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IFRS Foundation
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Canary Wharf, London, E14 4HD
United Kingdom

Comments on the Exposure Draft *Proposed amendments to the IFRS Foundation Due Process Handbook*

Dear Sir or Madam:

The Japanese Institute of Certified Public Accountants (“we” and “our”) welcomes the opportunity to comment on the Exposure Draft *Proposed amendments to the IFRS Foundation Due Process Handbook* issued in April 2019 (the “ED”).

We would like to highlight two of our concerns in this comment letter regarding the Exposure Draft, namely the status of agenda decisions and the introduction of Board agenda decisions.

We believe that agenda decisions and related explanatory material should be given the same status of IFRS Standards. We do not think that the ED is fully considering the fact that agenda decisions issued by the IFRS Interpretation Committee (the “IFRS-IC”) are practically treated as equivalent to IFRS by certain major audit firms and jurisdictions in many cases. The ED states that agenda decisions (including any explanatory material contained within them) do not have the same status of IFRS Standards, but also insists that such explanatory material should be seen as “helpful, informative and persuasive.” It further says that agenda decisions, including any explanatory information, might provide new information to preparers and as a result, an entity might determine it needs to change its previous accounting policy. In such cases, the ED insists that the entity should be

entitled to sufficient time to make that determination. These should prove that agenda decisions and related explanatory material are provided with certain authoritative status. Unless the status of agenda decisions and related explanatory material is clearly explained in the ED, we are concerned that the ED could even impede the global application of IFRS going forward.

We also disagree with the proposal to enable the Board to publish agenda decisions. Given that the IASB already has the authority to amend IFRS Standards, there should be no need to introduce Board agenda decisions as they would only complicate the IFRS standard-setting process.

Please note that we have shared our views in another comment letter titled “Comments on the Exposure Draft *Accounting Policy Changes (Proposed Amendments to IAS 8)*,” which was submitted in July 2018 and is attached herein as a reference. As mentioned in the attached comment letter, we have shown our support in the IASB’s effort to resolve inconsistencies in accounting practice by utilising IFRS-IC’s agenda decisions, which encourage entities to change their accounting policies as necessary. At the same time, we have expressed our concern that the timing of application of changes in accounting policy resulting from an agenda decision is not clearly stipulated in the proposal, which could undermine the comparability of financial information among companies. To solve the matter, we have suggested reviewing the due process and setting up effective dates and transition provisions for individual agenda decisions. Although we did not go further at the time of submitting the comment letter to recommend a comprehensive review of the status of agenda decisions, we can say that our view on this matter has been quite consistent.

Please find below our comments to the questions raised in the ED.

Question 1—Effect analysis
<p>The DPOC proposes to amend the section ‘Effect analysis’ to:</p> <ul style="list-style-type: none"> · embed explicitly the process of analysing the effects throughout the standard-setting process; · explain the scope of the analysis; · explain how the Board reports the effects throughout the process; and · differentiate the effect analysis process from the final effect analysis report. <p>Do you agree with these proposed amendments?</p>

Comment:

We agree with the proposal to amend the section “Effect analysis,” as it aims to embed explicitly the process of analysing the effects throughout the standard-setting process in order to avoid giving a false impression that the Board’s effect analysis takes place only at the end of the standard-setting process (paragraph 11).

Question 2—Agenda decisions

The DPOC has proposed the following amendments relating to agenda decisions:

- to provide the Board with the ability to publish agenda decisions;
- to better explain the objective and nature of explanatory material in an agenda decision; and
- to reflect in the Handbook that an entity should be entitled to sufficient time both to determine whether to make an accounting policy change as a result of an agenda decision, and to implement any such change.

Do you agree with these proposed amendments?

Comment:**1. The objective and nature of explanatory material in an agenda decision**

We agree with the objective of agenda decisions described in paragraph 8.1 of Appendix A, which insists that “the objective of the material is to improve the consistency of application of the Standards.” That being said, we recommend that agenda decisions should be given the same status of IFRS Standards. See the following reasons from (a) to (c), explaining why we disagree with the ED’s proposal of not giving the same status of IFRS Standards for agenda decisions. Furthermore, we suggest that an appropriate process for agenda decisions be put together should the same status of IFRS Standards be given to agenda decisions.

