



Australian Government

**Australian Accounting
Standards Board**

Level 7, 600 Bourke Street
MELBOURNE VIC 3000
Postal Address
PO Box 204
Collins Street West VIC 8007
Telephone: (03) 9617 7600
Facsimile: (03) 9617 7608

23 August 2012

David Sidwell
Chairman of the Due Process Oversight Committee
IFRS Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear David,

IFRS Foundation Invitation to Comment (ITC)
IASB and IFRS Interpretations Committee Due Process Handbook

Thank you for the opportunity to comment on the proposed update of the IASB and IFRS Interpretations Committee *Due Process Handbook*.

The AASB is generally supportive of the proposed updated Handbook, with some reservations. Its reservations relate to whether, in implementing the proposals, the Foundation will be able to maintain a reasonable balance between:

- (a) ensuring the IASB and the Committee are actively issuing and revising their Standards and Interpretations (IFRSs) on a timely basis to support the issuance of high-quality financial reports that are responsive to users' needs; and
- (b) ensuring a high-quality governance process is followed in developing and approving IFRSs.

While there needs to be reasonable opportunity for consultation with interested parties and consideration of their comments, this should not excessively delay issuance of IFRSs in areas where improvements are urgently required. Appendix 4 of the Invitation to Comment illustrates that these governance due processes would now be quite extensive and potentially slow down development of IFRSs. In this regard, the AASB notes that the recently introduced process of post-implementation reviews will potentially offer a valuable safety mechanism to address any issues overlooked in the consultation and development process, and thus mitigate the need to be overly cautious in developing governance processes followed in developing and approving IFRSs.

The AASB's other significant concerns relate to effective dates and transition. Given the range of jurisdictions adopting IFRSs as law, it is very important that the manner in which new or revised IFRSs are specified as being adopted (including effective dates) facilitates legal adoption without a need to amend their wording. For example, adequate time between publication and effective date is particularly of concern to jurisdictions such as Australia that mandate the use of IFRSs through the issue of legislation. These aspects are discussed more fully under the AASB's response to question 5, as attached.

As noted in paragraph 3.46 of the ITC, in the context that financial reports are irrelevant without interested users, the AASB agrees that investors and analysts tend to be ‘under-represented’ during the comment letter phase. It suggests making efforts to understand why this is so and to consider whether changes could be made to the consultation process to improve their participation in the process. The lack of input might be a symptom of users believing that financial reports include detailed information that lacks relevance.

The AASB’s specific responses to the questions and a number of other comments (some relatively minor and/or editorial in nature) are also attached.

Yours sincerely,



Kevin M. Stevenson
Chairman and CEO

**AASB’s Specific Comments on Questions in IFRS Foundation Invitation to Comment
IASB and IFRS Interpretations Committee Due Process Handbook**

Consistent with paragraph 7.1 of the draft Handbook, this submission uses ‘IFRSs’ to include Interpretations ratified by the IASB. Where pertinent in this submission, ‘Standards’ and ‘Interpretations’ are distinguished by using those words instead of ‘IFRSs’ and ‘Interpretations’ (e.g., the distinction made in Chapters 6 and 7 of the draft *Handbook*). As a matter of drafting, the AASB recommends that the IFRS Foundation refrain from using ‘IFRSs’ when it intends to refer only to Standards (in contrast to Interpretations). Describing IFRSs as pronouncements that sometimes exclude Interpretations is likely to cause confusion.

Question 1

The Trustees have included an introductory section dealing with ‘oversight’, and the responsibilities of the DPOC (see paragraphs 2.1–2.15).

Do you support the inclusion and content of this section? Why or why not?

The AASB agrees with inclusion of the ‘oversight’ section, because the Due Process Oversight Committee (DPOC) is relatively new and it is important that its responsibilities are clear. However, as noted in the covering letter to these comments, it is important that ‘oversight’ does not impede timely development of IFRSs.

