

## Issues Paper – IFRS Foundation Consultation Document

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

1. This issues paper considers the proposed draft amendments and notes AASB staff views on the IFRS Foundation's Consultation Document *The annual improvements process: Proposals to amend the Due Process Handbook for the IASB*, which proposes new criteria for assessing whether an issue should be addressed within the annual improvements project.

#### **(A) PROPOSED DRAFT AMENDMENTS**

2. The proposed draft amendments include 4 criteria that are all required to be met for an issue to qualify for inclusion in annual improvements. The proposed criteria are:
  - (a) the proposed amendment must either:
    - (i) clarify unclear wording or provide guidance; or
    - (ii) correct (i.e. resolve a conflict between existing requirements, address an oversight or relatively minor unintended consequence) existing requirements;
  - (b) the proposed amendment must have a narrow and well-defined purpose;
  - (c) it must be probable that the IASB will reach a conclusion on the issue on a timely basis; and
  - (d) if the proposed amendment would amend IFRSs that are the subject of a current or planned IASB project, there must be a pressing need to make the amendment sooner than the project would.

#### **(B) STAFF ANALYSIS OF PROPOSALS**

3. AASB staff think the proposals in the Consultation Document are generally sufficient and appropriate and are likely to assist the IASB and interest parties in making assessments about the appropriateness of amendments to IFRSs for inclusion in annual improvements, and therefore we express general support for the proposals. However, AASB staff are concerned that the proposals:
  - (a) do not explicitly include the criterion 'non-urgent but necessary' as part of annual improvements criteria;

- (b) use terminology that is not clearly described and may be inconsistently applied;  
and
- (c) only address the annual improvements process in the planning stage of the IASB’s standard-setting processes, and not in the other 5 stages.

**(a) Consideration of ‘non-urgent but necessary’ as part of criteria**

4. The introduction and invitation to comment section in the Consultation Document says “Amendments are made to IFRSs through the annual improvements process when the amendment is considered non-urgent but necessary.” This sentence suggests that ‘non-urgent but necessary’ is an important criterion in assessing whether an issue should be considered as part of the annual improvement process. However, reference to ‘non-urgent but necessary’ has not been included in the proposed criteria in the Consultation Document. AASB staff think reference to ‘non-urgent but necessary’ provides a clear explanation of the type of amendments that are likely to be considered as part of the annual improvement process and therefore should be explicitly stated in the criteria in the Consultation Document.

**5. Question for the Board**

Does the Board agree that ‘non-urgent but necessary’ should be included in the criteria to qualify for inclusion as annual improvements?

**(b) Clarification of terminology used**

6. Paragraph 65A(b) of the Consultation Document says “The proposed amendment has a narrow and well-defined purpose, i.e. the consequences of the proposed change have been considered sufficiently and identified.” AASB staff question whether paragraph 65A(b) should refer to a ‘narrow and well-defined purpose’ or a ‘narrow and well-defined issue’. We think a proposed amendment within an annual improvements project should address an issue that is narrow and well-defined rather than the purpose, therefore we think the wording of the criteria should be amended to reflect this. AASB staff are also concerned that the second sentence of paragraph 65A(b) does not clearly explain what is meant by ‘narrow and well-defined’. We also question the link between the first and second sentence, which may cause confusion. We think that the second

sentence needs to be removed or rephrased to better explain what is meant by ‘narrow and well-defined’.

7. Paragraph 65A(c) says “It is probable that the IASB will reach conclusion on the issue on a timely basis.” AASB staff think ‘timely basis’ is vague and may be interpreted differently by interested parties. We think the meaning of ‘timely basis’ should be explained in more detail in the Consultation Document. This will help ensure that this criterion is clear and consistently applied.

#### **8. Questions for the Board**

Does the Board agree that the:

- (a) phrase ‘narrow and well-defined purpose’ should be amended to ‘narrow and well-defined issue’?
- (b) second sentence of paragraph 65A(b) needs to be removed or rephrased to better explain what is meant by ‘narrow and well-defined’? and
- (c) phrase ‘timely basis’ is vague and should be explained in more detail?

#### **(c) Relevance of annual improvements criteria to the other stages in the standard-setting process**

9. The Consultation Document suggests that the proposed draft amendments will be included in ‘Stage 2: Project planning’ of standard-setting process in the *Due Process Handbook for the IASB*. The six stages of the standard-setting process are:

Stage 1: Setting the agenda

Stage 2: Project planning

Stage 3: Development and publication of a discussion paper

Stage 4: Development and publication of an exposure draft

Stage 5: Development and publication of an IFRS

Stage 6: Procedures after an IFRS is issued

10. AASB staff question why the inclusion of the proposed annual improvements process criteria have only been considered in the planning stage of the standard-setting process. We think the annual improvements process and criteria also affects the development and publication of an exposure draft (stage 4), development and publication of

amendments to IFRSs (stage 5) and the procedures after an IFRS is issued (stage 6). There is no clear link between the annual improvements process and the stages of the standard-setting process in the *Due Process Handbook for the IASB*. The lack of guidance in this regard may create confusion about the process that should be followed once the annual improvements criteria have been satisfied.

11. AASB staff think the *Due Process Handbook for the IASB* should describe how the annual improvements process impacts other stages of the standard-setting process. For example, paragraph 65B of the Consultation Document could be expanded to explain that in the process of developing and publicising an exposure draft for annual improvements, paragraphs 38-44 of the *Due Process Handbook for the IASB* should be followed. Similar guidance could also be included for the other stages of the standard-setting process that may be impacted by the annual improvements process. This may create an appropriate link between all the stages in the standard-setting process.

**12. Question for the Board**

Does the Board agree that the annual improvements process and its relationship to the stages in the standard-setting process should be described in the *Due Process Handbook for the IASB*?

**(d) Editorial errors, inconsistencies and duplications**

13. AASB staff have identified some editorial errors, inconsistencies and duplications within the *Due Process Handbook for the IASB*. Although the IFRS Foundation have not explicitly requested comments on the *Due Process Handbook for the IASB*, AASB staff think that given the IFRS Foundation is amending the *Due Process Handbook for the IASB*, it may be timely to also amend the existing editorial errors, inconsistencies and duplications in the *Due Process Handbook for the IASB*. AASB staff will include a list of the editorial errors, inconsistencies and duplications identified in the *Due Process Handbook for the IASB* in an appendix to the AASB submission.