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Berlin, 6. September 2012

Dear Françoise,

## **IASB and IFRS Interpretations Committee Process Handbook**

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on EFRAG's draft comment letter on the IFRS Foundation: IASB und IFRS Interpretations Committee Due Process Handbook. We appreciate the opportunity to comment on EFRAG's draft comment letter.

Our main arguments and comments are included in our letter to the IFRS Foundation, which is attached to this letter. This letter focuses on areas where we have a different point of view from EFRAG.

## **Cover Note**

### ***Defining the objectives of the IASB's due process***

On the whole, we agree with EFRAG's requirement to define the objective of the due process in the Due Process Handbook (DPH). Although we generally agree with EFRAG's view we do have some concerns with the expression 'shared identification with constituents'. Please, see our detailed comments in the section 'Improving the proposals for the standard setting process' of this letter.

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Dr. h.c. Liesel Knorr (Präsidentin), Dr. Rolf Ulrich (Vizepräsident)

### ***Improving the proposal for the standard setting process***

Although we agree that involving and coordinating with regional or national financial reporting bodies, academics and other interested parties in IASB's technical activities in the research programme phase, in outreach activities and field testing, in post-implementation reviews and other surveys is a desirable target, we disagree with the required shared due process as explained in EFRAG's draft Comment Letter. Please see our detailed comments in the section 'Shared due process' of this letter.

Whilst we agree that users should justify their views we disagree with the view expressed in the sentence *'The diversity of users' needs is such that users' needs should not be assessed in terms of "what users wish or want" but in terms of "what users need and why and for what purpose".'* Firstly, we think "what users wish or want" and "what users need and why and for what purpose" are not necessary contradictory statements. Secondly, even if the 'wishes' and 'needs' of users were contradictory, who should make that kind of judgement, the users or the IASB?

### ***Considering due process oversight***

We think that EFRAG's requirement for an appropriate balance between a principle-based due process and the assurance of compliance is not consistent. On the one hand, EFRAG's draft Comment Letter requires some additional steps in the due process; on the other hand, EFRAG recommends being cautious of adding too much detail into the DPH that would undermine the principles based character of the standard setting process and leave no room for any flexibility in the due process.

## **Appendix 1**

### ***Shared due process***

As mentioned above, we are not of the opinion that the shared due process as explained in EFRAG's draft Comment Letter is necessary. Although we agree with the view that stronger involvement of national standard setters in due process activities, e.g. in the research activities, or in the outreach activities is valuable for all parties, we disagree with the required extent of such involvement. We believe a mandatory shared due process will not improve the current due process in all cases. Involvement of too many parties in the due process will make it difficult or even impossible to reach consensus and may take much more time to develop new proposals. Furthermore, we think the IASB already engages closely with stakeholders around the world, including investors, analysts, regulators, business leaders, accounting standard-setters and the accountancy profession in the due process. We also believe that if other standard setters are involved in certain activities the leading role in due process should always remain with the IASB.

### ***Longer term perspective: users and preparers***

We do not believe that the philosophical question, how to solve the conflict of interest between users and preparers should be part of the DPH, which is not the appropriate document for solving such conflicts. Besides this general statement we disagree with the arguments in this section of EFRAG's draft Comment Letter. Whilst we agree that shareholders are interested in being able to assess management's stewardship, we disagree that it is only important to long-term oriented users. Furthermore, we disagree that due process should concentrate more widely on improvement of financial reporting meeting long-term oriented users' needs. The IFRS Conceptual Framework does not give any merit to such arguments. In the same context we think that it is neither sensible to focus on a specific group of users and in consequence to exclude other groups of users nor easy to implement such requirement.

### ***Board vs. staff***

We do not share EFRAG's concerns that the IASB and its staff are not aware of the different roles they play in the due process. Additionally, we think that EFRAG's draft Comment Letter implies that the current IASB's technical staff has exceeded its responsibilities/authority, which is an assertion that we do not support. Furthermore, we think that the manner in which this sections is written is far too offensive. Should the current view remain in the final EFRAG Comment Letter we recommend using more careful language.

### ***IFRS Interpretations Committee***

We do not support EFRAG's requirement to publish names of submitters or type of submitters to the IFRS Interpretations Committee (IC). However, if there are specific needs for such kind of information we would suggest explaining them instead of arguing with the general requirement of increasing transparency in the due process.

