

Accounting Standards Board of Japan (ASBJ)

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IFRS Foundation
30 Cannon Street
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Dear Sir or Madame,

Comments on the Invitation to Comment **“IASB and IFRS Interpretations Committee Due Process Handbook”**

We welcome the opportunity to express our comments on the IASB and IFRS Interpretations Committee Due Process Handbook (hereinafter referred to as the Handbook).

We really appreciate the efforts of the IFRS Foundation staff involved and engaged in the Handbook, which has a critical role in further improving the due process for developing IFRSs. We believe that transparency of the due process is essential for enabling the global use of IFRSs.

We agree with the proposals in the Handbook in general. However, we believe that improvements in the following matters, in particular, would be necessary. We consider these matters to be important although not included in the questions specified in the Handbook.

- Operation of IASB Board meeting (including when to distribute staff papers and how to discuss the draft IFRS in the Board meeting)
- Ensuring a 60-day publication period as a minimum for exposure documents
- Clarification of the process for suspension and cancellation of the project

In addition, we also acknowledge the introduction of research programmes as one of especially important proposals in the Handbook, because it would facilitate, through clarifying key issues, smoother deliberations after the addition to the standards-level projects. We would like to actively contribute to the standards-level projects in IASB by participating in the IASB's research programme, as a national standard setter.

Question 1

The Trustees have included an introductory section dealing with oversight and the responsibilities of the DPOC (see paragraphs 2.162.15).

Do you support the inclusion and content of this section? Why or why not?

We agree to deal with oversight and the roles and responsibilities of the DPOC in conjunction with the due process of IASB and IFRS Interpretations Committee, because the improvement of internal monitoring function would be essential for further improving the due process of IASB and IFRS Interpretations Committee.

Question 2

The DPOC have created a Due Process Protocol in the form of a table that shows the steps that the IASB must, or could, take, as well as reporting metrics to demonstrate the steps that they have taken, in meeting their due process obligations (see Appendix 4).

Do you agree with the idea that such a table should be maintained on the public website for each project? Why or why not?

We agree with this proposal, because it would further improve the transparency of standard development by providing the means for the IASB and IFRS Interpretations Committee to fulfil their accountability to the DPOC and clearly revealing the steps from the start to the end of their standard development.

Please note some inconsistencies in descriptions in the Due Process Protocol in Appendix 4, which we detailed in the appendix of this comment letter.

Question 3

A research programme is described, which we expect will become the development base from which potential standards-level projects will be identified (see paragraphs 4.964.22). In addition, a new section on maintenance has been added, which formalises the practice that the IASB and the Interpretations Committee have been following for addressing matters that are narrow in scope. It clarifies that the more formal project proposal processes were always intended to apply to new IFRSs and major amendments.

The IASB has the discretion to initiate changes that are narrow in scope to IFRSs as part of the general maintenance of IFRSs. The new section also explains how the activities of the IASB and the Interpretations Committee are closely related (see paragraphs 5.1165.20).

Do you agree with the distinction between narrow-scope projects, which come under the heading of maintenance and comprehensive projects, which come under the heading of development of IFRSs? Why or why not?

Do you agree with the introduction of a separate research programme that will likely be the development base from which potential standards-level projects will be identified? Why or why not?

(1) Research programme

We basically agree with this proposal to introduce research programmes, because it would facilitate, through clarifying key issues, smoother deliberations after the addition to the standards-level projects.

However, there may be cases where research programmes would not be necessary (for example, when there is a global consensus or resources in the past are available). We have a concern that requiring a research programme for every case might cause a delay in the standard development. Therefore, we suggest that the Handbook should clarify the cases where the research programme is not required.

Although paragraph 4.12 of the Handbook mentions the participation in research programmes by national standard setters and others, it does not describe the IASB's process after receiving the results of their researches. We suggest that the Handbook should provide feedback to national standard setters and others about how the IASB has made use of their researches in determining whether to add the subjects to standards-level projects.

