees' Strategic Review.

A few respondents welcomed the co-operative spirit expressed in the Handbook but believed that the IASB should make further efforts towards a shared due process with the regional and national accounting standards bodies in order to avoid over soliciting of stakeholders on the same subject by different organisations. This view was supported by a number of other stakeholders. This would mean that in each jurisdiction the stakeholder consultation would be co-ordinated and shared between the IASB and the regional and

national accounting standard-setting bodies in order to obtain the views from stakeholders on a particular subject.

In the view of the respondent, this is an effective way of improving transparency of the standard setting process, as it will lead to an increased mutual understanding as everyone will work with the same information and will be involved at the same time.

These respondents went on to suggest that shared due process initiatives and co-operation with different organisations would only be effective if the results are made publicly available and if the conditions of co-operation are met, namely:

- There is need to have commonly agreed rules between the organisations involved relating to the organisation, structure and contents of the events.

- The events should be publicly announced with public invitations for participation.

- The events should be held in English or with a simultaneous English translation provided. The results should always be made public at least in English.

- The basic documentary evidence resulting from the event should be shared between the organisations involved and public feedback statements should be issued.

Aligned to this comment was the suggestion by one respondent that the Handbook should clarify whether national standard-setting bodies and others can also issue guidance to support the introduction and maintenance of IFRSs in their particular jurisdiction.

This respondent noted that the '*Statement of Best Practice*' (issued in February 2006), describes an understanding between national standard-setting bodies and the IASB, and states that national standard-setting bodies may decide to issue their own interpretations in the rare circumstances where issues affect only one or two jurisdictions and relate to particular legislative requirements (see paragraph 6.3 of the *Statement of Best Practice*).

This respondent noted that it would be helpful if the application of the *Statement of Best Practice* were clarified as to who might be capable of issuing guidance and what constitutes *"rare circumstances where issues affect only one or two jurisdictions and relate to particular legislative requirements"*.

Beyond this however, a number of respondents noted that IFRS Foundation should consider working with national standard-setters in establishing a formal process for them to issue local guidance that is endorsed by the IASB on the implementation of IFRSs in their respective jurisdictions as part of the implementation and maintenance of IFRSs. This would apply in instances where there are not purely special circumstances as envisaged in the '*Statement of Best Practice*'. Such implementation guidance issued by

the national standard-setters should give due regard to the local legal, economic and business operating environment but should not conflict with IFRSs.

A few respondents suggested that paragraph 3.59 should be extended to provide for the IASB to dialogue with auditors.

One respondent queried whether paragraph 3.49's proposal of co-ordinating the IASB's due process with that of other national standard-setters would impact on the IASB's ability to develop standards on a timely basis.

5.5.9 Role of the Advisory Council

One respondent noted that the development of separate consultative channels with regulators, national standard-setters and investors calls into question the role and composition of the IFRS Advisory Council, whose members include representatives from all these groups. The respondent suggested that it might be better to re-establish links with preparers, auditors and parties not otherwise represented on the Advisory Council.

5.5.10 Language of due process

One respondent noted that the Handbook is silent on the question of the language in which the due process is conducted. It noted that a global standard setter conducting its affairs in only one language is, in principle, hard to sustain.

5.5.11 The IASB's agenda

The following are a selection of comments received concerning the IASB's agenda:

- **Purpose of the IASB's agenda:** One respondent expressed concern that paragraph 4.3 states that the triennial agenda consultation is about the IASB's strategic direction, not about the development of particular IFRSs. The respondent disagreed with this objective and noted that it should be a chance for constituents to propose or oppose specific projects.

- **Comparable evidence:** The same respondent stressed the need for comparable evidence to be gathered before a project is added to the IASB's agenda and before it is commenced. The questions of effect and cost/benefit are absent from paragraph 5.1 and should, in essence, be included in all agenda decisions.

  Prioritisation of agenda items: A few respondents noted that the Handbook should require transparency concerning the prioritisation of agenda topics. The Handbook should obligate the IASB to provide reasons for its prioritisation. In addition, there should be criteria for determining the importance of each agenda item.

- **Withdrawal from the agenda:** A few respondents noted that the Handbook should set out criteria for withdrawing an item from the IASB's Agenda.

- **Public consultation on standard-level projects:** Public consultation on every item of the standard-level agenda should be a compulsory step of the due process. There should be more broad public consultation during the research phase, and when setting priorities among different standard-level projects. This should not be limited to consultation with the IFRS Advisory Council and other accounting standard-setting bodies (as currently proposed in paragraph 5.3).