Furthermore, we do not agree with EFRAG's explicit requirement that IFRS IC should assess outcomes of every possible consensus against financial reporting qualitative characteristics as defined in the IFRS Conceptual Framework (Framework). In contrast to this view, we believe that the general reference to the Framework in paragraph 5.17 of the draft DPH is sufficient. We also think that paragraph 5.17 of the draft DPH describes the role of the IFRS IC in the proper way and the expansion of this role as proposed in the EFRAG's draft Comment Letter is inappropriate.

Additionally, we disagree with EFRAG's assumption that the reflection of how many IFRS IC members objected to the Interpretation and their reasons for doing so in the Basis for Conclusions means that the opinion of the IFRS IC members is not considered serious enough to justify a negative vote. On the contrary: We believe that the



IASB and the IFRS IC have different roles to fulfil and the different roles require or justify different due processes for certain procedure, e.g. in relation to dissenting views for the development of standards and the development of interpretations.

If you would like to discuss any aspect of this comment letter in more detail, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr  
President



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Berlin, 06. September 2012

Dear Mr Prada,

### **IASB and IFRS Interpretations Committee Due Process Handbook**

On behalf of the IFRS Committee, I am writing to comment on the draft *IASB and IFRS Interpretations Committee Due Process Handbook* (DPH). The IFRS Committee is pleased to have the opportunity to provide comments on this draft Handbook. The IFRS Committee also appreciates the efforts undertaken by the Trustees of the IFRS Foundation to review the due process followed by the IASB in developing or revising International Financial Reporting Standards as well as the process followed by the IFRS Interpretations Committee in developing Interpretations.

In general, we support the Trustee's views as laid out in the draft DPH. Although we support the draft DPH on the whole, we see some room for improvement and would like to encourage the Trustees to reconsider the following issues that are further explained in the appendix to this letter:

- We believe the DPH and the Protocol should be consistent at all stages of the standard setting process, and we believe that such consistency can only be achieved if the Protocol is an integral part of the DPH.
- We think a successful research programme should be accompanied by guidance on managing such a project, which, in our view, should be part of the DPH.



- In our view, the distinction introduced between narrow-scope projects and comprehensive projects and the different consequences are neither clear enough nor sufficiently developed.
- We do not agree with the proposed requirement to reduce a comment period to a minimum of 60 days for documents the IASB plans to re-expose if the re-exposure is narrow in focus.
- We think that if current issues on the subject of technical reporting matters occur and need to be brought to the attention of the IASB, then this should be the responsibility of the Trustees rather than that of the Monitoring Board.

Please find our detailed comments on the questions raised in the draft Handbook in the appendices to this letter. If you would like to discuss our comments further, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr  
President



## Appendix

### 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?

On the whole, we support the enhancement of the role of the Trustees' Due Process Oversight Committee (DPOC). Although we think that the description of the process and responsibilities of the DPOC have been improved, we question whether the DPH is the right place to describe the role of the DPOC. We are rather of the opinion that the DPH should focus on the due process itself and not on the role of the DPOC in the process. Therefore, we suggest including the general objectives of the DPOC (paragraphs 2.1 – 2.7) in the IFRS Foundation's Constitution.

Additionally, we would appreciate if it could be specified which committees are integral to the due process in paragraph 2.8e and if the meaning of being integral to the due process could be explained.

A more independent review of the due process is needed. As a result, any concerns about the way in which standards were developed, how concerns raised by the constituents were addressed and why the IASB did or did not take these concerns into account in finalising the standards need to be answered by the DPOC.

### 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 such a table should be maintained on the public website for each project? Why or why not?

We agree that increasing transparency of the due process is important and the Due Process Protocol (the Protocol) may help to achieve this objective. However, we notice that the Protocol is not an integral part of the draft DPH, but an appendix to the



draft DPH which may be updated by the IASB and its staff, subject to the approval of the DPOC. We have concerns that the draft DPH and the Protocol may develop an 'independent existence' over time. We believe that the draft DPH and the Protocol should be consistent at all stages of the standard setting process, and we believe that such consistency can only be achieved when the Protocol is an integral part of the DPH.

