

# AGENDA PAPER

IFRS Foundation Trustees meeting – Due Process Oversight Committee

FRANKFURT 10 OCTOBER 2013

Agenda ref 3G

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TITLE Correspondence: update and Business Europe complaint

## Introduction

1. The purposes of this paper are to update the DPOC on (a) whether any correspondence has been received on due process issues since the Committee's meeting in July 2013, and (b) a proposed response to the Business Europe complaint on the proposal to amend IAS 40 as part of the project on the 2011-13 Annual Improvements cycle.
2. On (a) above, at the time of writing (4 October), other than the Business Europe letter, no new correspondence requiring the DPOC's attention has been received.

## Business Europe complaint

3. Business Europe's letter of 9 July (a copy of which is at Agenda paper 3G(i)) was received just after the Committee's meeting in July. The letter outlines Business Europe's concerns about the comment letter analysis performed by the technical staff on the proposal to amend IAS 40 as part of the project on the 2011-13 Annual Improvements cycle. In that analysis (Agenda Paper, AP, 11D for the May 2013 meeting of the Interpretations Committee), the staff (in paragraph 16) summarised Business Europe's position (and other similar comments) as follows:

"Some respondents agreed with the proposed amendment, but believe that as part of the post-implementation review of IFRS 3 the IASB should:

- (a) consider the consequences of the distinction between acquisition of assets and businesses (EFRAG and BusinessEurope); and
- (b) assess the need for expanded specific guidance in IFRS to distinguish when an investment property should be considered as a business or not (BusinessEurope, Repsol and BDO)".

4. As the 9 July letter makes clear, Business Europe does not agree with the staff's interpretation of its comments as agreement to the proposed changes to IAS 40:

"As part of our response to the proposed amendments to

IAS 40 *Investment Property*<sup>1</sup> we explained:

*“However, while the amendment is expected to be a very narrow change to the current IFRSs, it nevertheless illustrates the need to consider more globally the consequences of the distinction between assets and businesses and whether guidance to distinguish assets from businesses is needed as part of the post implementation review of IFRS 3.*

*We do not believe that the proposed change to IAS 40 answers this concern.”*

In summary, while we understood what the IASB was aiming at, we did not believe that the proposal was useful in the manner it was drafted”.

5. On the specific concern about the interpretation of Business Europe’s comment about the amendment to IAS 40, the staff included it as a ‘sweep issue’ on the Annual Improvements project (both the 2010-12 and 2011-13 cycles) in a paper presented to the IASB at its September 2013 meeting<sup>2</sup>. The IASB was asked if it would have made a different decision if paragraph 16 of AP 11D from the May 2013 Interpretations Committee meeting had not included a sentence that suggested that Business Europe supported the proposed amendment at a general level. The IASB was also provided with a copy of the letter of complaint and the original comment letter from Business Europe. The IASB confirmed that its decision would have been the same.
6. As well as this specific instance, the Business Europe letter asks what process is in place to ensure the quality of staff analysis with respect to the appropriate reflection of constituents’ inputs and what review and quality assurance steps the DPOC is performing or taking in this respect.
7. We (Alan and David) discussed the concerns with representatives of Business Europe’s Small Members Group in a conference call held on 24 September. On the specific concern, we outlined the process that was followed as set out in paragraph 5 above. On the more general concern about comment letter analysis, Alan outlined the IASB’s process for analysing comment letters and the availability of a database tool to undertake some deep analysis. Alan did highlight the fact that, when summarising comment letters, the staff may put a different weight on any particular comments received than the respondents who made them, in particular when analysing a large number of letters. There is always some risk that staff might mischaracterise some aspect of the views of a respondent. However, as we informed Business Europe, we are undertaking regular in-house training for staff on preparing a comment letter analysis. We told Business Europe that we would be reminding staff that if they refer

<sup>1</sup> Business Europe’s comment letter of 18 February 2013, available at: <http://www.ifrs.org/Current-Projects/IASB-Projects/Annual-Improvements/Exposure-Draft-and-comment-letters-Nov-2012/Comment-letters/Pages/Comment-letters.aspx> - see page 4.