  Whilst the Handbook already requires a public consultation on the work programme of the IASB every three years, the consultation proposed here is not designed to add individual projects to the IASB's work programme. Furthermore, since the agenda consultation only takes place every three years, there is a risk that in the intervening period new standard-level projects may be included in the IASB agenda without getting a prior broader public view as to the importance and pervasiveness of the issues and the difficulties encountered by constituents in relation to this issue.

- **Trustee strategic direction:** One respondent noted that the Trustees, through the DPOC, should be more involved in the agenda-setting process and deciding upon the strategic orientations of the IASB.
- **Frequency of agenda consultation:** One respondent suggested that a three-yearly public consultation review on the IASB's agenda might be too frequent as it may hamper the IASB's efforts to develop standards in a stable manner.

5.5.12 Time scales for adoption and effective dates

A number of respondents, especially those from the Asia-Oceania region, expressed concern that paragraph 6.32 of the Handbook should set an expected minimum period between finalisation of a standard and its effective date. Furthermore, adequate time should be given to allow for some jurisdictions to adopt the IFRS standards into law before they become effective. This would recognise the issues of translation, endorsement and preparation for the reporting companies and also take into account that the standards are being implemented in different jurisdictions around the globe.

One respondent recommended that a minimum 12 month period should be introduced in paragraph 6.32 between publication and effective date.

Aligned to this point, a further concern was that all substantive changes to IFRSs (changes other than editorial corrections) should have an effective date. This has not always been done in the past. The need for effective dates for all substantive changes arises from the fact that in some jurisdictions (for example, Australia and New Zealand) IFRSs are adopted verbatim into legislation. All legislation has to have an effective date and cannot be retrospective (unless certain legal requirements apply). Were the IASB to

set effective dates for all substantive changes, it would avoid forcing jurisdictions to create their own effective date for changes to IFRSs, which undermines the goal of verbatim adoption of IFRSs under domestic legislation.

5.5.13 Transparency of DPOC processes

A number of respondents called for greater transparency of the various due processes. Comments on transparency that are relevant to the specific questions that were posed, and the various sub-headings within this section 5, are listed under the relevant sections both above below. However, the following additional suggestions were put forward:

- **Public DPOC meetings:** In the spirit of the principle of transparency, DPOC meetings should be held in public. (This has also been noted at section 5.5.3 above).

- **Publicity of fatal flaw reviews and field tests:** The results of public fatal flaw reviews, and when appropriate of field tests, should be assessed, in a public meeting, before the IASB makes its final decision on a standard or an amendment.

- **IASB's voting procedures:** The IASB's voting procedures should be made clearer and more transparent and whether a vote requires a simple majority or a supermajority.

- **Publicity of outreach:** The results of outreach activities must be made publicly available.

- **IASB's reasons:** Aligned to the above point, greater transparency relating to the IASB's reasons for changes, in particular demonstrating that they result from the consultation process, would enhance the credibility of the IASB and the due process. The reasons supporting the conclusion should be included in the documents held in the public domain.

- **Mandatory due process:** One respondent noted that rather than providing for optional processes, with no obligation to provide reasons if the IASB does not decide to follow the proposed optional process, the Handbook should provide that all due process steps be undertaken with the duty on the IASB to provide an explanation where they are not. This would amount to providing "comply or explain" steps for the entire process, such as those required with respect to "full and fair consultation".

- **IASB membership assignments:** Where the Chair of the IASB assigns specific IASB members to a project, such information should be publicly available on the project page of the Foundation's website.

- **Guidance on process of finalising IFRSs:** The Handbook should contain more guidance on the actions to be taken by the IASB when finalising an IFRS, after an exposure draft has been issued and comments from different interested parties have been collected, analysed and deliberated. In particular, the Handbook should explicitly state how staff ensures that all views are collected and reflected in a balanced analysis. Furthermore the Handbook should also state that the deliberations of the IASB should cover all major concerns and remarks formulated by constituents in their comment letters and during outreach activities, even if some of these comments have already been taken into account before the Exposure Draft was issued.

- **Distribution of staff papers:** Staff papers should be distributed between 30-40 days before a meeting in order to sound stakeholders' reactions to the staff papers for tentative decision-making sessions in order to facilitate the discussion at the Board.

