



International Organization of Securities Commissions
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29 July 2019

Erkki Liikanen
Chairman of the Trustees of the IFRS Foundation
Columbus Building
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Canary Wharf
London E14 4HD
United Kingdom

Ref: 2019/MS/C1/IFRSF/33

RE: Proposed Amendments to the IFRS Foundation Due Process Handbook

Dear Mr. ~~Liikanen~~,
Erkki

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

IOSCO is committed to promoting the integrity of the 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. Unless otherwise noted, the comments provided herein reflect the consensus among members of Committee 1 and are not intended to include all the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

We support the effort of the Due Process Oversight Committee (DPOC) to ensure that the IFRS Foundation Due Process Handbook remains fit for purpose and continues to reflect best practices. However, many members are concerned with aspects of the Proposed Amendments, particularly relating to Agenda Decisions.

Effect Analysis

Overall, we support the Proposed Amendments relating to the effect analysis and appreciate the confirmation that an effects analysis is conducted throughout the standard-setting process.

As articulated in paragraph 1.1 of the Proposed Amendments, since the foremost objective of the IFRS Foundation is to develop, in the public interest, a single set of high quality, understandable, *enforceable* and globally accepted financial reporting standards, some members believe it is important that enforceability be included in the list of matters in paragraph 3.79 of the Proposed Amendments.



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Agenda Decisions

Although many members consider agenda decisions useful, the following concerns have been identified. The extent of concerns varies among members, with some members holding greater concerns than others.

Due Process

Although agenda decisions do not have the same status of IFRS Standards, we understand that in practice certain stakeholders may nonetheless consider them authoritative in substance, particularly because paragraph 8.4 of the Proposed Amendments describes them as “persuasive” – a term that can be interpreted as a high threshold to overcome. The perceived authority level of agenda decisions is also heightened by the fact that they are issued by an accounting body, subject to some form of due process (although a lower level than standard-setting) and have transitional expectations (see below). For example, we understand that some auditors consider agenda decisions as “in-substance mandatory” (i.e., should be applied) and intend on routinely changing their guidance to reflect the decisions. In addition, we note that the International Auditing and Assurance Board (IAASB) developed paragraph 20 of ISA 570 *Going Concern* with reference to a specific agenda decision.¹

Considering the above, a risk exists that agenda decisions result (or are perceived to result) in standard-setting occurring in substance without the same level of due-process necessary for standard-setting. Some members are concerned that agenda decisions could be used as a “short-cut” to standard-setting at the cost of due process.

In some jurisdictions, only materials that have the status of IFRS Standards are subject to jurisdictional due process, such as regulatory review and approval. As agenda decisions do not add or change requirements in IFRS Standards and therefore do not have the same status of IFRS Standards, these jurisdictions will not necessarily participate in the due process envisioned in paragraph 8.2 of the Proposed Amendments – a process that is integral to the development, in the public interest, of globally accepted financial reporting standards. Since one of the stated goals of agenda decisions is to support the consistent application of IFRS, this goal could be jeopardized if such jurisdictions do not or cannot adequately participate in the due process. Many members consider agenda decisions akin to other non-authoritative materials, such as illustrative examples or a Basis for Conclusions, and therefore question why agenda decisions would not be subject to the same due-process as those materials.

Some members differentiate between agenda decisions that include explanatory material *and* provide new information (that was not otherwise available and could not otherwise reasonably have been expected to be obtained) versus agenda decisions that only include explanatory material. These

¹ Requiring the auditor to evaluate the adequacy of disclosures in “close call” situations in view of the requirements of the applicable financial reporting framework was made in reference to the respective July 2014 IFRS Interpretations Committee Agenda Decision. For further context, please refer to the IAASB publication https://www.ifac.org/system/files/meetings/files/Supplement_to_Agenda_Item_D_Auditor-Reporting-on-Going-Concern_final.pdf



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members believe that agenda decisions that provide new information should be subject to a level of due process that is different from those agenda decisions that only include explanatory material. The IFRS Interpretations Committee (IFRS IC) would need to apply judgement to determine the extent to which an agenda decision provides new information. Further concerns about the concept of “new information” is outlined below.