Question 2

The DPOC have created a Due Process Protocol in the form of a table that shows the steps that the IASB must, or could, take, as well as reporting metrics to demonstrate the steps that they have taken, in meeting their due process obligations (see Appendix 4).

Do you agree with the idea that such a table should be maintained on the public website for each project?

Why or why not?

The AASB agrees that it would be informative to list for each project the more relevant and significant steps that have been taken, and to make this information available on the website. However, as noted in its covering letter and response to question 1, it is also important that ‘oversight’ does not impede timely development of IFRSs.

Question 3

A research programme is described, which we expect will become the development base from which potential standards-level projects will be identified (see paragraphs 4.9–4.22). In addition, a new section on maintenance has been added, which formalises the practice that the IASB and the Interpretations Committee have been following for addressing matters that are narrow in scope. It clarifies that the more formal project proposal processes were always intended to apply to new IFRSs and major amendments.

The IASB has the discretion to initiate changes that are narrow in scope to IFRSs as part of the general maintenance of IFRSs. The new section also explains how the activities of the IASB and the Interpretations Committee are closely related (see paragraphs 5.11–5.20).

Do you agree with the distinction between narrow-scope projects, which come under the heading of maintenance and comprehensive projects, which come under the heading of development of IFRSs?

Why or why not?

Do you agree with the introduction of a separate research programme that will likely be the development base from which potential standards-level projects will be identified? Why or why not?

The AASB generally supports the distinction between narrow-scope projects and comprehensive projects. It supports the proposal to introduce a separate research programme, which may lead to the strategic development of accounting standards on a more conceptual basis.

Question 4

Two changes to comment periods are proposed. The first would increase the minimum comment period for exposing the draft of a rejection notice of a request for an Interpretation request from 30 days to 60 days (see paragraph 5.16). The other change relates to the re-exposure of a document. The DPOC is proposing to allow the IASB to have a reduced comment period of a minimum of 60 days for documents it plans to re-expose, if the re-exposure is narrow in focus (see paragraph 6.26).

Do you agree with the changes in the comment period lengths for rejection notices and re-exposure drafts? Why or why not?

The AASB supports the proposed changes.

Question 5

Are there any other matters in the proposed handbook that you wish to comment on, including matters that are not covered by the handbook that you think should be?

A. Effective dates and transition

General comments

Both paragraph 6.32 of the ITC (in relation to Standards), and the equivalent paragraph 7.20 (for Interpretations), require sufficient time to be allowed for transition in setting an effective date. However, there is little guidance on what considerations should be involved. Amongst other things, the time needed in some jurisdictions to issue legislation should be taken into account. On the other hand, guidance should be included to accommodate the possible need for an almost immediate effective date, e.g. as an urgent correction to requirements that are about to become applicable, having been issued a year or so previously. The proposed wording of paragraphs 6.32 and 7.20 does not allow any exception to the general rule.

Furthermore, there is no procedural guidance on what allowance should be made for interim reporting in the first year of application and how this should be conveyed, especially for Interpretations, which often have effective dates a short time after issuance. Guidance is also required on the matters that should be considered in deciding whether to allow, require or forbid early adoption, including for Interpretations. The conclusion about early adoption should be clear in each finalised IFRS (whether new or revised).

Particular consideration to effective dates should also be given when a number of Standards dealing with related subjects have been issued or revised at the same time.

An example of where the timing of amendments caused particular concerns in Australia is the related amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures*, which were released on 18 December 2011. Although the

mandatory effective date was extended to 1 January 2015, early adoption is still possible from the previous effective date of 1 January 2013 (and earlier). Because of the legal position in Australia and the fact that the new transition disclosures in IFRS 7 had not been exposed for comment, a number of months were necessarily required to prepare draft amending Standards, release them for a comment period, consider the comments received and finalise the amending Standards. As a consequence, the transitional period is significantly reduced, particularly for early adopters.

