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31 July 2019

Dear Trustees

Exposure Draft - Proposed amendments to the IFRS Foundation Due Process Handbook

We are pleased to comment on the above Exposure Draft (the ED). Following consultation with the BDO network[1], this letter summarises views of member firms that provided comments on the ED.

We agree with many of the proposed amendments. However, we have significant concerns about certain aspects of them, in particular:

- The proposal to introduce Board agenda decisions; and
- The proposed text for IFRS Interpretations Committee agenda decisions, which we believe needs to be strengthened significantly. In particular, there needs to be greater clarity about the status and authority of those agenda decisions and the timing of any related accounting policy changes.

Our responses to the questions in the ED are set out in the attached Appendix.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them, please contact me at +44 (0)20 7893 3300 or by email at abuchanan@bdoifra.com.

Yours faithfully

Andrew Buchanan

Andrew Buchanan

Global Head of IFRS

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[1] Service provision within the international BDO network of independent member firms ('the BDO network') in connection with IFRS (comprising International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the IFRS Interpretations Committee and the former Standing Interpretations Committee), and other documents, as issued by the International Accounting Standards Board is provided by BDO IFR Advisory Limited, a UK registered company limited by guarantee. Service provision within the BDO network is coordinated by Brussels Worldwide Services BVBA, a limited liability company incorporated in Belgium. Each of BDO International Limited (the governing entity of the BDO network), Brussels Worldwide Services BVBA, BDO IFR Advisory Limited and the member firms is a separate legal entity and has no liability for another such entity's acts or omissions. Nothing in the arrangements or rules of the BDO network shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide Services BVBA, BDO IFR Advisory Limited and/or the member firms of the BDO network.

Appendix

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 the proposed amendments?

We agree with most of the proposed amendments. The more explicit process of analysing the effects throughout the standard setting process has the potential to avoid time being spent on proposals that ultimately may be found to be impracticable, or need to be communicated in a different way from that originally proposed.

Consideration of financial stability

We are sceptical about the proposal in paragraph 3.80, to require that the Board '...has regard to the effects on financial stability when assessing the effects of new financial reporting requirements where relevant.' There are different perspectives about the meaning of the term 'financial stability'; some consider that financial stability is derived from full transparency about the financial effects of transactions or events including the potential for significant volatility in reported results, while others consider that financial stability is derived from an approach that (to a greater or lesser extent) masks underlying volatility and stabilises reported results. There will also be differing perspectives about what is 'relevant'.

If it is considered appropriate for the reference to financial stability to be retained, it is essential that the Due Process Handbook sets out clearly what is meant by the term 'financial stability', both in an absolute sense and also in the context of the Board's assessment of the effects of new financial reporting requirements. We also suggest that this should be when the Board considers the effects on financial stability to be relevant, and not an open-ended approach (as drafted in paragraph 3.80) of when the effects are relevant (which could be read as being when any individual or party might consider the effects to be relevant and not only the Board's assessment).

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 agenda decisions; 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 the proposed amendments?

We do not support the amendments as drafted.

As noted below, we are sceptical that the Board should be provided with the ability to publish agenda decisions and believe that this ability should be restricted to the IFRS Interpretations Committee.

We also believe that the status and authority of agenda decisions needs to be explained more clearly, and in a way that means that when an agenda decision includes clarification of the appropriate interpretation and application of the requirements of IFRS Standards and associated guidance, that clarification is required to be followed in order for an entity to be able to claim compliance with the requirements of IFRS.

Board agenda decisions

While we do not have strong objections to the Board being provided with the ability to publish agenda decisions, which would be subject to the same due process as IFRS Interpretations Committee agenda decisions, we are sceptical that this would be of significant value. There is also a risk that the issue of Board agenda decisions could exacerbate the confusion that already exists about the status of agenda decisions and blur the distinction between the Board's role as the standard setter, and the interpretative role of the IFRS Interpretations Committee.

We suggest that a better solution would be to restrict the issue of agenda decisions to the IFRS Interpretations Committee and that, if the Board considers that it would be helpful for an agenda decision to be issued for a particular matter, for the Board to request that the IFRS Interpretations Committee addresses the issue. We note that this approach is not without precedent, as the IFRS Interpretations Committee has already undertaken this type of work in connection with the appropriate accounting approach for cryptocurrencies.

The objective and nature of explanatory material in agenda decisions

We agree that it would be appropriate and helpful for the objective and nature of explanatory material in agenda decisions to be clarified. However, while we acknowledge and appreciate the intention of the text in proposed paragraphs 8.1 to 8.5, we consider that as drafted it risks increasing, and not reducing, uncertainty and confusion. Both the explanation and status of IFRS Interpretations Committee agenda decisions need to be explained more clearly.

We note that paragraph 8.4 includes a statement that:

> 'Agenda decisions (including any explanatory material contained within them) do not have the status of Standards and therefore cannot add or change requirements in the Standards.'

