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UK Endorsement Board's Draft Due Process Handbook

We welcome the opportunity to provide input on the UK Endorsement Board's (UKEB's) Draft Due Process Handbook. We believe that UK capital markets will be best served by high quality, globally consistent accounting standards that meet the UK endorsement criteria. Ideally the UKEB will be in a position to adopt new IASB standards for use in the UK in their issued form and to do so on a timely basis. Such an outcome should maximise the usefulness of IFRS for the UK, comparability of financial statements across markets, and minimise uncertainty as to the future of UK requirements.

We generally agree with the draft Handbook as a basis for the UKEB's processes. We do have comments and suggestions on the draft Handbook. Our comments are in light of the ideal outcome set out above and relate primarily to the process for any decision not to adopt an IASB standard or amendment. Non-adoption or partial adoption could indicate that efforts to influence the IASB ahead of the issuance of a standard or amendment have not been successful. For that reason, we have also focussed on the process for influencing the IASB in advance of any standard being issued.

Our detailed comments are set out in the appendix to this letter.

Please contact us if you wish to discuss this response further. Contact details are set out in a separate document.

KPMG LLP

Yours faithfully
KPMG LLP

Appendix: detailed comments

We generally agree with the processes described in the draft Handbook. We do have the following detailed comments:

Section 4 Governance Activities

Voting process for endorsement decisions (paragraphs 4.2 to 4.5)

In the event of only partial adoption of a standard (or amendment or interpretation) the process to be followed is not completely clear. In particular:

- a) Does a vote by the UKEB on adoption of a standard in full have to take place before any vote on partial adoption?

Paragraph 4.2 states that any decision to adopt has to be taken by the UKEB but does not state any obligation for the UKEB to hold a vote on the full standard in advance of any vote on partial adoption.

- b) Is the UKEB Chair required to explain to the Secretary of State an explanation of circumstances when a standard is adopted in part only?

Paragraph 4.5 states that where a standard is not adopted in whole or in part, then the UKEB Chair must provide an explanation of circumstances to the Secretary of State. In the event that a standard is adopted in part but not in whole then it appears that the draft due process handbook does not require any such explanation.

We recommend that the process for partial adoption is made clearer in the handbook to provide certainty in the event of such a situation.

We recommend that the answers to questions a and b above should be 'yes'. i.e., that the UKEB must have held a vote on adoption of a standard in full before any vote on adoption in part, and that in the event that a standard is not adopted in full, the UKEB chair is required to explain the decision. We believe that this approach is consistent with the roles and responsibilities of the Board (ToR 3.1(b); deciding whether to adopt IFRS for application by UK entities...) and with the approach to the principle of accountability (ToR 4.2 (c) and (e) to provide a clear rationale for decisions and to undertake assessments of the IASB's proposals against the endorsement criteria.).

As we noted in our cover letter, we believe that high quality globally consistent accounting standards are beneficial to capital markets, including in the UK. Clear process and transparency of decisions in the event of non-adoption (whether whole or partial) is at least as important as in the event of adoption.

Technical work plan (paragraphs 4.30 to 4.35)

As a drafting suggestion only: The UKEB's technical work plan as listed in this paragraph does not clearly include influencing IASB projects that could give rise to a new standard. Paragraph 4.31 (a) refers only to influencing projects that give rise to draft IFRIC interpretations or proposals for minor or narrow scope amendments. Footnote 15 does envisage such additional projects. We believe that it would be clearer to indicate the types of such possible projects in the body of the Handbook rather than including some in a footnote and some in the text.

Prioritising technical projects (paragraphs 4.36 to 4.37)

The UKEB should be in a position to make endorsement decisions on a timely basis to minimise uncertainty as to forthcoming UK requirements. In addition, the UKEB should aim to make any endorsement decision with sufficient time to allow UK entities to plan for implementation of a new standard, interpretation, or amendment so as to adopt at the effective date specified by the IASB. Having different effective dates for UK accounting standards compared to those issued by the IASB would reduce comparability of financial information across borders and can be expected to complicate implementation for global groups. Neither of these outcomes appear to us to be in the UK's interest as a global capital market.

The factors for the UKEB to consider in prioritising technical projects (paragraph 4.36) do refer to "urgency". We believe that an explicit aim of timeliness of endorsement decisions and allowing time for alignment of effective dates should be included as a factor that is highly relevant in prioritising technical projects. This does not only apply to endorsement projects as described in section 6. Influencing projects are important precursors to endorsement and should aim to result in standards that are suitable for endorsement as well as analysis that will support the endorsement decision. Therefore, timeliness of any ultimate endorsement decision should be a factor that is relevant to prioritising influencing projects as well as endorsement projects.

We agree that the availability of staff resources is one of the factors that should generally be considered by the UKEB in prioritising projects (paragraph 4.36). It is important that the UKEB has sufficient resources to undertake activities necessary to perform its functions. Changes in activity levels at the IASB, or other factors, could give rise to projects that would be prioritised were it not for resourcing matters. The UKEB in setting its work plan should consider whether any resourcing constraints could put the UKEB at risk of not performing its functions on a timely basis and we suggest that contingency plans may be necessary to remedy such situations.

