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Dear Mr Erkki Liikanen

IFRS Foundation – Invitation to Comment: Proposed Amendments to the IFRS Foundation Due Process Handbook

We appreciate the opportunity to comment on the IFRS Foundation’s Invitation to Comment: Proposed Amendments to the IFRS Foundation *Due Process Handbook* (the Handbook). We have consulted with, and this letter represents the views of, the KPMG network.

We are supportive of the Foundation reviewing and updating the Handbook. This is an important opportunity to reaffirm the commitment of the International Accounting Standards Board (the Board) and the IFRS Interpretations Committee (the Committee) to due process, and to ensure that the Handbook reflects their evolving roles.

While the Trustees have not explicitly requested comments on the role and status of the Committee agenda decisions (‘agenda decisions’), we believe that the Trustees and the Board should seize the opportunity to reconsider their status in order to promote greater consistency in the application of IFRS Standards. Further, we have concerns about the proposed introduction of Board agenda decisions as explained below.

Status of agenda decisions

We believe that agenda decisions play a significant role in driving consistency in the application of IFRS Standards. They provide guidance on emerging and / or complex issues that are addressed in the Standards, on a more timely basis than formal standard-setting activity (i.e. Interpretations, Annual Improvement Process, etc.).

As agenda decisions are issued by an authoritative body and derived from the Standards, we expect that the conclusion supported by the technical analysis should be followed. We believe that the technical explanations in agenda decisions are better characterised as a ‘view or consensus’ of the Committee on how the Standard(s)

interact together with the Basis for Conclusions for the fact pattern in the submission. This ‘view or consensus’ is limited to the confines of the existing Standards, and therefore does not amend or change requirements in the Standards as described in Section 8.1 of the Handbook.

However, while most regulators and accounting networks view agenda decisions as quasi-authoritative, some jurisdictions, regulators, and preparers give them less credibility than others. This hinders global consistency in the application of the Standards.

We therefore believe that the ‘views or consensus’ of the Committee conveyed in an agenda decision should be recognised as having authoritative status. A change to authoritative status would also eliminate current ambiguity arising from the following.

- *Process versus technical focus.* The label ‘agenda decision’ implies an outdated focus on the process of deciding on the work plan of the Committee. It does not reflect the way in which agenda decisions have evolved over the years to explain how IFRS Standards are applied and therefore provide information that is helpful, informative, and persuasive. We suggest that new terminology such as simply ‘decisions’ or ‘consensus’ of the Committee is introduced.

Additionally, the output of agenda decisions could be strengthened if it was acknowledged that the technical explanation was the ‘answer’ to the submission applying the Standards rather than describing the Standards as ‘providing an adequate basis to determine the appropriate accounting’.

- *Board’s expectations.* The Board’s *Feature - Agenda decisions – Time is of the essence*¹ creates a valid expectation that agenda decisions must be implemented. The Board is expecting companies to consider agenda decisions and implement any resulting accounting policy changes, and permits an entity to have ‘sufficient time’ to implement those changes. This suggests that agenda decisions are intended to be authoritative.
- *Explanatory information versus standard setting.* There is confusion as to whether the Standards provide an adequate basis to address the issue or whether standard-setting is required. This confusion is amplified by the proposed amendments which state that agenda decisions provide ‘explanatory information that provides **new** information that was not otherwise considered available and **could not otherwise reasonably have been expected to be obtained** (*emphasis added*)’. Further, explanatory material accompanying agenda decisions is intended

¹ *Board’s Feature – Agenda decisions – Time is of the essence (March 2019)* states ‘Our comments on timeliness do not change the fact that companies need to be diligent in considering agenda decisions and implementing any resulting accounting policy changes. We expect a good faith effort to consider and address any effects of agenda decisions on a timely basis.’

to be informative and **persuasive**² in providing guidance on the accounting for a particular issue (*emphasis added*).

- *Voting protocols.* Section 5.17 of the Handbook requires a simple majority of the Committee present to decide whether to add a project to the standard-setting agenda. When a substantial minority of Committee members vote against an agenda decision, this leads to questions as to whether the Standards provide an adequate basis to address the issue. In our view, a narrow majority vote does not demonstrate that the Standards are adequate to address the issue – it may in fact indicate the contrary and that standard-setting would be required.

