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6 September 2012

IFRS Foundation
30 Cannon Street
London
EC4M 6XH
United Kingdom

Our Reference: 2012/JE/C1/IASB/81

RE: Invitation to Comment - IASB and IFRS Interpretations Committee Due Process Handbook

Dear IFRS Foundation Trustees:

The International Organization of Securities Commissions (IOSCO) Committee on Issuer Accounting, Audit and Disclosure (Committee 1) thanks you for the opportunity to provide our comments regarding the proposed IFRS Foundation Due Process Handbook (the Handbook).

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of Committee 1. They are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

General Observations

Committee 1 members support the Due Process Oversight Committee's work to update the Handbook. We welcome the potential for this review to enhance the efficient and effective development of IFRSs and Interpretations.

Calle Oquendo 12
28006 Madrid
ESPA A
Tel.: + 34 91 417.55.49 Fax: + 34 91 555.93.68
mail@oicv.iosco.org - www.iosco.org



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With respect to the combination of the due process handbooks for the IASB and the IFRS Interpretations Committee, we are supportive of this concept; however, we have included in this letter our comments and suggestions regarding how the Handbook proposes to do so.

We have organized our comments and suggestions, below, in accordance with the ordering of the proposed Handbook. With respect to the particular questions proposed in the Handbook, we generally agree with the approach taken by the IASB and have no specific concern with the matters referred to in questions 1 to 3. Our thoughts with respect to question 4 are included within our comments, below.

Specific Comments and Suggestions

Section 3 – Principles Underlying the Due Process Requirements

Meeting votes and the ballot process

Paragraph 3.16 provides that Board decisions other than the publication of a document require "...a simple majority in a public meeting attended by at least 60 per cent of the IASB members." Does this provision apply to a Board decision regarding adding to the Board's agenda a standard-setting project for a new IFRS or a major amendment? The reference to "other decisions" in this paragraph implies it does apply, thus conceivably a decision to add such a project could be made if (only) 6 out of 16 Board members (a simple majority of 60% of the Board members) were in favor?

Balloting

Paragraph 3.27 seems to address voting for both the IASB and the Interpretations Committee, indicating that "The IASB can determine how voting should be carried out, but may use paper or electronic means." Does the provision for paper or electronic means also apply to votes by the Interpretations Committee? Our understanding from reading other references in the proposed Handbook (for example, in paragraph 3.18) is that, consistent with its current approach, the Interpretations Committee can only vote in a public meeting when the requisite minimum number of members is present.

Private and small group meetings

With respect to 'private and small group meetings' in paragraph 3.38, considerations of the maximum number of Board members that can meet in those small group meetings are important to a correct understanding of the process. It could be helpful to insert a paragraph mirroring paragraph 3.16 that would state the maximum number of Board members that can meet in private. That additional paragraph could include an example based on 15 appointed Board members: because 9 members are required to form a supermajority, 7 members could vote in the same way against a decision. Therefore, no more than 6 members should meet in private.



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'Comply or explain' steps

With respect to holding public hearings in 'Comply or explain steps' in paragraph 3.43, the IASB should pay attention to hearing opinions from stakeholders in various regions, e.g. by holding public roundtables in major regions.

Consultation with Investors and Other Users of Financial Reports

We note that paragraphs 3.45 to 3.47 regarding consultation with investors and other users do not refer to the Interpretations Committee. While we agree that the ratification process for interpretations means that the Committee does not bear an ultimate responsibility, we believe that the Committee still retains some degree of public interest responsibility as they reach a consensus in public. We believe it would help enhance the transparency of the process if this were clearly expressed. Additionally, we think that the degree of the Committee's role should be more precisely described. Along those lines, we think that paragraph 3.47 should include a reference to reports from the Interpretations Committee as to their outreach activities.

More broadly, we believe that, in a number of paragraphs, the Interpretations Committee should be mentioned together with the IASB. For example, we believe this should be the case for paragraphs 3.48 through 3.52 and where appropriate in paragraphs 8.1 through 8.9.

