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Accounting Standards
Board of Japan

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Sustainability Standards
Board of Japan

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Joint Response on the Exposure Draft: *Proposed Amendments to the IFRS Foundation Due Process Handbook*

1. The Accounting Standards Board of Japan (ASBJ) and the Sustainability Standards Board of Japan (SSBJ) are pleased to have the opportunity to provide comments on the Exposure Draft (IFRS/DPH/ED/2024) *Proposed Amendments to the IFRS Foundation Due Process Handbook* (the "ED"), published in December 2024.

2. We generally agree with the proposed amendments to reflect the creation of the International Sustainability Standards Board (ISSB) in the *Due Process Handbook* (the "Handbook"). This is because, in our understanding, one of the main reasons the ISSB was created under the IFRS Foundation (the "Foundation") was to follow the due process introduced by the Foundation. However, we have some concerns with the proposed changes, which we describe below.

(Post-Implementation Reviews)

Clarification of the Requirements Regarding Post-Implementation Reviews (PIRs)

3. The ED proposes clarifying when the PIR process should be initiated, that is, when sufficient information is available to assess the effects of the new requirements, instead of after two years of application, as prescribed in the existing Handbook.

4. Given that the time required to obtain sufficient information to initiate a PIR would depend on the circumstances, we question whether the proposal would enable the Foundation to monitor whether the International Accounting Standards Board (IASB) or the ISSB (hereinafter collectively referred to as the "Boards") had initiated the PIR in a timely manner in accordance with the applicable due process requirements. Accordingly, we suggest that the Handbook should at least specify when the Boards must initiate the PIR at the latest.

5. In addition, considering the IASB's experience in conducting PIRs, we observe that the later the PIR is initiated, the less effective the PIR.

6. Once newly introduced requirements are applied, practice becomes more sophisticated over time. It would be more costly to change established practices because it would take significant time and effort for entities to reassess their judgements, to discuss changes with their auditors and to implement the necessary changes to their systems and internal controls. As a result, the later the IASB initiates a PIR, the higher the threshold for the IASB to amend existing requirements from a cost-benefit perspective.

7. Had the IASB initiated PIRs earlier, our speculation is that recent PIRs would have reached different conclusions. For example, a wide range of stakeholders identified many application challenges during the process of implementing IFRS 15 *Revenue from Contracts with Customers*. Had the IASB initiated the PIR process for IFRS 15 earlier, we think the conclusions would have been different from that stated in the *Project Summary and Feedback Statement* for the PIR of IFRS 15, which noted that the IASB identified no matters which require to address as soon as possible or to add to the research pipeline of the IASB or the pipeline of the IFRS Interpretations Committee (the "Interpretations Committee") before the next agenda consultation.

Establishing Post-Issuance Measures in Addition to the PIR

8. To address the concerns regarding PIRs, we strongly urge the Foundation to introduce additional processes that would allow the Boards to improve their Standards in a timely manner (for example, before the effective date of the pertinent Standard), when application issues are identified.

9. For example, we note that the U.S. Financial Accounting Standards Board (FASB) has in place a "post-issuance date implementation monitoring[1]" process. We also note that the ASBJ and the SSBJ have in place a process called the "post-issuance measures", where we officially inform our stakeholders that we may consider amending the requirements or adding guidance before the effective date of the newly issued Standards, when the requirements in the Standards are clear but there are significant challenges in applying the requirements in the Standards.

10. We think the Foundation should consider these examples and introduce a formal additional process to effectively address any application issues or significant challenges as they are identified, before the effective date of the pertinent Standard. We recognise that it is important to establish and specify the criteria for the issues to be addressed under this additional process, because the Boards also need to consider the additional cost of implementing any amendments to the requirements during the ongoing implementation process of a new Standard. In addition, such criteria should be considered when the Foundation prescribes when the Boards must initiate the PIR at the latest.

(Reflecting Connectivity)

11. Regarding the proposed amendments to reflect connectivity, we understand that it would be necessary or useful for the Boards to develop complementary sets of Standards.

12. At the same time, we highly appreciate the ISSB's policy to develop IFRS Sustainability Disclosure Standards as "GAAP-agnostic" standards, meaning IFRS Sustainability Disclosure Standards can be applied by entities that prepare their financial statements in accordance with IFRS Accounting Standards or other generally accepted accounting principles or practices (GAAP).

13. Accordingly, we think that it is important for the ISSB to develop IFRS Sustainability Disclosure Standards that are flexible enough so that sustainability-related financial

[1] According to the FASB's website, during the post-issuance date implementation monitoring period (and before the effective date), "the board will monitor practice as stakeholders prepare for initial implementation of the standard, develop and disseminate implementation guidance and educational material, and communicate and perform outreach with stakeholder organizations."

disclosures prepared in accordance with IFRS Sustainability Disclosure Standards complement financial statements prepared in accordance with any generally accepted accounting principles or practices (GAAP). We think the Foundation should clarify this point in the Handbook.

