

Agenda PAPER

IFRS Foundation Trustees meeting – Due Process Oversight Committee

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Due Process Handbook Review—Agenda Decisions: Supporting consistent application

Purpose

1. This paper proposes amending the *Due Process Handbook (Handbook)* to provide the Board with a due process tool subject to the same process as the IFRS Interpretations Committee’s (Committee) Agenda Decisions.
2. The proposal is not intended to change the way the Committee deals with questions about the application of IFRS Standards. Rather, it is intended to strengthen the Board’s ability to support the consistent application of IFRS Standards.

Questions for the DPOC

Do DPOC members agree to:

- a) amend the *Due Process Handbook* to provide the Board with a due process tool subject to the same process as Committee Agenda Decisions?
- b) update the terminology in the *Due Process Handbook* to no longer refer to ‘rejection notices’, which is the term used in the *Handbook* for what are now referred to as Agenda Decisions? (As discussed below, further consideration will be given to whether the term Agenda Decision should itself be changed.)

Background

3. Currently the *Handbook* specifies that an Agenda Decision is one of the due process tools for use by the Committee when it addresses questions submitted to it about the application of IFRS Standards. (As explained in paragraph 25, the *Handbook* uses the terminology ‘Rejection Notice’ rather than ‘Agenda Decision’. But in this paper we use our current convention of referring to Rejection Notices as Agenda Decisions.)
4. For each question submitted, the Committee is required to consider at a public meeting whether to add a project to its standard-setting agenda. If the Committee decides not to recommend standard-setting in response to a submitted question, it publishes an Agenda Decision to explain its decision. In many cases this is because the Committee concludes that standard-setting is:
 - (a) unnecessary—typically because, in the Committee’s view, IFRS Standards and IFRIC Interpretations provide enough information for an entity to determine its accounting or because there is no evidence that a widespread accounting problem exists; or
 - (b) unhelpful—because, for example, introducing new or amended requirements might assist one company with a particular type of transaction, while raising questions for other entities with slightly different types of transactions.
5. Importantly, Agenda Decisions often include information to help entities apply IFRS Standards. They do so by explaining how the applicable principles and requirements in the Standards apply to the question submitted. This material does not have the (mandatory) status of the Standards but, as explained in paragraph 5.22 of the *Handbook*, it should be seen as ‘helpful, informative and persuasive’.
6. Agenda Decisions are subject to due process. The Committee exposes a tentative (ie draft) Agenda Decision for comment for a minimum of 60 days. It then considers the comments and either confirms it is not necessary to undertake standard-setting and publishes a final Agenda Decision, or in the light of the feedback decides standard-setting is necessary. It may also refer a matter to the Board.

7. The Committee's Agenda Decisions are widely disseminated. They are available on the IFRS Foundation website listed both by applicable Standard and chronologically¹. Agenda Decisions are also published in context in the annotated version of the printed bound volumes of IFRS Standards.
8. Appendix A to this paper illustrates the decision process followed by the Committee in determining whether to publish an Agenda Decision and Appendix B sets out the relevant requirements of the *Handbook*.
10. The staff think that the due process specified in the *Handbook* relating to Agenda Decisions is working successfully; it enables the timely development of Agenda Decisions that are an important tool in supporting high-quality and consistent application of IFRS Standards. The DPOC considered the Committee's use of Agenda Decisions in Agenda Paper 1C of its June 2018 meeting.
11. The Board has recently received some feedback on aspects of Agenda Decisions, including points relating to their authority or status. This feedback is in response to the Board's March 2018 Exposure Draft proposing amendments to IAS 8 for changes in accounting policies that result from the Committee's Agenda Decisions. The Board will discuss the feedback on this Exposure Draft in the fourth quarter of 2018. The relevant discussion, and any effect on the current Agenda Decision discussion, will be conveyed to the DPOC and discussed as appropriate at its January 2019 meeting.

Board Agenda Decisions

12. The process described above for publishing Agenda Decisions (and thus timely, helpful and informative explanatory material about the application of IFRS Standards that is subject to due process) is currently available only to the Committee. The Board has no equivalent tool. In effect, to publish material with any formality the Board currently need to amend its Standards. This is a lengthy

¹ <https://www.ifrs.org/supporting-implementation/how-the-ifrs-interpretations-committee-helps-implementation/#agendadecisions>

process. More importantly, it risks undermining the principle-based nature of IFRS Standards.

