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Re: IFRS Foundation ED Proposed amendments to the IFRS Foundation Due Process Handbook

Dear Jean-Paul,

We are pleased to have the opportunity to provide our comments on the *ED Proposed amendments to the IFRS Foundation Due Process Handbook*.

We observe that most of the proposals in the ED provide clarifications to the existing processes, update the Handbook with current practices and improve the Handbook's understandability.

However, we have the following comments and suggestions.

We are convinced that the IFRS Foundation should try to better define the limits of an agenda decision and when a standard setting activity is needed. On this point, our recommendation is to include in the Handbook specific guidance on the committee's decision process. We think that a possible approach could be that the Committee, before finalising an agenda decision, evaluates whether there is general consensus on the content of the tentative agenda decision, taking into account the outcome of the public consultation. If a general consensus has been obtained, then the Committee should finalise the agenda decision, otherwise it should proceed with a standard-setting activity (eg Interpretation, Amendments).

We recommend to clarify in the Handbook that, when divergence in practice exists, the implementation of an agenda decision by entities that, until the publication of such decision, have adopted an accounting policy different from the one included in the agenda decision, leads to a change in an accounting policy and not in a correction of an error.

We do not support the introduction of the IASB agenda decisions.

Our detailed comments and responses are set out below.

Question 1—Effect analysis

The DPOC proposes to amend the section ‘Effect analysis’ to:

- embed explicitly the process of analysing the effects throughout the standard-setting process;
- explain the scope of the analysis;
- explain how the Board reports the effects throughout the process; and
- differentiate the effect analysis process from the final effect analysis report.

Do you agree with these proposed amendments?

OIC welcomes the proposed amendments regarding the scope of the effect analysis.

In our view, the effect analysis is fundamental to be aware of potential impacts of new proposals/requirements, especially if quantitative data are provided to constituents.

We appreciate that an effect analysis occurs throughout the standard-setting process, however, for major projects, a detailed report is published only at the end of the standard-setting process. We encourage the IASB to publish a report at each stage of the process for constituents’ early understanding of possible effects.

Question 2—Agenda decisions

The DPOC has proposed the following amendments relating to agenda decisions:

- to provide the Board with the ability to publish agenda decisions;
- to better explain the objective and nature of explanatory material in an agenda decision; and
- to reflect in the Handbook that an entity should be entitled to sufficient time both to determine whether to make an accounting policy change as a result of an agenda decision, and to implement any such change.

Do you agree with these proposed amendments?

IFRS Interpretation Committee’s agenda decisions

We believe that the proposals on agenda decision should be considered from two different angles:

- status of the agenda decision;
- implication of agenda decision for preparers.

Regarding the status of the agenda decision, the Handbook provides that agenda decisions do not have the status of the Standards and therefore cannot add or change requirements in the Standards. An agenda decision typically includes explanatory material when the Interpretations Committee’s reason for not adding a project to the standard-setting agenda is that the principles and requirements in the Standards provide an adequate basis for an entity to determine the appropriate accounting.

We note that in the recent years there have been occasions in which the content of an agenda decision has been more similar to an interpretation. Recent examples are the tentative agenda decisions on IFRS 9 *Physical settlement of contracts to buy or sell a non-financial item*, *Holdings of Cryptocurrencies* and IFRS 16 *Lease Term and Useful Life of Leasehold Improvements*. In our comment letters to those decisions we have pointed out that an amendment to current standards would have been preferable.

We are convinced that the IFRS Foundation should try to better define the limits of an agenda decision and when a standard setting activity is needed. On this point, our recommendation is to include in the Handbook specific guidance on the committee's decision process. We think that a possible approach could be that the Committee, before finalising an agenda decision, evaluates whether there is general consensus on the content of the tentative agenda decision, taking into account the outcome of the public consultation. If a general consensus has been obtained, then the Committee should finalise the agenda decision, otherwise it should proceed with a standard-setting activity (eg Interpretation, Amendments). This is because the existence of a strong divergence in practice that will impose a change in accounting policy for many preparers cannot be dealt with a slim due process resulting in an agenda decision, but it should require a formal due process resulting in a standard-setting activity.

In relation to the implications that agenda decisions might have on preparers, we believe that it should be clarified at maximum when a decision would likely lead to a change in accounting policy or a correction of an error.

The Handbook proposes that *“an agenda decision might often result in explanatory material that provides new information that was not otherwise available and could not otherwise reasonably have been expected to be obtained. Because of this, an entity might determine that it needs to change an accounting policy as a result of an agenda decision.”*

It seems that the proposal focuses on the new information provided by the agenda decision, while we think that the focus should be on the existence of divergence in practice.

We note that, when the Committee finalizes an agenda decision, it has verified whether divergence in practice on the issue exists. When divergency exists, we believe that it is very likely that the implementation of an agenda decision by entities that, until the publication of such decision, have adopted an accounting policy different from the one included in the agenda decision, leads to a change in an accounting policy and not in a correction of an error.