(Other Proposed Enhancements and Clarifications to the Handbook)

Amendments to the Requirements for Annual Improvements

14. The ED proposes including a minor or narrow-scope amendment that updates a requirement or updates material accompanying a Standard within the scope of the packages of minor improvements. In addition, the ED proposes retaining the 90-day comment period.

15. We do not object to amending requirements related to annual improvements to specify that such improvements can also include a minor or narrow-scope amendment that updates a requirement or material accompanying an IFRS Standard. However, if the scope of annual improvements were to be expanded, we think that a comment period of 90 days would not be sufficient for stakeholders around the world for the following reasons:

    (a) Whether it be a major amendment or a minor or narrow-scope amendment, those who respond to the Boards' proposals need to go through the same process to provide feedback on an Exposure Draft. Such process typically includes: (i) fostering the understanding of the proposals and their bases with stakeholders in the jurisdiction, (ii) conducting outreach to analyse the potential impact of the proposals and (iii) discussing the views on the proposals as well as drafting the comment letter.

    (b) Even if the proposed amendments were considered to be minor or narrow scope in nature, these amendments may have a significant impact or cause unintended consequences on existing practices. One reason for exposing the proposals is to confirm that the proposals are indeed minor or narrow scope in nature.

    (c) Jurisdictions whose first language is not English need additional time to translate the proposals in the Exposure Draft into their first language to ensure that a wide range of stakeholders in their jurisdiction can understand the proposals and express their views.

(d) Considering that the proposals in the Exposure Draft may become longer due to the number of proposals exposed as a single package, the time needed to provide feedback on the package of minor improvements is likely to increase.

16. Accordingly, we recommend the Foundation to set a comment period of 120 days for Exposure Drafts of packages of minor improvements, consistent with other Exposure Drafts, unless the Due Process Oversight Committee (DPOC) of the Foundation approves a shorter comment period based on valid reasons such as an urgent need to develop or amend some requirements.

Proposals Relating to the Due Process of the Interpretations Committee

17. Our understanding is that the ED does not propose fundamental changes to the due process of the Interpretations Committee because changes were made in the 2020 update of the Handbook.

18. We agree with the proposals relating to the due process of the Interpretations Committee. At the same time, we suggest that the Foundation also clarify the due process to amend or withdraw previously issued agenda decisions.

Amendments Regarding the Accessibility of Public Materials

19. The ED proposes deleting the word "freely" in the way of providing all public materials of the Boards and the Interpretations Committee, the information related to the DPOC's work, all Exposure Drafts and related publications, and all draft Interpretations on the Foundation's website.

20. Our understanding is that the term "freely" was meant to indicate that the materials would be provided "with no restrictions," which would include providing the materials "free of charge". However, the deletion of the term may give the impression that, going forward, the materials may not be provided "free of charge". We believe that the Foundation shares the view that the involvement of a wide range of stakeholders is essential for the Foundation to develop high-quality, understandable, enforceable and globally accepted standards for general purpose financial reporting.

21. Accordingly, we think that the Foundation should clarify in the Handbook that such materials should be made available "free of charge" to ensure that a full range of

views from interested parties would be reflected throughout all stages of the development of the Standards.

Adding Surveys as a Means to Respond to Formal Consultations

22. The ED proposes that the responses to the surveys would be treated in the same way as comment letters. However, we are not convinced with this proposal for the following reasons:

    (a) While the survey may be more easily completed by any individual or any organisation, we are concerned that such survey may result in a popularity vote and that the Boards may focus simply on the number of survey responses for or against the proposals. We think it is more important to understand the rationale of the response, rather than the response itself.

    (b) Questions in the survey may be drafted in a way that may lead the Boards to seek a biased conclusion.

Access to Technical Staff Papers

23. The ED proposes distributing technical staff papers at least 10 days before they are scheduled for discussion to allow the Board members sufficient time to consider and assess the recommendations.

24. We agree with the proposal because we think that it is essential to allow sufficient time to assess recommendations in technical staff papers and form views before the meeting in order to ensure that the Boards can have high-quality discussions.

25. Moreover, we think that such rule should also apply to the other public meetings. In our view, the participants of the Accounting Standards Advisory Forum (ASAF), the Sustainability Standards Advisory Forum (SSAF) and other consultative groups also need sufficient time to assess recommendations in technical staff papers and form views so that they can fully prepare for the meeting and constructively participate in the discussions. Accordingly, we propose that the Handbook also specify requirements regarding the time before the agenda and papers are distributed to participants of ASAF, SSAF and other consultative group members, for example, four weeks before they are scheduled for discussion. We also suggest that the DPOC continuously monitor compliance with such requirements.

26. We hope our comments are helpful for the Foundation's consideration in the future. If you have any questions, please feel free to contact us.

Yours sincerely,

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Chair
Accounting Standards Board of Japan
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