

Due Process Handbook Review

April 2019 ASAF Meeting
Agenda paper 12

Presenters: Sam Prestidge and Richard Thorpe

- Purpose of session
- ASAF Questions
- Background
- Timeline
- Key proposals
 - *Effects analysis*
 - *Agenda Decisions*
 - *Clarifying the role*
 - *Timing of application*
 - *Board Agenda Decisions*
- Other matters

- To provide ASAF members with a preview of the proposed **proposed amendments to the *Due Process Handbook*** (*Handbook*)
- Seek advice on outreach to be performed

Exposure Draft

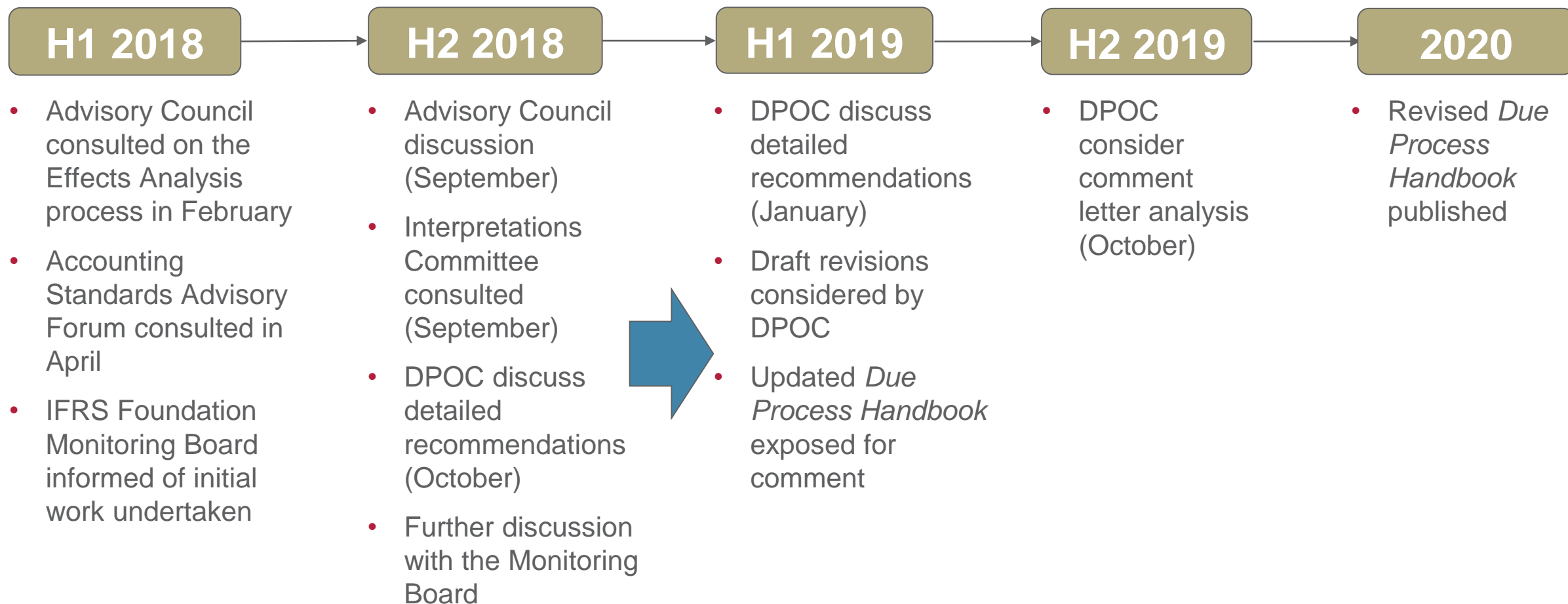
- The DPOC has agreed the amendments to be proposed in the Exposure Draft
- We encourage ASAF members to respond to the Exposure Draft
- National standard-setters are intrinsic to the Board's Due Process

Question for ASAF meeting

- Which topics do ASAF members recommend we focus outreach activities?
- In addition to national standard-setter are there other constituents groups we should focus outreach with?

