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Chairman

PDC N°39

Paris, 24 July 2019

Mr. Erkki Liikanen

Chair of the IFRS Foundation

7 Westferry Circus, Canary Wharf

London, UK, E14 4HD

ED Proposed amendments to the IFRS Foundation Due Process Handbook

Dear Mr Liikanen,

I am writing on behalf of the Autorité des Normes Comptables (ANC) to express our views on the above-mentioned Exposure Draft on proposed amendments to the IFRS Foundation Due Process Handbook.

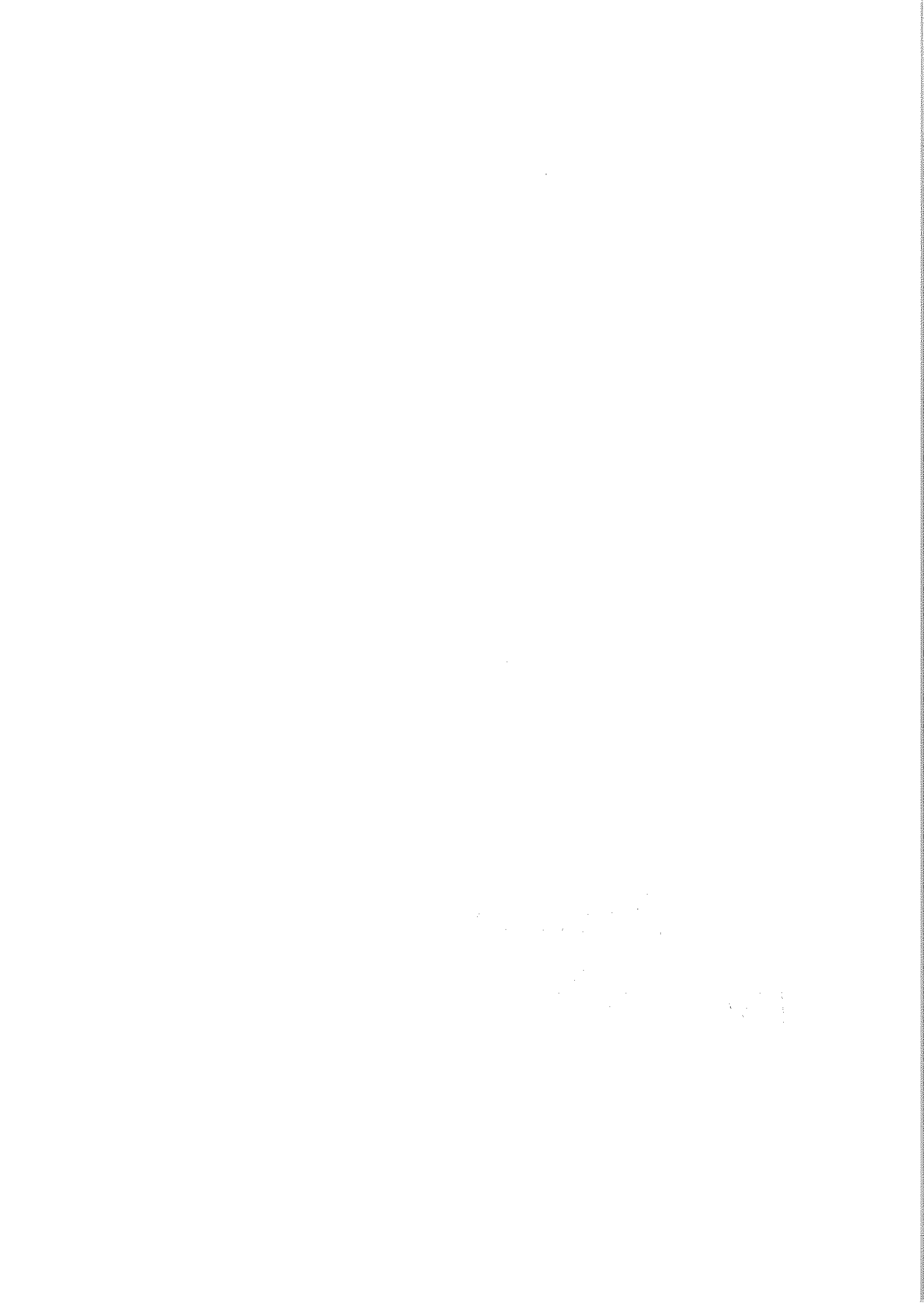
ANC is pleased to share its views on this important topic and as a consequence provides the IFRS Foundation with a copy of the comment letter sent to EFRAG.