Some members suggest that an alternative way to achieve the stated goals of agenda decisions, without jeopardizing due process, is to incorporate desired content of agenda decision into the IFRS Annual Improvements process², for example, where additional content could be added to materials that accompany a standard, such as application guidance, illustrative examples, or the Basis for Conclusions. This process will also aid in the updating of agenda decisions, when changes to the associated standard occur.

One member recommends a formal appeal process be developed to allow stakeholders to formally appeal agenda decisions to an oversight body, such as the Monitoring Board (or a subset of members of the Monitoring Board). Others disagree with this recommendation.

Status

Paragraph 8.1 of the Proposed Amendments confirms that agenda decisions, including any explanatory information, do not add or change requirements in IFRS Standards and therefore do not have the same status of IFRS Standards. However, it is unclear what the specific status of these agenda decisions are in the context of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (IAS 8). For example, it is unclear how agenda decisions rank relative to other non-authoritative materials such as illustrative examples or a Basis for Conclusions.

Notwithstanding the above status concerns, some members consider agenda decisions informative and persuasive sources of literature and believe they should be applied, to the extent relevant and material. Other members disagree with this view. In addition, some members question whether compliance with IFRS can be achieved without consideration of agenda decisions. Therefore, we recommend the status of agenda decisions be clarified in the context of IAS 8 with specific consideration of paragraph 9 of IAS 8 and/or other relevant paragraphs.

Change in Accounting Policy versus Error

New Information

Paragraph 8.5 of the Proposed Amendments states 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. Because of this, an entity might determine that it needs to change an accounting policy as a result of an agenda decision.

² These members point out that one of the primary goals of the IFRS Annual Improvement process is to, among other things, enhance the quality of IFRSs by amending existing IFRSs to clarify guidance.



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Many members question how agenda decisions can concurrently “not add or change requirements in IFRS Standards” but also provide “new information that was not otherwise available and could not otherwise reasonably have been expected to be obtained”. In providing such information, a risk exists that additions to IFRS Standards would occur in substance. These members recommend that the concept of “new information” be eliminated or, at minimum, clarified and better articulated.

IAS 8

Many members believe that Paragraph 8.5 of the Proposed Amendments places undue emphasis on a change in accounting policy. These members recommend that this paragraph be amended to state that agenda decisions be considered in the context of IAS 8 to determine whether the change in accounting is a change in accounting policy, the correction of an error, or a change in an accounting estimate. In support of this point, we draw your attention to our July 12, 2018 comment letter to the [IASB Exposure Draft: Accounting Policy Changes - Proposed Amendments to IAS 8 \(March 2018\)](#) that notes, among other things:

“Committee 1 members generally disagree with the Board’s decision not to provide additional guidance to help determine whether a change that results from an IC Agenda Decision is the correction of a prior period error, a voluntary change in accounting policy or a change in accounting estimate... However, given the varying nature of IC Agenda Decisions, it is unclear whether the accounting policy that results from any individual agenda decision is the only accounting policy in accordance with IFRS or if there are other acceptable policy choices...”

Board Agenda Decisions

The above concerns are particularly relevant when it comes to the IASB issuing agenda decisions because paragraph 8.6 acknowledges that the IASB will follow the same process for agenda decisions as the IFRS IC. Most member do not support the IASB issuing agenda decisions. These members stress the risk that IASB agenda decisions could be used as a “short-cut” to standard-setting, at the cost of due process, is far too great.

Paragraph 8.7 states that the IASB is expected to publish an agenda decision only in “rare circumstances”. Some members are unclear on what constitutes “rare circumstances” and believe that the introduction of IASB agenda decisions may overlap with the mandate of the IFRS IC while creating stakeholder confusion between the work of the IASB and IFRS IC.