Specific concern

A specific concern of the AASB is that all substantive changes to IFRSs (i.e., changes other than editorial corrections) should have an effective date. In some instances in the past, changes to IFRSs have been made without specifying an effective date, such as the addition of paragraph 21 (concerning determining whether an entity is acting as a principal or as an agent) to the examples accompanying IAS 18 *Revenue*.

Even for so-called ‘minor’ changes, when a change to an IFRS is substantive (i.e., changes the meaning), omitting to specify an effective date could imply the changed wording clarifies an existing requirement. Accordingly, it could imply that compliance with the previous wording of the IFRS (if resulting in a different treatment from that under the revised wording) was an error. The AASB regards this situation as untenable. This practice is particularly concerning in jurisdictions, such as Australia, that adopt IFRSs verbatim as legislation applying to for-profit entities. At law, in various jurisdictions, changes to legislation must have an effective date and cannot be retrospective (unless certain legal requirements are satisfied). To avoid forcing jurisdictions to create their own effective dates for changes to Standards that incorporate IFRSs, which would undermine the goal of verbatim adoption of IFRSs under domestic legislation, the AASB strongly urges the IASB to ensure all substantive changes to IFRSs have an effective date.

B. Other comments

1 General drafting comment

The AASB notes that, at times, the drafting style used in the ITC is expressed in mandatory terms (e.g., paragraph 3.59 states that “affiliations of the group members must be made public”), but at other times is expressed ambiguously as permissive or mandatory (e.g., paragraph 4.13 states that “The IASB should maintain an up-to-date summary of its research programme”), and yet at other times is expressed passively/descriptively (e.g., paragraph 3.63 states that “consultative groups are reviewed by the staff”). To further illustrate this point, the AASB notes that paragraph 4.26 is expressed as stipulating what the IASB must do regarding inconsistencies in IFRSs, but the very next paragraph, paragraph 5.1, merely describes what the IASB considers in deciding whether a proposed agenda item will address users’ needs. The AASB suggests reviewing the whole draft Handbook for consistency in this regard.

2 Paragraph 1.1

The AASB considers that the purpose of high-quality accounting standards is to improve financial reporting for the benefit of users. However, except for the allusion to ‘in the public interest’, the introduction to the ITC seems to suggest that accounting Standards are

an end in themselves. The AASB suggests some reconsideration and widening of this introductory paragraph to clarify that accounting Standards are intended to benefit users by aiding the preparation of better financial reports, possibly by incorporating some of paragraph 3.45.

3 Paragraph 2.8(e)

The AASB suggests identifying the parties to whom the DPOC is responsible for making recommendations regarding changes to the composition of committees that are integral to due process.

4 Paragraph 3.13

The paragraph states that there is no quorum for an IASB meeting. However, paragraph 3.16 notes that certain decisions require a simple majority in a public meeting attended by at least 60 per cent of the IASB members. Also, the middle sentence in the definition of ‘Simple majority’ in the Glossary seems to state that a quorum is required. The AASB suggests addressing this apparent inconsistency.

5 Paragraph 3.28

Perhaps the Handbook should contemplate a circumstance where an IASB member is unhappy with the drafting changes made by another member or staff revealed by the post-ballot draft.

6 Paragraph 3.29

The reference to a ‘selected group of reviewers’ raises the question of which criteria should be used to make such a selection, notwithstanding the examples given of who those reviewers might be. For example, it is clear that one criterion is that the parties have provided feedback on the project. However, it is unclear what criterion might be used for determining which ‘other standard-setters’ might be invited as reviewers.

7 Paragraph 3.30

The last sentence notes “Because reviewers are conveying their personal views rather than those of their organisations, their comments are not normally made public.” The AASB notes that a reviewer might elect to make their comments public, but that the IASB should not make such views public without first seeking permission from the reviewer. The AASB suggests that the Foundation clarify its intentions.

