By E-mail: commentletters@ifrs.org

IFRS Foundation Trustees
30 Cannon Street
London
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3 September 2012

Dear Sirs

IASB and IFRS Interpretations Committee Due Process Handbook - Invitation to Comment

We appreciate the opportunity to respond to this consultation by the IFRS Foundation Trustees’ Due Process Oversight Committee (DPOC).

This response summarises the views of member firms of the PricewaterhouseCoopers network that commented on the consultation. “PricewaterhouseCoopers” refers to the member firms of PricewaterhouseCoopers International Limited, each of which is a separate legal entity.

Our views on the specific questions in the Invitation to Comment (ITC) are included in the accompanying Annex. In this covering letter we provide some overall observations on what we consider to be important issues connected with this consultation.

Managing different stakeholder interests

The IASB already has a more extensive due process regime than many comparable organisations. We support the aims of the Foundation in seeking continuous improvement in its processes and in bringing together in one place the respective handbooks of the IASB and the IFRS Interpretations Committee (IFRS IC).

However, the reality facing the organisation is that it is almost impossible in today’s global environment to devise an accounting standard that will satisfy the interests of every individual stakeholder. As noted in our response to Question 2 below, we believe that, the more elaborate the process, the greater the opportunity for the IASB’s output to be challenged by those who disagree with the technical solutions. For example, the more ‘optional’ steps that are included in the process, the greater the potential for an interested
party to argue that in their view a particular optional step should have been followed when
the Board considered that this was not necessary.

The more the process is capable of being challenged, the greater the potential for the
credibility of the Board and the resulting standards to be undermined. This makes it all the
more important that the Due Process Handbook should be clear and capable of being widely
understood by Board members, Trustees, staff and external constituents.

**A simpler approach based on substance**

We would suggest that the approach set out in the ITC be simplified and made more
principles-based, to provide more focus on the substance of the due process and the
judgments applied. This might result in a more concise, less ambitious handbook.

In particular, we suggest that the protocols in Appendix 4, if pursued, include only the
mandatory steps. This would assist those stakeholders who would prefer an “at a glance”
guide that explains the key steps that **must** be followed in order for the IASB to issue a new
accounting standard or interpretation.

The level of detail in the handbook could also be reduced. For example, much of the
extensive material under the ‘Principles’ section on voting and balloting could be included in
appendices, thereby making the handbook itself more obviously principles-based. Including
less extraneous detail in the handbook would also have the potential benefit of reducing the
number of occasions in the future when aspects of the handbook require updating.

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We would be delighted to discuss our views further with you. If you have any questions in the
meantime regarding this letter, please contact John Hitchins (+44 207 804 2497) or Graham
Gilmour (+44 207 804 2297).

Yours sincerely

PricewaterhouseCoopers LLP
Detailed comments on the questions in the Invitation to Comment

1. The Trustees have included an introductory section dealing with ‘oversight’, and the responsibilities of the DPOC (paragraphs 2.1-2.15). Do you support the inclusion and content of this section? Why or why not?

Yes, we agree. We support the inclusion of a section dealing with DPOC’s responsibilities, particularly the clear statement in paragraph 2.6 that the activities of DPOC are limited to matters of due process and that the DPOC does not review or ‘second guess’ technical financial reporting matters – these are the sole responsibility of the Board.

Paragraph 2.14 states that “there is currently no intention to audit the information provided [to the DPOC] by the IASB, because the transparent manner in which the IASB and DPOC operate and the role of the Director for Trustee Activities makes an audit unnecessary.” While we support the present increased role and activities of the DPOC, we note that other, comparable organisations operate different models for exercising oversight of the standard setting process. (For example, in contrast to DPOC’s ex-post review, we understand the Public Interest Oversight Board that oversees IFAC’s public-interest standards setting boards follows a policy of direct observation of board meetings). We therefore suggest that the Trustees review at appropriate intervals the model of oversight adopted by DPOC, having regard to good practices and experience of comparable organisations.

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

We are concerned that the use of such tables could inadvertently lead to an overly bureaucratic approach. A broader approach that focuses on substance rather than form-based process is desirable.

Additionally, the use of the ‘protocols’ could increase the scope for potential criticism of the Board and consequent risk of delay in the issuing of standards. It is practically impossible in today’s global environment to write a standard that will satisfy every stakeholder, and stakeholders will use a variety of arguments to assert that their interests were overlooked. The more ‘steps’ are included in a protocol, the greater the potential for interested parties to argue that because a particular step (even if relatively trivial) was not in their view followed, a standard or interpretation is not valid.
We suggest that the potential for such criticism could be reduced if the protocol or table included only the mandatory steps required in order to issue a pronouncement. Including optional steps in a protocol may only encourage interested parties to assert that a particular optional step should have been undertaken on the project concerned.

An alternative approach might be to consider using a flowchart showing the passage of a project through the key required stages, or some other alternative form of diagrammatical representation, rather than a table that could be perceived as a ‘checklist’. Another possibility might be to publish only a slimmer handbook containing the principles and the key due process steps, and include the remainder of the material in an operational guide that can be used as a reference tool for reporting to the DPOC.

