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Our ref : RJ-EFRAG 546
Direct dial : Tel.: (+31)20301 0391
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Date : Amsterdam, September 3rd
Re : IFRS and IASB Interpretations Committee Due Process Handbook

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Dear sir,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to respond to the EFRAG draft comment letter on the enhancement proposals with respect to the IFRS and IASB Interpretations Committee Due Process Handbook. Whilst we view many of the comments raised in the draft letter as constructive and helpful, we also feel that certain of these comments could be more prominent or expressed in clearer language. Below we have restricted ourselves to matters that we believe are of concern or where we differ in opinion from EFRAG.

Legitimacy

We believe that the enhancement of the due process handbook is a laudable project, but it fails to address the legitimacy of the IASB decisions because of a basic flaw in the IASB governance. Countries that have adopted IFRSs have incorporated these into their legislation. As such, the IASB has become a law-making body but without the accompanying parliamentary process. No amount of enhancement of the due process handbook is going to repair that issue.

We realize that certain jurisdictions have adopted a form of endorsement as well, but in essence that amounts to a choice between acceptance and rejection. Rejection (or a carve-in or carve-out for that matter) is an unlikely choice in these circumstances because IFRS as locally adopted can then no longer be referred to as IFRS as pronounced by the IASB. Consequently, that is not the countervailing process we believe is required.

It is interesting to contrast the IASB with its US counterpart, the FASB. Whilst the FASB operates as a similar private body, it does so under the tutelage of the SEC and ultimately Congress. Both have been known to have intervened in the FASB process.

At the IASB there is a level of oversight from the Foundation, but there is no way in which this can stop, change or otherwise intervene in an IASB process. There is limited influence on the agenda setting and potentially the IASB can be requested to redo (part of) its due process, if found to be flawed, but ultimately that decision rests with the IASB, too. Whilst we are not advocating a compromise of the independence of the IASB, we believe that there should be a

better balancing mechanism between independence and oversight at an essentially private body that has been charged with world-wide standard setting.

We have commented in this vein at the time of the evaluation of the IASB governance, but effectively, little has changed since then. Given the significant impact of international accounting standards as well as the fact that the US appears to have decided to not adopt IFRS for the foreseeable future, in our opinion this matter should be reconsidered and addressed on a priority basis. We believe that EFRAG should make this point in its comments and not restrict itself to a merely reactive response to the proposed enhancements.

EFRAG draft comment letter - general

We believe that certain of these comments could be more prominent or expressed in clearer language.

For instance, EFRAG published earlier this year its position paper on “Considering the Effects of Accounting Standards”. We believe that many of the points made in that paper should be considered in this context. There is some reference to effect analysis in the enhancement proposals, but these are different from the recommendations in the EFRAG paper and moreover in many instances not very specific. We would have expected EFRAG to raise this issue and incorporate its findings from the position paper in its comments in the cover letter. We, in any case, have done so in our comment letter to the IASB.

We entirely agree with the comments raised at the end of draft cover letter on the right balance between a principle-based approach to the due process handbook and the risk of incorporating too much detail. We believe this point should be made stronger. In our view, the proposed enhancements already result in a far too detailed and prescriptive process. Much of the handbook is descriptive, i.e. it describes in extensive detail all that can potentially happen in each stage of the development of a standard or any other paper or activity the IASB may publish or undertake. However, that is not the same as due process. Due process is about the essential principles that should be met in order to underpin the appropriateness of the outcome. That also means that it should be proportionate in relation to the matter at hand and not applied regardless of the relevance of an issue.

Also, in our view the handbook should recognize that simplifying or repealing a standard may be preferable in some cases, in order to achieve the required improvements in financial reporting. It should be about better standards and not about more standards. In our view, the IASB should take those recommendations on board and integrate them into the handbook.

We question the usefulness of Appendix 1 that is currently attached to your draft letter. It is extensive, to say the least and we think that a number of essential points made therein, particularly where EFRAG has a different opinion or a suggestion, should be moved to the cover letter to ensure that they receive the necessary attention.