  One respondent suggested that the DPOC should require the IASB to report on the frequency with which staff papers are distributed less than 10-14 days before a meeting date, the reason why staff papers could not be distributed earlier and any accommodation made to ensure the IASB and the Interpretations Committee members had sufficient time consider the staff recommendations.

- **Publicity of ballot drafts:** Ballot drafts should be discussed at public IASB's meetings. This is because Basis for Conclusions and illustrative examples included in the drafts may have a significant influence in practice and public discussions would avoid any unwanted surprises for stakeholders when the draft is published.

- **Bases for Conclusions:** The Bases for Conclusions should be an integral part of IFRSs, because they are emphasised in practice and provide indispensible grounds for adequate interpretation requirements.

- **Minimum short notice:** Short notice IASB meetings should provide for the minimum notice period of 36 hours (paragraph 3.5) since this allows for a full working day in all time zones.

- **Redaction of staff papers:** Staff papers should be released to the public without redaction, except in exceptional circumstances. One respondent suggested that the IASB should be required to report to the DPOC on the number of instances where materials have not been publicly available because of such concerns and the basis for the staff's conclusions. Accordingly paragraph 3.10-3.11 should be amended in favour of transparency. The Trustees or the IASB should also have the

overriding right to order the release of materials withheld from the public (paragraph 3.11 referred).

- **Private IASB meetings:** Paragraph 3.38 of the Handbook should specify the maximum number of Board members that may meet in private.

  One respondent recommended that the IASB should be obliged to report to the DPOC on how it complied with its due process requirements and the number of times IASB members met privately during the development of an IFRS and the reasons for those meetings.

- **Minimum comment period for re-exposed tentative conclusions:** One respondent recommended that the Handbook should be amended to require a minimum comment period in excess of the 60 days in paragraph 6. 26 when the IASB decides to re-expose its tentative conclusions on a project. If the IASB re-exposes when it has made significant changes to the prior tentative conclusions, it seems that a comment period similar to the comment period document would be appropriate.

5.5.14 Annual improvements

One respondent disapproved of the proposal that major conflicts between existing IFRS requirements should be resolved by means of the annual improvements process.

5.5.15 Fair representation of feedback

One respondent called for an appropriate weighting to be given to the various forms of feedback received by the IASB, whether it be a public, written consultation, fieldwork, consultative/representative groups or public hearings. The respondent suggests that this would require the publication of the identity of all stakeholders that submitted a response, in any format.

5.5.16 Reduced consultation on the grounds of urgency – paragraph 6.7 and 6.8

Almost all respondents who raised this point objected to the terms of paragraph 6.8. Whilst some of the respondents acknowledged the reasons for introducing a discretionary ability to reduce a consultation period on the grounds of urgency, it was not supported. In these respondents' opinion, the comment period for any consultation should never be capable of dropping below a 30-day comment period.

Respondents noted that some constituents would need to undertaken their own due process obligations and a 30 day comment period would mean that those constituents were themselves in breach of their due process obligations.

However, one respondent was of the view that the tension posed by this provision would be ameliorated by more integrated co-operation and dialogue between the IASB, national standard-setters and interested regional bodies.

One respondent suggested a compromise on the time scale, such that it could be shorter than the usual 120-day's consultation but it would need to be in excess of 30 days and a minimum period would need to be specified.

5.5.17 Monitoring Board control

A number of respondents expressed concern about the current provisions requiring the IASB to "demonstrate" that not taking up a matter referred to it by the Monitoring Board would be inconsistent with the standard-setting responsibilities. These respondents noted that the ability of the Monitoring Board to refer an issue to the IASB without following the formal agenda consultation process appears to provide a way for the Monitoring Board to direct the activities of the IASB. The IASB should be allowed to decide freely on all standard-setting matters and nothing should unduly influence the standard setting process. The IASB's continued independence should remain paramount.

Another respondent noted that the criteria for assessing whether a proposed agenda item will address users' needs (paragraph 5.1) should always be followed without exception, regardless of the powers of the Monitoring Board to refer matters to the IASB for consideration in terms of paragraph 5.7.

One respondent suggested that the DPOC should clarify exactly what information the IASB needs to report to the Monitoring Board.

One respondent suggested as an alternative an amendment to the Handbook that merely provides for the IASB to give reasons where it decides not to take up a matter referred to it by the Monitoring Board. This is in keeping with the "comply or explain" principle that pervades the IASB and Interpretations Committee's due process.

