

# AGENDA

IFRS Foundation Trustees meeting – Due Process Oversight Committee

Johannesburg	October 2018	<b>Agenda Ref 1G(ii)</b>
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## Due Process Handbook Review: Adding projects to the Board's Work Plan

### Purpose

1. This paper proposes refinements to the requirements in the *Due Process Handbook (Handbook)* regarding the consultation required before adding projects to the Board's work plan. The proposal is not intended to reduce the input the Board is required to seek or receives; rather it is intended to improve the effectiveness and efficiency of the consultation.
2. The staff propose adding this topic to the list of matters to be addressed in the review of the *Handbook* following the Board's recent experience using the current consultation requirements in its Primary Financial Statements project (described in paragraph 16 below).

#### Questions for the DPOC

Do members of the DPOC agree with the proposal to amend the consultation required by paragraph 5.6 of the *Handbook* to:

- (a) require the Board to consult before formally adding a major project to its work plan (either the research or standard-setting programme) that was not contemplated in an Agenda Consultation; and
- (b) clarify that consultation with 'accounting standard-setting bodies' is achieved through consulting ASAF?

## Background

### *The Board's work plan*

3. The Board's technical work plan comprises a research programme and a standard-setting programme.
4. The objective of projects on the research programme is to analyse a possible financial reporting problem to identify the appropriate response<sup>1</sup>. Examples of projects included in the current research programme are major projects such as Business Combinations under Common Control, Financial Instruments with Characteristics of Equity (FICE), Dynamic Risk Management, and Goodwill and Impairment.
5. If a research project suggests that standard-setting is appropriate, the Board adds a project to its standard-setting programme. The objective of a standard-setting project is to develop a new, or amend an existing, Standard.
6. Not all research projects therefore progress to become standard-setting projects. For example, the Board decided not to undertake standard-setting following its recent completion of the Discount Rates and Share-based Payment research projects. Furthermore, it may not be necessary to undertake a research project before adding a project to the standard-setting programme. However, projects are not added to the standard-setting programme until the Board has confirmed that standard setting is:
  - (a) the appropriate response to address a deficiency in current financial reporting;
  - (b) required because the problem is sufficiently important to users of financial statements; and
  - (c) feasible.

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<sup>1</sup> Paragraph 4.7 of the *Due Process Handbook* states "the purpose of the IASB's research programme is to analyse possible financial reporting problems by collecting evidence on the nature and extent of the perceived shortcoming and assessing potential ways to improve financial reporting or to remedy a deficiency".

### ***The Agenda Consultation***

7. The Board is required to consult on its work plan every five years as specified in paragraph 4.3 of the *Handbook*:

The IASB is required to undertake a public consultation on its work programme every five years by way of a public Request for Information. The IASB normally allows a minimum of 120 days for comment on a work programme (agenda) consultation Request for Information. The primary objective of the review is to seek formal public input on the strategic direction and balance of the IASB's work programme, including the criteria for assessing projects that may be added to the IASB's standards-level programme. The review could also seek views on financial reporting issues that respondents think should be given priority by the IASB, together with any proposals to withdraw from the IASB's work programme any projects that have not proceeded as planned and for which the prospects for progress are limited. Section 5 details how a project is added to the IASB's standards-level programme.

8. The interval between Agenda Consultations was extended from three to five years following consultation on this matter in the Board's last Agenda Consultation undertaken in 2015 and 2016. The Feedback Statement on that Consultation noted that the Board reviews its work plan regularly and consults the Advisory Council, ASAF and other standard-setters if it needs to consider making a significant change to the balance and composition of its work plan between Agenda Consultations.
9. The Agenda Consultation provides the Board with valuable input in setting its priorities and is key to the Board's public accountability. The staff are not recommending reconsidering the requirements in the *Handbook* relating to the Agenda Consultation.

### ***Consulting on the work plan between Agenda Consultations***

10. While Agenda Consultations are the principal means of determining the Board's work plan and are an important periodic check on the balance of the work plan, the Board's work plan is not set in stone between consultations. The Board can add projects to its work plan or change its existing priorities in response to changing circumstances.