13. Accordingly, the staff think that, in limited circumstances, the Board should also have the ability to publish the equivalent of an Agenda Decision to support the consistent application of IFRS Standards when it addresses questions about the application of its Standards and concludes that standard-setting is not appropriate.
14. There are two particular scenarios in which the staff think it would be useful for the Board to have such an ability:
 - (a) when dealing with an application question in the period after a Standard is issued but before it becomes effective and/or has become widely implemented; and
 - (b) to respond to questions that the Committee does not feel empowered to address.

Board Agenda Decision—before a Standard becomes effective/widely implemented

15. In some cases, the Board considers application questions in the period after a Standard is issued but before the Standard becomes effective and/or has become widely implemented. At this time, before practice develops, arguably the Board is best placed to answer questions given the recent issuance of the Standard.
16. For example, an application question on a new Standard might be referred to the Board as a result of a Transition Resource Group discussion². The Board would then consider if there is a need for standard-setting to address the question. If the Board concludes that standard-setting is not required, it has no formal mechanism to publish material that could explain how to apply the principles and requirements in the Standard. The Board's decision that standard-setting is not required would be reported in *IASB Update* and the Board paper would be available on the website. However, the Board would need to use mechanisms such as a webcast to disseminate any helpful information about the application of

² A Transition Resource Group cannot provide any formal material supporting the application of a Standard. Instead it may refer matters to the Board or to the Interpretations Committee.

the requirements in the Standard. This approach might not be as effective as the Board publishing an Agenda Decision.

17. The advantage of the Board publishing an Agenda Decision is that there would be an opportunity for stakeholders to comment on the Board's tentative decision and draft explanatory material. The final version of that explanatory material would also have greater persuasiveness in the marketplace than a webcast. In addition, the explanatory material in a Board Agenda Decision would be more widely disseminated to stakeholders, more readily retrievable and have greater permanence than other mechanisms available to the Board when it decides not to undertake standard-setting. A Board Agenda Decision would therefore allow the Board to better support the consistent application of the Standard.
18. The Board might also become aware of an application question in practice relating to a new Standard. For instance this occurred in 2015 on the then new revenue recognition Standard, IFRS 15. The specific question related to the interaction of IFRS 15 with IFRS 9 in a particular situation. The matter was not referred to the Committee because there was no practice applying the new Standard to draw upon and it was therefore thought that the Board was in a better position to consider the question on new requirements. The Board concluded standard-setting was not necessary and, through *IASB Update*, drew stakeholders' attention to the Board paper as useful educational material. However, in this case an Agenda Decision would have provided persuasive and accessible explanatory material to stakeholders that would better support the consistent application of the Standard.

Board Agenda Decision—responding to questions the Committee does not feel empowered to address

19. In very rare situations when dealing with an application question, the Committee might conclude that IFRS Standards provide an adequate basis for an entity to determine the appropriate accounting. Nonetheless, the Committee might not feel empowered to publish an Agenda Decision as it would typically do in such a situation, and refers the matter to the Board. In this case, if the Board concludes that standard-setting is not appropriate but thinks it is important to draw attention to the relevant principles and requirements in IFRS Standards, the Board then has

to rely on mechanisms such as a webcast. As noted above, these would be less persuasive in the marketplace than an Agenda Decision.

20. Such a situation occurred in 2017 relating to the accounting required by IFRS 9 for a modification or exchange of some financial liabilities measured at amortised cost (a matter considered at the time by the DPOC). In that case, the Board was finalising an amendment to IFRS 9 and was able to communicate the reasons for its conclusion that standard-setting was unnecessary in the accompanying basis for conclusions. Had the Board not been finalising that amendment, it would likely have been left only with the alternative of publishing a webcast to explain its rationale. Moreover, whilst the use of the basis for conclusions for this purpose was appropriate, it was itself controversial. For the same reasons as noted in paragraph 17, the staff thinks a Board Agenda Decision would have been a more effective mechanism of delivering helpful and informative explanatory material to stakeholders and would ensure stakeholders have the opportunity to comment before finalisation.

Feedback to date on this proposal

21. The staff consulted the Advisory Council and the Committee about the possibility of providing the Board with a due process tool equivalent to the Committee's Agenda Decision. Appendix C summarises the feedback from the Advisory Council. Both bodies agreed with providing the Board with the ability to publish Agenda Decisions to support the consistent application of IFRS Standards, albeit with a significant minority disagreeing at the Advisory Council.
22. The key points raised in these consultations were to ensure that:
- (a) there are appropriate safeguards in place to prevent Board Agenda Decisions becoming a regular occurrence;
 - (b) the possibility of the Board publishing an Agenda Decision is not perceived as 'blurring the line' between the work of the Board and the Committee.

