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International Accounting Standards Board
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Comments on the Exposure Draft *Due Process Handbook*

To the Trustees of the IFRS Foundation:

The Japanese Institute of Certified Public Accountants (JICPA) appreciates the IFRS Foundation (Foundation) for providing us with the opportunity to comment on the Exposure Draft *Proposed Amendments to the IFRS Foundation Due Process Handbook* (Exposure Draft) published in December 2024.

Question 1—Reflecting the creation of the ISSB in the <i>Handbook</i>
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Do you agree with how the DPOC proposes to reflect the creation of, and the due process for, the ISSB in the <i>Handbook</i> ?
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JICPA basically agrees with the proposal. That said, we have highlighted the following for the Foundation’s further consideration:

1. Due process for the SASB Standards and the SASB Standards Taxonomy

[Comment]

IFRS Sustainability Disclosure Standards consider the SASB Standards to be a significant source of guidance for companies in identifying risks and opportunities and determining industry-based metrics. As the SASB Standards play a significant role with respect to sustainability-related disclosures based on IFRS Standards, we believe it is essential to have a deliberate consensus building process that reflects diverse views when developing amendments to the SASB Standards.

Given the importance of the SASB Standards, we highly recommend the Foundation to carefully consider the newly defined ‘SASB Standards Board Adviser Group,’ or the Group, as referred to in ANNEX B of the Exposure Draft in order to enhance its governance to make it more diverse and transparent.

(Reason behind our comment)

According to paragraph B3 of ANNEX B, the Group will consist of three to five members. As we need to make sure the SASB Standards cover a wide range of industries with different business environment and regulations in each jurisdiction, we are concerned the proposed size of the Group is too small to be diverse enough, which could even end up in one-sided discussions. That being said, we recommend the Foundation to consider the following when setting up the Group:

- Increase the number of Group members set forth in the Handbook to be at least five or more.
- Establish a policy to ensure diversity of geographies and professional backgrounds within the Group.
- Create an option where the Group can bring in specialists that are not board members (i.e. external members) in case board members lack expertise or do not have enough resource within the Group.

The Exposure Draft is also proposing that the Group meets in private. Considering the

importance of the industry-based SASB Standards and the degree of interest shown by various stakeholders, we strongly recommend the Foundation to implement a mechanism to maintain the transparency of the Group.

Question 2—Enhancements and clarifications

Do you agree with the proposed enhancements and clarifications to the <i>Handbook</i> ?

JICPA generally agrees with the proposal. However, we suggest the following should be carefully considered:

2. Post-implementation reviews (PIR)

[Comment]

- Deleting the start date for a PIR

The Foundation is proposing to delete paragraph 6.48, which says ‘(a PIR) normally begins after the new requirements have been applied internationally for two years, which is generally about 30–36 months after the effective date,’ and instead, introducing paragraph 6.55, insisting a PIR should begin after ensuring sufficient information is available to assess the effects of new requirements. We would not support the proposal unless the rationale behind the Foundation’s conclusion is clear enough.

- Actions required before the effective date

We think more flexibility is needed for major Standards. When fundamental issues arise at an early stage after a major Standard is issued, the boards should be able to make amendments as needed without waiting for two years subsequent to the international application.

- Actions required after the effective date

Even when no fundamental issues (fatal flaws) are identified in a Standard, we hope the boards should start the discussions on important matters earlier without being deferred to the next Agenda Consultation, so that practical issues will be solved quickly.

(Reason behind our comment)

- Deleting the start date for a PIR

A number of IFRS Standards, including the following, have already been subject to PIRs in accordance with the current rule to start a PIR after two years of application,

which is generally about 30–36 months after the effective date: IFRS 3 *Business Combinations*; IFRS 8 *Operating Segments*; IFRS 9 *Financial Instruments* (excluding hedge accounting); IFRS 10 *Consolidated Financial Statements*; IFRS 11 *Joint Arrangements*; IFRS 12 *Disclosure of Interests in Other Entities*; IFRS 13 *Fair Value Measurements*; and IFRS 15 *Revenue from Contracts with Customers*. Therefore, based on the history of successful PIRs, we need to better understand the reason why the Foundation believes the two-year rule should be abolished.

According to the IASB, the start date for a PIR on IFRS 16 *Leases* is currently being considered, which will depend on the availability of information, such as trend data. As highlighted in paragraph 6.55, we agree that a PIR should begin after the new requirements have been applied for some time to ensure information is available to assess the requirements' effects in their entirety. However, the boards can always defer the start date for a PIR depending on circumstances under the current Handbook. Thus, we believe the two-year rule to start a PIR can be and should be retained as a benchmark. Without any benchmark, such as the two-year rule, we are concerned we might see some excessive delays in PIRs.

- Actions required before the effective date

We think more flexibility is needed when fundamental issues arise at an early stage after a Standard is issued, so that the boards can make amendments as needed without waiting for two years subsequent to the international application. For example, a Transition Resource Group (TRG) was established for IFRS 15 *Revenue from Contracts with Customers* and IFRS 17 *Insurance Contracts*, respectively, to discuss certain application issues, which eventually led to amendments to the Standards before their effective dates.

- Actions required after the effective date

According to paragraph 6.61, the board considers whether to take any action on matters identified in a PIR and the prioritisation of those matters. Such actions could include standard-setting, referring a matter to the Interpretations Committee, or developing material to support consistent application. However, it appears that some, if not most, practical issues identified in a PIR have ended up being considered in the next Agenda Consultation. Even when no fundamental issues (fatal flaws) are identified in a PIR, we hope the boards should start the discussions on important matters earlier without being deferred to the next Agenda Consultation, so that practical issues will be solved quickly.

