International Banking Federation

5th Floor, 1 Angel Court
London EC2R 7HJ
United Kingdom
+44 7725 350 259
www.ibfed.org

Due Process Oversight Committee
IFRS Foundation
30 Cannon Street
London, EC4M 6XH
United Kingdom

25 July, 2019

To the Members of the Due Process Oversight Committee (DPOC):

The International Banking Federation[1] (IBFed) is pleased to provide you with comments on the "Invitation to Comment: Proposed Amendments to the IFRS Foundation *Due Process Handbook*" (the Proposal). The Handbook sets out the due process procedures that apply to the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee. Confidence in the standard-setting process is critical to the development of high quality accounting and financial reporting standards and the IBFed welcomes the process to obtain feedback from a wide range of stakeholders. As both preparers and users of financial reports, bankers are critical financial intermediaries and the discussions in the Proposal related to the Handbook's "Effect Analysis" and Agenda decisions are the key aspects to our review of the Proposal.

Effects Analysis

The IBFed supports the DPOC's efforts to maintain a robust due process that includes a detailed and transparent review of the foreseeable benefits and costs of new accounting standards. With this in mind, we agree with the general direction of the proposed amendments to:

- Embed explicitly the process of analysing the effects throughout the standard-setting process;
- Explain the scope of the analysis;
- Explain how the Board reports the effects throughout the process; and
- Differentiate the effect analysis process from the final effect analysis report.

With this in mind, we respectfully offer the following observations and recommendations.

[1] The International Banking Federation (IBFed) was formed in 2004 to represent the combined views of our national banking associations. The IBFed collectively represents more than 18,000 banks, including more than two thirds of the largest 1000 banks in the world. IBFed member banks play a crucial role in supporting and promoting economic growth by managing worldwide assets of over 75 trillion Euros, by extending consumer and business credit of over 40 trillion Euros across the globe, and by collectively employing over 6 million people. The IBFed represents every major financial centre and its members' activities take place globally. This worldwide reach enables the IBFed to function as a key international forum for considering regulatory and other issues of interest to the global banking industry. For more information visit: www.ibfed.org.

“Transition” should be an Acknowledged Phase of Due Process

The IBFed supports the use of the examples (in paragraph 3.77) of how the effects analysis can change throughout the standard-setting process, differentiating the analysis performed between “the research phase” and “the standard-setting phase”. We recommend, however, that “transition” be explicitly addressed within this process, both specifically within the effects analysis as well as the standard-setting process overall. Through the use of Transition Resource Groups (also see our discussion below) related to several recently issued standards, the IASB already acknowledges this important aspect of the standard-setting process. During the transition phase, effects of the new standard may also be updated, as entities perform detailed reviews of the costs of compliance. The relevant costs may need to be updated, due to new auditing standards issued, for example, addressing accounting estimates.[2]

Depending on the standard, detailed modelling and analysis performed during this transition time can provide further information as to the level of benefits in financial reporting that is expected to be attained, as well as the economic impact that may occur. Preliminary testing by financial statement preparers may be reviewed, as well as reports by independent agencies can be evaluated by the IASB to assess the likelihood of unintended consequences and to identify potential policy actions that may mitigate possible undesired effects. For example, the IASB should, as a normal course of due process during the transition period, assess relevant studies performed by organizations such as the European Systemic Risk Board (ESRB).

Economic Effects Should Be Addressed

The IBFed supports the inclusion of a discussion (paragraph 3.80) that the Board “may assess specific economic effects where relevant.” The Proposal notes, however, that the Board “is not required to make a formal quantitative assessment of the overall effect of a new or amended Standard.” We recommend that a robust discussion of the effects to regulated financial intermediaries be included in the effects analysis, whether or not the Board directly considered such issues in its decision to issue the standard. Financial intermediaries, such as banking and insurance entities have a unique role in the overall economy and are normally subject to requirements related to levels of regulatory capital. Impacts to companies in these industries not only can significantly affect the ability of a financial statement user to assess the future cash flows of the entity (since, for example, regulatory capital requirements may limit the availability of dividends), but will also often affect the cost and availability of credit, funding, and risk mitigation across an economy. Both regulators and investors, therefore, have a vested interest in understanding the impacts throughout the standard-setting process, as such analyses can affect their feedback to the Board, as well as assist them in developing practical supervisory guidance. Coordination of timely analyses addressing possible systemic risks (for example, by the ESRB or other organizations) should be a critical aspect of the due process. However, we also believe a framework should be developed that addresses the economic effects.