We agree with this statement, because an agenda decision can only refer to and contain extracts from existing requirements and guidance in IFRS. However, there are some who may argue that, because the material in agenda decisions does not have 'the status of IFRS Standards', the approach set out in an agenda decision is not required to be followed in order for an entity's financial statements to be capable of claiming to have been prepared in compliance with IFRS. We disagree with this view.

We consider that, when explanatory material is included in an agenda decision which sets out how the requirements of IFRS are to be applied, an entity is required to follow that approach when preparing its financial statements. This is because the explanatory material, for a particular fact pattern, will set out the relevant requirements of IFRS, and will typically demonstrate both how those requirements are to be applied and why those requirements (as noted in paragraph 8.3) '...form an adequate basis for an entity to determine the appropriate accounting.' Consequently, although an agenda decision '...cannot add or change requirements in the Standards...', an agenda decision demonstrates how the requirements of IFRS Standards are to be applied and it follows that the approach set out in an agenda decision represents mandatory guidance.

In that context, we believe that the last sentence in paragraph 8.4 is not definitive enough, and could again lead to some taking the view (which we consider to be incorrect) that although the material included in an agenda decision is '...helpful, informative and persuasive...', this does not mean that the approach set out in an agenda decision is required to be followed.

Paragraph 8.5 goes on to state that:

> 'The process for publishing 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.'

We believe that this statement, while capable of being read as being factually correct (because the confirmation of the appropriate analysis and application of IFRS might be considered to constitute 'new information'), is phrased in a way that risks causing additional confusion. The statement that an agenda decision might often provide 'new information that was not otherwise available' can be read as contradicting the statement in paragraph 8.4 that agenda decisions '...cannot add or change requirements in the Standards'. The reference to 'new information' implies that something in the requirements in IFRS Standards has changed.

We also consider that the statement that the new information '...could not otherwise reasonably been expected to have been obtained...' is out of place; submissions to the IFRS Interpretations Committee almost without exception include different views and analyses of IFRS for a particular fact pattern, and it is not uncommon for the Staff to consider that one of those views represents the appropriate approach to be followed. Consequently, it is difficult to see how the information set out in an agenda decision '...could not otherwise reasonably have been expected to have been obtained...', when typically it will already exist in the submission received by the IFRS Interpretations Committee.

In order to deal with the confusion that surrounds the status and authority of agenda decisions, and what they represent, we are strongly of the view that the following guidance needs to be set out in the Due Process Handbook:

- An agenda decision may include information to help entities apply IFRS Standards, including an explanation of how the applicable principles and requirements in IFRS Standards apply to the transaction or fact pattern which has been submitted to the IFRS Interpretations Committee and is described in the agenda decision. However, the information in an agenda decision (including explanatory material) can go no further than the principles and requirements that already exist in IFRS Standards. That is, an agenda decision cannot add any new principles or requirements to IFRS Standards. In that context, an agenda decision should be positioned as typically clarifying the appropriate approach to be followed in accordance with existing IFRS Standards.

- Agenda decisions cannot be part of the authoritative text set out in IFRS Standards themselves. However, because an agenda decision sets out how the principles and requirements of IFRS Standards are required to be applied, the information set out in an agenda decision constitutes mandatory and enforceable implementation guidance (see the next paragraph).

In terms of the status and positioning of agenda decisions in relation to other material issued by the IFRS Foundation, we believe that this also needs to be clarified. Because agenda decisions contain guidance about how the requirements of IFRS Standards are to be applied, it follows that they must have at least the level of authority of Implementation Guidance that is already published for certain Standards. Consequently, agenda decisions need to be published in the Bound Volume (and not included only in the annotated version of the Standards). Publication in the Bound Volume would be consistent with what agenda decisions represent - they are not part of IFRS Standards (because they cannot add any new principles or requirements), but they provide additional implementation guidance that accompanies each of the relevant IFRS Standards. In that context, we note that (for example) the Guidance on Implementing IFRS 9 is prefaced by 'This guidance accompanies, but is not part of, IFRS 9.'

In order to reflect our comments above, we suggest that paragraphs 8.3 to 8.5 are redrafted as follows (tracked changes):

> In addition to explaining why the Interpretations Committee decides not to add a project to the standard-setting agenda, in many cases an agenda decision includes explanatory material. The objective of such explanatory material is to improve the consistency of application of IFRS 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 <u>Interpretations Committee is able to clarify that the</u> principles and requirements in the Standards provide an adequate

basis for an entity to determine the appropriate accounting. Explanatory material is subject to comment as part of a tentative agenda decision.

Explanatory material explains how the applicable principles and requirements in IFRS Standards apply to the transaction or fact pattern described in the agenda decision. By providing such explanation, additional ~~information~~ clarification is provided. Agenda decisions (including any explanatory material contained within them) do not have the status of Standards and therefore cannot add or change requirements in the Standards. However, such explanatory material should be seen as helpful~~,~~ and informative ~~and persuasive~~, and also as having authority as implementation guidance because the explanatory material links together the principles and requirements in IFRS Standards and sets out the accounting requirements for the fact pattern under consideration.