One respondent suggested that the Foundation needs to monitor the number of issues referred to the IASB by the Monitoring Board to protect the IASB from political influence.

5.5.18 Interpretations Committee

The following comments were received concerning the Interpretations Committee:

- **Work plan:** The Interpretations Committee should publish a work plan, similar to that published for the IASB, as this would provide a mechanism that would permit stakeholders to track the progress of its work and to prepare for the issue of a draft Interpretation, narrow scope amendment and other mandatory requirement.

- **Public IASB discussion on Interpretations:** IFRS Interpretations should contribute to more useful financial reporting and ensure greater comparability. As a result, concern was expressed that there is no discussion at the IASB level when an Interpretation is presented for approval. The discussion takes place at the IFRS Interpretations Committee level. The process of coming to a proposed or final Interpretation would be more transparent if the IFRS Interpretations Committee members voting against would be required to publicly explain why they have a dissenting view. This is particularly important in the consultation phase.

- **Status of rejection notices:** One respondent called for a clarification in the Handbook which confirms that rejection notices have no authoritative status and should not be confused with, or treated as, an Interpretation. The IASB should quality control such rejection notices before they are finally issued or when they raise controversy.

- **Transparency of submissions to the Interpretations Committee:** At present there is no clarity on who submits issues to the Interpretations Committee. Greater transparency is required in order to facilitate the understanding of the context in which the issue arose, the type of submitter (preparer, auditor, regulator etc.) and the country of origin.

- **Relevant financial reporting:** The outcome of every possible consensus of the Interpretations Committee should be assessed against financial reporting qualitative characteristics as defined in the IFRS Framework. This should be an explicit requirement of the Handbook rather than a general reference as included in paragraph 5.17.

- **Assessing prevalence:** It is proposed that regional and national accounting standard-setters should be involved in assessing, together with the Interpretations Committee, whether an issue is widespread and has practical relevance in making submissions concerning revised agenda criteria. The Handbook should specifically include this outreach and consultation with national standard-setters and regional bodies.

- **Negative votes and quorum:** Paragraph 7.22 provides that a negative vote determines decision making by the Interpretations Committee. It would seem necessary to ensure that a quorum for Interpretations Committee meetings be established and, if preferable, this should be referred to as a positive vote.

- **Integrity of the IASB and the Interpretations Committee:** The co-operation envisaged in the Handbook between the IASB and the Interpretations Committee may paradoxically lead to the two bodies laying the responsibility of solving

issues on each other. Whilst co-operation between these two bodies is important, there is also a need to emphasise the importance of the IASB and the Interpretations Committee fulfilling the unique role of each, in order to prevent any unintended situations.

- **Budgetary constraints:** At present the Interpretations Committee is not coping effectively with solving implementation issues due to the shortage of its budget and staff. In practice, issues are often left to the judgement of audit firms or accounting standard-setters in each jurisdiction, which results in diversity of practice. Ideally, the Interpretations Committee should become a standing body with an expanded staff and the Foundation should consider allocating additional resources to this important function to enhance its responsiveness.

- **Reflecting the Trustees' review on the Interpretations Committee:** A number of respondents suggested that it would be helpful for constituents if the DPOC explained more precisely how the conclusions from the Trustees' Review of the Interpretations Committee have been reflected in the updated Handbook, and the reasons for any changes to the approach agreed by the Trustees in May 2012. A number of respondents noted that the Trustees' recommendations have not resulted in any substantial changes in the Handbook.

- **Relevance of the Interpretations Committee:** One respondent questioned the need for the continuation of the Interpretations Committee in its current form. In this respondent's view, issues generally fall into two categories. If they are minor, they should be considered as part of the annual improvements and if they are material they would probably have to result in amendments of standards.

  The Interpretations Committee may have a useful role in separating such matters when questions are raised, but there would be very few issues that fall between those two categories. In such a case when the Interpretations Committee takes up an issue of that nature, then the least that should be required is a resolution within months, rather than the current lengthy processes.

- **Guidance on rejection notices:** The Handbook should contain more guidance on the wording of rejection notices issued by the Interpretations Committee since at present the wording of rejection notices are too short. This contrasts with the previous practice of providing detailed reasoned rejection notices, which risked being considered by the public as Interpretations. A compromise should be found and the Handbook should provide the necessary clarification.

- **Re-exposure of draft Interpretations:** Paragraph 7.17 provides for re-exposure of draft interpretations. The Handbook should detail the practicalities of re-exposure in these instances.

