

AGENDA PAPER

IFRS Foundation Trustees meeting—Due Process Oversight Committee

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Reporting on projects

Introduction

1. This paper provides the Due Process Oversight Committee (DPOC) with an overview of planned improvements that the IASB will employ to improve its public disclosure of the rationale used to reach its tentative decisions and conclusions.

Background

2. At its meeting in October 2014 the DPOC considered a paper (see Agenda Paper 3C) that reviewed how the IASB has responded to feedback received on its 2013 Exposure Draft *Leases*. This review was prepared in response to concerns raised by some stakeholders that their views were not always given due weight.
3. The DPOC acknowledged the extensive outreach and the level of communication that the IASB and technical staff have undertaken in relation to the *Leases* project. The DPOC noted, however, that it is important that the IASB does not leave itself exposed to claims that it has not followed due process and that it takes steps to ensure that it discloses publicly the rationale used to reach tentative decisions and conclusions, with special attention to issues that received substantial debate in the exposure process, including outside the comment letter consultation.
4. In light of the discussion, the IASB committed to review its public disclosure of the rationale used to reach tentative decisions and conclusions, with special attention to issues that received substantial debate in the exposure process.

Due Process requirements

5. Paragraph 3.1 of the Due Process Handbook provides:

The due process requirements are built on the following principles:

- (a) Transparency – the IASB conducts its standard-setting process in a transparent manner;

- (b) Full and fair consultation – considering the perspectives of those affected by IFRS globally; and
 - (c) Accountability – the IASB analyses the potential effects of its proposals on affected parties and explain the rationale for what it made the decision it reached in developing or changing a Standard.
6. As noted at the meeting in October 2014, the IASB’s technical staff are of the view that the due process requirements have been fully adhered to and have been applied in an appropriate manner for such an important and controversial project as that of the Leases project. However, the feedback from stakeholders, including that from the UK Financial Reporting Council (FRC), reinforces the importance of making additional efforts to communicate the basis for decisions in an accessible way and to ensure that there is an understanding of the basis for decisions.

Working with national accounting standard-setting bodies and regional bodies

7. The FRC is part of the National Standard-setters (NSS) and the regional bodies that are involved with accounting standard-setting that support the IASB in a variety of ways, including facilitating and co-operating on outreach and encouraging stakeholder input from their own jurisdictions.
8. In early 2014, the FRC and some of the European standard-setters consulted constituents in their jurisdictions to identify ways of reducing the cost and complexity of the proposals set out in the 2013 Exposure Draft *Leases*. This work followed a discussion at the Accounting Standards Advisory Forum (ASAF) and was undertaken with the involvement of IASB technical staff.
9. Subsequent to the work on cost and complexity, the FRC also undertook work on the definition of a lease, which included meeting with members of the IASB to discuss its proposals. This work was undertaken by the FRC as part of its activities aimed at influencing the IASB’s decisions.
10. IASB technical staff think that, in part, the cause of the FRC’s concern was a lack of distinction between the work that the FRC undertook following the ASAF meeting and the work that the FRC undertook as part of its influencing activities. The work that the FRC, and some of the European standard-setters, undertook on reducing cost and complexity was planned at the outset by IASB technical staff so that it could be used as part of the IASB’s redeliberations on the 2013 Exposure Draft *Leases*. The technical staff’s intention was to seek further input on what costs and complexity might be encountered by preparers. The staff planned to use this input in developing proposals that the IASB could consider for reducing

such costs and complexity. In contrast, although the IASB was planning to redeliberate the definition of a lease, IASB technical staff did not explicitly seek further input on the definition of a lease at that time.

11. The IASB wishes to develop how it works with the NSS and regional bodies and has decided to provide greater resource to co-ordinate and support liaison work with them. In future, the IASB will take steps to ensure that when the NSS or regional bodies undertake work with the IASB, the terms of reference for the project and the expected outcomes are agreed in advance. It is hoped that this will provide clarity between work that is undertaken with the IASB and work that is influenced by the NSS or regional bodies.

