



The Hundred Group
of Finance Directors

Financial Reporting Committee

David Sidwell Esq
Chairman
Due Process Oversight Committee
c/o International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

4 September 2012

Dear Mr Sidwell

Revision to the IASB and IFRS Interpretations Committee Due Process Handbook

We welcome the opportunity to comment on the proposed amendments to the IASB and IFRS Interpretations Committee Due Process Handbook.

Who we are

The Hundred Group represents the views of the finance directors of FTSE 100 and several large UK private companies. Our member companies represent almost 90% of the market capitalisation of the FTSE 100, collectively employing over 7% of the UK workforce and in 2011, paid, or generated, taxes equivalent to 13% of total UK Government receipts. Our overall aim is to promote the competitiveness of the UK for UK businesses, particularly in the areas of tax, reporting, pensions, regulation, capital markets and corporate governance. Whilst this letter expresses the views of The Hundred Group of Finance Directors as a whole, those views are not necessarily those of our individual members or their respective employers.

Our views

Our responses to the specific questions are set out in the Appendix. However, we would like to take this opportunity to make a few general comments addressing improvements we believe are necessary to improve both the quality and credibility of the guidance setting processes.

Integration of DPOC objectives rather than inclusion

Our comments are framed against the backdrop of the re-exposures in respect of two major projects, Leases and Revenue. We appreciate the significant amount of resources expended on the development of the original exposure drafts, noting that the procedures adopted, flexibility and outreach programmes were far more extensive than under previous initiatives, but believe that the need to re-expose demonstrates that there are fundamental issues in due process. Whilst the handbook notes in 2.10 that the IASB will report to the Due Process Oversight Committee (DPOC) on a timely basis, there is no clear commitment to alleviate concerns that the same issues will not arise again. As we note in our answer to Question 1, the handbook simply includes the responsibilities of the DPOC as individual sections, rather than integrating the activities throughout the document.

Definition of high quality accounting standards

The term "high quality" is a familiar and accepted aspiration. However, what it represents is not entirely clear and, indeed, probably represents different things to different people. Therefore, we believe that it is important to develop a definition of what features guidance should exhibit such that it can be regarded as high quality. Such features would include credibility with stakeholders, the capability to be applied practically, technical robustness, and output that reflects the performance and financial position of the entity appropriately. While DPOC may not consider that the handbook is the appropriate document in which to include such a definition, the updating of the handbook seems to us to be as good an opportunity as any to develop such a definition.

We would note at this point that guidance should be consistent with the conceptual framework, development work on which we regard as a priority.

Robust cost/benefit analysis

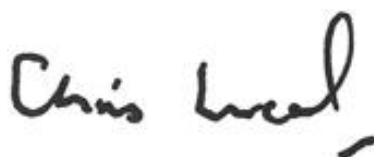
We recognise not only the importance of robust cost/benefit analysis, but also the difficulties that such analysis entails. Identifying costs tends to be a more tangible exercise - system changes, training, audit costs etc are examples. The benefits are, on the other hand, more intangible. This difficulty in identifying and quantifying benefits is neither a reason not to undertake the exercise nor an excuse for inadequate analysis. A vague assertion and extrapolation of a percentage saving in cost of capital does not represent robust benefit analysis.

Other matters

We recognise that in drafting the handbook, there should be a balance between, on the one hand, simplicity and clear statement of principles with, on the other hand, sufficient detail in guidance.

We continue to believe that the IFRIC should be encouraged to address emerging or urgent issues, as well as interpreting existing guidance. We note that the SEC Staff made the same point in their recent report on the suitability of IFRS for incorporation into the US financial reporting system.

Yours sincerely

A handwritten signature in black ink, appearing to read "Chris Lucas", with a stylized flourish at the end.

Chris Lucas
*Chairman,
Hundred Group Financial Reporting Committee*

RESPONSES TO SPECIFIC QUESTIONS

Question 1

The Trustees' have included an introductory section dealing with 'oversight', and the responsibilities of the DPOC (see paragraphs 2.1–2.15).

Do you support the inclusion and content of this section? Why or why not?