---

[2] Both the International Auditing and Assurance Standards Board and the Public Company Accounting Oversight Board have issued revised standards over auditing accounting estimates.

We believe that a good example for the framework of such an analysis would be that performed by the European Financial Reporting Advisory Group (EFRAG) in the February 2019 “Early Stage Analysis” of the IASB Discussion Paper “Financial Instruments with the Characteristics of Equity.” Several of the foreseeable economic consequences that are discussed include:

- Competition for capital
- The impact on the cost of capital across financial instruments or products
- Ability to extend credit and the resilience of banking entities during financial crisis periods
- Insurance solvency
- Potential procyclical effects

In summary, a comprehensive effects analysis that includes foreseeable economic impacts will, at a minimum, allow all stakeholders to better understand critical issues that might not have been sufficiently understood prior to standard approval.

Agenda Decisions

The IBFed supports the DPOC’s efforts to address Agenda decisions, considering the role that Agenda decisions have in the ultimate practice of applying IFRS standards. Agenda decisions provide clarification on how to apply the principles and requirements of IFRS standards to a specific question raised.

In the Exposure Draft, the DPOC has confirmed that an Agenda decision does not have the status of a standard. However, in practice, while technically non-authoritative, Agenda decisions are viewed as binding, not only by preparers but also by auditors, because they provide new information about the way to apply IFRS standards. Therefore, financial statement users expect entities to change their previous accounting practices, when these practices differ from the Agenda decisions’ prescriptions.

The Exposure Draft proposes to generally clarify that the objective of including explanatory material in Agenda decisions is to improve consistency in the application of IFRS Standards. With this in mind, we believe IFRS Implementation Committee Agenda decisions fall into two categories:

1. An informative nature, which identifies the relevant guidance or requirement of IFRS standards and, therefore, excludes any direct conclusions, or
2. An interpretative nature, intended to improve consistency in the application of IFRS standards, by providing additional guidance or interpretation of the standard.

In the case of their interpretive nature, Agenda decisions should be considered as a tool alongside implementation guidance or illustrative examples provided within the standard or annual improvements of the standards. All of these are subject to the due process that is due in the IASB's standard-level projects (i.e. IASB public debates, publication of exposure-drafts and stakeholders’ consultation, re-deliberation of the IASB and finalisation of the drafted changes by a final vote by the IASB). Accordingly, we recommend that such Agenda decisions should follow the standard-setting process, or they should amend the relevant IFRS standard through the annual improvements process. This process would, therefore, include the processes and decisions relating to the IFRS Interpretations Committee that are detailed within paragraphs 8.1 through 8.5 of the Exposure Draft. This also would apply to IASB Board decisions or opinions provided the Transition Resource Groups, as these decisions normally cover application questions and may impact many company accounting policies.

Effective Date of Agenda Decisions

While, currently issued without any effective date or transition provisions, Agenda decisions are expected to be applied as soon as possible. Thus, in practice, it may be difficult for entities to implement Agenda decisions as doing so can require changes in accounting policies, collection of additional information and changes of processes. The ED addresses the issue by allowing "sufficient time to incorporate the new requirements into the legal systems" of preparers.

We generally agree with this statement. Requiring any specific implementation deadline, even for the purposes of management's appreciation, may contradict the nature of the agenda decision. With this in mind, however, this is a reason that Agenda decisions that are interpretive in nature should be subject to the due process related to accounting standard-setting decisions.

We hope you will find our comments helpful and welcome any questions you have.

Yours sincerely,

Ms Hedwige Nuyens
Managing Director
IBFed

Hugh C Carney

Mr Hugh Carney
Chair of the Prudential Supervision Working Group
IBFed