Timing of implementation

As previously noted in our comment letter on the Exposure Draft *Accounting Policy Changes – Proposed amendments to IAS 8*³, a fundamental issue in practice with agenda decisions is the issue of timing of implementation. The proposals in the Handbook fail to address this issue effectively and challenges in respect of timely implementation may continue to exist.

While the proposals formalise the Board's view that an entity should have 'sufficient time' to determine if it needs to change an accounting policy as a result of an agenda decision, they provide no parameters on what 'sufficient time' is. The result is that agenda decisions will be implemented in different periods by different entities and in different jurisdictions and the objective of having consistency in the application of Standards is not achieved. Addressing the issue of 'sufficient time' in educational material⁴, which itself is not authoritative, is not an ideal solution to provide clarity to preparers on how quickly agenda decisions should be implemented.

We believe that changing the status of agenda decisions to authoritative would allow the Committee to establish clear effective dates and transition requirements for each agenda decision.

Proposed way forward

For the reasons set out above, we recommend changing the status of agenda decisions to authoritative. If agenda decisions are authoritative it will eliminate the ambiguity that exists as to whether the Standards provide an adequate basis to address the issue and will remove the practical issues of implementation by providing effective dates and transition requirements. This will further the objective of global

² Section 8.4 of the Handbook states "such explanatory material should be seen as helpful, informative and persuasive."

³ Comment letter dated 13 July 2018.

⁴ The Board discussed its view on sufficient time in the *Board's Feature – Agenda decisions – Time is of the essence (March 2019)* highlighting that they had in mind 'a matter of months, not years'.

consistency in the application of IFRS Standards and increase the strength of the IFRS brand.

This would be similar to the approach used in US GAAP with the Emerging Issues Task Force (EITF). The EITF was designed to promulgate implementation guidance within the framework of the Accounting Standards Codification to reduce diversity in practice on a timely basis, consistent with the objective of agenda decisions. A consensus by the EITF on an issue is usually an indication that the FASB does not need to take any further action and the decisions by the EITF are authoritative upon ratification by the FASB following its normal due process.

We acknowledge that there may be challenges associated with a change in status of agenda decisions, e.g. jurisdictional endorsement procedures may be challenging. However, as agenda decisions do not add or change the Standards, we envisage that endorsement issues may not be as problematic as some may fear. As consistency in the application of IFRS Standards is paramount, we believe that the benefits of their authoritative status will outweigh those challenges.

Consequential changes in due process procedures

If agenda decisions are recognised as having authoritative status, due process procedures would need to be reconsidered and codified to be consistent with that status and with standard-setting processes. This would include the following.

- *Voting process.* Alignment of the voting process to other standard-setting processes, e.g. voting process should require a ‘super-majority’ or consensus, similar to an IFRIC Interpretation or Annual Improvement.
- *Approvals.* The Board ratifies agenda decisions issued by the Committee.
- *Comment period.* As the objective of agenda decisions is to provide timely application guidance within the confines of the existing Standards, we believe that the comment period of 60 days remains appropriate.
- *Effective dates and transition requirements.* Agenda decisions should include an effective date and transition requirements. As agenda decisions explain how to apply existing guidance, we believe that there could be a default effective date and transition requirement, e.g. X months after publication and retrospectively. The proposed effective date and transition arrangement should be stated as part of the draft agenda decision so that it too is subject to the 60 day comment period.

In our view, the Committee should also reserve the right to vary the effective date and transition requirements. This could include a longer period in some cases. It could also include immediate implementation of agenda decisions when deemed appropriate. Although not expected to be the norm, there is a risk that a questionable accounting treatment may be submitted to the Committee as a means

of delaying a change in accounting policy or to avoid treating the change as the correction of an error. It is important that the Handbook does not inadvertently create perverse incentives to submit, or not submit, an issue.

- *Maintenance and oversight.* A formal process is required to incorporate agenda decisions into the Standards and to ensure that agenda decisions are appropriately included / excluded when new Standards are issued. This process should be aligned with other standard-setting processes and Committee decisions should be included as an Appendix to the Standards.

If the Trustees and the Board decide not to change the status of agenda decisions to authoritative, we recommend changes as detailed in Appendix A to improve the clarity of agenda decisions.

