

## IFRS Developments

# Revisions to the IFRS Foundation's Due Process Handbook

### What you need to know

- ▶ A revised *Due Process Handbook* was published by the IFRS Foundation in August 2020.
- ▶ *The Handbook* is the responsibility of the Due Process Oversight Committee (DPOC).
- ▶ The revisions clarify wording around the following main areas: agenda decisions, effect analysis, the Board's work plan, educational material published and the IFRS Taxonomy.

### Background

In August 2020, the Trustees of the IFRS Foundation (the Foundation) published the revised *Due Process Handbook* (the *Handbook*). The *Handbook* sets out the due process that applies to the International Accounting Standards Board (IASB or Board) and the IFRS Interpretations Committee (the Committee), relating to standard setting, the development of various materials to support the consistent application of IFRS Standards, and the IFRS Taxonomy. The *Handbook* is the responsibility of the IFRS Foundation Trustees' (Trustees) Due Process Oversight Committee (DPOC).

The DPOC decided to review the *Handbook* to ensure that it continues to be fit for purpose in today's world and that it continues to reflect good practice. The proposals for the current revision to the *Handbook* were exposed for comment in an exposure draft (ED) issued in April 2019, and the final revisions were approved by the DPOC in June 2020, after deliberation of the comments received. The amendments are not a full rewrite of the *Handbook*; rather a revision and clarification of the wording around agenda decisions, the Board's effect analysis of proposed standards, its work plan and educational material plus a few other topics. The main amendments are discussed in more detail below.

### IFRS Interpretations Committee agenda decisions

The Committee issues an agenda decision when it decides that standard setting is not necessary to respond to an issue that has been raised, to explain why that is the case. An agenda decision typically includes an explanation as to how current IFRS Standards apply to the question submitted, with the aim to support consistent application of the Standards.

### ***Timing and authority of agenda decisions***

Constituents had raised questions about the timing and authority of agenda decisions. The ED proposed to clarify the following: the objective and the nature of explanatory material in agenda decisions; that agenda decisions do not have the status of IFRS Standard; and to retain the wording that agenda decisions should be seen as 'helpful, informative and persuasive'.

Respondents to the ED generally agreed with the objective to improve the description of agenda decisions, but struggled with the tension between the description and how agenda decisions are applied in practice; that is, constituents often consider their application to be mandatory.

Agenda decisions cannot add or change requirements in IFRS Standards, and explanatory material clarifies how the principles and requirements in the Standards apply to a specific fact pattern. The DPOC has replaced the phrase 'helpful, informative and persuasive' with stronger wording around explanatory material. It now states that explanatory material derives its authority from IFRS Standards, and accordingly, an entity is required to apply the applicable IFRS Standard(s) reflecting the explanatory material in the agenda decision, subject to having sufficient time to do so.

The DPOC clarified that, 'determining how much time is sufficient to make an accounting policy change is a matter of judgement that depends on an entity's particular facts and circumstances. Nonetheless an entity would be expected to implement any change on a timely basis and, if material, consider whether disclosure related to the change is required by IFRS Standards'. The DPOC noted in the *Project Summary and Feedback Statement*<sup>1</sup> that material has been published on the Foundation's website (specifically, Sue Lloyd's article titled, '*Agenda decisions - time is of the essence*'<sup>2</sup>) to explain further what is meant by sufficient time in a more accessible format than the *Handbook*. In her article, Sue Lloyd states that the Board had in mind "a matter of months rather than years". She also wrote that changes should be implemented "on a timely basis - in other words, as soon and as quickly as possible", as they are affirming the application of existing requirements.

### ***Improving the description of agenda decisions***

The ED proposed to explain that explanatory material included in an agenda decision may include 'new information' that was not otherwise available and could not otherwise reasonably have been expected to be obtained. Respondents noted that referring to 'new information' would be confusing, since agenda decisions are not supposed to add to or change requirements in IFRS Standards. The DPOC has, therefore, revised the description of agenda decisions to refer to 'additional insights' instead of 'new information'. This is intended to convey the message that a change resulting from an agenda decision would not necessarily be the correction of a prior period error.

### ***Enhanced due process of agenda decisions***

Although the ED proposed no change to the due process for agenda decisions, some respondents suggested enhancing the voting requirements because of how they are applied in practice. The DPOC agreed and decided to formally involve the Board in the process of finalising agenda decisions, to emphasise the clarification of the authority of agenda decisions described above.

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<sup>1</sup> [Project Summary and Feedback Statement - Amendments to the Due Process Handbook](#)

<sup>2</sup> [Agenda decisions - time is of the essence](#), by Sue Lloyd, [ifrs.org](http://ifrs.org).

Paragraph 8.7 of the *Handbook* states that before an agenda decision is published, the Board is asked (at its first meeting where it is practicable to discuss the agenda decision), whether it objects to the agenda decision, specifically, whether it objects to the Committee's decision not to undertake standard-setting activity. In addition, the Board is asked whether it agrees with the Committee that the agenda decision does not change or add to requirements in the Standards. If four or more Board members object, the agenda decision is not published and the Board must decide how to proceed. The DPOC believes that these measures will support the notion that agenda decisions reflect IFRS standards and must be applied (if/when applicable).

#### How we see it

The DPOC's efforts to strengthen and clarify the wording in the *Handbook* with respect to the timing and authority of agenda decisions will enhance comparability and consistency in application of IFRS.

## Board agenda decisions

The ED proposed to give the Board the ability to publish agenda decisions, which would give it a new mechanism to provide explanatory material, for example, in cases where a new IFRS Standard has been issued but is not yet effective. This proposal was not roundly supported by respondents, who felt it would add extra complexity and confusion to the Committee agenda decision process. The DPOC acknowledged these concerns and, although they still held the view that there would be benefits in giving the Board the ability to publish agenda decisions in rare cases, they decided not to proceed with the proposal.

## Effect analysis

The ED proposed to clarify that the process of analysing the effects of new requirements occurs throughout the development stages of the new requirements, and to clarify how the Board reports its views at the various stages. It also proposed that the scope of effect analysis should include a reference to financial stability, as the DPOC believes that there is a connection between developing high quality standards and financial stability. Respondents were mixed in their comments, with some stating that assessing the effects of new requirements on financial stability may be beyond the Board's remit. The DPOC decided however to confirm the amendment proposed in the *Handbook*, by further elaborating the link between transparency and financial stability.

## Educational material

The ED proposed to further clarify and update the broad categories of educational material produced by the Foundation, and to enhance the minimum level of review each type would require, including review by some Board members. Respondents were mostly supportive of these proposals, therefore, the DPOC confirmed its proposed amendments.

## Work plan

In order to ensure that the Board continues to obtain formal input about the balance and strategic direction of its work, the ED proposed that the Board should consult the Accounting Standards Advisory Forum (ASAF) before adding a major project to the work plan, if that project was not specifically addressed in the most recent agenda consultation. It also proposes to withdraw the requirement for the Board to consult the Advisory Council and ASAF before moving a project from the research to the standard setting programme, if that project was addressed in the most recent agenda consultation. Most respondents agreed with these proposals and the DPOC confirmed its proposed amendments.

## IFRS Taxonomy

The ED proposed to specify the DPOC's role in overseeing the IFRS Taxonomy due processes and clarifying, by adding a summary table, the required approval and review processes for updates to the IFRS Taxonomy. Respondents agreed with the proposals and the DPOC confirmed its proposed amendments.

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EYG No. 005991-20GbI

ED None

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