- In November 2017 the DPOC decided to undertake a Review of the *Handbook* because
 - the last substantive amendment of the *Handbook* in 2013
 - to ensure that it remains fit for purpose in light of developments in the Board’s and Committee’s processes
 - mindful of the findings of independent research that the Trustees commissioned in 2017 to better understand stakeholders’ perceptions about the work of the IFRS Foundation

Timeline and next steps



Key proposed amendments

Effects analysis

- The proposed amendments to the *Handbook*:
 - clarify the scope of the Board’s effects analysis
 - emphasise how the process and reporting takes place throughout the standard-setting process
 - differentiate the *process* of the analysis from how those effects are reported
- The proposed amendments reflect the:
 - developments to the Board’s assessment of the likely effects and how these are reported
 - recommendations of the Effects Analysis Consultative Group (EACG) and
 - feedback received from the Advisory Council

- Proposed amendments to the *Handbook* aim to better reflect the Board's current practice (e.g. IFRS 16 *Leases* and 17 *Insurance Contracts*)
- The principle focus of the Board's analysis remains on analysing how financial statements are likely to change
 - whether those changes will improve the quality of financial statements
 - whether those changes are justifiable
- Proposed amendments to the *Handbook*, consistent with the EACG recommendations, emphasise that this remains the principal focus of the Board's analysis
- Nonetheless the Board has regard to effects on financial stability where relevant when assessing the likely effects
- Board may assess specific economic effects where relevant

IFRS Standards provide high-quality, transparent and comparable financial information about entities and that enhances financial stability in financial markets around the world



Mission Statement

‘Our mission is to develop IFRS Standards that brings transparency, accountability and efficiency to financial markets around the world. Our work serves the public interest *by fostering trust, growth and long-term financial stability within the global economy*’

Consideration of effects

Reporting an ongoing process

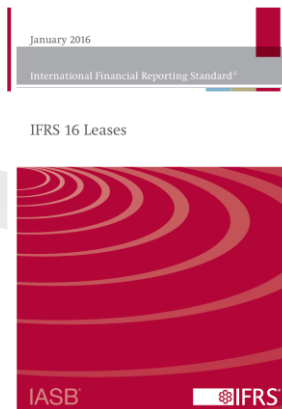
Post-implementation Review

Assessment of the actual effects of the new requirements



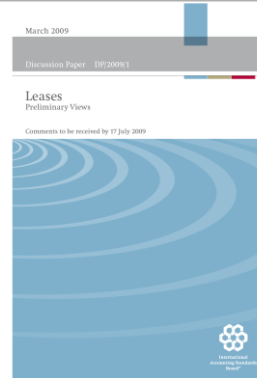
IFRS Standard

Summary of the likely effects and how the Board made the assessment



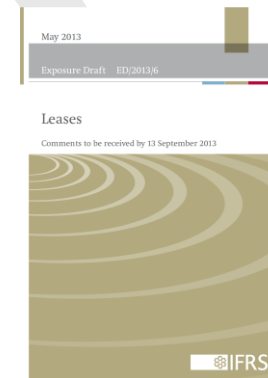
Research stage

Analysis of deficiencies and possible solutions



Exposure Draft stage

Explanation of why the Board is proposing a change to the requirements



Agenda Decisions

Clarifying their role

Agenda Decisions—background

Revenue recognition in a real estate contract (IFRS 15 Revenue from Contracts with Customers)—March 2018

The Committee received a request about revenue recognition in a contract for the sale of a unit in a residential multi-unit complex. Specifically, the request asked about the application of paragraph 35 of IFRS 15, which specifies when an entity recognises revenue over time.

Identifying the contract
An entity accounts for contracts within the scope of IFRS 15 only when all the criteria in paragraph 9 are met. One of these criteria is that it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. Accordingly, an entity applies the requirements in paragraphs 22-30 and paragraphs 35-37 discussed in this agenda decision only to contracts for which the criteria in paragraph 9 are met.

Identifying performance obligations in the contract
Before applying paragraph 35, an entity applies paragraphs 22-30 in identifying as a performance obligation each promise to transfer to the customer a good or service that is distinct. The Committee has included explanatory information about the application of paragraphs 22-30 to real estate contracts in its agenda decision *Revenue recognition in a real estate contract that includes the transfer of land* published in March 2018.