5.5.19 Post-implementation reviews

On the whole respondents supported the proposals concerning post-implementation reviews.

One respondent noted that the Handbook does not currently set out the objectives of the post-implementation reviews and suggested the following:

- determining whether any fatal flaws need to be addressed by the IASB;

- reflecting whether the objectives of the project under review were achieved in terms of improving financial reporting, and

- identifying input for future standard-setting projects (both subject matter specific and regarding the standard-setting process).

A number of respondents supported the basis on which to conduct a post-implementation review, namely that the review must only consider the issues that were important or contentious during the development of the publication, as well as issues that may have come to the attention of the IASB after the publication, as described in paragraph 6.52.

A number of respondents were of the view that the staff that were involved in setting the original standard should not be tasked with the role of carrying out the post-implementation review in order to ensure independence and impartiality. A few respondents suggested that the IFRS Foundation staff should carry out post-implementation reviews, rather than IASB staff, following the model adopted in the United States. One respondent recommended that the Foundation Trustees should carry out post-implementation reviews as part of the Foundation's oversight responsibility since the review process would provide the Trustees with insight into the IASB's processes of issuing a standard.

Whichever staff should be commissioned to carry out the work, it was recommended that the Handbook should ensure the objectivity of the review process, and if possible, as a minimum, provide that the Board advisors and staff directly involved in the review should not have been similarly involved in the development of the standard.

One respondent suggested that there should be formal pre and post-implementation reviews. This respondent recommended that standards should be field tested and put through a process to identify unintended consequences before implementation and after. In order to achieve this objective, the following was recommended:

- A 9-month period should be established, following the finalisation of the convergence projects, for the IASB, and other major standard-setters, to work with all financial reporting stakeholders to identify transition issues and issue an implementation plan.
- An Implementation Issuer Advisory Group should be established to advise the IASB and other standard-setters on the transition issues and implementation plan.
- A series of roundtables and consultations should be held in order to identify issues for pre and post-implementation processes.

Another respondent suggested that the Handbook should prescribe specific processes about to whom stakeholders should express concerns about post-implementation reviews and how the IASB addresses them. The clarification of these processes will ensure fairness and transparency.

One respondent suggested careful consideration of the timing of post-implementation reviews, such that they should not be carried out immediately after a standard has been issued and therefore treated as a type of field test. This respondent suggested that after the IASB has conducted its first round of post-implementation reviews, it should consider whether the suggested two-year review period is the optimal point for such reviews. This respondent also suggested grouping issues when conducting the review, as this would allow for assessing outcomes more comprehensively.

A few respondents noted that the Handbook should extend post-implementation reviews to extant standards in a timely manner, especially if the IASB is made aware of issues arising from those standards that may not be able to be dealt with by the Interpretations Committee or under the ambit of the annual improvements project.

5.5.20 Effect analyses

Most respondents were of the view that effect analyses, as described in paragraphs 3.72-3.76, is a good starting point. However, many respondents were of the view that the provisions could be enhanced. The following additional suggestions were submitted:

- **Additional elements:** In order to assess the effects in a meaningful way, effect analyses should cover additional elements beyond information quality, decision, usefulness and compliance costs[8].

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[8] As an example, effect analyses should include:
- a description of the problem and what purposes that are to be achieved through the issuing of a new or amended IFRS (or IFRIC),
- a description of alternative solutions and the consequences of not taking any action,
- a description of who is affected by the projected new or amended IFRS (or IFRIC) and how widespread the issue is,

- **Publicity:** The results of effect analyses should be made publicly available prior to decisions taken by the IASB in order to give constituents a chance to comment on the analyses.

- **Adopted by the IASB:** Effect analyses should be adopted and published by the IASB and not by the staff of the IASB. This will ensure sufficient independence and prevent any conflict of interests.

- **Integrated over life cycle of projects:** Effect analyses should be integrated into the standard-setting due process over the life-cycle of all projects. Effect analyses are an essential component of the IASB decision making process, and the Board should play an active role in the research, participate in public meetings and reflect the results of those meetings in any decisions.

- **Wide remit:** Effect analyses should be undertaken for all new accounting standards and major amendments and have more prominence in the proposed Handbook.

- **Proportionality:** The analysis work should follow the principle of proportionality in terms of the degree of analysis work undertaken and the work should be adjusted to the scale of anticipated effects.