Please do not hesitate to contact us should you want to discuss any aspect of our comment letter.

Yours sincerely,

Très fidèlement à vous.
Patrick de Cambourg

Patrick de Cambourg





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Mr Gauzes

EFRAG Chair

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B-1000 Bruxelles

ED Proposed amendments to the IFRS Foundation Due Process Handbook

Dear Jean-Paul,

I am writing on behalf of the Autorité des Normes Comptables (ANC) to express our views on EFRAG's draft comment letter on the proposed amendments to the IFRS Foundation Due Process Handbook. This letter sets out some of the most critical comments raised by interested stakeholders involved in ANC's due process.

In line with EFRAG's positions, ANC supports generalising and enhancing effect analyses and expresses reservations on the still unclear nature and status of IFRIC agenda decisions (AD). Regarding the latter, we suggest improvements in drawing the dividing line between an AD and an interpretation (or other standard-setting).

Further an AD might conclude that IFRSs are clear but have unintended effects under specific circumstances; this might deserve consultation with the Board to assess whether a standard setting project is actually necessary; if confirmed, the IFRS IC should consider whether the publication of an AD is appropriate.

Lastly, IASB's involvement in structuring primary financial statements calls for a stronger internal due process on the related taxonomy.

Please do not hesitate to contact us to further discuss that letter,

Yours sincerely,

Amitiés.

Patrick de Cambourg

Patrick de Cambourg

Appendix

Q 1 : Effect analyses

1.1 Question of the IFRS Foundation

- 1 The DPOC proposes to amend the section 'Effect analysis' (§3.76-3.81) to:
 - embed explicitly the process of analysing the effects throughout the standard setting process;
 - explain the scope of the analysis;
 - explain how the IASB reports the effects throughout the process; and
 - differentiate the effect analysis process from the final effect analysis report.
- 2 Do you agree with these proposed amendments?

1.2 EFRAG's response

- 3 EFRAG agrees with the amendments proposed by the DPOC to clarify the scope and purpose of effect analysis in the Due Process Handbook. However, EFRAG recommends that the scope of the effect analysis should be extended over time.
- 4 Rather than waiting for the end of a major project, EFRAG encourages the IASB to publish a detailed effect analysis with key due process documents at each stage during the standard-setting process as a basis for constituents' understanding of the likely impact.

1.3 ANC comments

- 5 ANC welcomes the IFRS Foundation initiative to develop effect analysis. As commented in its letter to the Trustee's review in 2016, ANC has been asking the IASB for enhanced impact analyses and field testing both in the pre-issuance phase as well as during the subsequent technical vigilance over the existing set of accounting standards.
- 6 In our view, the scope of the impact analyses should not be restricted to new Standards and their subsequent amendments. We believe it should also be extended to the Committee's interpretations.
- 7 We support introducing (in § 3.78) a comparison between the expected effects of an upcoming standard and the actual ones as evidenced in a Post Implementation Review (PIR); we believe such comparison would be a relevant governance practice and would help improving the methodology for performing effect analyses.

Q 2 : Agenda decisions

2.1 Question of the IFRS Foundation

- 8 The DPOC has proposed the following amendments relating to agenda decisions:
 - to provide the IASB with the ability to publish agenda decisions;
 - to better explain the objective and nature of explanatory material in an agenda decision; and

- to reflect in the Handbook that an entity should be entitled to sufficient time both to determine whether to make an accounting policy change as a result of an agenda decision, and to implement any such change.