23. The staff thinks the appropriate safeguards are largely provided by, first, the due process—ie stakeholders would have the opportunity to comment on a tentative Agenda Decision—and, secondly, the practical limitations on the circumstances in which such questions would arise at the Board. Stakeholders could comment if, for example, they think an Agenda Decision is not necessary or appropriate, the matter requires standard-setting, or any explanatory material goes beyond the principles and requirements of the Standards.
24. Nonetheless, if the DPOC agrees with our proposal, we recommend that the resulting amendments to the *Handbook* make clear that:
- (a) Board Agenda Decisions are not supplanting the Committee’s existing process for dealing with application questions. For instance, stakeholders would not be permitted to submit a question directly to the Board; they will still submit questions to the Committee.
 - (b) The Board is not expected to publish Agenda Decisions as regularly as the Committee does. Rather they are expected to be published infrequently when the Board both (i) considers an application question and concludes standard-setting is not necessary, and (ii) concludes that it is necessary for the Board to publish some explanatory material to support the consistent application of the Standards. Specifying this in the *Handbook* would allow stakeholders to comment on a tentative Agenda Decision if they thought the Board was not holding itself to this threshold or standard.

Terminology

25. The *Handbook* currently uses the terminology ‘Rejection Notice’ rather than ‘Agenda Decision’. Convention has developed to use the term Agenda Decision. This is because ‘Rejection Notice’ fails to convey that the explanatory material included in many Rejections Notices/Agenda Decisions is (a) responsive to stakeholders’ questions and (b) helpful and informative material supporting the application of the Standards.

26. The staff initially planned simply to replace ‘Rejection Notice’ in the *Handbook* with ‘Agenda Decision’. However, feedback from some Committee members suggests we should find a more descriptive name than Agenda Decision to better convey when an Agenda Decision includes helpful explanatory material. The staff will consider this further as it drafts the proposed amendments to the *Handbook*.

Conclusion

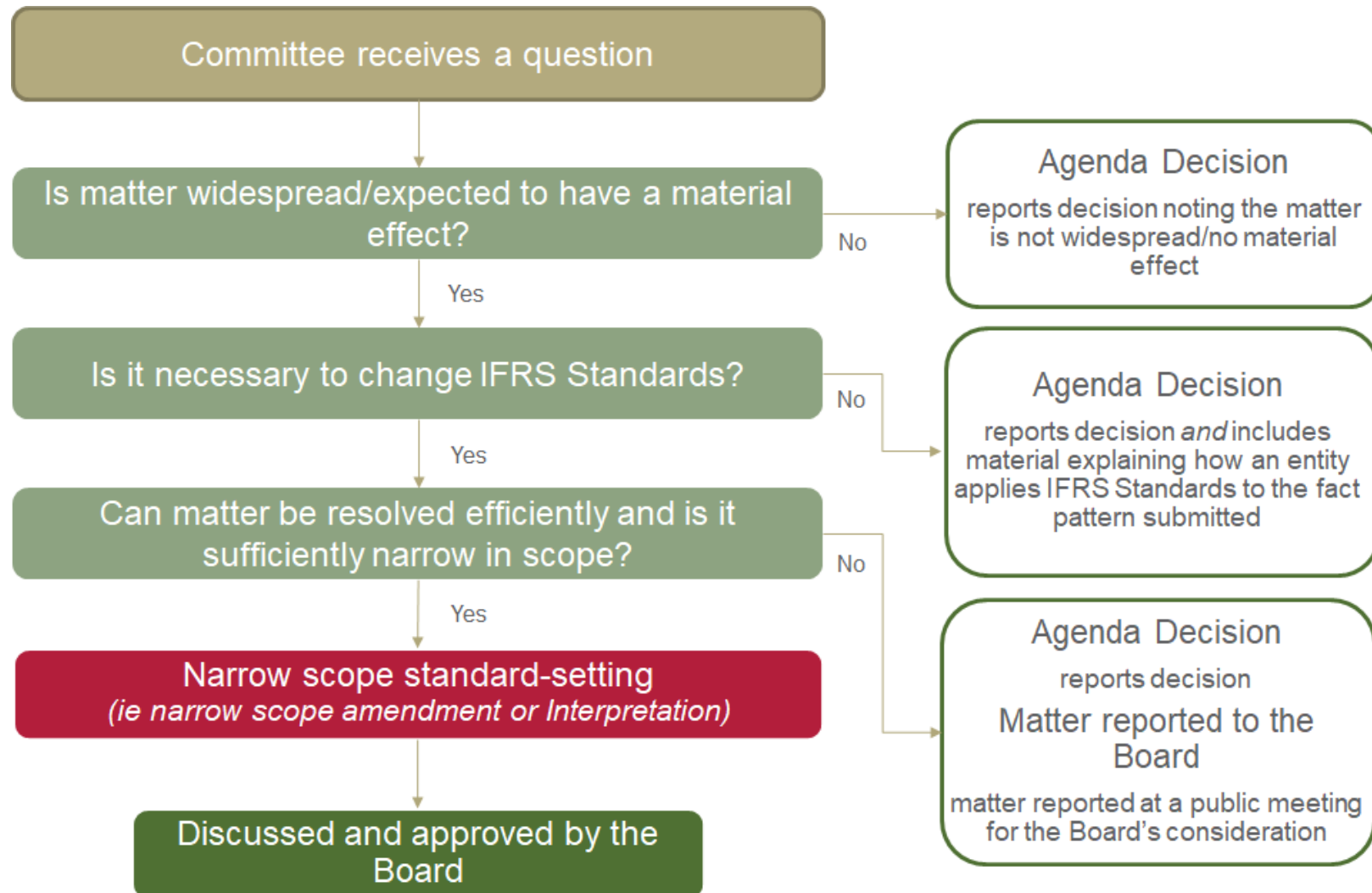
27. The staff recommend amending the *Handbook* to provide the Board with the formal ability to issue an Agenda Decision, subject to the due process and other requirements and guidelines discussed in this paper.
28. The recommendation is not intended to change the way in which the Board and the Committee consider application questions. In particular, it is not intended to supplant the Committee’s existing process. Stakeholder questions about IFRS Standards would continue to be submitted to the Committee, and how the Board and Committee address application questions would continue to be fully transparent.
29. However, on those occasions that the Board considers an application question and concludes that standard-setting is not necessary but that some informative and persuasive explanatory material is required to support the consistent application of the Standards, the Board would be able to publish an Agenda Decision.
30. The status of the Board’s Agenda Decisions would be identical to that of the Committee’s Agenda Decisions—they would not have the (mandatory) status of the Standards. And the process for publishing Agenda Decisions would be equivalent to the Committee’s current process—ie the Agenda Decision would be exposed for comment for at least 60 days on the website and, if finalised, would be disseminated via the website and the annotated bound volumes of the Standards.