Finally, we suggest that a check is made on the internal consistency of the material in the main text and in the appendices to the draft handbook. For example, paragraph 3.42 provides a list of mandatory due process steps. However this excludes a number of other steps that, according to other parts of the handbook text, “must” be followed – these include:

- Taking additional steps to consult with investors (3.46)
- Issuing a press release to accompany an exposure draft (6.16)
- Informing the DPOC of the Board decision to proceed to ballot stage (6.24); and
- Preparing a Project Summary, Feedback Statement and Effect Analysis (6.35).

3. Do you agree with the distinction between narrow-scope [research] projects, which come under the heading 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 identified? Why or why not?

The term ‘research’ is applied to a very wide spectrum of potential activity, ranging from discussion papers (which might be commonly considered the first key stepping stone in a standards project) - to narrow research around current practice in a very specific area of accounting - to broader ‘blue sky’ thinking about the wider corporate reporting model. No clear definition of research is provided in the draft handbook.

We suggest that the Trustees consider the different types of research, the due process (if any) that should attach to the different types, and who might be best placed to conduct the research.

Our view is that the IASB should focus on the type of research that involves outreach aimed at identifying specific problems and user needs. Other types of research might best be performed with the assistance of the network of national and other accounting standard setting bodies and the academic accounting community (with appropriate supervision and accountability by the IASB), rather than by the IASB establishing its own research resources.
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 notices and re-exposure drafts? Why or why not?

We are not aware of problems in practice with the current comment period for IFRS IC rejection notices. However, we could support an increase in the comment period for rejection notices from 30 to 60 days provided there is, at the same time, consideration of the appropriate frequency of meetings of the IFRS IC. An increase to 60 days, if that happens to coincide with the “wrong” point of the meeting cycle, could add considerably to the time needed to deal with an issue. It may be necessary to consider increasing the frequency of, or adjusting the timing of, IFRS IC meetings.

In determining the appropriate comment period for different types of documents, regard should also be had to the need to translate documents into other languages – a process which can take time and may reduce the time available for consideration of the issues once the translated text is available.

5. Are there any other matters in the proposed Handbook you wish to comment on, including matters that are not covered by the handbook that you think should be?

(i) Review drafts

We have observed a trend of the Board publishing working or ‘review’ drafts of proposed standards on its website. While we are supportive of this practice and believe it is helpful in moving pronouncements to the final stage, we believe the handbook paragraphs 3.29-3.32 should emphasise that the publication of review drafts should not be considered a substitute for formal consultation or re-exposure in situations where there are significant issues to be debated and resolved.

(ii) Extent of reflection of Trustees’ review of IFRS IC

The introduction to the Invitation to Comment notes that the updated handbook responds to some of the conclusions reached in the Trustees’ recently completed review of the effectiveness of the IFRS Interpretations Committee.

In particular, Appendix A to the May 2012 Report on the Trustees’ Review of the IFRS IC proposed a revised set of agenda criteria applicable to issues submitted to the Committee. We note that the formulation of the criteria in paragraph 5.13 of the Invitation to Comment is
slightly different to that in the Review report, and different again to that presented in Appendix 3 of the ITC.

We believe it would be helpful for constituents if the DPOC explained more precisely how the conclusions from the Trustees’ Review of IFRS IC have been reflected in the updated handbook, and the reasons for any changes to the approach described in May.

In responding to the Trustees’ Review of the IFRS IC, we and other constituents suggested a number of ways in which the operations of the Committee could be enhanced. While many of these are not necessarily matters that should be included in the handbook, we believe the DPOC should keep under review how the changes that are progressively being introduced are improving the effectiveness of the IFRS IC.

**(iii) Effects Analyses**

Paragraph 6.35 states that all new IFRSs and major amendments must be accompanied by, inter alia, an effects analysis. However the handbook does not provide a detailed methodology or criteria for how such an analysis should be performed.

We agree that the IASB should conduct effects analyses of major new pronouncements. We note that EFRAG published in 2011 a discussion paper ‘Considering the Effects of Accounting Standards’ that proposed a definition of ‘effects’ along with a recommendation that it embrace both entity-specific micro-effects and wider macro-effects.

In our comment letter on the EFRAG paper we expressed concern that the proposed methodology could be overly bureaucratic (requiring for example extensive documentation of effects at each stage of a project). We also highlighted the inherent subjectivity and difficulty of assessing macro-effects (such as financial stability) and that the IFRS Foundation does not currently have access to the skills needed to assess the wider macro-effects.

**(iv) Reinforcing the status of non-authoritative materials**

We agree with the statement in paragraph 6.39 that development of Education materials is not subjected to public scrutiny – we would not wish the extensive due process steps described in the handbook to be applied to such material.

However, at the same time, we believe it is important that Education materials – and other materials such as staff papers, *IASB Update* newsletters, conference presentations, etc – carry a clear and unambiguous statement that they have not been subject to due process and are not authoritative.

**(v) Post-implementation reviews**

The section on post-implementation reviews (PIRs) should in our view include a principle that the reviews are conducted independently of those that worked on the original pronouncement. This would enable the Board to report to the DPOC that the application of
each new IFRS or major amendment has been reviewed by a ‘fresh pair of eyes’. It would not be realistic for the Foundation to have at its disposal a team of technical staff solely to undertake PIRs, but it should be possible for the reviews to be undertaken by IASB staff independent of the original project team.