8 Paragraph 3.46

In this paragraph, it is noted that investors and analysts tend to be ‘under-represented’ during the comment letter phase and the IASB undertakes additional steps to consult with them. As investors (including creditors) and analysts would represent the predominant users of the financial statements, this under-representation perhaps suggests there is something wrong with the process that needs to be remedied. It might be that they are just not interested because they do not see outcomes being achieved that they consider are beneficial. Or perhaps they consider that their views are being communicated by other mechanisms, such as through the consultative groups. The AASB thinks this paragraph

could also usefully acknowledge that users other than investors, and investment intermediaries, tend to be under-represented.

9 Paragraph 3.49

In light of the Memorandum of Understanding (MoU) dated 22 November 2011 between the IASB and the International Federation of Accountants (IFAC), the AASB suggests that this paragraph should explicitly refer to the IPSASB.

10 Paragraph 3.66

The AASB agrees in principle that arguments presented in comment letters should be considered in terms of their technical merit, rather than based on the number of constituents presenting certain arguments. Nevertheless, it thinks that often a statistical analysis of the number and types of respondents expressing a particular view is useful supplementary information.

11 Paragraph 4.6

The AASB thinks this Objective paragraph should be re-written to reflect the development intentions expressed in paragraph 3.55 and its comments above regarding paragraph 1.1. IFRSs in themselves do not provide a faithful portrayal of an entity's financial position and performance but, rather, are the means to help achieve that faithful portrayal. Further, it is the financial statements, rather than IFRSs, that serve investors and other users.

12 Paragraph 4.12

In view of the dynamic environment in which standard-setting activities take place, including research, the AASB suggests amending paragraph 4.12 to contemplate that the IASB's expectations of other parties undertaking activities on the IASB's research programme might change over time, and that these changed expectations should be conveyed promptly to the other parties affected.

13 Paragraph 6.9

The last sentence states that an IASB member must make their intentions about dissenting known at a certain time. The AASB notes it is conceivable that subsequent information of which a member becomes aware might mean that a decision to dissent comes later than the time currently proposed to be mandated.

14 Paragraph 6.30

The last sentence states "Material that is integral to an IFRS is provided to governments, or the relevant authorities, that have adopted IFRSs and have an agreement with the IFRS Foundation." The AASB thinks this warrants clarification – for example, when is it provided, in what format, and what are the terms of the agreement?

15 Paragraph 6.56

It is not clear what "at that time" means in the context of a premature PIR. Does it mean after application of the Standard for two years or after the expiry of the comment period?

16 Paragraph 7.16

This paragraph only contemplates two options – finalisation or re-exposure. A third possibility is to withdraw the proposed Interpretation. The AASB suggests addressing this possibility.

17 Paragraph 8.5

The actual meaning or implication of “failure in any one area” is not clear. It would probably be better to refer to “limited failure” or not to condition “failure” at all.

18 Glossary of terms

The definitions of some terms could be clarified. For example:

- For ‘Comment letter’, referring to ‘letter’ in the definition could be seen as narrowing the definition too much. The AASB suggests replacing ‘letter’ in the definition with ‘comments’.
- For ‘Effect Analysis’, the use of the term ‘effect’ in the definition seems too vague. The AASB suggests clarifying the nature of the effects that are the focus of an effect analysis.
- For ‘Public hearing’, the AASB would be concerned if the reference to ‘meeting’ in the definition necessarily implied face-to-face meetings.

19 Appendix 2

In relation to the fifth dot point, it is unclear to the AASB why members of the consultative group should necessarily act as individuals and not as representatives for organisations. The AASB sees no problem with an individual representing an organisation, as long as their role is clear.

20 Appendix 4

Three-yearly consultation on the IASB work programme

In relation to the step ‘Targeted efforts to reach investor groups’, no reference is made to a more general consultative document. The AASB would expect the general public to be consulted in addition to the investor groups.