The process for publishing 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~~clarifies how the principles and requirements of IFRS Standards apply to a particular fact pattern or circumstance. As a result, the clarification set out in an agenda decision might result in an accounting approach, that has previously been considered to be in accordance with IFRS Standards, no longer being considered to be in accordance with IFRS Standards. Because of this, 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). What constitutes 'sufficient time' would depend on the complexity of both the issue and the implementation of the new accounting policy.

Sufficient time

As noted above, we consider that what constitutes 'sufficient time' will depend on the complexity of both the issue and the implementation of the new accounting policy. However, we also believe that clarity needs to be given about timing. Questions are already being raised about whether 'sufficient time' means the next interim or annual financial report to be issued, a period of months (but less than a year), or a longer period; this has the potential to result in significant diversity among different jurisdictions and (depending on the view taken by the local regulator) within individual jurisdictions.

In this context, we note Sue Lloyd's article 'Agenda decisions - time is of the essence' and believe that it would be appropriate for the Due Process handbook to include a number of key points. These include:

- That companies that have applied IFRS Standards in a manner that is inconsistent with an agenda decision do not necessarily have a prior period error. We note that this would be consistent with our suggested amended text of paragraph 8.5 which refers to the clarification of how the principles and requirements of IFRS Standards are required to be applied (see above).

- That companies need to consider agenda decisions and implement any necessary accounting policy changes on a timely basis - in other words, as soon and as quickly as possible.

We also consider that, when it is issuing a tentative agenda decision, and as part of the process of finalising an agenda decision, the IFRS Interpretations Committee should add a clear 'backstop date' by which all entities need to have implemented any necessary accounting policy change. This would address the following issues:

- An entity that is applying an accounting policy that is clearly not in accordance with IFRS might submit the issue to the IFRS Interpretations Committee with the intention of delaying any change to that accounting policy because it is expected that an agenda decision will be issued. In such cases, the IFRS Interpretations Committee would have the ability to make a public statement that the adoption of the approach set out in the agenda decision is required to be immediate.

- There is a risk that a more permissive approach than anticipated by the Board in the interpretation of what 'sufficient time' means might be taken by some jurisdictions. The inclusion of a clear 'backstop date' would assist in avoiding the potential for this to happen. The inclusion of such a 'backstop date' in tentative as well as final agenda decisions would enable constituents to raise concerns about the timing of implementation during the 60 day comment period.

Other comments - agenda decisions

Voting threshold

Under the current due process, both tentative and final agenda decisions are approved by a majority vote of the IFRS Interpretations Committee. Given the level of authority of agenda decisions, we believe that this is inappropriate. If a vote is close, then this indicates that there is more than one valid view of how the applicable principles and requirements in IFRS Standards should be applied; this is inconsistent with an agenda decision typically setting out the single required approach.

We suggest that a supermajority vote is required similar to that set out in paragraph 3.15 of the Due Process Handbook.

A more proactive approach to standard setting

We understand and acknowledge that there needs to be a substantive threshold that is crossed before the IFRS Interpretations Committee refers an issue to the Board for its consideration, and the Board agrees to add the issue to its agenda. However, we believe that the threshold is currently too high and that a more proactive approach to standard setting is needed. This links to our comments above about the voting threshold to approve a tentative or final agenda decision; for example, we believe that the recent IAS 19 issue that was considered by the IFRS Interpretations Committee, of whether a particular employee benefit plan was defined contribution or defined benefit, should have been referred to the Board for standard setting activity.

We also believe that standard setting needs to be undertaken when the accounting analysis under existing principles and requirements in IFRS Standards leads to a suboptimal answer. For example, the IFRS Interpretations Committee recently considered the accounting requirements for sales of asset in corporate wrappers. We believe that the conclusion reached by the Staff, which reflects current requirements of IFRS Standards, is clearly of poor quality (and therefore it does not provide useful information) and that an amendment to the boundary between the scope of IFRS 10 and IFRS 15 is urgently required. This type of minor amendment to IFRS Standards is something that should be fast tracked, which would have the benefit of demonstrating the responsiveness of both the IFRS Interpretations Committee and the Board.

In this context, we note that the Due Process Handbook does not cover circumstances in which, although the requirements of IFRS Standards are clear, the resulting accounting is of poor quality and does not provide useful information (as noted above). We believe that this could be addressed by requiring the IFRS Interpretations Committee to undertake two votes (one, are the requirements clear, and two, is the resulting accounting of poor quality meaning that it does not provide useful information). If the answer to question two is yes, then the Due Process handbook should require that the matter is referred to the Board and no tentative agenda decision is published pending the outcome of the referral.

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; and***
- ***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?

We agree with the proposals.

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 Advisory Council.

Do you agree with these proposed consequential amendments?

We agree with the proposals.