



26 November 2010

Our ref: ICAEW Rep 133/10

Your ref:

Mr Padoa-Schioppa
Chairman
IFRS Foundation
30 Cannon Street
London
EC4M 6XH

Dear Mr Padoa-Schioppa

The annual improvements process: Proposals to amend the Due Process Handbook for the IASB

1. The ICAEW is pleased to respond to your request for comments on the Proposals to amend the Due Process Handbook for the IASB.
2. The ICAEW operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, we provide leadership and practical support to over 134,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. We are a founding member of the Global Accounting Alliance with over 775,000 members worldwide.

We welcome the introduction of formalised criteria for determining the scope of changes to IFRS that may be made in the form of annual improvements

3. We welcome the proposed amendment. It is essential that there be an established set of criteria for determining which issues should, and which shouldn't, be addressed through the annual improvements process. We particularly welcome the inclusion in paragraph 65A of a statement that annual improvements should not propose new or change existing principles.

Exemptions to principles should be subject to proper due process

4. However, we do not agree that it is appropriate for a minor amendment to introduce a principle exemption and we therefore suggest that the words '...may create an exemption from an existing principle' be deleted from paragraph 65A (ii). The perceived need for such an exemption commonly arises in response to a specific issue in practice; in some cases this can be very narrow in scope and may indeed be limited to a particular industry. But addressing such issues through the creation of defined exceptions to existing principles often amounts to no more than the creation of rules. We oppose this approach to standard setting. We do

support efforts to provide clarification over how a principle relates to a particular circumstance, and agree that where there is a practical application issue, such clarification is often necessary and desirable to secure consistency. However, we do not believe that the creation of specific rules is an appropriate way to tackle this type of issue and indeed feel that it can impair comparability where an arbitrary distinction is drawn between two competing treatments. If such exemptions are felt to be necessary then at least they should be subject to proper due process, and this is not the case if they are encompassed within the annual improvements process. The result could be a material change to IFRS without it receiving proper consideration.

5. An allied concern relates to the insertion of additional options into an existing standard. This could amount to standard setting by default outside of the normal due process. Rather than proposing a certain new treatment as a mandatory change, under this process the treatment would instead be introduced as an additional option. Further down the line the change becomes mandatory when the original treatment is withdrawn and the new 'option' becomes the default treatment. This process was unfortunately witnessed earlier this year in the publication of the Exposure Draft *Presentation of Items of Other Comprehensive Income*. Previously the IASB had introduced an option to present profit or loss and other comprehensive income as a single continuous statement, with this Exposure Draft it was proposed that the 'option' become mandatory through the withdrawal of the original presentation of two separate statements. We do not support this approach to standard setting and feel particularly strongly that it should not be facilitated through the processes for minor amendments. We would welcome a Handbook prohibition of this practice.

Improvements should be of sufficient importance to justify their being addressed outside of a planned project

6. We agree that limitations should be placed on the use of the annual improvements process where a certain issue is already scheduled to be dealt with as part of a specific project, and we agree that 'pressing need' (paragraph 65A d) is an appropriate qualifying criterion. However, we would go further, and would add a further criterion that such an issue be 'sufficiently important' to merit being dealt with outside of the specific project of which it would more properly form a part.

Changes to IFRS principles should not be permitted through other types of minor amendments either

7. As set out in paragraph 3 we welcome the prohibition on principle change through the annual improvements process, however, we believe the amendment should go further. We do not believe that principle creation or change should be permitted through any form of minor amendment, whether in the form of an annual improvement or otherwise.

A similar set of criteria for agenda decisions would be welcomed

8. We welcome the formalisation of due process for annual improvements, but we believe that this formalisation could usefully be extended into other areas. For example, a similar set of criteria should be developed for determining the process for making decisions regarding the issues that should be added to the IASB's agenda. Such a process should require clear definition of the shortcomings a project is intended to solve. Any consequential amendments should then conform with this objective.

The Due Process Handbook should also determine the boundary between annual improvements and IFRSIC Interpretations

9. We believe that the proposed amendments could also be usefully extended to draw a distinction between what should be the subject of an IFRSIC Interpretation and what should be addressed through an annual improvement.

The proposed amendments to the IASB Due Process Handbook are intended to provide enhanced criteria to assist the IASB and interested parties when determining whether a matter relating to the clarification or correction of IFRSs should be addressed using the annual improvements process.

Do you think that the proposed criteria provide a sufficient and appropriate basis for assessing whether a matter relating to the clarification or correction of IFRSs should be addressed using the annual improvements process? If not, what changes would you propose and why?

10. In general we agree. We welcome the Foundation's efforts to formalise the criteria for use of the annual improvement process.
11. However, we are concerned about the last sentence of paragraph 65A a ii which states that annual improvements '...may create an exemption from an existing principle'. We do not believe it should be possible to change principles through a minor amendment, whether this is in the form of an annual improvement or otherwise. Principle changes should be subject to proper due process. Therefore we suggest that this part of the sentence be deleted.
12. We also suggest that criterion (d) of paragraph 65A be extended. Currently this states that there must be a pressing need to address a certain issue through an annual improvement if that area is already the subject of a dedicated project. We feel that 'pressing need' should be supplemented by 'sufficient importance'. Where a dedicated project is already planned then amendments would be better to be contained within it, unless there is a pressing need and the issue is of sufficient importance to justify being addressed earlier

Please contact me should you wish to discuss any of the points raised in this response.

Yours sincerely

John Boulton ACA
Technical Manager, Financial Reporting Faculty

T +44 (0)20 7920 8642
E john.boulton@icaew.com