(2) Distinction between narrow-scope projects and comprehensive projects

We suppose "narrow-scope projects" and "comprehensive projects" in this question as corresponding to "implementation and maintenance" and "new IFRSs or major amendments", respectively. We basically agree with this proposal to distinguish them. Which of the two categories a project belongs to need be clarified when the IASB will initiate each project in the future because the applicable due process would depend on that distinction, although there might be a case where it would be difficult to distinguish them.

Question 4

Two changes to comment periods are proposed. The first would increase the minimum comment period for exposing the draft of a rejection notice of a request for an Interpretation request from 30 days to 60 days (see paragraph 5.16). The other change relates to the re-exposure of a document. The DPOC is proposing to allow the IASB to have a reduced comment period of a minimum of 60 days for documents it plans to re-expose, if the re-exposure is narrow in focus (see paragraph 6.26).

Do you agree with the changes in the comment period lengths for rejection notices and re-exposure

drafts? Why or why not?

We support the proposal for the comment period for the rejection notice. However, we disagree with the proposal for comment period regarding the re-exposure due to the following reasons.

We disagree with the proposal to shorten the comment period from 120 days to 60 days, because we need to review the re-exposure draft in its entirety, even when it is narrow in focus, and translation would also take some time for the jurisdictions in which English is not an official language.

For similar reasons, we also disagree with the provision in paragraph 6.7 that IASB may consider the comment period of no less than 30 days for an exposure draft if the matter is narrow in scope and urgent. We believe a comment period of less than 60 days should not be allowed.

According to paragraph 6.8, in exceptional circumstances, the IASB may reduce the period for public comment below 30 days after formally requesting and receiving prior approval from 75 per cent of the Trustees. We suppose this provision has been included so as not to repeat the mistake of amending IAS 39 without complying with due process during the global financial crisis in 2008. Although we acknowledge an urgent treatment as above might become necessary in extremely exceptional circumstances, a minimum reasonable comment period should be specified in the Handbook.

Question 5

Are there any other matters in the proposed handbook that you wish to comment on, including matters that are not covered by the handbook that you think should be?

1. Section 3 “Principles”

(a) Timing of distribution of staff papers for the IASB Board meeting (3.8)

Staff papers for the IASB Board meeting are normally distributed 10 to 14 days before the discussion and published on the IASB web page at the same time. We consider that it would be effective to sound beforehand the stakeholders’ reactions to the staff papers for tentative decision making sessions in order to facilitate the discussions at the Board. Our idea is that, for example, the IASB would distribute and publish staff papers 30 to 40 days before the meeting so that board members and staff would be able to receive feedback from the stakeholders in a timely fashion depending upon circumstances appropriately on the papers before discussing at the Board meeting. Such practice would reduce the possibility of frequent changes of the Board’s tentative decisions.

(b) Deliberation on the draft IFRS in the Board meeting (3.21-3.28)

Ballot drafts are not discussed in the IASB Board meeting but distributed to IASB members without being open to the public (from 3.21-3.28). Currently, the Board makes tentative decisions at its

meeting only for key issues. However, because basis for conclusions and illustrative examples included in the draft may have a significant influence in practice, drafts should be discussed at the public Board meeting to avoid the surprise when the draft is published.

(c) Review draft (3.29-3.35)

Although our understanding is that the purpose of review drafts is to seek input on the draft from particular people outside the IASB, paragraph 3.29 states that it may also be made available on the web page. We believe that the purpose of review drafts should be limited to seeking input from particular stakeholders, because the publication on the web page would be difficult to distinguish from exposure drafts and identify the purpose.

The IASB has sometimes issued Requests for Views, Supplementary Documentations, Review Drafts and Staff Drafts, which appears to be alternatives to exposure drafts. We consider those documents to be similar to exposure drafts in that they seek input and it is likely that respondents have the same views. Some of these have shorter comment periods than exposure draft and therefore may give rise to a due process issue. Therefore, it should be clarified that the means for seeking public comments on draft standards should be exposure drafts only.