Board agenda decisions

We do not agree with the proposals to introduce Board agenda decisions, which appear underdeveloped. For example, it is unclear how issues submitted to the Committee, as described in Section 8.7 of the Handbook, would be allocated between the Committee and the Board.

The proposals suggest that the Board would issue agenda decisions only on Standards not yet effective and before they are widely implemented. However, the Committee has previously issued agenda decisions on Standards not yet effective, e.g., the Committee issued agenda decisions on IFRS 9 *Financial Instruments* to ensure consistency on transition, and there is no clear rationale provided in the proposals for a change in process.

Appendix A to this letter contains our detailed responses to the questions in the Invitation to Comment. Appendix B to this letter contains our comments on other matters in the Handbook.

Please contact Reinhard Dotzlaw at +44 20 7694 8871 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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Appendix A

This attachment contains our detailed responses to specific questions posted in the Invitation to Comment.

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?

Amendments to the Effect analysis

We support the proposals to clarify the scope and process of the effect analysis and agree that the effect analysis should be undertaken on a continuous basis in the standard-setting process. We believe that a continuous effect analysis will enable the Board to more readily determine issues and challenges with various alternatives on a timely basis and streamline the standard-setting process and hence make it more effective. Additionally, an effect analysis issued at both the exposure draft stage and final publication stage provides useful information on how general purpose financial statements are likely to change because of new requirements.

Areas for continuing improvement

We believe there is continued room for improvement to ensure that the nature and depth of the effect analysis continues to be robust to meet the needs of users, and this needs to be consistently monitored to ensure the processes remain fit for purpose.

We note that the fact that the Board and its staff performs the effect analysis creates a perceived ‘self-review’ conflict of interest.

We believe the process would be enhanced by including independent members of the technical staff, or third parties as necessary, in the performance and review of the effect analysis to ensure that there is an objective lens assessing the effects of the Standard.

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?

Board agenda decisions

As indicated in our cover letter, we do not agree with the proposals to introduce Board agenda decisions, which appear underdeveloped. There is no rationale provided in the proposals as to why a change in process is needed.

We believe it is important that there is a single ‘letter-box’ to avoid confusion amongst submitters on how a question would be handled and to encourage submissions to the Committee. The current processes permit the Committee to refer an issue to the Board if standard-setting is required. We also note that if agenda decisions were recognised as authoritative the Board would ratify these decisions.

If this avenue were pursued, the considerations that we have outlined for agenda decisions in our cover letter are also relevant for Board agenda decisions – i.e. we would recommend that Board agenda decisions be authoritative. This status would eliminate both the ambiguity of their role in the IFRS hierarchy and challenges in implementation.

If the Trustees and the Board were to continue with non-authoritative Board agenda decisions, the recommendations we have suggested to agenda decisions below are also relevant.

Objective and nature of explanatory material in an agenda decision

As indicated in our cover letter, we recommend that agenda decisions be recognised as having authoritative status as this would enhance the effectiveness of agenda decisions and drive global consistency. The cover letter includes recommended changes to due process if agenda decisions become authoritative.

If agenda decisions remain non-authoritative, we recommend the following changes to provide clarity in the role of agenda decisions.

- *Process versus technical focus.* As highlighted in our cover letter, the term ‘agenda decisions’ creates confusion about the purpose of the explanatory material. We believe that changing the term to ‘decisions’ or ‘consensus’ will remove the focus from the procedural element of adding a matter to the standard-setting agenda and focus on the technical aspect of the material.

Additionally, the output of agenda decisions could be strengthened if it was acknowledged that the technical explanation was the ‘answer’ to the submission applying the Standards rather than describing the Standards as ‘providing an adequate basis to determine the appropriate accounting’.

- *Voting process.* The current voting process requires a simple majority to determine whether a matter should be added to a standard-setting agenda. As noted in our cover letter, this process arguably does not support a conclusion that the Standards provide an adequate basis to determine the accounting. Rather it suggests that standard-setting is required because there may be an interpretive issue or a gap in the Standards underlying the matter. In our view, a ‘super-majority’ or ‘consensus’ vote should be required.

Some clarity would be provided if the Handbook codified the process the Committee undertakes at the meeting, which is to comment and agree on the technical analysis, determine whether standard-setting is required, and provide any comments on the drafting of the agenda decision. Due process procedures should include a formalised vote on the technical analysis separately from the decision on whether standard-setting is required.