- **Burden on preparers:** The burden placed on preparers should be taken into account as their input is essential.

- **Macro-economic effects:** The IASB should endeavour to be aware of effects that go beyond its immediate objectives, such as macro-economic effects (e.g. financial stability impacts, the more efficient allocation of resources, redistributive effects within society etc.). The IASB should also make information about expected macro-economic effects publicly available so that the relevant bodies can take action and seek to communicate directly with such bodies.

  However, one respondent noted that such an approach would be overly bureaucratic, inherently subjective and present difficulties of assessing macro-effects. Furthermore, it was noted that the Foundation does not currently have access to the skills needed to assess the wider macro-effects.

- the estimated costs (administrative and other direct and indirect costs) and other consequences of the standard (e.g. changes in business models, contracts and other effects), and a comparison between the alternative solutions,
- an estimated effective date,
- the number of entities affected by the standard, and
- the effects on competition between entities.

- **Criteria:** The Handbook does not provide a detailed methodology or criteria for how effect analyses should be performed. This should be rectified.

- **Bureaucratic:** One respondent expressed concern that at present, the methodology for effect analyses could be overly bureaucratic.

5.5.21 Auditability

A few respondents noted that the Principles section (section 3) of the Handbook should expressly provide that financial reporting standards should ensure the production of financial statements that are auditable.

5.5.22 Principles to identify and analyse users' and preparers' needs

A few respondents suggested that the Handbook should include guidance as to how users' and preparers' needs should be identified and analysed, so as to ensure that IFRSs meet user's needs.

It was suggested that the IASB should carry out research to investigate what information investors require such that they may be more interested and willing to participate in the IASB's various consultations and outreach programmes.

A rigorous analysis of users' and preparers' needs would be a significant enhancement in the transparency of IASB's decisions and would aid their involvement in the consultation on the standard-setting process. To achieve this goal, a wide diversity of users' needs should be catered for in order to encourage them to engage with the IASB in the standard-setting process. This proposal could be included in the section on the proposed objectives of the due process, as mentioned above.

Aligned to this point, it was suggested that the IASB due process should provide more room for meetings involving investors' representatives and management's representatives, since financial reporting is primarily a communication and accountability tool between these two groups.

Another respondent suggested that due process should consider standards of materiality for investors.

A number of respondents noted that the needs of users and preparers are to be balanced in defining the accounting standards. Only in this way, a deliberation of information needs can demonstrate whether the final standard or amendment to an existing standard represents a balanced view and results in improved financial reporting.

5.5.23 Quorum of IASB meetings and balloting

A few respondents noted that it was not sufficient for the IASB to apply the formal quorum requirements only at the final ballot stage, at the end of the drafting process once

a standard is being finally agreed and approved. The quorum requirement of a supermajority should apply to all decisions made in the process of developing the standard, or any other change in the due process that would achieve a similar outcome. This would ensure that any major decisions relating to a standard would be taken with the requisite majority of the IASB and would ensure that IFRSs meet the needs of users and are high quality.

Aligned to this point, a number of respondents expressed the view that the voting thresholds set out in paragraph 3.16 are too low[9]. A 40 per cent dissenting vote from a body of persons who are in the best position to have fully examined the proposals and discussed the views of the IASB staff and other Board members indicates that there is still a legitimate cause for concern that the standard is in some way deficient. The IASB has the objective of issuing "globally accepted standards" and well-accepted and understood standards (if they are consistent with the IASB's Conceptual Framework) are likely to be better applied in practice. These respondents therefore suggested that the approval of a final standard should require an even higher majority threshold.

5.5.24 Review draft

A number of respondents welcomed the use of public review drafts as it allows constituents the possibility to see the near final text and to be able to contribute to further clarification and suggested amendment to the text.

It was also noted by those respondents that review drafts published for systematic public 'fatal flaw' reviews are essential in the identification of potential implementation difficulties or undue costs, and should serve as a basis for field tests or even for a formal pre-implementation review. However, ultimate field tests should be run more particularly when the changes are significant or when controversy has arisen as to potential implementation difficulties or relevance of reporting outcomes.

The view was also expressed that review drafts should always be made publicly available. Accordingly, paragraph 3.29 should be amended to reflect this.

One respondent noted that the Handbook should establish more clearly the purpose of review drafts and should specify that review drafts should never be considered a substitute for formal consultation or re-exposure in situations where there are significant issues to be debated and resolved. In so doing the Handbook should explain how comments received are addressed by the IASB and staff.