<sup>2</sup> Agenda Paper 11 for that meeting, available at: [http://www.ifrs.org/Meetings/MeetingDocs/IASB/2013/September/11-Annual%20Improvements%20Sweep%20Issues\\_DEF.pdf](http://www.ifrs.org/Meetings/MeetingDocs/IASB/2013/September/11-Annual%20Improvements%20Sweep%20Issues_DEF.pdf).

to a specific comment letter, then they should let the respondent's words speak for themselves. We noted that Business Europe was able to react in this instance because of the level of transparency the IASB has in place around the analysis, but we acknowledged that the best thing was to avoid this sort of problem occurring in the first place, hence the steps we plan to take. The Business Europe group expressed its welcome for us for addressing the concern seriously and taking the actions proposed.

### Transparency in the reporting of outreach

8. Business Europe also link the issue raised in its latest letter with those raised in earlier correspondence, namely its letter of 11 June 2012 and its response of 11 September 2012 to the consultation on the draft revision to the Due Process Handbook. Business Europe's letter of 11 June 2012 was considered by the Committee at its July 2012 meeting (AP 4Gii for that meeting refers<sup>3</sup>). David Sidwell, then the Committee Chair, responded on 30 July 2012<sup>4</sup>. Business Europe's response to the draft Due Process Handbook<sup>5</sup> was considered together with the other comment letters received as part of the consultation. From this correspondence, Business Europe's latest letter focuses on two particular concerns:
  - a. Transparency in connection with meetings the staff has with constituents; and
  - b. Feedback to the IASB and Interpretations Committee.
9. This issue was not raised by Business Europe in the call on 24 September.
10. The Committee will recall that it considered the issue of the calls by some respondents for greater transparency in the reporting of outreach and how the results of such activities are assessed by the IASB as part of its redeliberations on the draft Due Process Handbook. In response to those calls, the *Due Process Handbook: Feedback Statement*<sup>6</sup> (page 14), notes that:

“We agree with the comments on transparency. The *Due Process Handbook* specifies that the feedback from any fieldwork, public hearings or other outreach is summarised in a technical staff paper and assessed by the IASB along with comment letters. This includes feedback from any additional consultation steps with investors. Because Standards are developed to serve investors and other market participants in making informed resource allocation and other economic decisions, and such users tend to be under-represented as

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<sup>3</sup> Agenda Paper 4Gii and Business Europe's letter of 11 June 2012 can be accessed at: <http://www.ifrs.org/DPOC/meetings/Pages/DueProcessOversightMeetingJuly2012.aspx>.

<sup>4</sup> David Sidwell's letter of 30 July 2012 can be accessed at: <http://www.ifrs.org/DPOC/Documentation-and-Correspondence/correspondence/Closed-DPOC-correspondence/Documents/BECcombined.pdf>.

<sup>5</sup> Business Europe's comment letter of 11 September 2012, available at: <http://www.ifrs.org/DPOC/Due-Process-Handbook/Comment-Letters/Pages/Comment-Letters.aspx>.

<sup>6</sup> The full Feedback Statement can be accessed at: <http://www.ifrs.org/DPOC/Documents/2013/Feedback-Statement-Due-Process-HB-February-2013.pdf/>.

submitters of comment letters, we believe that the IASB must therefore take additional steps to consult investors on proposals for new Standards or major amendments to Standards. The *Due Process Handbook* specifies that the feedback from these steps will be as transparent as possible while respecting requests for confidentiality”.