11. Paragraph 5.6 of the *Handbook* states that if a (major) project is to be added to the Board's *standard-setting* programme<sup>2</sup>:

The IASB's discussion of potential projects and its decisions to adopt new projects take place in public IASB meetings. Before reaching such decisions [adding a project to the Board's Standard-setting programme], the IASB consults its Advisory Council, ASAF and accounting standard-setting bodies on proposed agenda items. The IASB's approval to add agenda items, as well as its decisions on their priority, is by a simple majority vote at an IASB meeting.

12. The consequence of this paragraph is as follows:
- (a) before the Board decides to add a project to its standard-setting programme (other than at the time of an Agenda Consultation), it must consult ASAF, the Advisory Council and the wider National Standard-setting community; and
  - (b) before the Board decides to progress a project from its research programme to its standard-setting programme (even one added to the research programme at the time of an Agenda Consultation), it must consult ASAF, the Advisory Council and the wider National Standard-setting community.
13. Paragraph 5.2 of the *Handbook* suggests the consultation required by paragraph 5.6 is to assist the Board in establishing priorities, which is consistent with the objective of the Agenda Consultation as noted in paragraph 7 above.

### **Why are we proposing to refine the requirements for consulting on the work plan between Agenda Consultations?**

14. The staff observe that paragraph 5.6 of the *Handbook* is very specific in its requirement. As currently framed, it means:
- (a) the Board is not required to consult before adding a major project to its research programme that has *not* been contemplated in the Agenda Consultation;
  - (b) the Board is required to consult before adding a major project contemplated in the Agenda Consultation to its standard-setting programme; and

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<sup>2</sup> Paragraph 5.2 of the *Due Process Handbook* clarifies that the consultation outlined in paragraph 5.6 is in reference to "major projects".

- (c) the Board is required to consult before progressing a project contemplated in the Agenda Consultation from its research programme to its standard-setting programme.
- 15. The staff think that the current requirement is framed too rigidly. It results in consultation that in some cases seems, by its timing or nature or both, inconsistent with the objective of an Agenda Consultation and paragraph 5.2 of the *Handbook*—namely, to obtain strategic input about agenda priorities. It can also hinder efficient execution of a project.
- 16. A recent case of applying paragraph 5.6 of the *Handbook* in the context of the Primary Financial Statements project is illustrative:
  - (a) The Board considered the need for a project on primary financial statements in July 2014.
  - (b) The Board included the project in its proposed list of research projects in the 2015 Agenda Consultation.
  - (c) In the light of the feedback from that Consultation, the Board confirmed the project as part of the research programme.
  - (d) In September 2018, the Board addressed moving the project from the research programme to its standard-setting programme, signifying that standard-setting is both required to address a deficiency in current requirements and feasible.
- 17. As required by paragraph 5.6, before the Board reached its decision in September it sought feedback on the matter from ASAF in July 2018 and the Advisory Council in September 2018. The Board obtained input from the wider National Standard-setting community through the regional groups that sit as members of ASAF.
- 18. However, all stakeholders, including these advisory groups, had already had an opportunity in the 2015 Agenda Consultation to provide input on the strategic question of whether primary financial statements is a priority area to which resources should be allocated. More generally, asking this question after the Board has worked on the project for four years seems rather late in the process—the Board has already committed significant resources to this project.