- (a) Although the ED insists that agenda decisions, including any explanatory material contained within them, do not have the same status of IFRS Standards, we do not think that the ED is fully considering the fact agenda decisions are practically treated as mandatory requirements in certain jurisdictions. Moreover, the ED should take into account that agenda decisions are also treated as equivalent to IFRS Standards by certain major audit firms, asking preparers to comply with them.
- (b) According to paragraph 8.4 of Appendix A, explanatory material “should be seen as helpful, informative and persuasive.” We do not think this sentence is clear enough. Paragraph 8.5 further insists that agenda decisions, including any

explanatory material, might provide new information to an entity, which might determine that it needs to change its accounting policy because of them. In such cases, the ED suggests that the entity should be entitled to sufficient time to make that determination and implement any change. We believe this paragraph clearly indicates that agenda decisions and related explanatory material are provided with certain authoritative status. Let's say that one of the two methods, either A or B, is adopted in practice to account for a specific event, but it is not explicitly stipulated in related IFRS Standards as to whether A or B is acceptable. (Therefore, assume that an application question is submitted to the IFRS-IC for this issue.) If the IFRS-IC described in its agenda decision, including any explanatory material, that it would be appropriate to apply method A instead of B, then, in practice, entities applying method B would have no choice but to switch to method A. If entities can no longer apply method B in practice, this should mean that agenda decisions have the same authoritative status as IFRS.

- (c) When clarifying an IFRS Standard, we do not think it is appropriate to “improve the consistency of application of IFRS” through the publication of agenda decisions without even trying to solve the issue of unclear wording in existing Standards. That being said, proposals in Paragraphs 8.1, 8.4 and 8.5 of Appendix A seem to contradict each other. On the one hand, the ED insists that agenda decisions, including explanatory material, do not have the status of IFRS, but on the other hand, it is practically accepting the idea of their authoritative status.

To summarise, we strongly suggest that agenda decisions should be given the same status of IFRS in the Handbook, and effective dates and transition provisions should be set within agenda decisions to ensure comparability among entities. In such cases, we should take into account the comment made by Lloyd, Sue¹, Vice-chair of the IASB, who suggests that “sufficient time” from the date of publishing an agenda decision to its effective date should mean a matter of months rather than years. We also recommend that effective dates and transition provisions should be set for individual agenda decisions, depending on the impact of effecting an accounting policy change.

2. Entitled to sufficient time

As a result of an agenda decision, an entity might determine that it needs to change an accounting policy. According to paragraph 8.5 of Appendix A, the ED insists that in such cases, it is expected that an entity would be entitled to sufficient time to make that

¹ Lloyd, Sue, Vice-chair of the IASB and Chair of the IFRS Interpretations Committee, Feature: Agenda decisions-time is of the essence, 20 March 2019. (<https://www.ifrs.org/news-and-events/2019/03/time-is-of-the-essence/>)

determination and implement any change. We would like to challenge the ED's proposal as follows:

- (a) While it is explained in the Handbook that agenda decisions do not have the same status of IFRS Standards but should be seen as “helpful, informative and persuasive,” it is also expected that an entity would be entitled to sufficient time to determine and implement any changes in an accounting policy. This clearly indicates that agenda decisions are accounted for as quasi-standards.
- (b) The wording “an entity should be entitled to sufficient time” is not clear enough, as entities can determine the timing of implementing changes in an accounting policy at their own discretion. We are afraid that this could undermine the comparability of financial information among entities.

3. Agenda decisions published by the IASB

We strongly disagree with the ED's proposal to enable the IASB to publish an agenda decision (paragraph 8.6 of Appendix A). As currently stated in the Handbook, agenda decisions do not have the same status of IFRS Standards but should be seen as “helpful, informative and persuasive.” We do not think it is necessary for the IASB, which already has absolute authority to develop IFRS requirements, to have additional power to publish such agenda decisions. We believe good enough reasons should be provided before introducing Board agenda decisions, otherwise it could just bring another complication to the IFRS standard-setting process.

- (a) The IASB has the authority to amend IFRS Standards if any issue arises. That being said, we believe logical justification is required for allowing the IASB to publish agenda decisions, which are regarded as not having the same status of IFRS Standards but should be seen as “helpful, informative and persuasive.”
- (b) We think it is inappropriate to have both the IFRS-IC and the IASB publish agenda decisions, as we are afraid it would only cause confusion in practice.
- (c) According to paragraph 22, the IASB will publish agenda decisions rarely when application questions arise in the period after a Standard is issued but before the Standard becomes effective or has become widely implemented. For example, the ED is referring to a case where the Board needs to respond to an application question emerging from a Transition Resource Group (“TRG”). We believe this is simply indicating that the existing standard-setting requires improvement. Further, as the Board has proved and will prove in the projects of IFRS 15 and IFRS 17, respectively, it already has the ability to amend IFRS Standards before their effective dates, which might not be a perfect solution but should be

adequate enough to address such application issues. We do not think the benefit of implementing a new mechanism enabling the Board to publish agenda decisions can be justified, as it only seems to complicate the IFRS standard-setting process.