Responding to comment letters and outreach events including correspondence outside the comment period

12. The FRC's concern arose, in part, because it considered that the work it had undertaken on the definition of a lease was not adequately reflected in the IASB's subsequent deliberations of the 2013 *Leases Exposure Draft*.
13. Following the receipt of comment letters on a due process document, IASB technical staff prepare a *comment letter summary*, which is considered by the IASB and posted on its website. The *comment letter summary* sets out the principal matters raised in the comment letters, including feedback from investors, fieldwork and the findings from other outreach activities, and forms the basis of the IASB's redeliberations of the due process document. The process of considering the comment letters, outreach and other input is outlined in Appendix A of this paper.
14. Correspondence that is received outside the comment letter period (such as the letter received from the FRC on the definition of a lease) is distributed to all members of the IASB and where appropriate, posted on the IASB website. As is illustrated in Appendix A, correspondence received outside the comment letter period is fed into the IASB's redeliberations of the due process document.
15. It is not practical to respond to all comment letters and correspondence received outside the comment period, however, the IASB and technical staff seek to keep stakeholders informed via the IASB's website. The IASB website includes a webpage for each major project and the webpages are updated regularly and seek to provide stakeholders with both background information and updates on the IASB's tentative decisions. For example, the Insurance Contracts project website includes:

- (a) an IASB Staff Paper, *Effect of board redeliberations on the 2013 Exposure Draft Insurance Contracts*, issued in October 2014.¹ Although this paper is not an official pronouncement of the IASB, it indicates where and how the proposals in the Exposure Draft *Insurance Contracts* would change as a result of the IASB's tentative decisions to date.
 - (b) an IASB Staff Paper, *How we responded to feedback on the 2013 Exposure Draft*.² This paper outlines how the IASB has responded to the feedback on the proposals in the 2013 Exposure Draft. The information is contained in tables and outlines the proposals, the feedback received and how the IASB responded.
16. These documents provide very useful information to stakeholders but they could be improved. IASB technical staff should not only outline how the IASB has responded to feedback but also provide the basis for the IASB's decisions. In future we will encourage technical staff to include the basis for the IASB's main tentative decisions as part of its feedback to stakeholders via its website (such as the project update issued in August 2014 for the Leases project). We will also ensure that supporting material (such as the project Snapshot) issued alongside the due process documents set out the basis for the IASB's decisions.
17. The concerns of the FRC have highlighted that it is important that we provide feedback to stakeholders on both how the IASB has responded to feedback and the matters that have influenced its decisions, which are the basis for its decisions. Although the Basis for Conclusions on an issued Standard formally sets out the IASB's considerations in reaching its conclusions, we previously identified (see Agenda Paper 3C for the October 2014 meeting) the need to improve how the IASB communicates the basis for its decision in an accessible way and ensures that there is an understanding of that basis.
18. Specifically, we need to ensure that the bases for the IASB's tentative decisions are provided at regular intervals during a project, particularly for longer-term projects.

Providing feedback to advisory bodies

19. In developing proposals IASB technical staff will normally consult with the IASB's advisory bodies, including the Capital Markets Advisory Committee, the Global

¹ [*Effect of board redeliberations on the 2013 Exposure Draft*](#).

² [*How we responded to feedback on the 2013 Exposure Draft*](#).

Preparers Forum, the ASAF and, in certain circumstances, the IFRS Advisory Council.

20. One way of improving the communication of the basis for decision in an accessible way and to ensure that there is an understanding of that basis is to improve the feedback to the advisory bodies on how the advice that they provided is considered by the IASB. In future, the advisory bodies mentioned will be provided with an update of how the advice provided to the IASB at previous meetings is reported to the IASB, including a short summary of the actions taken by the IASB in response to the advice. When the advice is not discussed at a public IASB meeting, the technical staff will identify why it was not reported and what actions were taken.

Conclusion

21. The technical staff are of the view that focusing on how we communicate the basis for a decision in an accessible way and ensuring that there is an understanding of that basis, together with improving how we work with the NSS and regional bodies and providing improved feedback to advisory bodies, will significantly increase the visibility of the basis for the IASB's decisions.

Appendix A – IASB redeliberations process

