

STAFF PAPER

April 2018

ASAF Meeting

Project	Due Process Handbook Review		
Paper topic	Update and Scoping		
CONTACT(S)	Samuel Prestidge	sprestidge@ifrs.org	+44 0(20) 7462 6428

This paper has been prepared for discussion at a public meeting of the Accounting Standards Advisory Forum. The views expressed in this paper do not represent the views of the International Accounting Standards Board (Board) or any individual member of the Board. Comments on the application of IFRS[®] Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB[®] *Update*.

Purpose of the paper

1. The aim of this paper is to:
 - (a) provide the Accounting Standards Advisory Forum (ASAF) members with an update on the progress made on the 2018 *Due Process Handbook Review* (DPH Review); and
 - (b) seek ASAF members' views on the scope of the DPH Review.
2. For additional information, the paper discussed by the Due Process Oversight Committee (DPOC) at its January 2018 meeting, is attached as an Appendix to this agenda paper.

Questions for ASAF**Questions for ASAF**

Do ASAF members have any comments:

1. on the proposed scope of the DPH Review; and/or
2. considering current due process requirements, are there any specific areas that are not part of the proposed scope of the 2018 DPH review which you consider should be?

Progress on the Due Process Handbook Review

3. The DPOC, at its January 2018 meeting, provisionally agreed the scope and timetable of the DPH Review and these are set out in the Appendix to this paper. The DPOC also tentatively decided that the comment period for the DPH Review should be 120 days.
4. Following the DPOC meeting staff have:
 - (a) consulted the IFRS Foundation Monitoring Board on the initial work undertaken on the Review; and
 - (b) followed the discussions concerning the use of Effects Analysis in the standard-setting process by the IFRS Advisory Council at its February 2018 meeting.
5. Following the input of ASAF members, the staff will:
 - (a) form an internal group of appropriate staff to consider the proposed changes to the Due Process Handbook;
 - (b) update the DPOC at its meeting in London in June 2018;
 - (c) update the IFRS Foundation Monitoring Board at its joint meeting with the Trustees also to be held in London in June 2018;
 - (d) seek the advice of IFRS Advisory Council members on the DPH Review at its next meeting in September 2018; and
 - (e) consult with the IFRS Interpretations Committee at its meeting in September 2018.

Scope of the DPH Review

6. The scope of the DPH Review, as agreed with the DPOC, focuses on updating current due process requirements as opposed to fundamentally rewriting them. The scope aims to:
 - (a) improve the navigation and the efficiency of the use of the *Due Process Handbook*;

- (b) consider the interaction between the International Accounting Standards Board (the Board) and the IFRS Interpretations Committee (the Committee);
- (c) consider if technology can help streamline due process procedures, such as the comment letter process;
- (d) reflect developments to the Effects Analysis process;
- (e) reflect the increased role of the Board in implementation activities and the publication of education material;
- (f) consider the process around anonymous complaints made by stakeholders on alleged breaches of due process;
- (g) improve consistency in the use of terminology in the *Due Process Handbook*;
- (h) add clarity on the types of due process documents published by the Board and the Committee; and
- (i) reflect that the DPOC meetings are now public.

7. Following the IFRS Advisory Council meeting the staff are also considering:

- (a) comments received from the IFRS Advisory Council members on the Effects Analysis process, including:
 - (i) being more explicit about the use of Effects Analysis methodology earlier into the standard-setting process; and
 - (ii) the scope and timing of the Post Implementation Review and if it should specifically include an ex-post Effects Analysis.

Appendix – DPOC Agenda Paper January 2018



AGENDA

IFRS Foundation Trustees meeting

Hong Kong January/February 2018 **Agenda Ref 1D**

Author Samuel Prestidge

Due Process Handbook Review

Executive summary

1. This paper sets out the proposed timetable and scope of the forthcoming project to review the Due Process Handbook (DPH). It is proposed that if the scope and timetable is agreed by the Due Process Oversight Committee (DPOC) at this meeting the project will be completed in Q3 2020.

Questions for the DPOC

Questions for the DPOC

Do members of the DPOC approve:

- (a) The proposed timeline for the forthcoming DPH review; and
- (b) The scope of the forthcoming DPH review?

Background

2. This paper follows on from Agenda Paper 1H of the November 2017 DPOC meeting. At that meeting the DPOC agreed that a review of the DPH would be undertaken and the proposed scope and timetable for that review would be set at its next meeting.

3. In deciding to undertake the review, the DPOC took into consideration the findings from the Reputation Survey as published in July 2017 and further developments in due process in the five years since the last review of the DPH was completed in 2013 (the DPH was amended in 2016 to incorporate the IFRS Taxonomy due process and consequential amendments).