19. In addition, the Board will obtain feedback on its assessment that standard-setting is required and feasible in its initial consultative document on the project, as well as through the regular feedback it receives about the direction of the project from its advisory and consultative groups.
20. The staff therefore view the additional round of consultation described in paragraph 17 above as both unnecessary and a possible impediment to timeliness.
21. Looking ahead, the Financial Instruments with Characteristics of Equity project may soon be similarly affected by the requirement in paragraph 5.6 of the *Handbook*. That is because the Board recently issued a Discussion Paper on this project. Having considered the feedback on the Discussion Paper, the Board might conclude that it should add the project to its standard-setting programme. The requirement in paragraph 5.6 could be read to require the Board to consult the Advisory Council and ASAF, despite the Discussion Paper explicitly asking stakeholders for their views on whether standard setting is warranted.
22. In contrast in another recent case, the Management Commentary project, the consultation required by paragraph 5.6 seems appropriate. This project had not been contemplated in the most recent Agenda Consultation. After undertaking some preliminary analysis, the Board added the project to its work plan having consulted the Advisory Council in April 2017 and ASAF in July 2017 (as required by paragraph 5.6). In this case, the Board was considering adding a major project to its workplan that had not been contemplated in its most recent Agenda Consultation. It was therefore appropriate for the Board to gather some input to confirm that this is an area to which it should allocate its resources.

### ***Feedback to date***

23. We discussed the objective of the consultation described in paragraph 5.6 with the Advisory Council in September 2018. The discussion highlighted the need for greater flexibility about the timing of the consultation as well as greater clarity as to its purpose. In addition, the discussion highlighted the need to ensure the proposal in this paper is seen as helping the Board to receive the appropriate input at the right time. The Advisory Council made clear that this should not be pursued as a means of

reducing the amount of consultation the Board undertakes at the expense of obtaining appropriate input.

### ***Proposal to refine paragraph 5.6 of the Handbook***

24. In the light of the above, the staff think that the requirement in paragraph 5.6 of the *Handbook* should be refined so that it:
  - (a) is more flexible to differing circumstances;
  - (b) results in the Board obtaining input that is consistent with the strategic objective of the Agenda Consultation; and
  - (c) does not duplicate other formal consultation.
25. Given this, we think the requirements in paragraph 5.6 should:
  - (a) require the Board to consult before formally adding a major project to the *work plan*, either the research programme or the standard-setting programme; and
  - (b) not duplicate the consultation in an Agenda Consultation. Hence, it should be required only when the project was not specifically contemplated in an Agenda Consultation.
26. The requirement to consult before adding a project to the work plan would arise only after any necessary preliminary work had been undertaken.
27. In addition, the Advisory Council will continue to be updated on the Board's work plan at each Advisory Council meeting, as required by paragraph 3.53 of the *Handbook*. In this way, the Advisory Council has the opportunity to provide timely input on the strategic direction of the Board's work plan.

### **Other related minor amendments**

28. The staff also propose amending paragraph 5.6 of the *Handbook* to remove the reference to consulting 'accounting standard-setting bodies' as well as ASAF. The staff think that, following formation of the ASAF and its successful functioning, consultation with ASAF has become the mechanism through which the Board formally engages with National Standard-setters. The regional groups who are

members of ASAF act as a conduit to the Board in obtaining views from their constituent jurisdictions.

**Questions for the DPOC**

Do members of the DPOC agree with the proposal to amend the consultation required by paragraph 5.6 of the *Handbook* to:

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## **Appendix A—Feedback from the IFRS Advisory Council**

### ***Advice from the IFRS Foundation Advisory Council***

- A1. The staff consulted the Advisory Council at its September 2018 meeting on the objective of the consultation described in Paragraph 5.6 of the *Due Process Handbook*. The input from the Advisory Council was to establish whether:
- (a) the consultation was taking place at the appropriate time; and
  - (b) if the Advisory Bodies consulted are appropriate to deliver the desired input. For example, to establish if input is being sort on the technical content of the research conducted thus far (for which ASAF would be the appropriate body) or is it a question of resourcing and strategy (for which the Advisory Council would be the appropriate body).
- A2. The Report of the Chair of the Council records that Advisory Council members were clear that they did not want to reduce the level of consultation. They also thought that if timeliness was an issue, then there were ways to be consulted other than at the biannual meeting of the Advisory Council. The Advisory Council encouraged the *Due Process Handbook* review to focus on both the clarity and flexibility of how to meet the current requirement.