Consultation with National Standard-Setters

Paragraph 3.49 discusses the development of a national and regional network. Committee 1 members question why some groups are specifically named, such as AOSSG, GLASS and PAFA. It would seem more appropriate for the Due Process Handbook not to mention specific groups by name as they may change over time.

Consultation with Securities and Other Regulators

Paragraph 3.54 states that "the Interpretations Committee has the right to invite members of the securities regulatory bodies to act as official observers to its meetings." Committee 1 members would welcome clarification as to who exactly has this authority. As it is currently worded, is it the Interpretations Committee chair or the members by simple majority vote?

Section 4 – Technical Work Programme

Three-yearly Agenda Consultation

Committee 1 members expressed concerns about the wording in paragraph 4.3 that the objective of an agenda consultation is to obtain input on "strategic direction and balance" of the IASB's work programme and is not designed to add individual projects to the Board's technical agenda. In Committee 1 members' view an important objective of an agenda consultation is to obtain input from the public as to individual projects that may be added to

Calle Oquendo 12
28006 Madrid
ESPAÑA

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the IASB's work programme. While we agree that the IASB should continue to follow its normal process, including developing a specific project proposal, prior to determining whether to add a project to its standards-level programme, we believe public agenda consultations should be given appropriate and due consideration by the IASB in its decision on which individual projects should be added to its technical agenda. We would suggest that paragraph 4.3 be revised accordingly.

Consistent Application of IFRSs

In paragraph 4.7, Committee 1 members pointed out a drafting issue that deals with the role of the IFRS Foundation. More specifically, the first sentence of the paragraph notes that "*the IFRS Foundation renders all assistance to ensure the consistent application of IFRSs internationally.*" [emphasis added]. Members suggest that 'ensure' should be replaced with 'promote' as it is more in line with the extent of the activities of the Foundation.

Research programme

In reading paragraph 4.9 Committee 1 members expressed concerns that the Board would not be allowed to undertake a new project unless it went through the research programme. More specifically, the members are of the opinion that should an immediate need arise, the Board should still be able to undertake a new project even though it did not go through the research programme. We believe that what happened with the Offsetting project appropriately illustrated the need for flexibility here.

Section 5 – Standards-Level Projects

Implementation and Maintenance

We think that paragraph 5.11 may create an overlap in the respective responsibilities of the Board and the Interpretations Committee with respect to the maintenance of IFRS. Because eventually interpretations to be published are ratified by the Board, and because all amendments to IFRSs fully follow the IASB's due process, is it indeed the Board that is responsible for the maintenance of IFRSs? Is the reference to the Interpretations Committee's responsibilities in paragraph 5.11 with regard to the situations in which the Handbook indicates the Interpretations Committee has sole responsibility; that is, to decide that something is not to be taken onto the agenda?

With respect to the new objectives of the Interpretations Committee as set out in paragraph 5.12, while we agree that the Handbook sets out the due process steps for the Committee's objectives related to issuing interpretations and undertaking tasks at the request of the IASB (the latter falling under the IASB's general due process), we find that the document is silent on due process steps specific to the objective of "providing timely guidance on those issues that are not specifically addressed in the IFRSs." This area is critical as it involves areas where IFRSs are silent and where new principles may need to be



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proposed. We would appreciate further development and believe something should be included in the Handbook as to the due process that should be followed in these situations.

Committee 1 members observe that none of the criteria set out in paragraph 5.13 refer to the terminology used in the “implementation and maintenance” heading which precedes this paragraph. More specifically, issues in subparagraphs (a) to (c) reflect projects that could be broader than implementation or maintenance. This could create a gap compared to previous expectations as to the Interpretations Committee's scope of activities. Therefore we would suggest that the heading be made consistent with the range of activities that the Interpretations Committee could be asked to undertake from now on.

More broadly, with respect to this section, we ask why the Annual Improvement Process is not mentioned as typically illustrating implementation and maintenance activities. Additionally, should there be criteria to indicate which issues are channeled to the Annual Improvement Process?