- *Submission of issues.* Questions to the Committee should always be from a formal submission prepared by external parties. This will ensure the Committee is addressing issues that preparers, regulators, and accounting networks are encountering in practice.
- *Maintenance and oversight.* A formal maintenance process with appropriate oversight should be implemented to ensure that agenda decisions remain relevant and applicable in light of changing Standards and are appropriately included / excluded from the Annotated Standards⁵.
- *Accessibility.* We believe the usability of agenda decisions would be enhanced by including the agenda decisions as an Appendix at the end of each Annotated Standard rather than incorporating them within the Standard. This is because many

⁵ We have compared the agenda decisions contained in the 2019 Blue Book with those on the IFRS website and identified examples of decisions included in the Blue Book but not included on the website, and vice versa. We have also identified decisions that have been superseded by subsequent standard-setting but not removed. We will communicate these discrepancies separately to the technical staff.

agenda decisions incorporate references to different paragraphs of the Standard or interact with other Standards and may be difficult to find when dispersed throughout the book.

Timing of implementation of agenda decisions - 'sufficient time'

As indicated in our cover letter, we recommend that agenda decisions should be recognised as having authoritative status as this would allow the Committee to establish clear effective dates and transition requirements for each agenda decision.

If the Trustees and the Board decide not to change the status of agenda decisions to authoritative and they continue to be non-authoritative, we believe that the proposals in the Handbook fail to effectively address the practical issue of timing of implementation and challenges in respect of timely implementation may continue to exist.

If agenda decisions remain non-authoritative, the practical issues of implementation is not resolved by including the Board's view of 'sufficient time' in the Handbook without providing parameters on what this means. As noted in our cover letter, addressing this ambiguity in educational material is not an ideal solution to provide clarity to preparers on when agenda decisions should be implemented.

We believe that including either the expectations similar to those described in paragraph BC22 of the Exposure Draft on Accounting Policy Changes (Proposed amendments to IAS 8) or the Board's observations of 'months rather than years' as communicated in the Board's *Feature – Agenda decisions - Time is of the Essence* in the Handbook would remove some ambiguity of the Board's intentions.

Consistent with the reasoning in our cover letter, we believe that the Committee should reserve the right to require an agenda decision to be implemented immediately when deemed appropriate. This would ensure that the process does not create perverse incentives by discouraging individuals from submitting an issue that is clear from the Standards, accounting literature of accounting firms, etc.

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?

Other matters

We support the proposed amendments to clarify the level of review required for educational material and agree that that level of review is dependent on the depth and detail of the educational material.

We also agree with the proposed improvements in the consultation requirements prior to adding projects to the Board's work plan.

We support the clarifications of the IFRS Taxonomy due process and Taxonomy updates as well as the role of the Due Process Oversight Committee in overseeing the process.

Question 4—Consequential amendments to the IFRS Foundation <i>Constitution</i>

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

Do you agree with these proposed consequential amendments?
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Proposed amendments to the IFRS Foundation Constitution

We agree with the consequential amendments to the IFRS Foundation Constitution to align the role of the Advisory Council as described in the proposed amendments to the Handbook.

Appendix B

This attachment contains our comments on other matters not specifically requested in the Invitation to Comment.

Post implementation review

We are supportive of the post implementation review process as it strengthens the Board's understanding of how its Standards work in practice and of how effective its outreach and deliberations are.

We are concerned that post implementation reviews are not performed on a timely basis as required by Section 6.52 of the Handbook – i.e. within approximately 30-36 months after the effective date of a new Standard. For example, the post implementation review of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, and IFRS 12 *Disclosure of Interests in Other Entities* are past due. We encourage the Board to commence the post implementation review of these projects to address many of the practical implementation difficulties and complexities that have arisen in applying these Standards.

In January 2016, the Committee discussed various issues related to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and recommended that the Board consider a broad-scope project on IFRS 5. We understand that a post implementation review of IFRS 5 to address these various issues is part of the future plans for the Board and we are concerned about when these issues will be addressed.

As three new Standards have recently become effective (IFRS 9, IFRS 15 *Revenue from Contracts with Customers*, and IFRS 16 *Leases*) it is imperative to ensure that there is a timely post implementation review process and the current backlog of projects may create challenges.