Despite these concerns, if the DPOC will nonetheless permit the IASB to issue agenda decisions, these members recommend that, at minimum, paragraph 8.7 include specific limited circumstances that would permit the IASB to issue an agenda decision.



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Transition

Paragraph 8.5 of the Proposed Amendments includes an expectation that an entity be entitled to “sufficient time” to, among other things, implement a change resulting from the agenda decision. Such transitional expectations appear to infer that the agenda decisions are in fact authoritative and must be implemented by an entity, to the extent relevant and material.

Some members do not believe such an expectation is appropriate for non-authoritative materials, such as agenda decisions. These members point out that transitional expectations are not required because, in accordance with IAS 8, when an accounting policy change is voluntary there are no explicit time constraints for adoption. This differs from when an accounting change is to correct an error which, in accordance with IAS 8.42, is required to be corrected in the first set of financial statements authorized for issue after their discovery.³ These members recommend that the concept of “sufficient time” be deleted from Paragraph 8.5 of the Proposed Amendments.

Other members believe that agenda decisions, to the extent relevant and material, should be applied as soon as possible.

True and Fair

To ensure, among other things, that financial statements reflect, in a “true and fair” manner, the economic realities of an entity, many members believe that prior to publishing an agenda decision, which can be narrowly focused on the existing IFRS Standards, it is important to stand-back and reflect on whether the agenda decision will improve not only the consistency of application but will also aid in providing relevant information to investors. The two concepts are not mutually exclusive but also not synonymous. In support of this point, we draw your attention to our comment letter dated May 9, 2019 on [IFRS IC’s Tentative Agenda Decision – Holdings of Cryptocurrencies](#), that notes, among other things:

...many CI members are concerned that the analysis in the TAD is narrow in focussing on these three definitional elements in IAS 38 and does not consider the context of IAS 38 more broadly in determining the applicability to cryptocurrencies...”

We recommend that a similar process, as outlined in paragraph 7.6 for IFRIC Interpretations, be implemented for agenda decisions and included in Section 8 of the Proposed Amendments. We stress that prior to issuing an agenda decision, among other things, the IFRS IC consider whether the agenda decision is consistent with the IFRS *Conceptual Framework for Financial Reporting*, particularly the qualitative characteristics of useful financial information such as faithful representation.

When a potential agenda decision will produce a financial reporting outcome that does not faithfully represent the substance of the phenomena that it purports to represent and is therefore inconsistent with

³ Consistent with IAS 8.43, corrected by retrospective restatement except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error.



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the IFRS *Conceptual Framework for Financial Reporting*, we believe IFRS IC should not issue the agenda decision. In this case, the IASB should be responsible for developing an appropriate solution and not rely on the IFRS IC.

Standard-Setting Agenda

Variations of the phrase “Interpretations Committee adds a project to the standard-setting agenda” appear throughout the Proposed Amendments such as in paragraph 5.16, 5.17, and 5.19. This phrasing infers that the IFRS IC has the unilateral power to conduct standard-setting. Such phrasing is inconsistent with 5.18 which clearly states that “if the Interpretations Committee concludes that the Board should add or change requirements in IFRS Standards, it refers the matter to the Board. If the Interpretations Committee concludes that an IFRIC Interpretation is required, it follows the process described in section 7” – a process that, among other things, involves agreement and ratification by the IASB.

We recommend the phrase “Interpretations Committee adds a project to the standard-setting agenda”, or variations thereof, be replaced with “Interpretations Committee determines if standard-setting is required”.

Other Matters

Overall, we are supportive of the Proposed Amendments on matters relating to educational material, consultation in connection with adding projects to the IASB’s work plan, and the IFRS Taxonomy due process.