Applying paragraph 35 of IFRS 15
Paragraph 35 specifies that an entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if any one (or more) of the three criteria in paragraph 35 is met. Paragraph 32 states that if an entity does not satisfy a performance obligation over time, it satisfies the performance obligation at a point in time. Accordingly, the Committee observed that, at contract inception for each performance obligation, an entity applies the criteria in paragraph 35 to determine whether it recognises revenue over time.

Paragraph 35(a)
Applying paragraph 35(a), an entity recognises revenue over time if the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs. In a contract for the



When the Committee concludes standard-setting is not necessary it publishes a tentative Agenda Decision

In many cases this is because the Committee concludes IFRS Standards provide enough information for an entity to determine its accounting

Agenda Decisions are subject to due process

Tentative Agenda Decisions are exposed for comment for a minimum of 60 days

Agenda Decisions often include information to help entities apply IFRS Standards

explain how the applicable requirements in the Standards apply to the question submitted

- Agenda Decisions currently do not have the same status as IFRS Standards
- The Board has confirmed this is appropriate
 - Agenda Decisions published after the Interpretations Committee concluded standard-setting is not necessary and/or appropriate
 - Agenda Decisions often quote the material already in the Standard as well as the Basis for Conclusions—would be confusing if Agenda Decisions had same status as IFRS Standards
- If Agenda Decisions were to have the same status as IFRS Standards, the material quoted from the Standards would create duplication in the Standards and potential confusion
 - the status of the material quoted from accompanying materials such as the Bases for Conclusions and Illustrative examples would in effect be changed

- Limited information about Agenda Decisions currently in the *Handbook*
- The proposed amendments clarify:
 - the objective of explanatory material in Agenda Decisions—to improve consistent application of IFRS Standards
 - the nature of explanatory material:
 - explains how the applicable principles and requirements in IFRS Standards apply to the fact pattern in the Agenda Decision; and
 - cannot add or change requirements in IFRS Standards

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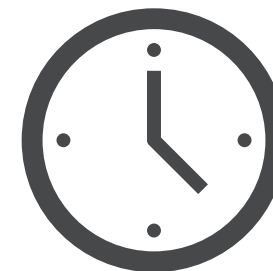
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Agenda Decisions

Timing of application

Agenda Decisions—timing

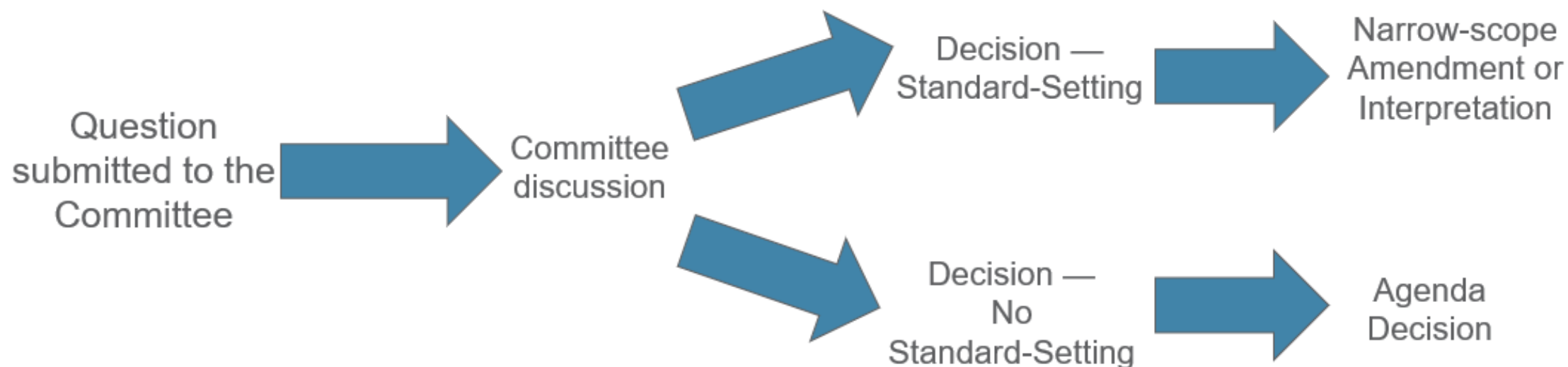
- Agenda Decisions cannot add or change requirements in IFRS Standards, however explanatory material might provide new information
- Consequently, an entity might determine it needs to change its accounting policy—this might take time
- Some might view the information in an Agenda Decision as having immediate effect on publication
- Proposed amendments to the *Handbook* explain the Board’s view that entities should be entitled to sufficient time to:
 - consider the Agenda Decision and determine any change in accounting policy
 - implement that change