We welcome the inclusion of the DPOC responsibilities (and the associated Appendix containing due process protocols) but note that they have not been integrated fully - the only other references to the DPOC's involvement in standard setting are in paragraphs 5.2 (reasons for non-issue of a discussion paper) and 6.24 (reasons for not re-exposing). This does not seem to incorporate fully the pro-active participation of the DPOC in the standard setting process which we believe is necessary.

Question 2

The DPOC have created a Due Process Protocol in the form of a table that shows the steps that the IASB must, or could, take, as well as reporting metrics to demonstrate the steps that they have taken, in meeting their due process obligations (see Appendix 4).

Do you agree with the idea that such a table should be maintained on the public website for each project?

Why or why not?

We welcome the detailed protocols being included. However, as noted in our response to Question 1 and our more general comments in the covering letter, we believe that the objectives and activities of the DPOC should be integrated into the main body of the text with the Appendix providing more detail.

We note that there are inconsistencies between the main body of the text, for example, on consultation with the Trustees on the technical work programme and on the compulsory nature of the issue of press releases accompanying exposure drafts, changes to IFRS, draft interpretations and interpretations.

Question 3

A research programme is described, which we expect will become the development base from which potential standards-level projects will be identified (see paragraphs 4.9–4.22). In addition, a new section on maintenance has been added, which formalises the practice that the IASB and the Interpretations Committee have been following for addressing matters that are narrow in scope. It clarifies that the more formal project proposal processes were always intended to apply to new IFRSs and major amendments. The IASB has the discretion to initiate changes that are narrow in scope to IFRSs as part of the general maintenance of IFRSs. The new section also explains how the activities of the IASB and the Interpretations Committee are closely related (see paragraphs 5.11–5.20).

Do you agree with the distinction between narrow-scope projects, which come under the heading of maintenance and comprehensive projects, which come under the heading of development of IFRSs? Why or why not?

Do you agree with the introduction of a separate research programme that will likely be the development base from which potential standards-level projects will be identified? Why or why not?

We welcome the introduction of a research phase into due process. However, we are concerned that under the procedures described, the issue of a research paper (with a lower hurdle requirement than a discussion paper) can result in a discussion paper not being issued. Further, we would caution the Board against progressing with new standards unless the research project shows that there is a deficiency in existing financial reporting in relation to which a broad base of stakeholders wishes the Board to take action.

We understand the distinction between narrow scope and comprehensive projects, but believe that the handbook would benefit from clearer distinctions between the two. We have seen examples under the Annual Improvements process of changes that we regard as fundamental in nature and deserving of a more comprehensive due process. More precise definitions would alleviate the risk in this regard.

We would amend paragraph 5.1 to include the condition that there is a realistic possibility of high quality guidance being developed.

Question 4

Two changes to comment periods are proposed. The first would increase the minimum comment period for exposing the draft of a rejection notice of a request for an Interpretation request from 30 days to 60 days (see paragraph 5.16). The other change relates to the re-exposure of a document. The DPOC is proposing to allow the IASB to have a reduced comment period of a minimum of 60 days for documents it plans to re-expose, if the re-exposure is narrow in focus (see paragraph 6.26).

Do you agree with the changes in the comment period lengths for rejection notices and re-exposure drafts?

Why or why not?

We support the increase in the minimum comment period for draft rejection notices in respect of a request for an Interpretation.

We strongly disagree with the proposed restriction to 60 days and do not understand what additional flexibility this paragraph offers that is not already covered in paragraph 6.7. We believe that amendments are rarely, if ever, genuinely narrow in scope. We believe that if a standard needs re-exposing, it is highly unlikely that the re-exposure would be narrow in focus, but rather due to the major changes that have been made to the exposure draft previously published. Such amendments can only be properly understood in the context of the full guidance, and that understanding may reveal new flaws and anomalies elsewhere. For these reasons, permitting a shorter comment period is not appropriate.

Question 5

Are there any other matters in the proposed handbook that you wish to comment on, including matters that are not covered by the handbook that you think should be?

We additionally comment in the covering letter on the need to define what is meant by high quality in the context of accounting standards, cost/benefit analysis and the role of the IFRSIC.