IFRS

STAFF PAPER

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IASB® meeting

Project	Third Agenda Consultation		
Paper topic	Overview of comments on due process		
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Introduction and purpose

1. The purpose of this paper is to provide the International Accounting Standards Board (IASB) with an overview of due process comments made by respondents to the Request for Information *Third Agenda Consultation*.

2. This paper summarises comments on due process along with staff observations on those comments. Comments and the staff's observations will be communicated to the Due Process Oversight Committee (DPOC) of the IFRS Foundation Trustees (Trustees).

3. In addition to the comments summarised in this paper, due process comments were made about the criteria for assessing the priority of financial reporting issues that could be added to the IASB's work plan. The IASB discussed these comments at its meeting in December 2021 and the paper from that meeting has been shared with the DPOC.[1]

Due process comments

4. We have categorised comments made on due process as follows:

[1] Paragraphs 52—59 of AP24B *Criteria for assessing the priority of financial reporting issues to be added to the work plan.*

(a) due process comments on post-implementation reviews (PIRs) (paragraphs 5–13);

(b) due process comments on agenda decisions (paragraphs 14–18); and

(c) other due process comments (paragraphs 19–24).

Due process comments on PIRs

5. A few respondents to the Request for Information made comments about the process for PIRs.

6. Paragraph 6.48 of the Due Process Handbook states that the IASB is required to conduct a PIR of each new IFRS Accounting Standard or major amendment. A PIR normally begins after the new requirements have been applied internationally for two years, which is generally about 30–36 months after the effective date.

7. A few respondents suggested that the Trustees should review the requirements of paragraph 6.48. A few respondents suggested that the due process should be revised to give the IASB more flexibility regarding whether and when a PIR is undertaken. For example, one respondent suggested that, given the role that transition resource groups now play in implementing new Accounting Standards, there may be less of a need to conduct a full-scope PIR. Another suggested that the IASB may wish to delay PIRs to undertake other activities that stakeholders view to be a higher priority. However, other respondents stressed the importance of PIRs in the standard-setting process and encouraged the IASB to conduct upcoming PIRs on a timely basis.

8. The staff note that the due process already provides the IASB with some flexibility around when to start a PIR—the Due Process Handbook states that a PIR *normally* begins about 30–36 months after the effective date. In addition, paragraph 6.55 of the Due Process Handbook states that, following an initial assessment, the IASB may decide that it would be premature to undertake a PIR. In such cases, the IASB informs the DPOC of its intention to defer the PIR, explaining why it has reached this conclusion and indicating when it expects to resume the review.

9. A few respondents suggested that, rather than waiting for a post-implementation review, the IASB should seek to address implementation issues arising on new Accounting Standards as they arise. The staff note that the IASB and the IFRS

Interpretations Committee (Committee) already undertake activities to identify and, when necessary, address implementation issues through transition resource groups, educational materials and narrow-scope amendments. However, in undertaking these activities the IASB and the Committee need to balance the benefits of providing additional guidance with the potential disruption such guidance may cause to the implementation efforts of preparers.

10. A few respondents said that the IASB should expand the objective of PIRs to consider:

    (a) contentious issues that were discussed during the development of a new Accounting Standard.

    (b) whether market developments since the new Accounting Standard was issued should be addressed.

11. The objective of a PIR is to assess whether a new Accounting Standard is operating as intended. A PIR is not intended to redeliberate information that the IASB considered when it developed the new Accounting Standard. Rather a PIR considers new information resulting from the application of the new Accounting Standard. This new information may relate to contentious issues that the IASB considered during the development of a new Accounting Standard or market developments since the Accounting Standard was issued.

12. A few respondents said that the IASB should:

    (a) undertake standard-setting on matters arising from PIRs on a more timely basis.

    (b) better communicate the outcome of PIRs and better explain how it decides whether to undertake standard-setting because of a PIR.

13. At its meeting in January 2022, the IASB discussed and agreed an approach to prioritising and responding to matters identified in PIRs. This approach will help the IASB identify the relative priority of matters identified in a PIR and other projects on the IASB's work plan. The IASB intends to include a description of this approach on its website.[2]

[2] Agenda Paper 8A—*Approach to prioritising matters arising from post-implementations reviews*

Due process comments on agenda decisions

14. A few respondents to the Request for Information made comments about agenda decisions saying that:

    (a) the due process for publishing agenda decisions should be aligned with the due process for issuing an IFRIC Interpretation or a new Accounting Standard.

    (b) a super majority of the IFRS Interpretations Committee (Committee) and the IASB should be required before an agenda decision is finalised.

    (c) rather than the Committee issuing agenda decisions, the IASB should consider dealing with the matters raised though narrow-scope standard-setting or annual improvements—particularly if the agenda decision is considered controversial or is expected to have a significant effect on practice.

    (d) the Committee or the IASB should provide clear direction on when preparers are expected to implement agenda decisions and, if the agenda decision is controversial, consider the need for transition requirements and provide sufficient time for implementation.