11. The staff are continually thinking about how to get more and better feedback, in particular from investors. and to improve the reporting of that feedback. The IASB is starting to make greater use of surveys. For example, a survey of users was conducted as part of the classification and measurement project (the survey questionnaire is attached). We think that there is scope to further increase the use of surveys of investors and Barbara Davidson, our Investor Liaison Principal, and the project teams are looking at how to use surveys more and more effectively. In addition the staff are being assisted in this by our Investor Education Manager, Fred Nieto. Fred is helping by advising the technical staff and running sessions on topics such as the following:
  - a. Reviewing the key financial and valuation metrics used by different types of investors and why they use them.
  - b. Providing a high level discussion to help the staff better understand users’ responses to outreach questions.
  - c. Developing a crib sheet to use when speaking with different types of users.
12. The overall aim of this work is to enable the staff to ask users more targeted questions regarding their views on certain proposals, whether through surveys or meetings, which in turn can help provide sharper feedback to the Board and good quality, summarised user feedback information on the website.
13. The classification and measurement survey includes a question as to what role a respondent plays as a user, which means that confidentiality of the respondent is protected, but the staff paper reporting the results can highlight how many of each different category of investor responded (together with geographical information). The survey includes an opportunity for a respondent, if willing, to have a follow-up.
14. As well as surveys, we think that the IASB should make more use of structured interviews, where a fixed set of questions is asked (they could be the same as the questions in a survey). The staff could record the answers and then, as part of the structured meeting, recap to the participant as to whether the staff have captured their view correctly. This would avoid the bureaucracy and potential for non-response in following up after the meeting.
15. For all of this, we want to see the reporting to the Board (and hence made publicly available) being in line with our principle above – ie as transparent and fulsome as

possible, but respecting confidentiality where requested. The collection of feedback from outreach and the reporting of it is still developing. As well as the classification and measurement example referred to above, you will recall that as part of the revenue recognition life-cycle review conducted by the DPOC at its July 2013 meeting, we shared with the Committee the staff Board that had been presented to the Board in May 2012 on the outreach activities that had been conducted.

16. While there are some examples of good things being done on particular projects, we want to improve practice across the full range of projects, both in how outreach is conducted and how it is reported. We see the scope for having a training session for the technical staff on this.

### **Response to Business Europe**

17. A draft response to Business Europe is attached at Appendix A.

**Appendix A****DRAFT RESPONSE FROM SCOTT EVANS to:**

Jérôme P Chauvin  
Director  
Legal Affairs Department  
Internal Market Department  
Business Europe  
Avenue de Cortenburgh 168  
BE-1000 Brussels  
Belgium

Dear Mr Chauvin

**Re: Proposal to amend IAS 40 – comment letter analysis**

Thank you for your letter of 9 July raising concerns about the comment letter analysis performed by the IASB's technical staff on the proposal to amend IAS 40 as part of the project on the 2011-13 Annual Improvements cycle.

I asked the staff to report to the Due Process Oversight Committee (DPOC) on the matters raised in your letter and a copy of that report is attached. The DPOC discussed that report at its meeting on 16 October.

As noted in that report, Alan Teixeira and David Loweth discussed the issues in the letter with Business Europe's Small Members Group in a conference call on 24 September. On that call, they set out the steps taken by the IASB to address both the specific concern raised about the comment letter analysis performed on IAS 40 and the more general question of ensuring the quality of staff analysis. I understand that, on the call, the Group was satisfied with the actions both taken and proposed.

I can assure you that the DPOC takes very seriously the issues you raised. While we have no current plan to audit the information provided by the IASB (as noted in paragraph 2.14 of the *Due Process Handbook*), we will keep the situation under review and will take steps to intervene if we feel there is an issue with the quality of staff analysis.

Your letter also refers to your earlier concerns with respect to transparency in connection with meetings with constituents and the feedback to the IASB and/or the Interpretations Committee. This was an issue the DPOC considered carefully in deliberating the comments received on the draft *Due Process Handbook* in 2012. As the attached report highlights, our guiding principle is that feedback from such meeting should be as transparent as possible

while respecting requests for confidentiality the steps. The staff are continuing to work on how to improve practice across the full range of projects, both in how outreach is conducted and how it is reported. The DPOC will continue to monitor closely how this develops.

Thank you for taking the time to express your concerns.

Yours sincerely

Scott Evans  
Chairman, DPOC