Section 5 Influencing process

For many projects outreach activities are expected to be relevant to gather information on UK issues. Outreach is not listed as a mandatory milestone in influencing projects (paragraph 5.1). We recommend that there is an explicit rebuttable presumption that some degree of outreach is expected in an influencing project. The project initiation plan to be approved by the UKEB includes a rationale for the amount of outreach to be undertaken (paragraph 5.14). A rebuttable presumption will support that planning.

Given the draft Handbook envisages limited situations in which a shorter comment period on draft comment letters is appropriate, it isn't clear why the issuance of a draft comment letter (paragraph 5.1(d)) is not identified as a mandatory step in the influencing process. We appreciate that a public draft comment letter is not the only outreach mechanism. However, publication of a draft comment letter appears to be in line with the principles of transparency and accountability. The ability to adapt the comment period and mechanism (paragraphs 5.22 and 5.3(b)) would generally be expected to allow a timely and proportionate approach. It may be that for Interpretations Committee tentative agenda decisions the UKEB assess that there is insufficient time to consult via a draft comment letter. Such a situation could be an explicit exception to the requirement for a draft comment letter given that IASB agenda decisions are not formal changes to IFRS and given the relatively short timescale for comments.

Section 6 Endorsement process

Consideration of the impact of non-adoption in the endorsement process

The endorsement process in section 6 does not mention consideration of the impact of non-endorsement in the assessment of whether use of a standard is likely to be conducive to the long term public good in the UK (under SI 2019/685 Regulation 7). In making endorsement decisions we believe that comparison to the effects of non-adoption of that standard is relevant to that assessment.

Response to non-adoption of a standard

Footnote 28 in paragraph 6.46 states that in the event of a formal written vote not to adopt a standard or amendment then only the outcome of the vote will be published. i.e., no endorsement criteria assessment, feedback statement or due process compliance statement is required to be published in the event of a decision not to adopt a standard.

We believe that the publication of the assessment, feedback statement and due process compliance statement is as necessary to the transparent operation of the UKEB's functions in the event of a decision not to adopt as in the event of a decision to adopt. Clarity on the reasons for non-adoption will be of interest to users, preparers, and standard setters. We therefore believe that the due process handbook should require publication of such relevant explanatory and process documents in the event of a decision not to adopt.

In addition, the Handbook does not set out any process for next steps after a decision not to adopt a new or amended standard. In some cases, a decision not to adopt, or to adopt in part, could have significant consequences for UK financial reporting. In such cases the UKEB should be required to consider future steps to address such consequences such as further influencing activity.

Outreach

Consistent with our response under section 5 we recommend that there is an explicit rebuttable presumption that outreach beyond the minimum level is to be undertaken as part of an endorsement process. The project initiation plan can include reasons for rebuttal of that presumption where appropriate.

Section 8 Post-implementation reviews

Use of IASB post-implementation reviews

We agree that when the IASB is undertaking a post-implementation review of a new standard then it is appropriate for the UKEB to input into that review. We also believe that efficiencies from use of IASB processes can be beneficial.

However, we note that the aims of IASB post-implementation reviews are naturally not the same as a review focussed on the 'impact of the adoption of the standard' for use in the UK (SI 2019/685).

When the IASB is conducting a post-implementation review, the draft Handbook (paragraph 8.5) requires, in addition to influencing activity, a UKEB report on how the UKEB feedback has been addressed by the IASB. In our view, a review of the impact of adoption of a standard in the UK should always include UKEB evidence gathering and determination of the scope of the review that it would undertake itself. In that way the appropriateness of the use of the IASB's process and any areas of additional UKEB-only outreach can be identified. In addition, we believe that the UKEB should always follow a post-implementation review with a report on conclusions including findings and recommendations. We believe this should be the case even when part of the post-implementation review process makes use of the IASB's process.

Opportunity for post-implementation review of UKEB processes

Post-implementation reviews are a good opportunity to assess the effectiveness of the UKEB processes. For example, assessing whether the benefits and costs materialised as expected, and whether there are lessons to be learned to help improve the outreach and influencing processes in the future. The draft Handbook does not refer to such post-implementation assessments of process. We believe these could be usefully incorporated into post-implementation reviews of significant changes in accounting practice.

Significant change in accounting practice

The invitation to comment asks whether we agree with the description of a 'significant change in accounting practice' (included in paragraph 8.8)

"A 'significant change in accounting practice' usually occurs when a new accounting standard is issued by the IASB. A new standard meets a 'significant change in accounting practice' as it will usually have a widespread effect on many entities or a material effect on a few entities."

We agree that a significant change in accounting practice usually occurs when a new accounting standard is issued. However, it is also possible that such a significant change could take place as a result of an amendment to an existing accounting standard.

Although a new standard can be expected to often result in a significant change in accounting practice, we do not believe that this is necessarily always the case. The UKEB should have the ability to decide that a new accounting standard does not result in a significant change in accounting practice. We recommend that the UKEB consult on any such decisions as part of earlier outreach.

Other Comments

We note that the draft Handbook includes processes in relation to the UKEB's existing remit in relation to IASB accounting standards. Additional processes or amendments to these processes would be required if the UKEB's remit extends to the work of the ISSB.