3. The process to end a project

[Comment]

When the board decides not to conduct further work on a research project or a standard-setting project, the Exposure Draft proposes that a simple majority of the board would be required for the decision and the board would publish a project summary. On top of those proposals, we recommend further mandatory due processes should be implemented, including consultation with the IFRS Advisory Council or other interested parties when ending a project.

(Reason behind our comment)

Agenda decisions to be covered in a research project are carefully considered, drawing on discussions with the IFRS Advisory Council and hearings conducted in Agenda Consultation. On the other hand, when it is decided that no further actions are needed for a research project or a standard-setting project, the board follows the above-mentioned specific processes, which seem to be much more simplified as a process when compared to careful deliberations made for agenda decisions. As more transparency is given in the board's thought process for an agenda not leading to a standard-setting project or in procedures followed when an agenda is decided to be covered in a research project, we expect to see a better alignment in procedures when ending a project.

Particularly, we recommend adding another layer of due process, which is to have the board consult with the IFRS Advisory Council, and/or either the Accounting Standards Advisory Forum (ASAF), or the Sustainability Standards Advisory Forum (SSAF) when deciding not to conduct further work on a research project or a standard-setting project. In that way, stakeholders can obtain a wider perspective in understanding why a project did not lead to standard-setting and examine the reasonableness of the board's decision-making process for the conclusion. We hope the thorough process will enhance alignment and transparency in the board's standard-setting process.

4. Building on work of other bodies when developing proposed requirements

[Comment]

We agree with the proposal to add paragraph 6.6, clearly requiring the board to apply the Foundation's due process when developing proposed requirements for IFRS Standards based on requirements from other standard-setting or similar bodies.

However, we recommend the Foundation to carefully look into other circumstances where certain due processes or procedures need to be put into place on standards developed by other organisations that are referred to in IFRS Standards and the SASB Standards.

(Reason behind our comment)

IFRS S2 *Climate-related Disclosures* refers to ‘Greenhouse Gas Protocol: *A Corporate Accounting and Reporting Standard (2004)* (the GHG Protocol Corporate Standard)’ and ‘Greenhouse Gas Protocol: *Corporate Value Chain (Scope 3) Standard (2011)* (the GHG Protocol Value Chain Standard)’ developed by the Greenhouse Gas Protocol Initiative, an organisation outside the IFRS Foundation, as for measurement standards related to greenhouse gas (GHG) emissions. If the measurement standards were to be updated in the future, a practical issue would arise as to whether or not to and how to deal with the new standards.

From that perspective, we know that paragraph BC90 of IFRS S2 explicitly stipulates that if the GHG Protocol Corporate Standard (2004) were to be updated, the ISSB will assess the likely effects of those changes and will update IFRS S2 to include a reference to a modified version of the GHG Protocol Corporate Standard only after it has made this assessment and sought feedback on any proposed change in accordance with the IFRS Foundation’s due process.

However, besides the GHG Protocol Corporate Standard and the GHG Protocol Value Chain Standard, there are a number of other standards subject to reference in IFRS Standards, including industry-based guidance. Currently, there is no requirement as to how to deal with updates, if any, on those standards referred to in the existing IFRS Standards. Going forward, upcoming IFRS Standards are also expected to include a reference to standards developed by other organisations. Under such circumstances, we believe a disciplined approach is required in order to achieve a consistent application of IFRS Standards.

Our suggestion is to introduce a due process for any updates on standards developed by other organisations that are referred to in IFRS Standards. In particular, when it is specifically required in an IFRS Standard to apply a standard developed by other organisations, and when that standard is updated, we believe a rigorous due process is needed, similar to the one applied to the GHG Protocol Corporate Standard. Also, certain procedures should be introduced when there is an update on a standard developed by other organisations, of which an entity is required to ‘refer to and consider the applicability’ in accordance with an IFRS Standard.

5. Deleting the word ‘freely’ from requirements regarding the availability of the IFRS Foundation’s publications

[Comment]

We do not support the Exposure Draft’s proposal to delete the word ‘freely’ from the Handbook, which currently allows free access to the Foundation’s publications, including public materials and exposure drafts. We strongly believe it is essential for the Foundation to make its publications freely available in order to further disseminate the high quality, well-trusted IFRS Standards.

(Reason behind our comment)

We do not clearly understand why the Foundation thinks it needs to delete the word ‘freely’ from the Handbook, which currently allows free access to the Foundation’s publications, including public materials and exposure drafts.

Public materials and exposure drafts described in the existing paragraph 3.37 are currently freely available on the Foundation’s website, which can be accessed by a wide range of stakeholders. If the materials were no longer freely available, it would impose certain restrictions on stakeholders who wish to access such information. Not only this would harm the transparency of the board’s standard-setting process, but we are afraid it might also lead to the deterioration of trust in IFRS Standards. Instead of restricting stakeholders, we highly recommend the Foundation to keep public materials freely available as an open source for a wide range of users, including government, practitioners, and investors, so that IFRS Standards will continue taking a strong leading position as global standards.

Also, the word ‘freely’ is deleted from paragraph 6.20, which describes the availability of all exposure drafts and related publications. If public materials, including exposure drafts, were only made available to limited stakeholders, it would restrict the board to obtain and reflect a diverse view of stakeholders for standard-setting, which could negatively affect the status of IFRS Standards being the widely-used global standards.

Yours faithfully,

Eriko Otokozawa

Executive Board Member—Business Accounting Standards and Practice/Corporate Disclosure

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