

ASC

ACCOUNTING STANDARDS COUNCIL
SINGAPORE

1 August 2019

Mr Alan Beller
Chair of the Due Process Oversight Committee
IFRS Foundation
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Canary Wharf
London E14 4HD
United Kingdom

(By online submission)

Dear Mr Beller

RESPONSE TO EXPOSURE DRAFT ON PROPOSED AMENDMENTS TO THE IFRS FOUNDATION DUE PROCESS HANDBOOK

The Singapore Accounting Standards Council appreciates the opportunity to comment on the Exposure Draft on *Proposed amendments to the IFRS Foundation Due Process Handbook* (the ED) issued by the Due Process Oversight Committee of the IFRS Foundation (the DPOC) in April 2019. For the purpose of this comment letter, we have not considered the ED proposals relating to IFRS Taxonomy.

Subject to our comments below, we are generally supportive of the ED proposals to amend the IFRS Foundation Due Process Handbook (the Handbook) to reflect developments in the due processes of the International Accounting Standards Board (the IASB) and the IFRS Interpretations Committee (the Committee), and to make more logical particular due process requirements.

Our specific comments on the ED proposals are as follows:

Different due processes for materials accompanying or supporting IFRS Standards

Currently, the IASB issues a few categories of material accompanying or supporting IFRS Standards. These material often provide guidance on how the requirements of IFRS Standards may be applied to a particular fact pattern, yet they are subject to different due processes. For example, the implementation guidance, illustrative examples and practice guidance follow the same due process as IFRS Standards. In contrast, the ED proposes less stringent due process for those education materials providing seemingly similar types of guidance, in particular a due process that does not require public consultation but requires only a review by three IASB members.

It is not clear from the Handbook why different due processes ought to be applied to similar types of guidance, and how a particular guidance is classified such that an appropriate due process would be applied. The application of inconsistent standards of due process is particularly arbitrary in limited cases of the education material that detail relatively complex guidance on the application of IFRS Standards, which may be more complex than some of the material accompanying IFRS Standards (for example, the IASB's education material titled *Measuring the fair value of unquoted equity instruments within the scope of IFRS 9 Financial Instruments*).

Nevertheless, we recognise that the examples in the implementation guidance and illustrative examples accompanying IFRS Standards are intended to help entities understand and implement the requirements of the Standards. Such accompanying material may be more comprehensive and less straightforward than most education material illustrating specific aspects of the requirements.

As such, we recommend that the DPOC and the IASB should clearly spell out the basis for applying different standards of due process, and in doing so, develop consistent and transparent criteria for differentiating and classifying a range of accompanying or supporting material that explains the application of IFRS Standards to particular fact patterns.

Criteria for adding projects to the Committee's standard-setting agenda

Paragraph 5.16(b) of the proposed revised Handbook states that the Committee adds a project to its standard-setting agenda if it is necessary to add or change requirements in IFRS Standards to improve financial reporting. In addition, paragraph 7.6 of the proposed revised Handbook states that: (a) an Interpretation does not change or conflict with the relevant Standards; and (b) the Committee obtains direction from the IASB if it concludes that the requirements of a Standard differ from the Conceptual Framework for Financial Reporting (the Conceptual Framework).

We note that only the IASB has the authority to change the principles and requirements in IFRS Standards. While the Committee can add guidance to IFRS Standards through IFRIC Interpretations (the Interpretations), the Interpretations cannot change or conflict with the principles and requirements in IFRS Standards. Accordingly, the criteria for adding projects proposed in paragraph 5.16(b) may be read in a way that is at odds with the Committee's standard-setting responsibilities.

Furthermore, the Conceptual Framework does not override any requirement in an IFRS Standard. Indeed, IFRS Standards contain requirements that differ from the Conceptual Framework. If the Committee concludes that an Interpretation is required under such circumstances, the Handbook does not explain why the Committee needs to obtain direction from the IASB, or what actions may be taken by the IASB and/or the Committee, given that the principles and requirements in IFRS Standards will prevail. In particular, the Committee cannot develop an Interpretation in a way to achieve consistency with the Conceptual Framework, if in doing so, it would change or conflict with the IFRS Standards. Nor should the Committee be prevented from developing an Interpretation simply because the related requirements in IFRS Standards differ from the Conceptual Framework.

Accordingly, we recommend that the DPOC should reconsider the drafting of paragraphs 5.16(b) and 7.6 of the proposed revised Handbook to avoid potential confusion and conflict.

IASB agenda decisions

We are not convinced that the DPOC should introduce a due process tool that is expected to be rarely used by the IASB. Rather, we encourage the IASB to apply its existing tools to those application questions that the proposed agenda decisions are intended to address.

For such application questions, the IASB's primary objective for providing explanatory material is to support the implementation of a new IFRS Standard. To this end, the IASB may consider the use of the existing material accompanying that Standard such as illustrative examples and implementation guidance.

On the whole, any potential amendments to the accompanying material are likely to be justified on cost-benefit grounds. In terms of benefits, the accompanying material would remain the primary source of guidance and explanatory material that have been issued by the IASB to help entities understand and implement the new requirements. The accompanying material is more widely disseminated and has greater permanence in comparison with agenda decisions. On an ongoing basis, the accompanying material would be updated at the same time when the IASB amends the related requirements, unlike agenda decisions. In terms of costs, any amendments to the accompanying material would be subject to a more stringent due process, but that is unlikely to unduly disrupt implementation of the Standard. This is because the IASB may obtain approval from the DPOC to reduce the comment period if the matter is narrow in scope and urgent, such application questions are likely to be raised in the earlier stages of implementation, and in any case, the IASB is expected to provide the explanatory material only in rare circumstances.

Therefore, we recommend that the IASB should utilise the available due process tools, and more specifically, explore the use of illustrative examples and implementation guidance accompanying IFRS Standards to accommodate application questions that the proposed agenda decisions are intended to address.

We hope that our comments will contribute to the DPOC's deliberation on the ED. Should you require any further clarification, please contact our project manager Yat Hwa Guan at Guan_Yat_Hwa@asc.gov.sg.

Yours faithfully

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