(d) National and regional network (3.49)

Paragraph 3.49 names the International Forum of Accounting Standard Setters (IFASS), the Asian-Oceanian Standard-Setters Group (AOSSG), the Group of Latin American Standard-setters (GLASS), the Pan-African Federation of Accountants (PAFA) and the European Financial Reporting Advisory Group (EFRAG) and jurisdictional (national) standard-setters as groups with which the IASB shares information and consults. However, they have different characteristics and therefore descriptions about relationships with them should be separated according to those characteristics.

(e) Clarification of the role of the liaison office

The IFRS Foundation will open the Asia-Oceanian Office in Tokyo in November 2012 as the first liaison office outside London. We expect it will play the roles as described below and hope that these roles will be specified in the Handbook.

- Implementation of the outreach activities to stakeholders
- Road show of new standards
- Support for Post-Implementation Review
- Performing on Effect Analysis
- Support for consultation between the AOSSG and the IASB
- Information gathering and meeting with regulators and accounting standard setters

- Educational activities of IFRS
- Support for trustees and advisory council members and so on

(f) Ensuring transparency of fieldwork (3.67-3.70)

Fieldwork is an activity undertaken to help IASB assess the likely effects of proposed IFRS to the interested parties and IASB can plan it voluntarily. However, the IASB should make public the information about the fieldworks it has undertaken (at least, in which countries and to which bodies), because fieldworks should be undertaken as widely as possible from the global perspective, without being limited to specific regional bodies.

2. Section 4 “Technical work programme”

(a) Process for suspension and cancelation of the project

Although paragraph 5.2 to 5.5 of the Handbook specifies the process for adding standards-level projects to the technical work programme, the Handbook included no specifies procedures for suspension and cancelation of projects when the standard development has not been proceeding well for a long time.

When a project is suspended during the standard development, whether tentative decisions on the project are still valid is sometimes unclear, due to lack of adequate announcement about its treatments. When a project for which a certain time period has passed is not proceeding smoothly, it may be useful to discuss whether to cancel the project on a timely base from the viewpoint of appropriate resource allocation and announce the result of the discussion.

3. Section 6 “New or amended IFRSs”

(a) Re-exposure (6.25)

A re-exposure draft usually asks questions only for the changes from the original exposure draft. However, for significant issues with which many respondents expressed disagreement and nevertheless no change is proposed in the re-exposure draft, questions should be added to ask whether respondents support the Board’s decisions not to change, with the reasons for those decision being included in the basis for conclusions.

(b) Status of the basis for conclusions (6.29)

The basis for conclusions should be an integral part of IFRSs, because it is emphasized in practice as well as requirements and provides indispensable grounds for adequate interpretation of requirements.

(c) Earlier application (6.32)

The Handbook should specify that an IFRS needs to state whether its earlier application is permitted not,

as well as its mandatory effective date and transitional provisions.

(d) Clarification of the process of application for Post-implementation review (6.50)

The Handbook states that a PIR may be conducted in response to changes in the financial reporting environment and regulatory requirements, or in response to concerns about the quality of an IFRS that have been expressed by the Advisory Council, the Interpretations Committee, standard-setters or interested parties. However, it does not prescribe specific processes about to whom stakeholders should express concerns and how the IASB should address such concerns. These processes should be clarified in order to ensure fairness and transparency.

(e) Exposure draft (6.7 and 6.8)

(1) Comments period

As we mentioned in Question 4, paragraph 6.7 states that the IASB may consider the comments period to be no less than 30 days if the matter is narrow in scope and urgent, although it normally allows a minimum period of 120 days. We believe the comment period should be no less than 60 days in any case so that sufficient time for discussion of the exposure draft would be ensured in jurisdictions where English is not an official language.

