

Accounting Standards Board of Japan (ASBJ)

Fukoku Seimei Building 20F, 2-2, Uchisaiwaicho 2-Chome, Chiyoda-Ku Tokyo 100-0011, Japan
Phone +81-3-5510-2737 Facsimile +81-3-5510-2717 URL <https://www.asb.or.jp/en/>



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Mr. Erkki Liikanen

Chair

IFRS Foundation

Columbus Building, 7 Westferry Circus

Canary Wharf, London, E14 4HD

United Kingdom

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

1. The Accounting Standards Board of Japan (the “ASBJ” or “we”) welcome the opportunity to provide our comments on the IFRS Foundation’s Exposure Draft *Proposed Amendments to the IFRS Foundation Due Process Handbook* (the “ED”), issued in April 2019.
2. We believe that improvements to the consistent application of IFRS Standards should be achieved through authoritative guidance (that is, through amending IFRS Standards or issuing IFRIC Interpretations). In our view, publishing non-authoritative explanatory material through agenda decisions, whose status is ambiguous by merely explaining that they are ‘helpful, informative and persuasive’, instead of authoritative guidance is causing the following adverse effects:
 - (a) The International Accounting Standards Board (“IASB”) and the IFRS Interpretations Committee (“IFRS-IC”) are widely recognised as the only organisations with the authority to develop IFRS Standards and to interpret IFRS Standards, respectively. Whenever the IASB or the IFRS-IC publishes guidance, they may have the appearance of being part of IFRS Standards, even though they are clearly labelled as ‘non-authoritative’.
 - (b) ‘Non-authoritative’ guidance that the IASB or the IFRS-IC publishes are effectively considered to be mandatory in some jurisdictions and, therefore,

consistent application of IFRS Standards may not be achieved because whether such guidance are mandatory would depend on the jurisdiction.

- (c) An agenda decision provides an explanation on an issue related to a specific fact pattern questioned in a submission. It is difficult to determine whether (and if so, to what extent) the explanation addressing a very specific issue should be applied by analogy to other transactions under IFRS Standards, which are principle-based standards.
 - (d) Issues relating to changes in accounting policies arise because agenda decisions do not have effective dates and transition provisions.
 - (e) Agenda decisions are not updated once they are published, and thus issues relating to the applicability of agenda decisions arise when the requirements of the Standards which the agenda decisions relate to are amended or deleted.
 - (f) The number of IFRIC Interpretations issued has been decreasing, whereas the number of agenda decisions has been increasing. Some may argue that the IASB and the IFRS-IC are effectively relaxing their due process, given that the due process to issue IFRIC Interpretations are more extensive.
3. Accordingly, we believe that a clear distinction should be made between the issues addressed through agenda decisions published by the IFRS-IC and the issues addressed through amending IFRS Standards or issuing IFRIC Interpretations, and thus the scope of the issues addressed through ‘agenda decisions’ should be limited. Specifically, the issues addressed through ‘agenda decisions’ should be limited to issues related to specific fact patterns where the application of existing IFRS Standards is clear and widely recognised as such and, accordingly, changes in practice are not anticipated for most constituents. Other issues should be addressed through amending IFRS Standards or issuing IFRS Interpretations.

Even if the scope of the issue addressed through ‘agenda decisions’ is limited as we propose, an entity may need to change its accounting policy as a result of an ‘agenda decision’. Therefore, we think the IASB and the IFRS-IC should determine the effective date and transition provisions for each agenda decision, after the IASB and the IFRS-IC consults their constituents.

4. We have concerns with the proposal in the ED which states that the IASB ‘expects that an entity to be entitled to sufficient time both to determine whether to make any

accounting change as a result of an agenda decision and to implement any such change'. In our view, this proposal is not sufficiently clear and the costs that would be incurred by reporting entities, auditors and regulators to discuss how much time is 'sufficient' is likely to be significant when individual reporting entities are required to assess the 'sufficient time' for each agenda decision (especially if the reporting entities are subject to audit or security regulations). Accordingly, we believe that it is appropriate for the IASB and the IFRS-IC to set the effective date and transition provisions after they consult with their constituents.

5. The Due Process Oversight Committee (the "DPOC") proposes that the IFRS Foundation Due Process Handbook (the "Handbook") should reflect that the IASB also analyses how greater transparency in financial reporting is likely to affect financial stability. However, the ED does not define "financial stability", nor does it prescribe what kind of analysis should be undertaken. Furthermore, the objective of this analysis is unclear. Although there may be diverse views on the definition of "financial stability," our understanding is that "financial stability" itself will not be the 'objective of financial reporting' in the Conceptual Framework for Financial Reporting (paragraph 1.10 and paragraphs BC1.23 to BC1.26).
6. For our comments on the specific questions to the ED, please refer to the Appendix of this letter.
7. We hope that our comments will contribute to the IFRS Foundation's deliberations. If you have any questions, please feel free to contact us.

Yours sincerely,



Atsushi Kogasaka

Chair

Accounting Standards Board of Japan

Appendix

Question 1- Effect analysis

The DPOC proposes to amend the section ‘Effect analysis’ to:

- 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.

Do you agree with these proposed amendments?

1. The DPOC proposes that the Handbook should reflect that the IASB also analyses how greater transparency in financial reporting is likely to affect financial stability. However, the ED does not define “financial stability”, nor does it prescribe what kind of analysis should be undertaken. Furthermore, the objective of this analysis is unclear. Although there may be diverse views on the definition of “financial stability,” our understanding is that “financial stability” itself will not be the ‘objective of financial reporting’ in the Conceptual Framework for Financial Reporting (paragraph 1.10 and paragraphs BC1.23 to BC1.26).