9 Do you agree with these proposed amendments?

2.2 EFRAG's response

- 10 EFRAG considers that in its due process the IASB should ensure that agenda decisions only contain explanatory material and references to the mandatory content of IFRS Standards and that diversity in practice and IFRS-like guidance is addressed through standard-setting such as through the annual improvements process.
- 11 EFRAG questions the usefulness of creating an additional type of agenda decisions for the IASB Board that is expected to be used only rarely. Instead, EFRAG proposes that the IASB uses existing processes and means of communication.

2.3 ANC comments

- 12 As already commented in a 2018 letter on IAS 8 amendments, ANC shares the concerns expressed by EFRAG regarding the very nature and status of IFRIC agenda decisions. We do not think that the proposed modifications in the DPH help clarifying those issues.

Clarifying the nature of agenda decisions

- 13 An AD is supposed to be the IFRS-IC conclusion that IFRS standards do already provide an appropriate response to the question raised. Accordingly, an AD decides not to add the matter to its standard-setting agenda.
- 14 We concur with EFRAG questioning the scope of the "explanatory material" (§ 8.3 of the DPH) conveyed by an AD when it is supposed to provide "additional information" (§ 8.4) or even "new information that was not otherwise available and could not otherwise reasonably have been expected to be obtained" (§ 8.5). Such a definition of an IFRIC agenda decision allowing issuing "new information" does not provide a clear-cut with an IFRIC interpretation or a narrow-scope amendment (which includes annual improvements).
- 15 In our view, the criterion set in § 8.4 of the DPH is the most useful in drawing the dividing line. Based on it, we suggest not issuing an AD but initiating an interpretation (or another standard-setting project) when "an addition or a change in the requirements or definitions in the standards" is actually necessary to address the issue.

Suggestions to clarify the nature of agenda decisions

- 16 We suggest several improvements in the due process and governance that may help better reflecting the divider between an AD and standard-setting:
- 17 (a) In order to conclude, the Committee generally analyses different existing practices (or potential ones) in order to sort out which one is the most appropriate. In emphasising in its decision a practice meeting the compliance criteria, it generally does not conclude on the other dismissed practices even if they are usually described in the agenda papers. The conceptual basis for dismissing certain existing practices should however be part of the decision making process. Articulating in an AD why certain alternative views are not acceptable would actually support the decision not to add or modify standards.

- 18 (b) ANC believes that when confirming that a standard provides an adequate basis to address a matter raised by a submission, there should be a broad consensus among the IFRS-IC members that this is the case. A simple majority might indicate that standards are not clear enough or ambiguous. Hence, ANC believes that an AD should require a "supermajority" of the members of the Committee (as defined in §3.14 of the DPH).
- 19 (c) An AD confirms that standards provide an adequate basis to address an issue raised in a submission. However, an AD might evidence that a standard might not, in specific circumstances, meet all the qualitative characteristics of useful information as per the Conceptual Framework. In other words, *clarity does not necessarily exclude standard-setting*. In such a case, ANC recommends that the AD be "suspended" until the Board eventually decides on amending the standard. We therefore suggest introducing in § 5.18 of the DPH the possibility of a suspensive clause to an AD when reported to the Board.
- 20 (d) A decision tree could be very helpful in analysing an AD in comparison with authoritative sources, with non-authoritative one (providing genuine options) and with educational material (not supposed to add or modify existing sources).