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[9] The Handbook provides that a supermajority of the IASB requires nine members to ballot in favour of a publication of a document if the IASB has fifteen, or fewer, appointed members. This shifts to ten members if the IASB has sixteen appointed members.

A few respondents suggested that final balloting should only take place on the final draft, once the results of the public' fatal flaw' review were known and incorporated into the final standard. It was therefore recommended that paragraph 3.31 should be amended. The standard setting process should be entrusted to the IASB, not to staff. The staff should merely play a supportive role to the IASB in its work and make recommendations, but have not decision-making remit.

5.5.25 Overall structure of the Handbook

One respondent noted that the organisation and the ease of use of the Handbook could be improved. The following suggestions were put forward:

- The research phase, the identification of standard-level projects and the development of final projects are all part of the technical work programme of the IASB (paragraph 4.1 confirms this fact), so it is unclear why standard-level projects and final projects are presented separately from the technical work programme.

- Although the Protocol sets out clearly the steps to follow for each element of the standard development phase, the timing and sequence of different important phases is not described clearly. The standard and interpretation setting procedure (consisting of several clearly differentiated steps) as defined in the existing Handbooks is relatively easy to understand and follow. Consequently, the respondent suggested including a brief description of the various steps before going into the detail of each step.

- It is not always clear whether a particular section is specific to the IASB, to the Interpretations Committee, or concerns the projects of both bodies. For the sake of clarity and easier navigation within the Handbook, the respondent suggests clearly indicating (for example, with headings) the sections which concern only the IASB, or only the Interpretations Committee, and not both the IASB and the Interpretations Committee.

5.5.26 The IASB's Conceptual Framework

The following were the comments on the Conceptual Framework:

- **Formal acknowledgement in Handbook:** One respondent noted with reference to paragraphs 4.23-4.26 that one of the standing activities of the IASB is its work on the Conceptual Framework. Given the importance of the Conceptual Framework, it should be formally acknowledged in the Handbook.

- **Overriding role of Conceptual Framework:** A few respondents recommended that fundamental changes to any existing standard should not be made before

these changes have been debated at the conceptual level first. The IASB should refrain from making any further substantial changes to individual standards until completion of the review of the Conceptual Framework.

- **Research:** One respondent suggested that any research undertaken should work systematically and in concert with the Conceptual Framework project. Research should not exist on an ad hoc basis. This approach would contribute to more efficient standard setting.

- **Insufficiency of due process:** One respondent noted that she did not agree with provisions of paragraphs 3.18 and 4.24 because the Conceptual Framework is different from financial reporting standards and is viewed by many as a form of accounting theory. Accordingly, its due process should be extended to include rules for the epistemic justification of statements, arguments and assumptions. A ballot is not enough. Votes must be based on specific arguments and epistemic (as well as political and prudential) justification.

  The Conceptual Framework was originally established without the benefit of due process. It would therefore be logical to start building a new framework from scratch. The IASB does not possess the legitimacy to determine the common good and public interest in international society as the objective of financial reporting in international capital markets. Due Process would need to take this into account and enable a public identification and evaluation of the alternative objectives and the appropriate performance measurement concepts.

- **Adherence to the Conceptual Framework:** One respondent observed that adherence to the Conceptual Framework should be retrospectively overseen by the Trustees.

- **Alignment of objectives:** One respondent noted that the objective of financial reporting, as set out in paragraph 4.6 of the Handbook, is not compatible with that in the Conceptual Framework (OB2). The objectives for financial reporting in the Handbook should be the same as the objectives in the Conceptual Framework.

5.5.27 IASB's education sessions

One respondent noted that the IASB sometimes holds education sessions to give IASB members a chance to clarify points in the papers and discuss details of approaches to disagreements with the staff in advance of the decision-making session.

Stakeholders would benefit enormously from being able to listen in to these education sessions. Consideration should be given to making these education sessions publically available through webcasts to ensure that stakeholders at large are well informed.

The IASB should also consider developing online training modules for new standards issued, similar in nature to those online modules developed for IFRS for SMEs. This would be particularly useful for practitioners who work in the SME sector.

5.5.28 Assigned IASB members

Referring to paragraph 3.39 of the Handbook, one respondent recommended that the IASB members assigned to any project should take full charge and be responsible for the project such that there is more accountability and all can benefit from those members experience and expertise.