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?

2. As stated in the cover page, we believe that improvements to the consistent application of IFRS Standards should be achieved through authoritative guidance (that is, through amending IFRS Standards or issuing IFRIC Interpretations). In our view, publishing non-authoritative explanatory material through agenda decisions, whose status is ambiguous by merely explaining that they are ‘helpful,

informative and persuasive’, instead of authoritative guidance is causing the following adverse effects:

- (a) The IASB and the IFRS-IC are widely recognised as the only organisations with the authority to develop IFRS Standards and to interpret IFRS Standards, respectively. Whenever the IASB or the IFRS-IC publishes guidance, they may have the appearance of being part of IFRS Standards, even though they are clearly labelled as ‘non-authoritative’.
 - (b) ‘Non-authoritative’ guidance that the IASB or the IFRS-IC publishes are effectively considered to be mandatory in some jurisdictions and, therefore, consistent application of IFRS Standards may not be achieved because whether such guidance are mandatory would depend on the jurisdiction.
 - (c) An agenda decision provides an explanation on an issue related to a specific fact pattern questioned in a submission. It is difficult to determine whether (and if so, to what extent) the explanation addressing a very specific issue should be applied by analogy to other transactions under IFRS Standards, which are principle-based standards.
 - (d) Issues relating to changes in accounting policies arise because agenda decisions do not have effective dates and transition provisions.
 - (e) Agenda decisions are not updated once published, and thus issues relating to application of agenda decisions arise when requirements of the Standards related to agenda decisions are amended or deleted.
 - (f) The number of IFRIC Interpretations issued has been decreasing, whereas the number of agenda decisions has been increasing. Some may argue that the IASB and the IFRS-IC are effectively relaxing their due process, given that the due process to issue IFRIC Interpretations are more extensive.
3. Accordingly, we believe that a clear distinction should be made between the issues addressed through agenda decisions published by the IFRS-IC and the issues addressed through amending IFRS Standards or issuing IFRIC Interpretations, and thus the scope of the issues addressed through ‘agenda decisions’ should be limited. Specifically, the issues addressed through ‘agenda decisions’ should be limited to issues related to specific fact patterns where the application of existing IFRS Standards is clear and widely recognised as such and, accordingly, changes in

practice are not anticipated for most constituents. Other issues should be addressed through amending IFRS Standards or issuing IFRS Interpretations.

Even if the scope of the issue addressed through ‘agenda decisions’ is limited as we propose, an entity may need to change its accounting policy as a result of an ‘agenda decision’. Therefore, we think the IASB and the IFRS-IC should determine the effective date and transition provisions for each agenda decision, after the IASB and the IFRS-IC consults their constituents.

To provide the IASB with ability to publish agenda decisions

4. We recognise that there are various concerns regarding the practice of the agenda decision from constituents. We believe it is inappropriate to expand the scope of the agenda decision to allow the IASB to publish agenda decisions without resolving such concerns.

To better explain the objective and nature of explanatory material in an agenda decision

5. As we noted above, when the guidance issued by the IASB or the IFRS-IC is likely to change practice of many reporting entities, we believe such guidance should be provided through amending IFRS Standards or issuing IFRS Interpretations, not through ‘non-authoritative’ guidance. The description of the explanatory material which states that “explanatory material should be seen as helpful, informative and persuasive” effectively is introducing rebuttable presumptions in IFRS Standards. However, we believe that it is inappropriate to address the issues through ‘non-authoritative’ guidance.

To reflect in the Handbook that an entity should be entitled to sufficient time to address an agenda decision

6. As stated above, we are concerned that agenda decisions do not have effective dates and transition provisions. We also have concerns with the proposal in the ED which states that the IASB ‘expects that an entity to be entitled to sufficient time both to determine whether to make any accounting change as a result of an agenda decision and to implement any such change’. In our view, this proposal is not sufficiently clear and the costs that would be incurred by reporting entities, auditors

and regulators to discuss how much time is ‘sufficient’ is likely to be significant when individual reporting entities are required to assess the ‘sufficient time’ for each agenda decision (especially if the reporting entities are subject to audit or security regulations). Accordingly, we believe that it is appropriate for the IASB and the IFRS-IC to set the effective date and transition provisions after they consult with their constituents.

Question 3 - other matters

The DPOC has proposed to amend the Handbook on other matters including:

- 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.

Do you agree with these proposed amendments?

The type of review required for different types of educational material

7. As noted in the cover page, whenever the IASB or the IFRS-IC publishes guidance, they may have the appearance of being part of IFRS Standards, even though they are clearly labelled as ‘non-authoritative’. Our understanding is that the requirement to have IASB Board members review the educational material is an effort to ensure consistency with IFRS Standards. However, we do not support the publication of educational material when such “non-authoritative” material is likely to change the practice of reporting entities.
8. We think it is important to distinguish guidance that are appropriate to be issued as educational materials and those that are not. Using the categorisation in paragraph 8.10 of the ED:
 - (a) If “high level summaries of the requirements in an IFRS Standard” in paragraph 8.10(a) of the ED provide constituents with useful information and are unlikely to change the practice of most reporting entities, such material can be published as educational material after following the proposed due process.
 - (b) For “more detailed materials explaining the requirements in a Standard” in paragraph 8.10(b) and “material explaining or illustrating how the requirements

in a Standard might be applied in particular transactions or other circumstances” in paragraph 8.10(c) of the ED, these materials should not be published as educational material but should be included in the standard-setting process, because these materials are likely to change the practice of reporting entities.

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?

9. We do not have specific comments on this question.