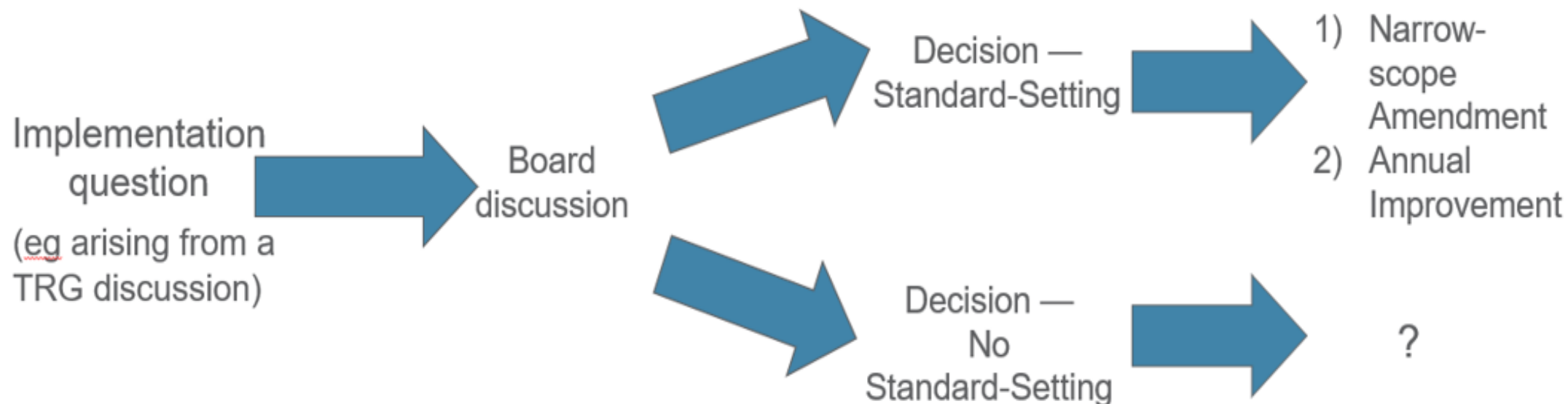
*Agenda Decisions
for the Board*

The Interpretations Committee's process

- Once a question is submitted to the Committee it utilises the following due process tools



- The Board currently does not have an equivalent to the Committee's Agenda Decision



- Proposed amendments to the *Handbook* provide the Board with the ability to publish an Agenda Decision—a Board Agenda Decision
- Will enhance the Board’s ability to support the consistent application of IFRS Standards
- Board Agenda Decisions to follow the equivalent due process as the Committee’s
- Proposed amendments emphasise that:
 - Board Agenda Decisions are not supplanting the Committee’s existing process for dealing with application questions
 - Stakeholders will continue to submit questions directly to the Committee
 - The Board is expected to publish Agenda Decisions only rarely

Other matters

- **Adding projects to the Work plan**

- Refine consultation required before all projects are added to the Work Plan
 - Improvements to the efficiency
 - Seeking input on projects not previously considered in an Agenda Decision
 - will streamline the process of moving projects from the research to the standard-setting phase

- **Role of the Advisory Council**

- Refine the Advisory Council's role as a strategic advisory body

- **Educational material**

- Specify different categories of educational material and the necessary Board member review required

- **IFRS Taxonomy**

- Specify the DPOC's role overseeing the due processes associated with IFRS Taxonomy content

Get involved

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