One respondent suggested that the Handbook should clarify the significance and the remit of assigned Board members. For example, if constituents have issues on a project, should they seek to raise them with the assigned Board members?

5.5.29 Sunset reviews

A few respondents noted that there have been many instances where projects added to the IASB's work programme have not been subsequently progressed as planned. Continuing fruitlessly such projects over a long period of time would undermine predictability of work programmes for market participants, and waste standards development resources. The Handbook should therefore clearly stipulate that when a project is significantly behind the schedule set in the original work programme, procedures would be initiated to determine whether or not to discontinue the project (sunset reviews).

5.5.30 The IASB's remit

One respondent suggested that the IASB's remit should be extended to cover the public and not-for-profit sectors.

5.531 Criteria of High Quality

One respondent noted that the term "high quality" is an accepted aspiration of the IASB's work in setting international accounting standards. However, what it represents is not entirely clear and may well represent different things to different people. Accordingly, this respondent suggested that Foundation should develop a definition of what features guidance should exhibit such that it can be regarded as high quality. Such features would include credibility with stakeholders, the capability to be applied practically, technical robustness and output that reflects the performance and financial position of the entity appropriately.

6. Acknowledgment and thanks

Staff would recommend that the Trustees' final report on the consultation process should acknowledge the efforts of all the stakeholders in taking the time to submit their comments and thank them for their helpful comments and drafting suggestions.

APPENDIX 1

	List of Respondents	
Comment Letter number	*Name of Respondent*	*Country*
1	Group 100	Australia
2	Association of Chartered Certified Accountants (ACCA)	UK
3	Australian Accounting Standards Board	Australia
4	European Accounting Association's Financial Reporting Standards Committee (EAA)	EU
5	External Reporting Board of New Zealand (EXRB)	New Zealand
6	Canadian Accounting Standards Board (AcSB)	Canada
7	Swedish Enterprise Accounting Group (SEAG)	Sweden
8	Canadian Accounting Standards Board Oversight Council (AcSOC)	Canada
9	Singapore Accounting Standards Council (ASC)	Singapore
10	International Federation of Accountants (IFAC)	Global
11	The South African Institute of Chartered Accountants (SAICA)	South Africa
12	The Japanese Institute of Certified Public Accountants	Japan
13	Korean Accounting Standards Board (KASB)	Korea
14	Price Waterhouse Coopers (PwC)	Global
15	Dutch Accounting Standards Board (DASB)	Netherlands
16	Institut der Wirtschaftsprüfer (IDW)	Germany
17	The Brazilian Accounting Pronouncements Committee (CPC)	Brazil
18	Ernst & Young	Global
19	Institute of Chartered Accountants (CPA) in Australia	Australia
20	The Swedish Financial Reporting Board	Sweden
21	The Norwegian Accounting Standards Board	Norway
22	Centre for Capital Markets Competitiveness (US Chamber of Commerce	USA
23	Life Insurance Association of Japan (LIAJ)	Japan
24	Department of Treasury and Finance	Australia
25	Keidanren (Japanese Business Federation)	Japan
26	Accounting Standards Board of Japan (ASBJ)	Japan
27	Deloitte	Global
28	The Accounting Standards Committee of Germany	Germany
29	ACTEO MEDEF	France

30	KPMG	Global
31	Institute of Chartered Accountants of England and Wales (ICAEW)	UK
32	Consejo Mexicano de Normas de Información Financiera (CINIF)	Mexico
33	Carien van Mourik from Open University Business School	UK
34	Hong Kong Institute of Certified Public Accountants	Hong Kong
35	The Institute for the Accountancy Profession in Sweden (FAR)	Sweden
36	The Institute of Public Accountants of Singapore	Singapore
37	BDO	Global
38	Mazars	Global
39	International Organisation of Securities Commissions (IOSCO)	Global
40	Financial Reporting Foundation	Malaysia
41	Instituto de Contabilidad y Auditoria de Cuentas (ICAC)	Spain
42	Denise Silva Ferreira Juvenal, accountant based in Rio de Janeiro	Brazil
43	EFRAG	EU
44	BusinessEurope	EU
45	Group of Latin American Accounting Standard Setters	Latin America
46	Credit Suisse	Switzerland
47	Autorite Des Normes Compatables (ANC)	France
48	Financial Reporting Council (FRC)	UK
49	The Association of Accountants and Financial Professionals (IMA)	UK
50	Confederation of British Industry (CBI)	UK