

Mr Erkki Liikanen, Chair
IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Institut der Wirtschaftsprüfer
in Deutschland e.V.

Wirtschaftsprüferhaus
Tersteegenstraße 14
40474 Düsseldorf
Postfach 32 05 80
40420 Düsseldorf

TELEFONZENTRALE:
+49 (0) 211 / 45 61 - 0

FAX GESCHÄFTSLEITUNG:
+49 (0) 211 / 4 54 10 97

INTERNET:
www.idw.de

E-MAIL:
info@idw.de

BANKVERBINDUNG:
Deutsche Bank AG Düsseldorf
IBAN: DE53 3007 0010 0748 0213 00
BIC: DEUTDE33XXX
USt-ID Nummer: DE119353203

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602/636

Dear Mr Liikanen

Re.: IFRS Foundation Exposure Draft – Proposed amendments to the IFRS Foundation Due Process Handbook

The Institut der Wirtschaftsprüfer in Deutschland e.V. [Institute of Public Auditors in Germany, Incorporated Association] (IDW) appreciates the opportunity to respond to the Exposure Draft of proposed amendments to the IFRS Foundation (IFRSF) Due Process Handbook. The IDW represents the public auditors profession in Germany.

We believe the proposals cover important topics and, hence, we deem it appropriate that the Trustees officially consult on these matters.

General Remarks

In general, we agree with the proposed update of the procedures relating to effect analysis, refinement of the categorisations and reviews of educational material, clarification of the process for adding projects to the International Accounting Standards Board's (IASB's) work plan, as well as the proposals regarding the Due Process Oversight Committee's oversight and review mechanism for the IFRS Taxonomy. Hence, we have elected to provide only a detailed response to question 2.

However, we have significant concerns as to the proposals regarding agenda decisions. Firstly, we do not believe the IASB needs another tool ('Board agenda decisions') to communicate to its constituents on emerging issues. This

GESCHÄFTSFÜHRENDER VORSTAND:
Prof. Dr. Klaus-Peter Naumann,
WP StB, Sprecher des Vorstands;
Dr. Daniela Kelm, RA LL.M.;
Melanie Sack, WP StB

new process is confusing and, in our view, reduces the credibility of the IFRS Interpretations Committee's (IFRS IC's) well-established and well-understood due process. The justification in the proposals is unconvincing. If the IASB or the Trustees are of the view that the IFRS IC's process has deficiencies, we believe these could be mitigated by changing the existing IFRS IC process.

Furthermore, there is still uncertainty and confusion around the status of agenda decisions within the IFRS hierarchy. The discussion around quasi-effective dates adds to this uncertainty. If the Trustees believe that agenda decisions should be part of the mandatory guidance, this should be made clear, as this might have consequences in jurisdictions where the mandatory guidance in IFRS and any changes thereof are incorporated in the legal framework by way of endorsement (as in the European Union). In addition, the concept of 'sufficient time', including splitting this into an analysis and an implementation phase, will lead to interpretation issues, including the risk that preparers, auditors and regulators will interpret differently what 'sufficient time' means for a specific agenda decision.

In light of the above, we would like to comment on the specific proposals as follows:

Question 2 – Agenda decisions

The DPOC has proposed the following amendments relating to agenda decisions:

- to provide the Board 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.

Do you agree with these proposed amendments?

We do not agree with the proposals, as they do not resolve the existing tension between the formal status of agenda decisions and their status in practice.

While proposed paragraph 8.4 of the Due Process Handbook clarifies that agenda decisions do not have the same status as IFRSs, existing practice for preparers and auditors is that they are seen as equivalent to IFRS, largely due to regulators taking the view that an accounting policy that is at odds with an agenda decision is unacceptable. Given that agenda decisions are neither

IFRSs nor changes to IFRSs respectively, agenda decisions do not include transitional guidance nor is there an overarching concept as to how to implement them. The IASB has tried to address this issue by amending IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, but so far has not successfully finished this project. The Exposure Draft implies that any changes resulting from agenda decisions are changes in accounting policies. IAS 8 requires changes in accounting policies to be applied retrospectively. Yet, proposed paragraph 8.5 implies that it is new information obtained that leads to the change, which generally is interpreted as requiring prospective application. This will create confusion among stakeholders and inevitably create tensions between preparers, auditors and regulators. We believe these issues will only be resolved if the Trustees and the IASB resolve tension between this formal status and what has become established practice. It might be necessary to continue discussions with regulators on this point and, potentially, acknowledge that consistency is better served if agenda decisions are made part of the mandatory guidance in IFRSs. In that case, the IASB should embed any changes into the ongoing IAS 8 project. The existing due process for IFRS IC agenda decisions and formal ratification of the IASB at a public meeting, which would be the only new process step, would constitute sufficient safeguards. In addition, clarity as to the status would also help jurisdictions that require IFRSs and changes to IFRSs to be incorporated into law by an endorsement mechanism, such as the European Union.

The tension under the proposals is aggravated by the proposed concept of 'sufficient time'. We appreciate the objective of this concept, i.e. to resolve the perceived view that agenda decisions are effective immediately. However, 'sufficient time' is a concept not found elsewhere in IFRSs. Therefore, what is considered 'sufficient time' will need to be established in practice. We suggest that the Trustees consider introducing a rebuttable presumption that all agenda decisions should be implemented by the end of the reporting period in which the final agenda decision is published. This would support swift implementation and, hence, consistency in application. If a preparer determines that it needs more time to implement, this fact together with an explanation should be disclosed in the notes to financial statements.

The proposals and the preceding discussion on the actual status of agenda decisions highlight another area we believe the Trustees need to act upon: the maintenance of agenda decisions. Given the maturity of the IFRS IC and IFRSs overall, some of the agenda decisions will, or have already, become outdated. I.e., either by being incorporated into new or amended standards or because they covered guidance that has subsequently been superseded. We suggest

the IASB regularly (e.g. every three years) take an inventory of agenda decisions and decide whether to withdraw, amend or leave unchanged existing agenda decisions. We appreciate that the need for such an exercise will largely depend on the Trustee's views as to the status of agenda decisions.

Finally, we would like to comment on the proposals regarding the introduction of 'Board agenda decisions'. The Exposure Draft justifies the introduction in particular because of 'application questions in the period after a Standard is issued but before the Standard becomes effective or has become widely implemented' (we refer to paragraph 22). The Trustees believe the Board is best suited to respond to these questions. We disagree. The IFRS IC has a well-established and well-understood process for resolving such application questions. Its very objective is to deal with such issues – regardless of whether a standard has been implemented or is in the process of being implemented. The proposals undermine the IFRS IC's due process and ultimately its credibility. In addition, this would add an additional mechanism for issuing guidance. We do not think this new 'tool' is necessary. If the Trustees believe that there is a missing step in the due process for the IFRS IC for the time between the issuance of a standard and its effective date, it would be more efficient to amend the IFRS IC's due process. We also believe that the presumption that the use will be rare (we refer to the proposed paragraph 8.7) is further confirmation that the tool is unnecessary and the IFRS IC process is working well.

We would be pleased to answer any questions that you may have or discuss any aspect of this letter.

Yours sincerely

Bernd Stibi
Technical Director
Accounting and Auditing

Kerstin Klinner
Technical Manager
International Accounting