Due Process Handbook

About this Handbook

1. This Due Process Handbook is published by the Financial Reporting Standards Setting Committee (FRSC) and outlines the due process requirements that the FRSC must follow in its standard-setting activities relating to the financial reporting standards (Financial Reporting Standard for Small-sized Entities (FRS for SEs)), including the development of other pronouncements to support its consistent application.

The role of FRSC

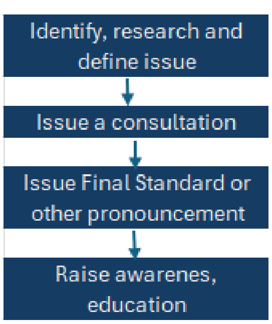
2. The FRSC is a committee established by ICPAC Council to meet the law requirements for the development of the FRS for SEs, as defined by Companies Law, Cap. 113. The Minister of Finance has the ultimate responsibility of approving this standard.

Due process Principles

3. The due process requirements are built on the principles of:
   - Transparency – carrying out the standard-setting activities in a manner that is open and clearly communicated to stakeholders.
   - Appropriate consultation – considering the perspectives and feedback of affected parties by the FRS for SEs.
   - Accountability – assessing the implications of proposed changes on affected parties and clearly articulating the reasoning behind the Committee's decisions when creating or amending a standard.

Standard-setting due process

4. The following steps should be followed in terms of the due process:



Identify, research and define issue

a) The development of a new financial reporting requirement begins with identifying, researching, and defining the issue within the existing financial reporting framework under the

FRS for SEs. Similarly, the need for an interpretation is identified when an issue arises regarding inconsistent or unclear application of existing requirements.

b) Following the identification of issues, the FRSC performs an assessment to determine whether to incorporate the issue into its standard-setting project plan which is to be submitted to the Minister of Finance by the 31st of March of each respective year. More specifically, the FRSC considers, among others:
   - User relevance
   - Pervasiveness of the effect
   - Cost-benefit analysis
   - Feasibility

c) The project plan generally outlines the projects the FRSC intends to undertake within a given period and is informed by ongoing consultation with interested and affected parties. The project plan is reviewed and updated frequently and may be revised throughout the year to accommodate emerging issues, stakeholder needs, and developments in financial reporting.

d) Depending on the complexity and extent of the changes required, the FRSC categorizes the required level of change in the FRS for SEs as follows:
   (i) New Section: to address a gap in FRS for SEs or when modifications to an existing section are so extensive that the section is effectively replaced.
   (ii) Major Amendments: to introduce substantial changes to an existing section affecting a fundamental or widespread aspect of that section
   (iii) Narrow-Scope Amendments: to address a targeted aspect of a section, more limited in scope.
   (iv) Annual Improvements: to correct wording errors and to clarify existing guidance. Corrections may resolve conflicts between requirements, address unintended consequences.
   (v) Authoritative interpretations: to provide guidance on applying requirement of existing sections, helping to ensure consistent application and interpretation. These interpretations do not change the underlying principles but clarify how they should be applied.

<u>Issue a consultation paper</u>

a) Issuing a consultation paper is a required step before a New Section or a Major Amendment can be finalized. This serves as the FRSC's formal process for consulting stakeholders and obtaining their feedback. The reasoning behind the FRSC's decisions will be documented in the Basis for Conclusions, which will be accompanying the consultation paper.

b) A consultation paper is not required for Narrow-Scope Amendments, Annual Improvements or Authoritative Interpretations. These can be processed directly by the FRSC which may seek targeted informed input from selected stakeholders if considered necessary and then proceed directly to voting during an FRSC meeting.

c) The FRSC deliberates on the input gathered through its meetings to assess the issues and potential approaches. It may organize roundtable discussions with external stakeholders.

d) Following deliberation, the FRSC votes to draft the consultation paper. The Chair distributes responsibilities among its members. The required change in the FRS for SEs is circulated to all FRSC members for individual review and vote. Publication of the consultation paper requires approval by the majority of the FRSC.

e) Once approved, the consultation paper is published for public consultation, allowing stakeholders to provide feedback on the proposed requirements.

f) Comments must be submitted in writing. All written comments may be placed on ICPAC's website.

g) The length of the consultation period depends on the level of change and urgency. In general, the comment period will be 60 days.

h) When the comment period ends, the FRSC analyses the written feedback obtained and any other result of other consultations such as roundtables and concludes on the final outcome of the process.

i) The Committee can organize at any point an advisory committee or working group to facilitate the process.

Issue final standard or other pronouncements

a) The final decision to issue, amend or withdraw a section or issue another pronouncement is made during FRSC meetings and confirmed via voting. A majority of voting is needed for final approval.

Raise awareness, education

a) Before the FRSC issues a New Section, a Major Amendment to a section or another pronouncement, it decides what communications should be developed to promote awareness. These may include educational materials, training and other supporting documents. The FRSC may also publish illustrative financial statements to assist preparers in understanding the application of the FRS for SEs.