



EFRAG PROPOSAL TO ENHANCE IFRS QUALITY CONTROL

ICAEW welcomes the opportunity to comment on the draft letter *Proposal to enhance IFRS quality control* published by EFRAG on 6 June 2014, a copy of which is available from this [link](#).

This response of August 2014 has been prepared on behalf of ICAEW by the Financial Reporting Faculty. Recognised internationally as a leading authority on financial reporting, the Faculty, through its Financial Reporting Committee, is responsible for formulating ICAEW policy on financial reporting issues and makes submissions to standard setters and other external bodies on behalf of ICAEW. The Faculty provides an extensive range of services to its members including providing practical assistance with common financial reporting problems.

ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 142,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

Copyright © ICAEW 2014
All rights reserved.

This document may be reproduced without specific permission, in whole or part, free of charge and in any format or medium, subject to the conditions that:

- it is appropriately attributed, replicated accurately and is not used in a misleading context;
- the source of the extract or document is acknowledged and the title and ICAEW reference number are quoted.

Where third-party copyright material has been identified application for permission must be made to the copyright holder.

For more information, please contact frfac@icaew.com

icaew.com

MAJOR POINTS

Getting it right first time

1. While we agree with the underlying problem identified by EFRAG, we have some concerns over the proposal to introduce an 'implementation stage' to the IASB's standard setting process. Our principal concern is that this would result in unnecessary further delays to the already lengthy process for finalising new or revised standards. We also note that the IFRS Foundation has, in recent years, made changes to the IASB's due process which in our opinion represents a major step in the right direction. Therefore, while we believe that there is still scope for further improvements, we would prefer that the IASB focus on continued efforts to ensure that the existing due process is operating effectively and efficiently and that any new or revised standards are therefore, as far as possible, 'right' first time.

RESPONSES TO SPECIFIC QUESTIONS

Q1: Do you agree with EFRAG that some specific standard setting process step involving the public at large is necessary to further enhance quality control of IFRS? Please explain your views.

2. We agree with EFRAG that it is important for the public to be involved in the process for setting International Financial Reporting Standards (IFRS). However, the IASB's standard setting process already encourages public involvement at various stages and for this reason we are not convinced that an additional specific step is necessary.
3. In our view, the underlying issue is not the absence of opportunity to involve the public but rather a lack of good quality engagement under the existing system. For example, we believe that engagement with the public during the exposure draft stage is critical to identifying and addressing potential implementation issues. Therefore, we would prefer that more attention was given to improving the existing due process (as outlined in paragraph 7 below) which, if effective, could go a long way towards tackling some of the implementation issues outlined by EFRAG.
4. Furthermore, we note that changes to the early stages of the IASB due process were recently made, including a research programme to inform potential standards-level projects and the issue, for comment, of related discussion papers. We would suggest that more time is required to assess the effectiveness of these new initiatives before further changes to the due process are introduced.

Q2: Do you support the proposal by EFRAG? Please explain your views.

5. We agree with EFRAG that there is scope for improvement in the IASB's due process for finalising new or revised standards. However, we have some concerns over EFRAG's proposal and, as indicated in our response to question 1, have an alternative view as to how the underlying issue might be addressed. Our concerns are outlined in the following paragraphs.
6. Over time the process for finalising new or revised standards has become increasingly lengthy. We are therefore concerned that the introduction of an additional step would result in unnecessary further delays. In our view, it would be preferable to ensure that the existing due process is operating effectively and efficiently and that any new or revised standards are therefore as far as possible, 'right' first time.
7. We suggest that improvements could be made within the existing system. For example: ensuring that efforts to increase research and/or field testing during the 'ideas' stage of developing a new or revised standard are effective. Perhaps by collating and publishing, for comment, the outcome of field tests. Another option to consider may be the use of a quality control checklist covering points such as the impact of the new requirements on other standards. Improvements such as these would, in our opinion, help improve the quality of

exposure drafts and encourage more effective engagement with the public, thus minimising the number of implementation issues with new or revised standards.

8. Notwithstanding our preference for a 'right' first time approach, we accept that many issues with new or revised standards often do not become apparent until preparers and auditors have put the standard to the test. This matter is unlikely to be addressed under the proposal to introduce an 'implementation stage.' It is worth noting however that the IASB is now required to carry out a post-implementation review for any new standard or major amendment, normally after the new requirements have been applied internationally for two years. Although post-implementation reviews are a relatively recent initiative, they appear to be a positive step in encouraging early review of the practical issues which inevitably arise with new or major amendments to standards.
9. Furthermore, the IASB has recently taken steps to monitor and improve the implementation process at an earlier stage by establishing two Transition Resource Groups in relation to IFRS 15 *Revenue from Contracts with Customers* and the new requirements for impairment. We recognise that these groups will only exist during the early stages of implementation. However, we believe it would be advisable to first review their success before considering the need to set up any additional implementation procedures.
10. On a final note, we are unclear as to the impact that EFRAG's proposal would have on the EU endorsement process. While it is proposed that the process for endorsement would begin at the start of the implementation stage we are not sure how this would work in practice. Any changes which delay or make EU endorsement less likely would be highly undesirable.

Q3: Would you favour alternative proposals? If so, what are they?

11. Yes. As outlined above, we would favour continued efforts to improve the IASB's existing due process in order to ensure that any new or revised standards are as far as possible, 'right' first time.