- (d) Especially, when application questions arise through a discussion at a TRG in the period after a new Standard is issued but before the Standard becomes effective and when the Board concludes that standard-setting is not required, it is stated in paragraph 22 that “the Board currently has no formal mechanism to publish material that could explain how to apply the principles and requirements in the Standard.” We suggest that such kind of explanations can be provided by amending “Basis of Conclusion” in the new Standard, which we believe should be sufficient to address the mechanism issue. If the IASB seeks to place higher status on “Board agenda decisions containing explanatory material” than the “Basis of Conclusion” with greater authority and enforcement power, this would be nothing but a new standard-setting process. There is no need for the IASB, the single body with an authority to amend IFRS Standards, to have additional power to publish “agenda decisions containing explanatory material,” which do not have the same status of IFRS Standards (or are quasi-standards). We disagree with the idea of introducing the new process, as it would only cause confusion.

As mentioned, we disagree with the ED’s proposal of introducing Board agenda decisions. However, if the Trustees decide to do so, we recommend that the following should be considered carefully:

- (e) We believe that the need for the Board to publish new agenda decisions should be limited to specific circumstances only. However, we are afraid that paragraph 8.6 of Appendix A is too vague to support the idea and could be interpreted in many ways. When compared to paragraph 22, it appears that the wording in paragraph 8.6 of Appendix A implicates wider scope of application. In other words, instead of narrowing the scope to TRG-related issues for application purposes, paragraph 8.6. states that the Board might publish an agenda decision “when it has decided not to add a project to the standard-setting agenda but, nonetheless, concludes that consistency of application of the Standards would be improved by providing material that explains how the applicable principles and requirements in the Standards apply to a particular transaction or fact pattern.” We highly recommend that the scope of application for Board agenda decisions should be limited to at least the one described in paragraph 22.

- (f) The process of publishing IFRS-IC agenda decisions starts when the IFRS-IC receives application questions from stakeholders. However, it is not clear when the process is initiated for Board agenda decisions. The Board is allowed to decide which agenda they want to pick up for publication purposes. As stated in paragraph 22, the need for the Board to publish an agenda decision basically arises only when the wording in a newly-issued IFRS Standard is unclear and the Board believes that the ambiguity could undermine the consistent application of the IFRS Standard. With that in mind, we recommend that the wording in paragraph 8.6 of Appendix A should be more specific and narrowly-defined, if and when the Board agenda decision mechanism were to be introduced.
- (g) Lastly, we want to highlight another wording issue in paragraph 8.6 of Appendix A for your consideration. You cannot clearly tell the difference whether the paragraph is set out for Board agenda decisions or for IFRS-IC agenda decisions. In other words, some people may think that the Board is able to include IFRS-IC agenda decisions when determining its own agenda decision. Further, according to paragraph 8.2 (c) of Appendix A, the Board is not asked to ratify agenda decisions published by the IFRS-IC, which means that it would be possible for the Board to overrule IFRS-IC agenda decisions. We recommend that you also take this point into consideration when rewording paragraph 8.6.

4. Using the terminology “Agenda decision”

We recommend the Trustees to consider changing the terminology “agenda decision,” as it does not seem to indicate the original purpose of the document appropriately. We suggest that the new terminology, if any, should somehow reflect the following background: it was formerly referred to in the current Handbook as a “rejection notice” instead of an “agenda decision;” and it is a rejection notice published by the IFRS-IC, providing a reason for not adding a project to the standard-setting agenda.

Question 3—other matters

<p>The DPOC has proposed to amend the Handbook on other matters including:</p> <ul style="list-style-type: none"> · the type of review required for different types of educational material; · consultation in connection with adding projects to the Board’s work plan; · clarifications of the IFRS Taxonomy due process and Taxonomy updates and the role of the DPOC in overseeing Taxonomy due process. <p>Do you agree with these proposed amendments?</p>

Comment:

Educational material

We agree with the proposal to determine the number of Board members who review educational material based on the category level (paragraph 8.10). However, when educational material is related to a project in which certain number of Board members are assigned as Board advisors (especially when the material demonstrates a new example as described in paragraph 8.10 (c)), then we recommend that the educational material should be reviewed by all of the Board advisors.

In addition, paragraph 8.8 refers to a case where educational material is occasionally published on the IFRS Foundation website. We agree that certain educational materials are suitable to be posted on websites, including webcasts. On the other hand, we believe there are other educational materials, such as the publication of a new example as described in paragraph 8.10 (c), that are more appropriate to be put into the Annotated IFRS Standards (Green Book)².

Question 4—Consequential amendments to the IFRS Foundation Constitution
The Trustees of the IFRS Foundation have proposed to amend the IFRS Foundation Constitution as a result of the proposed amendments to the Handbook relating to the role of the IFRS Advisory Council. Do you agree with these proposed consequential amendments?