Research Programme

In relation to the last step, ‘Research projects can be undertaken by the IASB or in collaboration with other bodies’, the AASB questions the suitability of the word ‘supervision’ in the third column, which states ‘... Research carried out either internally or externally with the supervision of the IASB ...’. The AASB would prefer it to be expressed along the lines of ‘in close liaison with’, to better reflect the relationship between the IASB and those undertaking research.

C. Editorial Comments

Paragraph 2.10(a)

The reference to “the issues” should be “any issues”. There might not be any issues, whereas “the issues” implies there always will be issues.

Paragraph 3.10, last sentence

The AASB suggests amending this sentence to say that the DPOC expects that most agenda papers of the IASB and the Interpretations Committee will be made publicly available ‘in their entirety’.

Paragraph 3.14

The paragraph refers to ‘tentative’ votes and then later to the same votes as ‘interim’ votes. The AASB suggests making the wording consistent.

Paragraph 3.16

The AASB suggests, in the first sentence, inserting “(listed in paragraph 3.18)” after “a document”, to clarify that ‘a document’ (for the purposes of the sentence) does not refer to documents referred to in paragraph 3.17. The AASB also suggests that the final sentence regarding other decisions should become a paragraph of its own, following paragraph 3.17. Furthermore, it suggests adding a final sentence to paragraph 3.16 along the lines of “The balloting process is described in paragraphs 3.21 to 3.28.”

Paragraph 3.18

Perhaps this table should also include information on voting on “sweep issues” - see paragraph 3.25.

The AASB also suggests the Ratification process for Interpretations referred to in the table should be cross referenced to the requirements in section 7, perhaps by way of footnote. Otherwise there is no reference to “ratification” for quite a few pages. Possibly it would be useful to insert a column in the table listing the applicable cross references for all sections.

Paragraph 3.19

The AASB suggests that this paragraph should precede paragraph 3.18.

Paragraph 3.21

The AASB suggests ensuring that any reference to “a document” is consistent with that in paragraph 3.16.

Paragraph 3.23

This paragraph is slightly confusing. The AASB suggests replacing the commencement “When a document is balloted” with “In the process of a document being balloted”. In the second sentence, it suggests inserting “advised by them” after “dissenting opinions”.

Paragraph 3.27

The AASB suggests merging the first two sentences, by deleting the full stop and “It is this document”.

Paragraph 3.29

The AASB suggests, in the first line, inserting “of certain documents” after “the drafting”.

Paragraph 4.7

The AASB thinks it would be more appropriate to express the first sentence as “... the IFRS Foundation renders all assistance to help ensure the consistent application of IFRSs internationally.”, to avoid overstating the capacity of the Foundation to ‘ensure’ anything.

Paragraph 4.9

The AASB suggests a minor wording change (see underlined words below) in the penultimate sentence: “... such as a major change to an IFRS or development of a new IFRS.”

Paragraph 6.49

This paragraph notes that a PIR normally begins after the new requirements have been applied internationally for two years. The use of ‘internationally’ seems superfluous, and therefore should either be deleted or clarified as to what is intended by the use of the term in this context.

Glossary of terms

This could be simplified and the definitions of some terms clarified. For example:

- For ‘Annual Improvements’ is it necessary to include “that are packaged together and”?
- For ‘Comment letter’, is the second sentence necessary?
- For ‘Discussion paper’, is the second sentence necessary?
- For ‘IFRS Advisory Council’, its objective is already set out in paragraph 3.52.
- It might be helpful to add a definition of ‘project’, particularly, for example, for Appendix 4 where there are Due Process Protocols for projects.

Appendices

The AASB suggests that consideration be given to the sequence of the Appendices. For example, Appendix 3 is the Appendix most likely to be referred to by outside parties, so perhaps should be placed earlier.

Appendix 1

The AASB suggests that consideration be given to restricting the history to changes since the last edition of the Handbook. The detail of changes in May 2012 is quite extensive, compared to that shown in earlier updates. If present practice were continued, what would happen in future updates – would all this information be replicated or merely summarised?