In addition, we question the usefulness and the relevance of including steps in the Protocol that are required and steps remaining optional. We believe that the Protocol should only contain issues that are relevant, which would make the category 'optional' redundant.

Furthermore, we think the quality assurance introduced in the draft DPH should be consistent for the whole standard setting process. In the current proposal the quality assurance steps are different at the stage of the exposure draft from those at the final stage of developing the standard. We would therefore suggest aligning the quality assurance steps of finalising standards with the quality assurance steps of exposure drafts.

**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 headings 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 identi-





fied? Why or why not?

### Research

We believe the primary focus of the IASB should be on setting high-quality standards, and research is an important consideration when developing such standards. We are aware of the limited resources of the IFRS Foundation, and we therefore support the recommendation for the IASB to work on its research programme with others, such as national or regional financial reporting bodies, academics and other interested parties.

Although we support a separate research programme, we see some room for improvement. In our view, it is necessary to include a research programme phase when considering whether a project should be added to IASB's standards-level programme or not. According to the proposed draft of the DPH it is possible to propose such a project without publishing a discussion paper. We would like to recommend making such a research phase obligatory before deciding on adding a project to the standard-setting programme.

Furthermore, the current proposal focuses on the publications of the research programme, which are mainly discussion papers or research papers. In our view, not only the final product but also the way how they are developed is of great importance. It seems to be arbitrary how issues of the current research programme have been chosen; moreover, a plan is often missing how to treat an issue after the end of the research phase. Hence, we believe that a successful research programme should be accompanied by guidance on managing such a project, which, in our view, should be part of the DPH. Such guidance should include the clearly stated and realistic project objectives, and the work plan and methodology should, similarly, be consistent with the objectives and properly outlined. The research project should be realisable in an appropriate length of time. As part of the project, a list of likely outcomes and possible follow-up work should additionally be defined. Any additional work may be taken up in the form of a new or follow-up project if the Board decides that further work is needed.

We also believe that the research phase should always be finalised by a public consultation. Moreover, the results of such a public consultation on a discussion or research paper should be made publicly available, including a discussion of the rea-



sons why the proposed changes improve financial reporting. We also recommend bearing in mind the cost benefit restrictions when deciding on taking a research project to the agenda. Consequently, we recommend establishing guidance on setting up such public consultations which would serve to provide a forum for sharing a common understanding of what changes are necessary as well as their level of priority in the DPH.

Finally, we are concerned about the use of the term '*possible* problems' (paragraph 4.10) with regard to one of the purposes of the IASB's research programme, since it implies that such issues do not currently exist, but if they do, then the chosen term is incorrect. We assume that such issues are known and are actually '*current*' and not '*possible*'. Furthermore, we recommend using the more neutral term 'issues' instead of the term 'problems', which creates a noticeably negative association.

#### Maintenance vs. major amendments

In our view, the distinction introduced between narrow-scope projects and comprehensive projects and the different consequences involved with them are neither clear enough nor sufficiently developed. We would appreciate more specific criteria when deciding on whether a proposed agenda item addresses a material change in the accounting or only relates to the maintenance of IFRSs. We also recommend adding a section that explains the necessary process when deciding to change the scope of a project from a narrow-scope project to a comprehensive project and vice versa.

#### **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 notice and re-exposure drafts? Why or why not?



Whilst we support increasing the minimum comment period for exposing the draft of a rejection notice of an Interpretation request from 30 days to 60 days, we do not support the proposal to allow the IASB to have a reduced comment period of a minimum of 60 days for documents it plans to re-expose. Even if we can see the advantage of having an option to reduce a comment period to a minimum of 60 days for documents the IASB plans to re-expose if the re-exposure is narrow in focus, we do not agree with the proposed requirement. Firstly, paragraph 6.25 sets out general criteria for a document that needs to be re-exposed. In our opinion, these criteria are too significant to allow a 60-day comment period. Secondly, the proposal does not include criteria for changing the subject and the extent of change allowed in a re-exposure document compared to the prior exposure draft. As a consequence, it remains in the judgement of the IASB to decide whether the changes are narrow or not within in the scope. Finally, we think that constituents who are non-native speakers need more time for finalising the process of writing a comment letter than native English speakers. For the reasons given above, we recommend the comment period for a re-exposed document to generally be 120 days.