In fact when the difference in practice is generalized there is an issue related to the understanding of the standard, that can be solved by making explanations by the Committee within the agenda decision.

In this case it should be excluded that an entity which has adopted a different accounting policy would fall into a correction of error, because without that explanation, different interpretations from preparers are equally valid.

Timing of implementing an agenda decision

The Handbook proposes that when explanatory material provide new information that was not otherwise available and could not otherwise reasonably have been expected to be obtained, *“an entity might determine that it needs to change an accounting policy as a result of an agenda decision. It is expected that an entity would be entitled to sufficient time to make that determination and implement any change (for example, an entity may need to obtain new information or adapt its systems to implement a change)”*

We think that there is no reason to give preparers sufficient time to implement an agenda decision, because agenda decisions are not authoritative. The proposed amendment to the Handbook seems to imply that agenda decisions are authoritative.

Board agenda decision

We note that, already now, the IASB has the possibility to provide material that explains the application of the requirements of a Standard and that follows an appropriate due process (such as Amendments, Basis for Conclusions or Illustrative Example).

Therefore, introducing this further type of document, that is expected to be published only in rare circumstances, seems not necessary.

Moreover, it is not clear on the basis of which criteria an issue would be addressed by the IASB given that all issues should continue to be submitted to the Committee.

Question 3—other matters

The DPOC has proposed to amend the Handbook on other matters including:

- **the type of review required for different types of educational material;**
- **consultation in connection with adding projects to the Board’s work plan;**
- **clarifications of the IFRS Taxonomy due process and Taxonomy updates and the role of the DPOC in overseeing Taxonomy due process.**

Do you agree with these proposed amendments?

Educational Material

We generally agree with the proposal of updating the categories of educational material, because the proposal reflects the type of material currently produced.

We welcome the proposal that all material should be subject to at least one Board member review.

However, we note that some of this material can have a nature akin guidance. In particular, we refer to para. 8.10 (c) of the proposed Handbook regarding “*material explaining or illustrating how the requirements in a standard might be applied in particular transaction or other circumstances, such as a new example demonstrating how the requirements might be applied in a particular fact pattern*”.

We think that in this case, adopting a formal due process seems to be more appropriate, in order to ensure that new requirements are not introduced.

Adding projects to the Board’s work plan

Currently, the IASB is not required to consult before adding a project to its research agenda, even if that project was not considered in the previous five-yearly agenda consultation.

OIC welcomes the proposed amendments that require the IASB to consult the Advisory Council and ASAF before formally adding a major project to the work plan (either the research programme or the standard-setting programme) if that project was not specifically contemplated in the most recent agenda consultation. OIC believes that the consultation with these two groups, that together represent all the categories of stakeholders, will ensure the IASB about the real need of a new research or standard-setting project.

OIC concurs that, in order to streamline the due process, the IASB is not required to consult the Advisory Council and ASAF when it moves a project from the research agenda to the standard-setting programme.

IFRS Taxonomy

We welcome the specification about the DPOC’s role in overseeing the due process associated with the IFRS Taxonomy content and support the idea to add a table in order to

summarise the approval and review process associated with IFRS Taxonomy updates. However, the table in para. A23 seems not so clear. We suggest to remove the line “updates not subject to Board approval” as the Board approval is already mentioned in the last column of the table.

We understand that:

- the review of the taxonomy of the common practice is made by *IFRS Taxonomy Review Panel* (under para. A17) and by ITCG (under para. A20) and the IASB is not required to approve it (under para. A17).
- The IASB is not required to approve the Technology (under para. A20)

In our understanding, the table does not clearly reflect these paragraphs of the Handbook.

Moreover, we question the reason for adding separately in para. A4(a)(iii) “*annual improvements*” while, in our opinion, they should be included in point (i) “*IFRS Standards*”. In our view, in any case, the taxonomy of annual improvements should be approved by the Board, given that the Board approves IFRS Taxonomy content reflecting new or amended IFRS Standards (para. A16) and the annual improvements are amendments to standards. Finally, please, note that the table on the line “*annual improvements*” shows “Review ITCG” but the para. A17 refers to *IFRS Taxonomy Review Panel*.

Additional amendments

We concur that the minor amendments proposed contribute to bring the Handbook in line with the current practice and to improve its understandability.

Question 4—Consequential amendments to the IFRS Foundation Constitution

The Trustees of the IFRS Foundation have proposed to amend the IFRS Foundation Constitution as a result of the proposed amendments to the Handbook relating to the role of the IFRS Advisory Council.

Do you agree with these proposed consequential amendments?

OIC agrees with the proposed consequential amendments to the IFRS Foundation Constitution relating to the strategic role of the IFRS Advisory Council.

If you have any queries concerning our comments, please do not hesitate to contact us.

Yours sincerely,
Angelo Casò
(OIC Chairman)