Some members recommend that the Handbook describe the decision process for determining which type of non-authoritative material, such as Agenda Decisions, Practice Statements, or educational materials, to develop. In support of this point, we draw your attention to our March 29, 2016 comment letter to the [IASB Practice Statement: Application of Materiality to Financial Statement](#), that notes, among other things:

“Members raised the question of the basis on which the Board decides to issue Practice Statements versus other types of guidance (e.g., standards, guides to implementation, educational material, and so forth). If the Board decides to finalize the guidance in the form of a Practice Statement, members suggest that the IASB expand the discussion in the Basis for Conclusions about the reasoning, in this context, for issuing a Practice Statement. Members believe this expanded discussion should better enable users to understand how this type of guidance fits into the current, and any expected near-term feature, array of guidance on the application of IFRS that is available to entities, their managers, and auditors, among others.”

Consequential Amendments – the IFRS Foundation Constitution

Overall, we are supportive of the proposed consequential amendments to the IFRS Foundation Constitution and appreciate that these amendments reflect the fact that the Advisory Council provides



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broad strategic advice and that technical advice is sought from other bodies, such as the Accounting Standards Advisory Forum (ASAF).

While we acknowledge that the IFRS IC composition is not the subject of the current consultation, one member has noted that paragraph 38 of the IFRS Foundation Constitution indicates that “The Trustees shall select members of the Interpretations Committee so that it comprises a group of people representing, within that group, the best available combination of technical expertise and diversity of international business and market experience in the practical application of IFRS Standards and analysis of financial statements prepared in accordance with the Standards.” This member would like to emphasize the importance of ensuring a sufficient representation of users to ensure an appropriate balance of views on the IFRS IC.

Additional Items

Some members noted concerns with the following Proposed Amendments:

- Paragraph 3.56 (Full and Fair Consultation) – the deletion of content specifying dialogue and regular meetings with securities regulators. These members believe that dialogue and regular meetings with securities regulator, a key stakeholder, is important to due process. Therefore, these members recommend that this content be retained.

Paragraph 5.15 (Criteria for New IFRS Standards or Major Amendments) – the paragraph specifies that stakeholders are encouraged to submit application questions. Some members believe it would be helpful to clarify the procedure for processing submitted application questions, including specifying whether all submitted questions are addressed or only some. In addition, some members recommend enhancing the transparency at the onset of the process by making the submitted application questions public on the IASB website, at the time of submission, and disclosing the origin of the submission (e.g., accounting firm, regulator, etc.).

- Paragraph 5.6 (Criteria for New IFRS Standards or Major Amendments) – the deletion of content requiring the IASB to consult with its Advisory Council and ASAF. These members appreciate that new requirement in paragraph 4.6 is intended, among other things, to streamline the consultation process so that the IASB undertakes consultation only when the project has not been specifically contemplated in the most recent agenda consultation. Nonetheless, these members believe it is still very important to consult with Advisory Council and ASAF when a research project enters the standard-setting phase, as stakeholders’ views could have evolved after considering findings from the research phase. Therefore, these members recommend that consultation with the Advisory Council and ASAF be retained at least in these circumstances.
- Paragraph 7.7 (IFRIC Interpretations) – lack of specificity in the phrase “forthcoming IFRS Standards”. These members believe that if a forthcoming IFRS Standard will be in development for several years, standard-setting, in the short-term, may nonetheless be beneficial to address, in a



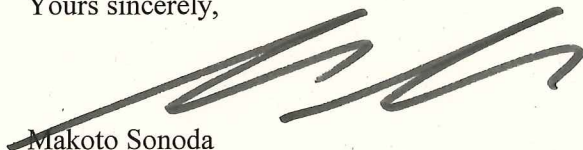
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timely manner, a specific issue or concern. Therefore, these members recommend that the phrase "forthcoming standard" be limited to those standards expected to be finalized in the short-term.

We appreciate your thoughtful consideration of the views provided in this letter.

If you have any questions or need additional information, please do not hesitate to contact Cameron McInnis, Chair of the Accounting Subcommittee of Committee 1 at +1 416-593-3675 or myself. In case of any written communication, please mark a copy to me.

Yours sincerely,



Makoto Sonoda



Chair
Committee on Issuer, Accounting, Audit and Disclosure
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