Proposed Timeline

4. The proposed timeline for the forthcoming review of the DPH takes into account:
 - (a) the timeline for the 2013 DPH review;
 - (b) the proposed scope of the forthcoming DPH review;
 - (c) staff resource;
 - (d) the desire to obtain input from the IFRS Advisory Council¹; and
 - (e) a proposed six month comment period.
5. The proposed key dates are as follows:
 - (a) January/ February 2018 – proposed scope and timeline to be agreed by the DPOC;
 - (b) February 2018 – IFRS Advisory Council discussion on Effects Analysis;
 - (c) June 2018 – update the DPOC on project progress;
 - (d) June 2018 – September 2018 – further work on developing the scope of the review;
 - (e) September 2018 – IFRS Advisory Council discussion on the proposed scope;
 - (f) October 2018 – update DPOC on the IFRS Advisory Council discussion and on project progress;

¹ The IFRS Advisory Council meets biannually.

- (g) February/March 2019 – draft updated DPH to be considered by the DPOC;
- (h) April 2019 – draft updated DPH exposed for comment (propose six month comment period);
- (i) September 2019 – comment letter deadline;
- (j) October/November 2019 – comment letter analysis discussed with the DPOC;
- (k) Q1 2020 – update to the DPOC; and
- (l) Q3 2020 – updated DPH and feedback statement published.

Proposed scope

6. The proposed scope of the review of the DPH, discussed in more detail below, will be to:
 - (a) improve the navigation and the efficiency of the use of the DPH (paragraph 8);
 - (b) consider the interaction between the International Accounting Standards Board (the Board) and the IFRS Interpretations Committee (the Committee) (paragraphs 9-12);
 - (c) consider if technology can help streamline due process procedures, such as the comment letter process (paragraphs 13-16);
 - (d) reflect developments to the Effects Analysis process (paragraphs 17-20);
 - (e) reflect the increased role of the Board in implementation activities and the publication of education material (paragraphs 21-23);
 - (f) consider the process around anonymous complaints made by stakeholders on alleged breaches of due process (paragraphs 24-25);
 - (g) improve consistency in the use of terminology (paragraph 26);
 - (h) add clarity on the types of due process document issued by the Board and the Committee (paragraphs 27-28); and

- (i) reflect that DPOC meetings are now public (paragraph 29).
7. This does not amount to an exhaustive list of matters that will be addressed in the forthcoming review of the DPH. However, the following are the matters that have been identified in the initial stage of work on the project. As staff consult on the areas identified it is envisaged that further matters to address may arise.

Improve the navigation and efficiency of the use of the DPH

8. The staff propose to restructure certain sections of the DPH to ensure it is more efficient to use. Another way in which navigation and efficiency of use could be improved is through the introduction of tabulation and diagrams to indicate the various steps of due process that should be followed.

The interaction between the Board and the Committee

9. The recent interaction between the Board and the Committee, concerning the accounting required by IFRS 9 *Financial Instruments* for a modification or exchange of a financial liability measured at amortised cost that does not result in the derecognition of the financial liability, highlighted challenges that can arise when the Board and the Committee have differing views on the preferred process for addressing a question.
10. The discussions of the Board and the Committee in relation to the above was outlined in Agenda Paper 1C(i) in the November 2017 DPOC meeting. The staff consider the forthcoming DPH review as an opportunity to consider how the Board could be responsive in a timely manner in such a situation.
11. The DPH explains in paragraph 5.22 the process of the tool available to the Committee to publish decisions that are non-mandatory but are produced to be “helpful, informative and persuasive” for stakeholders. The DPH refers to this guidance as ‘rejection notices’, however convention has developed for the Committee to publish ‘tentative agenda decisions’ and ‘agenda decisions’ which serve the same purpose as described in paragraph 5.22. As part of the forthcoming review, staff will consider whether the Board might respond to a question for which the Committee does not feel empowered to do so by, for example,

potentially enabling the Board to utilise a due process document that would be equivalent to an ‘agenda decision’ made by the Committee.

12. Paragraph 5.19 of the DPH explains the process concerning the interaction between the Committee and the Board in circumstances in which the Committee is undertaking standard-setting on behalf of the Board, or where the Committee refers to the Board an issue it believes warrants standard-setting. Similarly, Section 7 of the DPH explains the interaction between the Committee and the Board in developing an interpretation. In such circumstances, discussion and work between the Committee and the Board can be duplicated following the current process explained in paragraph 5.19 and in Section 7. The staff will consider if the forthcoming review of the DPH can be used to streamline this process in order to increase efficiency and timeliness, whilst maintaining a transparent due process.

Use of technology

13. The Reputation Survey published in July 2017 included feedback from stakeholders on due process. In general, that feedback was positive; however, some areas for improvement were identified. The two main points identified were:
 - (a) a desire for a review of due process to promote timeliness, efficiency and clarity; and
 - (b) an openness toward technology in the consultative processes.
14. As discussed above the forthcoming review of the DPH will seek to restructure some sections of the DPH to ensure it is more efficient to use and to eliminate any inconsistencies. Part of this undertaking will allow for a step-by-step assessment of the processes to ensure a balance between achieving a due process which is transparent and the ability to efficiently set Standards in a timely manner.
15. With the launch of the new IFRS Foundation website in June 2017 the technological process to receive comments on consultation documents has been improved. The new website also provides the potential to develop a platform for the formal submission of comments on due process documents to be completed using technology. For example, the new website could provide standard forms for stakeholders to complete when submitting responses to specific questions asked in

the due process documents. Comments submitted in such a way would be more comparable enabling the staff to code and analyse the responses more efficiently.