15. Similar comments to those described in paragraph 14 were made when the DPOC consulted on revisions to the Due Process Handbook in 2019. The DPOC's responses to those comments are summarised on pages 7–12 of *The project Summary and Feedback Statement on Amendments to the* Due Process Handbook.

16. In addition, a few respondents raised concerns about the number of agenda decisions published saying:

    (a) the Committee should publish fewer agenda decisions.

    (b) the large number of agenda decisions published may indicate that:

        (i) the filtering process for deciding which matters are referred to the Committee is ineffective; or

        (ii) an Accounting Standard has been issued without sufficient field testing or external review.

17. In relation to the number of agenda decisions published, the staff note that:

(a) the Committee seeks to strike a balance between the need to support consistent application of Accounting Standards and the risk of undermining the principles-based nature of Accounting Standards.

(b) the process for submitting matters to the Committee is designed to support consistent application of Accounting Standards, encouraging stakeholders to submit matters that have a widespread effect and have, or are expected to have, a material effect on those affected.[3]

(c) the number of agenda decisions published does not necessarily indicate that there was a problem with an Accounting Standard when issued. For example, agenda decisions may address matters that have arisen due to market developments since an Accounting Standard was issued. In addition, it is important to remember that agenda decisions neither amend nor add to the requirements in Accounting Standards—explanatory material in agenda decisions only explains how the principles and requirements in Accounting Standards apply to the transaction or fact pattern described in the agenda decision.

18. Finally, a few respondents suggested that the IASB review agenda decisions and consider incorporating them into the relevant Accounting Standards. The staff note that when revising Accounting Standards for other matters, the IASB considers whether related agenda decisions should be withdrawn, incorporated into the Accounting Standard or left unchanged. However, it may not always be possible to incorporate agenda decisions into the related Accounting Standard because, for example, the agenda decision:

(a) deals with a detailed or specific application of the principles or requirements of an Accounting Standard; or

(b) draws on the principles or requirements of multiple Accounting Standards.

[3] Paragraphs 5.13–5.19 of the *Due Process Handbook.*

Other due process comments

19. A few respondents to the Request for Information also made the following suggestions:

    (a) consider developing a new process for dealing with critical or time-sensitive issues on a timely basis (paragraph 20).

    (b) periodically review due process to see if it can be improved or streamlined in a way that increases the speed at which Accounting Standards can be developed (paragraph 21).

    (c) change the annual improvements process to allow for a broader range of issues to be addressed through this mechanism (paragraphs 22–23).

    (d) assess how quality control processes can be enhanced to identify fatal flaws prior to release of a new Accounting Standard or a major amendment to an Accounting Standard (paragraph 24).

20. In the staff's view, the IASB already have in place processes for dealing with critical and time-sensitive issues. For example, paragraphs 6.7 and 6.8 of the *Due Process Handbook* permit the IASB to publish exposure drafts with short comment periods, after obtaining appropriate approval from the DPOC or the Trustees. These processes have been used to quickly respond to time sensitive issues, for example amendments to IFRS 16 *Leases* that were required in response to the covid-19 pandemic, amendments to various Accounting Standards in response to IBOR reform and a recent project on the initial application of IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments*. Consequently, we do not think it is necessary to develop a new process to deal with such issues.

21. As stated in paragraph 1.6 of the *Due Process Handbook*, the DPOC seeks to ensure that there is an appropriate balance between timely development of high-quality Accounting Standards and a thorough due process. The DPOC undertakes periodic reviews of how the IASB and the Committee are operating. Such reviews consider not only whether new steps should be added to the IASB's due process but also whether to remove or amend due process steps.

22. Annual improvements are minor or narrow-scope amendments to Accounting Standards that are packaged together and exposed in one document. Such

amendments are limited to changes that either clarify the wording in an Accounting Standard or correct relatively minor unintended consequences, oversights or conflicts between existing requirements of Accounting Standards. Because of their nature, it is not necessary to undertake consultation or outreach for annual improvements beyond the comment letter process. In addition, the minimum comment period for annual improvements is normally 90 days.[4]

23. The staff consider that it is unnecessary to change the annual improvements process to allow for a broader range of issues to be addressed through this mechanism. The IASB has other processes (for example, narrow-scope amendments) to deal with accounting issues that go beyond those permitted by the annual improvements process. The IASB tries to ensure that any outreach or consultation on amendments to Accounting Standards is proportionate to the issue that it seeks to address. In addition, the IASB seeks to alleviate the burden on stakeholders by covering multiple consultation documents in a single outreach meeting when appropriate.

24. The IASB already has in place processes designed to identify fatal flaws in new Accounting Standards before publication, including external fatal flaw reviews. In addition, information gathered during the PIR process is used to help the IASB identify possible improvements to its standard-setting processes, including quality control.

Question for the IASB
Do IASB members have any questions or comments on the due process comments set out in this paper?

[4] Paragraphs 6.10–6.15 of the *Due Process Handbook.*