

# Due Process Handbook—Endorsement processes

### Appendix 1: DRAFT Due Process Handbook

#### 6 Endorsement processes

#### UK Statutory requirements for endorsement and adoption

- 6.1 New or amended international accounting standards issued by the International Accounting Standards Board (IASB) are not part of UK-adopted international accounting standards until the UKEB has endorsed and adopted those standards<sup>1</sup>.
- 6.2 The primary objective of endorsing and adopting international accounting standards for use in the UK as set out in SI 2019/685<sup>2</sup> is to harmonise the financial information presented by relevant companies to ensure:
  - a) a high degree of transparency and international comparability of financial statements; and
  - b) the efficient allocation of capital, including the smooth functioning of capital markets in the United Kingdom.
- 6.3 The regulatory power embodied in the UKEB's endorsement and adoption function lends weight and authority to the UKEB's influencing activity.
- 6.4 The UKEB adopts international accounting standards for use within the UK, in accordance with regulations 6-9 in SI 2019/685<sup>3</sup> (these regulations are described in paragraph 6.5 below).
- 6.5 Regulation 7—requires that an international accounting standard only be adopted if:
  - a) "the standard is not contrary to either of the following principles—
    - (i) an undertaking's accounts must give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss;
    - (ii) consolidated accounts must give a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included

On Friday 21 May 2021, the Secretary of State for Business, Energy and Industrial Strategy (BEIS) delegated statutory powers to the newly established UK Endorsement Board (UKEB). One of the UKEB's delegated functions is the responsibility for the endorsement and adoption of IFRS for use by UK companies.

Regulation 5 of SI 2019/685: <a href="https://www.legislation.gov.uk/uksi/2019/685/made">https://www.legislation.gov.uk/uksi/2019/685/made</a>. See also section 2.1 in this Handbook [refer to Appendices 2-3 in this paper].

<sup>[</sup>Regulations 5-9 of Statutory Instrument (SI) 2019/685 The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019: https://www.legislation.gov.uk/uksi/2019/685/made are reproduced in Appendix 3 of this paper].

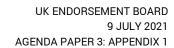


in the accounts taken as a whole, so far as concerns members of the undertaking;

- b) the use of the standard is likely to be conducive to the long term public good in the United Kingdom; and
- c) the standard meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management."
- 6.6 Regulation 8—contains a requirement to consult those with an interest in the quality and availability of accounts, including users and preparers, before adopting a standard.
- 6.7 Regulation 6—permits the adoption of a standard in accordance with Regulations 7 and 8. In exceptional circumstances, where a standard taken as a whole cannot be adopted, it can be adopted in part where that part meets the endorsement criteria set out in Regulation 7 or an option available as part of a standard could be extended.
- 6.8 Regulation 9—sets out the requirement to publish a final decision on adopting a new or amended international accounting standard.

#### Overview of UKEB endorsement and adoption processes

- 6.9 The UKEB applies its processes before it decides to endorse and adopt a new or amended international accounting standard. The endorsement and adoption processes take place after a new or amended standard has been issued by the IASB and before the standard is effective.
- 6.10 The expected milestones for the endorsement and adoption process are:
  - a) Project initiation plan.
  - b) Desk-based research.
  - c) Public consultation on a draft Endorsement Criteria Assessment (DECA).
  - d) Outreach activities.
  - e) Project closure, including vote on adoption with the following documents:
    - (i) Final Endorsement Criteria Assessment (ECA).
    - (ii) Feedback statement.
    - (iii) Compliance with due process statement.
    - (iv) Adoption statement.
  - f) Publication of the documents set out in e).