In paragraph 5.16 Committee 1 members support the extension of the comment period for rejection notices from 30 days to 60 days (Question 4). We would also note that while rejection notices are open for public comment, issues that are initially considered for but are not included within the Annual Improvement Process may not follow the open-for-public comment process as do the rejection notices. We strongly believe that the process for these issues should be clarified for the sake of transparency of implementation and maintenance activities. We are also concerned that it is unclear in these cases whose ultimate responsibility it is (the Board or the Interpretations Committee) to decide that certain issues should be dropped while others may be addressed.

Section 6 – New or Amended IFRSs

Completion of the Deliberations

In paragraph 6.26, with respect to the reduction of the comment period for re-exposure drafts (Question 4), some members believe that if there is a need for re-exposure, surely the topics being re-exposed are already significant. Therefore, it is not clear what re-exposure drafts that are ‘narrow in focus’ relates to. In addition, a reduction in the comment period could be perceived as inconsistent with the need to re-expose.

Section 7 - Interpretations

Developing a draft interpretation

Following paragraph 7.8, if a conflict is identified then generally an interpretation would not be the appropriate path forward. Therefore we suggest the paragraph be changed to read: *‘Interpretations must not change or conflict with IFRSs or, in the absence of an IFRS, with*

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the Conceptual Framework. If the Interpretations Committee concludes that the requirements of an IFRS differ from the Conceptual Framework, it obtains direction from the IASB before performing further work developing the Interpretation further.'

Committee 1 members note that in accordance with paragraph 7.9 dissenting opinions from IFRS Interpretations Committee members should not be included in a draft interpretation; rather, the Basis for Conclusions should identify areas where some members held strong opposing views at the draft interpretation stage. We are concerned that mere identification of areas of opposition may not sufficiently articulate opposing views at the draft interpretation stage. Additionally, paragraph 7.19 prohibits that Committee members dissent from an interpretation. However at the final stage, the request for ratification sent to the Board members should identify how many Committee members objected to the interpretation being finalized and their reasons for doing so. While the ultimate responsibility for publishing an interpretation lies with the Board, we believe that Committee members' objections should be made visible.

Agreement and ratification by the IASB

In paragraph 7.22, we find the introduction of 'general agreement' confusing. We believe that it could be replaced with 'Confirmation is obtained ~~General agreement is achieved~~ [...].'

Committee 1 members note that paragraphs 7.23 and 7.25 use different terminologies such as 'ratify' or 'approve' as part of the Board's process to issue an interpretation. We question whether that difference is intended.

Section 8 – Protocol for Trustee action for perceived breaches of due process

Paragraph 8.3 indicates that the name and contact details of the complainant will be posted on the DPOC web page, along with the complaint. While we understand there are pros and cons to making the identity of the complainant known publicly, we suggest that the Trustees duly consider the effects on the incentives for potential complainants to come forward.

Appendix 4 – Due Process Protocol

In Appendix 4, in the table under the heading 'Research Programme' (p. 49 of the document), we believe that a clearer description of project requests should be provided. We think that additional wording would be useful around whether those project requests include requests that make their way to the Interpretations Committee, or whether it refers only to requests over some sort of threshold; e.g., requests of major versus minor significance.

Also in Appendix 4, in the table under the heading 'Development and publication of an exposure draft for an IFRS, practice guidance or *Conceptual Framework* chapter' (p. 56 of the

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document), we think the reference to consultation with the Trustees is not clear from the remaining contents of that line item of the chart. Is this reference related to the DPOC's work, or otherwise? We do not think it is the intent that the Trustees be consulted on the technical aspects of developing guidance, such as whether it is time for the Board to issue an ED.

If you have any questions about the matters covered in this letter, please do not hesitate to contact me at + (202) 551-5300.

Sincerely,

Julie A. Erhardt
Chairman
IOSCO Committee 1
International Organization of Securities Commissions