Clarifying the status and timing of implementing agenda decisions

- 21 Whether applying an AD is a voluntary or a mandatory change in accounting has been discussed by the IASB (and commented by ANC) in 2018 but finally not addressed through an amendment to IAS 8. IASB finally suggested to tackle that question by amending § 8.5 of the DPH stating that "an entity might determine that it *needs* to change an accounting policy as a result of an agenda decision. It is expected that an entity would be entitled to sufficient time to make that determination and implement any change (for example, an entity may need to obtain new information or adapt its systems to implement a change)." Using the term "needs" (instead of, for instance, "elects", "opts", "chooses" or "decides") implies that there is no choice but to comply with the AD. It negates in substance a "voluntary" change.
- 22 We are concerned that the wording in § 8.5 of the DPH might contradict the purpose set in § 17 of the proposed amendments. That paragraph recalls Board's notice that an agenda decision shall not change the status of the material quoted from accompanying materials such as the basis for conclusions and illustrative examples.
- 23 Finally, if an AD has to apply, we suggest to not only consider this effect in the DPH but also in the standards; for instance by amending IAS 8.9.
- 24 In addition, the European Union would have to consider the consequences of such mandatory guidance in the scope of its endorsement process.

Board agenda decisions

- 25 In that context, we agree with EFRAG that it is not clear to which extent a Board AD would actually differ from an IFRS-IC AD. The introduction of Board agenda decisions lacks supporting explanation. In our view, if additional guidance had to be provided by the Board, it would meet the scope and definition of an amendment in the standard.
- 26 ANC thus concurs with EFRAG that a convincing case has not been made for the introduction of Board agenda decisions.

Q 3 : Other matters

3.1 Question of the IFRS Foundation

- 27 The DPOC has proposed to amend the Handbook on other matters including:
- the type of review required for different types of educational material;
 - consultation in connection with adding projects to the Board’s work plan;
 - clarifications of the IFRS Taxonomy due process and Taxonomy updates and the role of the DPOC in overseeing Taxonomy due process.
- 28 Do you agree with these proposed amendments?

3.2 EFRAG’s response

- 29 EFRAG agrees with the proposed amendments to the Handbook covering streamlining the process of adding the new projects to the IASB’s work plan and clarification of the IFRS Taxonomy due process. These amendments will make the Handbook up to date with current working practices and will improve its consistency and understandability.
- 30 EFRAG considers that the level of review proposed for educational material implies that some educational material is similar to agenda decisions and is issued without any external due process.

3.3 ANC comments

Consultative groups

- 31 We welcome the introduction of a “geographical balance” criterion into the composition of consultative groups (§3.60), since ANC has been asking for a geographical distribution in the governance based on commitment to IFRS.
- 32 In that regard, we are wondering whether that change will lead to actually revise the composition of existing groups (such as the IFRS Taxonomy Consultative Group where EU post-Brexit is represented by 2 members out of 20).
- 33 The interaction of such groups with Board’s decisions remains unclear. The Board should explain (e.g. in the Basis for conclusions) to which extent Consultative groups (such as TRG or ITG) have provided them with conceptual arguments or evidences in order to reach their own conclusion and whether this external consultation was sufficiently conclusive to actually confirm or contradict the decision taken.

Educational material

- 34 ANC concurs with EFRAG that educational material (webinars, examples) subject to the review of three board members (§8.10(c)) deserve an *external* due process similar to the one applicable to agenda decisions.
- 35 In addition, it could be clearly stated by the IFRS Foundation, that, when such educational material solely reflects the views of the speakers and not necessarily those of the Board, it cannot be enforceable against a Board’s decision (or absent a board’s decision).

IFRS Taxonomy

- 36 ANC has always been considering that taxonomy along with accounting principles and models of financial statements are an integral part of standard-setting.
- 37 IASB has decided to develop and streamline the structure of the financial statements (PFS in the Better Communication project). We therefore are expecting that this process will have an impact on the scope and quality of the current IFRS taxonomy,

especially by increasing the number of standardised items replacing “common practices”.

- 38 Moreover, we expect that the Board’s oversight and more broadly the internal due process be strengthened consequently. Current amendments make however no suggestions in that regard.
- 39 We also suggest considering including taxonomy as an integral part of the current due process handbook rather than in an appendix.
- 40 Finally, we do not agree with the amendment made in A 4 (iii) that distinguishes annual improvement from A 4 (i) IFRS standards and guidance. As mentioned in § 4.7 of the DPH, annual improvements are part of IFRS standards and therefore do not require a distinct due process.