6.11 The steps set out above will be undertaken in a proportionate manner depending on the significance and complexity (i.e. nature or scope) of the relevant standard or amendment. For example, for complex projects with major amendments, the outreach activities may be far more extensive, whereas for minor or narrow scope amendments (i.e. amendments that meet the IASB's criteria for annual improvements or for narrow scope amendments)<sup>4</sup> the outreach activities may be mainly focused on obtaining responses on the Draft Endorsement criteria Assessment (DECA). For urgent amendments, making a DECA available for consultation may not be possible, and instead, consultation with a representative group of stakeholders is likely to be appropriate.

#### **Project Initiation Plan**

- 6.12 For a new or amended international accounting standard to be endorsed and adopted by the UKEB, a "Project Initiation Plan" (PIP) is prepared for approval by the Board.
- 6.13 The objective of the PIP is to assess the potential impact and scale of the new or amended standard and, consequently, the level of analysis and outreach that should be undertaken.
- 6.14 The PIP outlines the approach to the project, including the amount of desk-based research, outreach and proposed timeline that is proportionate to the standard or amendment under consideration for adoption. This approach should help ensure an appropriate level of resource is allocated to each project.

#### Desk-based research

6.15 Desk-based research is undertaken to assist with the assessment of proportionality and to gather evidence on the issue. This will usually include a review of the IASB's previous work on this issue. It may also include, for example, a literature review, review of financial statements, review of past papers by other National Standard Setters (NSS) or other stakeholders (such as accounting firms, government, regulators, etc).

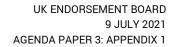
#### Draft endorsement criteria assessment (DECA)

6.16 The UKEB's consideration of the endorsement criteria in paragraph 6.5 are set out in the Annex. [the Annex will be presented to the Board for discussion at a future meeting].

#### Content /

- 6.17 In general, a DECA considers and addresses the following:
  - a) Introduction: legislative framework and approach to the assessment:
    - (i) Purpose of the DECA;

The <u>IASB and IFRS Interpretations Committee Due Process Handbook</u> include the criteria for determining whether an issue comes within the scope of an annual improvement (paragraphs 6.10-6.14), or whether an issue meets the criteria for a narrow-scope amendment (paragraph 5.16(a)-(d)).





- (ii) Summary and explanation of legislative background to endorsement criteria; and
- (iii) Description of endorsement criteria (including text of criteria from SI 2019/685) and what is meant by each criterion;
- b) Rationale for the new or amended international accounting standard, i.e. summary background, context and objectives and main accounting requirements;
- c) Technical criteria assessment:
  - (i) whether the standard meets the criteria of relevance, reliability, comparability and understandability required of the financial information needed for making economic decisions and assessing the stewardship of management (SI 2019/685 Regulation 7(1)(c))<sup>5,6</sup>; and
  - (ii) whether the standard is not contrary to the principle that an entity's accounts must give a true and fair view (SI 2019/685 Regulation 7(1)(a))<sup>5, 6</sup>.
- d) Whether use of the new or amended standard is likely to be conducive to the long term public good in the UK (SI 2019/685 Regulation 7(1)(b))<sup>5, 6</sup>, including:
  - (i) whether the use of the standard is likely to improve the quality of financial reporting;
  - (ii) the costs and benefits that are likely to result from the use of the standard; and
  - (iii) whether the use of the standard is likely to have an adverse effect on the economy of the UK, including on economic growth.
- 6.18 A DECA is made available for public consultation on the UKEB website. In exceptional circumstances for an urgent amendment this may not be possible and instead, consultation with a representative group of stakeholders is likely to be appropriate<sup>7</sup>.
- 6.19 The minimum consultation period is not less than 4 weeks, unless there are exceptional circumstances. During this period, technical staff conducts outreach activities to gather input and feedback. In exceptional circumstance, for example, where an amendment is urgently required to be adopted by entities, the UKEB may approve a shorter comment period.

Statutory Instrument (SI) 2019/685 The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019: https://www.legislation.gov.uk/uksi/2019/685/made

<sup>[</sup>The text of the criteria in the Regulation is set out in Appendix 3].