Comment:

We agree with the proposed amendments, as they appropriately describe the objective of the IFRS Advisory Council, which is to provide broad strategic advice to the Trustees and the Board.

Yours faithfully,

Yoshio Yukawa

Executive Board Member—Accounting Standards and Practice/IFRS

The Japanese Institute of Certified Public Accountants

² For example, illustrative examples to accompany IFRS13 *Fair value measurement* entitled “Unquoted equity instruments within the scope of IFRS 9 *Financial Instruments*” are published on the website as educational material for fair value measurement. We believe the material should be included in the Annotated IFRS Standards.

Appendix

Comments on the Exposure Draft *Accounting policy changes (Proposed Amendments to IAS 8)*

To the Board Members:

The Japanese Institute of Certified Public Accountants (“we” and “our”) appreciates the continued efforts of the International Accounting Standards Board on this project, and welcomes the opportunity to comment on the Exposure Draft *Accounting policy changes (Proposed Amendments to IAS 8)* (“ED”).

We support the IASB’s efforts to resolve inconsistencies in practice by facilitating entities’ changes in accounting policy in line with agenda decisions by the IFRS Interpretations Committee.

However, we have a number of concerns regarding the IASB’s proposal. For example, in this ED the threshold requires entities to compare and assess two factors that differ in nature: the expected benefits to users from applying the changed accounting policy retrospectively and the cost to the entity of determining the effects of retrospective application. In this respect, we are concerned about the feasibility of entities making assessments regarding the expected benefits to users. Accordingly, we are concerned that this threshold would not operate as intended by the IASB, and as a result, confusion would arise in practice.

In addition, the lack of any clear stipulation regarding the timing of application of changes in accounting policy that result from an agenda decision raises the possibility that the timing of changes in accounting policy could vary among entities, potentially impairing the comparison of different entities’ information.

To avoid this situation, therefore, due process relating to agenda decisions could be reviewed to consider whether it is necessary to introduce effective dates and transitions for changes in accounting policies resulting from individual agenda decisions.

We would like to add that, if the proposed amendments are implemented, it should be made clear that they will apply only when the previous accounting treatment does not meet the definition of errors.

Please find below our comments to the question items raised in the ED.

Question 1

The Board proposes to amend IAS 8 to introduce a new threshold for voluntary changes in accounting policy that result from an agenda decision published by the IFRS Interpretations Committee. The proposed threshold would include consideration of the expected benefits to users of financial statements from applying the new accounting policy retrospectively and the cost to the entity of determining the effects of retrospective application.

Do you agree with the proposed amendments? Why or why not? If not, is there any particular aspect of the proposed amendments you do or do not agree with? Please also explain any alternatives you would propose, and why.

Comment:

Although we agree with lowering the threshold for changes in accounting policy that result from an agenda decision, we do not agree with the judgment on the proposed threshold as we are concerned about whether it is actually practicable.

The threshold proposed in this ED requires entities to compare and assess two factors that differ in nature: the expected benefits to users from applying the changed accounting policy retrospectively and the cost to the entity of determining the effects of retrospective application. In this respect, we are concerned about the feasibility of entities assessing the expected benefits to users.

We are also concerned that there could be variations in determination of the earliest date for which the expected benefits to users exceed the cost to the entity (paragraph A6 of this ED) and this could result in variations in the way in which changes are retrospectively applied, thereby impairing comparability.

Question 2

The Board decided not to amend IAS 8 to address the timing of applying a change in accounting policy that results from an agenda decision published by the IFRS Interpretations Committee. Paragraphs BC18–BC22 of the Basis for Conclusions on the proposed amendments set out the Board’s considerations in this respect.

Do you think the explanation provided in paragraphs BC18–BC22 will help an entity apply a change in accounting policy that results from an agenda decision? Why or why not? If not, what do you propose, and why? Would you propose either of the alternatives considered by the Board as outlined in paragraph BC20? Why or why not?

Comment:

We do not agree with this proposal.

We believe that timeliness is required when making voluntary changes in accounting policy, and consideration of timeliness is likewise required in the case of voluntary changes in accounting policy that result from an agenda decision. However, according to the current proposal, even if an agenda decision has been made, if the cost for an entity preparing financial statements would be high, the entity could simply not change its accounting policy, or the changed accounting policy could be applied after a certain time had passed.

As a proposal to avoid such a situation, therefore, due process relating to agenda decisions could be reviewed to consider whether it is necessary to introduce effective dates and transitions for retrospective or prospective changes in accounting policies resulting from individual agenda decisions.

Yours faithfully,

Yoshio Yukawa

Executive Board Member—Accounting Standards and Practice/IFRS

The Japanese Institute of Certified Public Accountants