**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?

Objectives

Although the draft of the DPH describes the underpinning principles, which we largely support, it does not address the objectives of the due process. We believe that a comprehensive DPH needs to have the objectives of the due process clearly defined owing to the fundamental role it plays in supporting the legitimacy and the acceptability of IFRS. Therefore, we recommend addressing the following objectives in the DPH:

- Ensuring a shared identification with constituents of clearly defined requirements for improvement of financial reporting
- Offering a possibility for appropriate consultation and discussion, before and after the publication of proposals
- Strengthening the legitimacy of the final standards or interpretations by pre-



senting arguments and by referring to the evidence in a basis for conclusions that

- justifies the manner in which the new requirements fulfil the original objective and meet user needs
- properly assesses the outcomes of effect studies conducted and other field work including field tests, so that there is reasonable assurance that implementation of the final requirements will not cause uncertainty or inconsistency in practice and that the cost involved is justified by the improvements made in financial reporting.

## Principles

### *Transparency*

We observe that the role of education sessions held seem to have changed. They sometimes appear to be more akin to 'pre-meetings' than to pure education sessions. Moreover, the board members refer to the education sessions as if they were meetings at which certain decisions had already been made as during the regular IASB meetings. We do not regard this beneficial for the transparency of the due process. We therefore recommend clarifying the role of these education sessions in the due process.

### Technical work programme

We note that the objective set out in paragraph 4.6 of the draft DPH 'IFRSs should provide a faithful portrayal of an entity's financial position and performance in its financial statements' is not compatible with the objective in the Conceptual Framework (OB 2): 'The objective of financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity'. We believe that the objective for financial reporting in the DPH should be the same as the objective in the Conceptual Framework.

### Standards-level projects

#### *Issues referred by the Monitoring Board*



A new section sets out the responsibility of the IASB to respond to any referrals of a financial reporting matter made by the Monitoring Board to the Trustees and to the Chair of the IASB. Even if the proposed requirement was to be applied in rare circumstances only, we do not believe that is the remit of the Monitoring Board. According to the Constitution (paragraphs 18 - 23), the intention is not to have the Monitoring Board interfere with the responsibilities of the IASB but to provide a formal link between the Trustees and public authorities. We think that urgent issues on the subject of technical financial reporting matters should be brought to the attention of the IASB rather by the Trustees than by the Monitoring Board.

### New or amended IFRSs

#### *Documents published by IASB*

Publication of an Exposure Draft is a mandatory step in due process and as such is well explained in the draft DPH. Apart from Exposure Drafts, the IASB also publishes other documents, such as different types of drafts written by the staff (Staff Drafts, Review Drafts) or a Practice Statement. We note that neither the requirement nor the criteria for issuing such publications are explained in the draft DPH. For reasons of transparency, we recommend including clear requirements when such documents are to be published and what role these documents play in the due process.

Furthermore, we think review drafts issued for regular public reviews are important for identifying unintended consequences or undue costs resulting from technical and linguistic changes made to a document by the IASB.

#### *Practice Guidance*

One of the possible publications proposed in paragraph 6.36 of the draft DPH is the Practice Guidance developed by the IASB as a non-mandatory guidance. The role of such guidance does not seem to be sufficiently explained, and the current placement in the draft DPH is not appropriate. We recommend integrating the section about the Practice Guidance into paragraph 6.29. Additionally, we think that the first sentence of paragraph 6.30 has a list character and consequently belongs to paragraph 6.29 while paragraph 6.30, in our view, has more of an explanation character.



### *Post-implementation review*

We believe that the timing of post-implementation reviews needs to be carefully considered. It should not be the case that a standard is issued and then immediately followed by a post-implementation review as if they were a type of field test. We recommend that, after the IASB has conducted its first round of post-issuance reviews, it should assess whether the current presumption in the proposed DPH for a post-issuance review two years after the new requirements have become mandatory is the optimal point for such reviews. This is particularly true for standards that are dealing with a subject not occurring every year (e.g. a business combination) or that require some time for a common or best practice to develop.

Furthermore, we recommend grouping standards if they are bound by cross-cutting issues, e.g. Leases and Revenue Recognition, as such groups would allow for assessing outcomes more comprehensively. Additionally, a review of a group of standards might likely lead to a different outcome compared to a situation where the standards are reviewed individually and separately.