16. The DPH review could also ensure that any potential future process developments that capitalise on advances in technology, such as this suggestion for comment letter submission, are not hampered by prescriptive wording. The DPH review could be used to remove wording which specifies exactly how some stages must be executed, instead the wording should focus on what is to be achieved, enabling greater flexibility. This would prevent processes becoming outdated as the capabilities of technology improve.

Effects Analysis

17. The DPH currently addresses the process concerning Effects Analysis in paragraphs 3.73-3.76. An Effect Analysis is also defined in the DPH glossary of terms as a “*process for assessing the likely effects of a proposed Standard, which is undertaken as the new requirements are developed, culminating in an analysis presented as part of, or with, the Basis for Conclusions published with a new Standard that summarises the IASB’s assessment of the likely effects of the new requirements*”.
18. The use of Effects Analysis as a tool to assess the potential effects of a new major Standard has developed in line with the issuance of recent major Standards. IFRS 16 *Leases* and IFRS 17 *Insurance Contracts* both published a separate Effects Analysis at the same time as issuing the Standard.
19. At their February 2018 meeting, the IFRS Advisory Council will discuss Effects Analysis (including their scope and when they should be provided). They will also consider the recommendations made by the Effects Analysis Consultative Group in its report to the Trustees in November 2014 and how those recommendations are being applied.
20. Due to the development of the work on Effects Analysis and the feedback to be received from the IFRS Advisory Council, the staff anticipate the potential need to consider the process concerning Effects Analysis in paragraphs 3.73-3.76 and its definition in the glossary of terms in the forthcoming DPH review.

Increased role of the Board in implementation activities and the publication of education material

21. Since the previous review of the DPH there has been an increasing focus from the Board on implementation activities following the publication of major Standards. This can involve the preparation of supporting materials such as webinars, articles, other types of education material, and in some cases the formation of a Transition Resource Group. The staff will consider if the increased implementation activity of the Board could be reflected in an updated DPH.
22. Paragraphs 6.42-6.45 of the DPH outlines the current due process specifically concerning the development of education material by the Education Initiative. The Board has more recently, particularly following the publication of the major Standards, developed more and different types of education material. With the increasing role of education material relating to IFRS Standards there is increasing scrutiny concerning the due process supporting these materials.
23. The current requirements in the DPH focus exclusively on education material being produced by the Education Initiative. However, as explained above, different types of education material are now developed. Consequently, convention has moved beyond what is currently addressed in the DPH. Specifically, the DPH does not address the level of review required for some of the newer types of materials being produced, such as webinars developed to support implementation of the new Standards. Staff will consider how to update the DPH to establish the principles for determining the appropriate level of review for different types of educational materials.

Complaints on due process matters

24. In October 2017, a complaint was received alleging a breach of due process from a stakeholder who asked to remain anonymous. The complaint was progressed following the due process set out in paragraphs 8.1-8.10 in the DPH. The DPOC's response was published on the IFRS Foundation website in December 2017. Whilst the DPOC found that the Board had not breached due process, this particular complaint raised the question of anonymous complaints.

25. The staff will consider whether to amend the DPH concerning the submission of anonymous complaints in relation to alleged breaches of due process.

Improve consistency in the use of terminology

26. There are examples in the DPH of outdated references to job titles. For example, there are multiple references to “Senior Director of Technical Activities”. In the current structure of the technical staff, this, in some circumstances, can be too restrictive. The intention is to remove such restrictive references to enable the appropriate staff to be involved in the appropriate processes. As well as job titles, some of the terminology used in the DPH in reference to published documents, for example to outdated references to documents no longer published from the research programme, will also need to be updated.

Type of due process document

27. The staff intend to use the forthcoming DPH review to clarify the differences between the types of due process document being issued. Currently the Board can issue:
- (a) An IFRS Standard;
 - (b) Amendments to IFRS Standards;
 - (c) Annual Improvements to IFRS Standards;
 - (d) A Conceptual Framework; and
 - (e) A Practice Statement (non-mandatory).

And ratifies the issuance of:

- (a) IFRIC Interpretations.
28. The DPH does not specifically clarify the differences between each document type issued. The DPH could be amended to explain why the Board or the Committee would issue one document instead of another.

Reflecting public DPOC meetings

29. Paragraph 2.15 of the DPH outlines the communication requirements associated of the DPOC. This paragraph was written when the DPOC's meetings were not open to the public. As of October 2016 DPOC meetings have been held in public. Consequently, the staff will consider the need to amend paragraph 2.15 of the DPH to reflect that DPOC meetings are now held in public.