This is consistent with Regulation 8 of Statutory Instrument (SI) 2019/685. The text of this Regulation is reproduced in Appendix 3.



#### Outreach activities

- 6.20 Outreach activities will be proportionate to the significance and complexity (i.e. nature or scope) of the project (i.e. relevant standard or amendment) and may be undertaken throughout the endorsement assessment period.
- 6.21 For example, in the case of the endorsement of annual improvements or narrow scope amendments, outreach activities are targeted to obtain as many responses as possible on the DECA.
- 6.22 However, for more complex projects that include major amendments the UKEB may need or decide to conduct additional outreach activities due to the nature and/or size of the amendment or standard to be endorsed and adopted. This is, for example, when:
  - a) an amendment or standard changes an area of accounting that affects most UK entities applying UK-adopted international accounting standard; or
  - b) an amendment or standard changes an area of accounting that affects a small number of UK entities applying UK-adopted international accounting standard but it is a major change.
- 6.23 Additional outreach activities that could be undertaken to gather input, views, opinions or feedback are described in section 5 of this Handbook and may include:
  - a) convening and obtaining input from ad-hoc advisory groups such as Technical Advisory Groups (TAGs);
  - b) meetings and/or interviews with stakeholders, including investors, preparers, auditors or regulators or representative bodies;
  - c) undertaking fieldwork (refer to paragraphs 5.17-5.18 of this Handbook<sup>8</sup>);
  - d) the use of standing advisory groups and academic panels;
  - e) the commissioning of external economic studies (i.e. data gathering and analysis conducted by external consultants to assess aspects of the economic impact of a standard on the UK); and
  - f) liaison with IASB and other international NSS.
- 6.24 Liaison with the IASB when assessing an international accounting standard for endorsement can enhance the efficiency and effectiveness of the UKEB's work. Examples of benefits could include:
  - enhanced credibility and attraction of outreach events if conducted jointly with the IASB;

<sup>8</sup> Refer to Appendix 2 in this paper.



- b) greater insight into technical issues and the IASB's basis for conclusions based on discussions with the IASB;
- c) IASB presentations to the secretariat, to advisory groups or directly to the Board;
- d) early awareness of issues arising from UK stakeholders; and
- e) use of IASB material for Board educational purposes or in Endorsement Criteria Assessments.
- 6.25 The UKEB will maintain full transparency about its interaction with the IASB and other stakeholders. Steps will include:
  - a) maintaining a public register of meetings between senior staff and Board members of the IASB and of the UKEB; and
  - b) being transparent about the sources of information used in UKEB material, including in Endorsement Criteria Assessments.
- 6.26 In exceptional circumstances, for urgent amendments, making a DECA available for consultation may not be possible, and instead, consultation with a representative group of stakeholders is likely to be appropriate.

#### Project closure

## Voting on the adoption of a new or amended international accounting standard

- 6.27 The formal voting process by which Board members make a decision on the adoption of a new or amended international accounting standard are set out in the UKEB's Terms of Reference (Section 5, paragraphs 5.1–5.2).
- 6.28 Decisions made at UKEB public meetings follow the requirements of the UKEB's Terms of Reference as follows:
  - a) Quorum attendance—a minimum of sixty percent of the appointed members<sup>9</sup> are required to attend a meeting of the UKEB (ToR, paragraph 5.1).
  - b) Decision-making—an affirmative vote of at least two-thirds of the members of the UKEB (ToR, paragraph 5.2), is required for the decision to be passed. Each member of the UKEB has one vote. A situation where the two-thirds majority cannot be obtained, may restart the endorsement and adoption process.
- 6.29 A vote on the adoption of a new or amended international accounting standard is made at an UKEB public meeting and is indicative only. The vote is formalised by circulation outside the meeting by a written vote (in paper or electronic form), and the vote constitutes proper evidence of the decision of members of the UKEB.

<sup>9</sup> The term 'members' includes the Chair.