Questions for the DPOC

Do DPOC members agree to:

- a) amend the *Due Process Handbook* to provide the Board with a due process tool subject to the same process as Committee Agenda Decisions?
- b) update the terminology in the *Due Process Handbook* to no longer refer to 'rejection notices', which is the term used in the *Handbook* for what are now referred to as Agenda Decisions? (As discussed above, further consideration will be given to whether the term Agenda Decision should itself be changed.).

Appendix A — Process followed by the Committee in determining the publication of an Agenda Decision



Appendix B — *Due Process Handbook* description of Agenda Decisions

B1 The *Due Process Handbook* describes Agenda Decisions, and the relevant due process the Committee is required to follow to publish them in paragraph 5.22, as follows: (as noted above, the *Due Process Handbook* refers to Agenda Decisions as ‘Rejection Notices’):

If the Interpretations Committee does not plan to add an item to its work programme it publishes this as a tentative rejection notice in the *IFRIC Update* and on the IFRS Foundation website and requests comments on the matter. The comment period for rejection notices is normally at least 60 days. After considering those comments the Interpretations Committee will either confirm its decision and issue a rejection notice, add the issue to its work programme or refer the matter to the IASB. Rejection notices do not have the authority of IFRSs and they will therefore not provide mandatory requirements but they should be seen as helpful, informative and persuasive. The IASB is not asked to ratify rejection notices.

Appendix C — Feedback from the Advisory Council

- C1 In September 2018, the staff consulted the IFRS Advisory Council about the possible utilisation of agenda decisions by the Board in addition to their use by the Interpretations Committee to support the consistent application of IFRS Standards.
- C2 The Report of the Chair of the Council records that the Advisory Council members advised the Trustees and Board to ensure that:
- (a) there is a clearly articulated rationale for the proposal.
 - (b) there are appropriate safeguards and clear criteria about the use of such a tool to avoid proliferation of board agenda decisions.
 - (c) any perception that the proposal blurs the line between the work of the Board and the role of the interpretations Committee is managed.
- C3 The majority of the members of the Advisory Council supported the Board having such an additional tool in its tool box, with the right safeguards, although there was a significant minority who did not support it.