In addition, paragraph 6.8 states that, in exceptional circumstances, the IASB may reduce the period for public comment below 30 days after formally requesting and receiving prior approval from 75 per cent of the Trustees. We acknowledge an urgent treatment as above might become necessary in extremely exceptional circumstances, but a minimum reasonable comment period should be specified in the Handbook.

(2) Effective date in the exposure draft

The effective date is not often specified in exposure drafts. However, the effective date is a very important factor for implementation of an IFRS and therefore it need to be predictable. We acknowledge that the IASB has difficulty in specifying the mandatory effective date in the exposure draft, considering length of a deliberation period after the issuance of an exposure draft. However, an exposure draft should indicate at least the planned length of time between the publication date of the standard and its mandatory effective date.

4. Section 7 “Interpretations”

(a) Issuance of jurisdiction specific guidance

We acknowledge that local guidance should be avoided as much as possible in order to apply IFRS consistently all over the world and it is ideal to resolve all issues within IFRSs and IFRIC

interpretations. However, in exceptional cases, there may be necessity for national standards setters to issue jurisdiction-specific guidance when the IFRS Interpretations Committee rejects issuing the interpretation because it is considered to be specific to the jurisdiction. The Handbook should specify the concept of such jurisdiction-specific guidance and procedures for issuing them, admitting the necessity of such guidance in exceptional cases.

(b) Clarification of the proposed revised agenda criteria of IFRS Interpretations Committee

In Report on the Trustees' Review of Efficiency and Effectiveness of the IFRS Interpretations Committee, IASB and IFRS Interpretations Committee propose to amend the agenda criteria to address the diversity in practice and wider range issues. However, the Handbook does not specify the revised agenda criteria. Because the agenda criteria is very important for the IFRS Interpretations Committee to determine which issues should be taken onto its agenda, the criteria should be clearly stated in the Handbook.

(c) IASB members' voting requirements for draft interpretation and interpretation (7.10)

Paragraph 7.10 provides that, if four or more IASB members object to the release of the draft Interpretation during the balloting process, the draft Interpretation is not released. On the other hand, paragraph 7.23 provides that ratification of an Interpretation takes place in a public meeting of the IASB and requires a supermajority. The Handbook should clarify the reason for the difference in treatments between a draft interpretation and a final interpretation.

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We hope our comments will contribute to the forthcoming deliberations of the IFRS Foundation.

Yours sincerely,



Ikuo Nishikawa

Chairman of the Accounting Standards Board of Japan

Appendix

We noted the following possible inconsistencies in the description of the Due Process Protocol in the Appendix 4.

	Descriptions that appears to be mistaken	Descriptions we suppose to be correct
8th line from the top on page 56 øDevelopment and publication of an exposure draft for an IFRS, practice guidance or Conceptual Framework chapterø	~ normally allows a period of 120 days for comments on <u>discussion and research papers</u> .	~ normally allows a period of 120 days for comments on <u>exposure draft</u> .
7th line from the top on page 63 øDevelopment and publication of Annual Improvements Exposureø	~ publishing a <u>draft Interpretation</u> and in responding to comments received.	~ publishing a <u>proposed annual improvements</u> and in responding to comments received.
3rd column from the bottom in the table on page 64 øDevelopment and publication of Annual Improvements Exposureø	DPOC receives summary report on due process steps followed before a <u>draft Interpretation</u> is issued	DPOC receives summary report on due process steps followed before a <u>proposed annual improvements</u> is issued
2rd column from the bottom in the table on page 64 øDevelopment and publication of Annual Improvements Exposureø	DPOC informed of the release of the <u>draft Interpretation</u>	DPOC informed of the release of the <u>proposed annual improvements</u>
3rd column from the bottom in the table on page 65 øDevelopment and publication of draft rejection noticeø	<u>Draft Interpretation</u> has appropriate comment period.	<u>Draft rejection notice</u> has appropriate comment period.