- 6.30 A written vote is accompanied by the following documents:
  - a) a copy of the new or amended international accounting standard;
  - b) a copy of the 'Adoption package' that includes:
    - (i) A final Endorsement Criteria Assessment (ECA);
    - (ii) A Feedback statement;
    - (iii) A Compliance with due process statement; and
    - (iv) An Adoption statement.
- 6.31 Once the vote is completed the 'Adoption package' is published.

#### Adoption package

6.32 The following paragraphs set out a description of the content of the individual documents included in the 'Adoption package'.

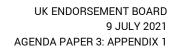
#### Final Endorsement Criteria Assessment (ECA)

6.33 The UKEB considers the stakeholder feedback received on the DECA and uses this input to issue a final version of the Endorsement Criteria Assessment (final ECA).

#### Feedback statement

- 6.34 Consultation feedback received on the DECA (and any other input and feedback derived from other outreach activities) is recorded, assessed, the evidence evaluated, and reported to the UKEB in a Feedback statement.
- 6.35 The purpose of a Feedback statement is to inform stakeholders how the UKEB has responded to, or addressed, the main comments or views received from stakeholders. It also demonstrates the UKEB's adherence to its overarching guiding principles (accountability, transparency, independence<sup>10</sup>).
- 6.36 The form and content of the Feedback statement will be proportionate to the objective of the underlying document and would generally include the following content:
  - a) an objective;
  - b) summary background of the new or amended standard;
  - c) an explanation of the main feedback received on the DECA, through comment letters or other outreach activities;

See section 3.3 in this Handbook [refer to Appendix 2 in this paper].





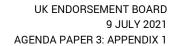
- d) a description of the UKEB's response (i.e. how comments or views received from stakeholders have been addressed in the final ECA); and
- e) a summary of the sources of stakeholder comments, e.g. from individual stakeholder meetings, formal responses to the DECA or via other outreach events.
- 6.37 The UKEB considers and approves the Feedback Statement for publication.

#### Compliance with due process statement

- 6.38 For each technical project, the UKEB assesses whether it has complied with the UKEB's due process activities as set out in this Handbook.
- 6.39 The activities undertaken for a project are set out in the Compliance with due process statement. This document provides a record of what was done compared with what was agreed in the PIP. It would explain the reasons for any changes in activities from those described in the PIP.
- 6.40 The Compliance with due process statement would generally include the following content:
  - a) a description of due process steps undertaken;
  - b) the extent of stakeholder engagement;
  - c) evidence and evaluation of the process that was undertaken (e.g. number of meetings held and summary of those meetings);
  - d) an explanation of why the UKEB decided to change the process described in the PIP; and
  - e) a conclusion as to whether, in the UKEB Secretariat's opinion, there was compliance with applicable due process steps. The UKEB discusses and approves the Compliance with due process statement at a public meeting. [more detailed due process steps on reporting compliance with the Handbook will be presented to the Board for discussion at a future meeting].

#### Adoption statement

- 6.41 The Adoption statement includes:
  - a) a statement that the new or amended standard has been:
    - (i) adopted for use within the UK, in compliance with the requirements in Regulations 7 and 8 of SI 2019/685 and reasons for this decision; or
    - (ii) been partially adopted in accordance with paragraph (3) of Regulation 6 of SI 2019/685 and any reasons for this decision;
  - b) when applicable, reasons for extending the scope of undertakings eligible to use an option in the standard in accordance with paragraph (4) of Regulation 6,





setting out the full details;

- c) a description of the financial years in respect of which that standard must be used; and
- d) the wording of the adopted standard.

On an annual basis, the UKEB updates the new or amended international accounting standards that have been adopted during the year to the consolidated text of UK-adopted international accounting standards<sup>11</sup>

This is consistent with Regulation 9(3) of Statutory Instrument (SI) 2019/685. The text of this Regulation is reproduced in Appendix 3.