EFRAG draft comment letter – other points

We agree with your observation that coordination and a shared due process with other (regional, national) standard setters is of major importance. In our opinion this is a key message. Involvement of other standards setters should not only be achieved in the phase of research papers, but also in other phases of the due process. Furthermore, we would like to stress the major importance of post-implementation reviews, at least two years after the effective date of (a major alteration to) a standard.

We do not agree with the point made by the IASB that when considering comment letters it will not normally be provided with a numerical analysis of how many respondents expressed a particular view. We agree that the strength of the comments and supporting evidence is paramount, but that particular analysis can be very relevant in weighing up conclusions. As an example, we recall the exposure draft of IAS 37 a few years back where there were overwhelming numbers against those proposals that were initially ignored by the IASB.

We disagree with the proposed comment periods. In our view, they should be longer. Nowadays, there are far more respondents around the globe and the process, including taking note of the view of others as well as internal and external discussions, requires more time. The process in Europe is a good example, where EFRAG provides draft comment letters, that are extremely helpful, but the related interaction just takes time, certainly if one considers outreach and similar activities in this context. With regard to discussion papers, which are mainly used to expose early ideas about certain subjects, we believe 12 months is appropriate. Exposure drafts, against the above background, should have a comment period of 6 months. Even if a matter is narrow in scope and urgent, we consider a comment period of 30 days inappropriate. It may be impossible to meet our own due process requirements in such a short time span. Given adequate planning, such matters should not arise and the least that should be done by the IASB is an early warning that such an issue may come up.

In our original comments on the evaluation of the IFRIC we questioned the need for the continuance of that body in its current role. In our view, issues generally fall into two categories. If they are minor, they should be considered as part of the Annual Improvements and if they are material they would probably have to result in amendments of standards. The IFRIC may have a useful role in separating such matters when questions are raised, but we are of the opinion that there would be very few issues that fall between those two categories. In such a case when the IFRIC takes up an issue of that nature, then the least that should be required is a resolution within months rather than the length processes currently take at the IFRIC. We note that the recently completed review of the IFRIC considered these issues but also that the resulting recommendations did not result in a substantial change in this respect. Consequently, we disagree with the conclusions and follow-up of that review.

We agree with EFRAG that rejection notes are similar to an interpretation and should therefore be subjected to a comparable due process by the IFRIC.

We agree with the observation of EFRAG that a rigorous analysis of user and preparer needs would be a significant enhancement of the transparency of IASB's decision. In this respect the position of the auditors, i.e. the 'auditability' of standards, should be of serious consideration, too.

We do not agree with the argumentation that because of the fact that investors and other users of financial reports tend to be under-represented as submitters of comment letters, the IASB should take additional steps towards these stakeholders. We would like to emphasize the importance of balancing the positions of all stakeholders, i.e. preparers, users and auditors of financial reports rather than the focus on a particular group.

Oversight - DPOC

The oversight function of the Foundation takes place through the Due process Oversight Committee (DPOC). Appendix 4 of the proposals contains a due process protocol template for

DPOC purposes. On the Foundation website, the DPOC also has a draft protocol for its activities. These two documents differ in a number of aspects. We would have expected a final combined version of both in the proposals. At present, it is not totally clear what the situation is.

In any case, both these documents describe a basically passive role rather than an active role by the DPOC.

As you yourself have commented, the Foundation has hired a director recently, which may help in fulfilling the Foundation's role in this respect. However, in our experience the effect of the DPOC is limited as it relies on the IASB and its staff for its information and has no independent information gathering role. We believe that this role should be far more robust to ensure effectiveness. There is apparently no intention to achieve this, when as paragraph 2.14 of the handbook states: "...there is currently no intention to audit the information provided by the IASB, because the transparent manner in which the IASB and the DPOC operate and the role of the Director for Trustee Activities makes an audit unnecessary."

We find this a questionable statement. Where the enhancements of the due process handbook are meant to prove that all criteria have been met, this is not necessary for the relationship between the IASB and the DPOC? We beg to have a different opinion.

Conclusion

In our view, governance and oversight are two major issues that are largely unaddressed in these proposals, whilst we believe that these are key to providing legitimacy and credibility to IASB pronouncements.

If desired, we would be happy to discuss our comment in more detail with you.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Hans de Munnik', written in a cursive style.

Hans de Munnik
Chairman Dutch Accounting Standards Board