

Comments on Exposure Draft – IFRS Foundation Due Process Handbook

Submitted by: ICAI Bhopal Branch (CIRC)

To: IFRS Foundation Due Process Oversight Committee (DPOC)

From: Bhopal Branch of ICAI

Date: 10th February, 2025

The Bhopal Branch of ICAI welcomes the proposed amendments to the IFRS Foundation Due Process Handbook. The alignment of the International Sustainability Standards Board (ISSB) with the International Accounting Standards Board (IASB) is a positive step towards ensuring a rigorous, inclusive, and transparent due process. Additionally, we support the expansion of references from "financial statements" to "general purpose financial reports" to include sustainability-related financial disclosures.

Specific Comments and Recommendations

- The amendments in the due process lack clarity on how sustainability-related disclosure requirements will be harmonized with existing accounting standards to avoid inconsistencies. The Handbook should provide explicit guidance on ensuring coherence between financial reporting and sustainability reporting to avoid potential misalignment.
- The proposal to start PIRs when "sufficient information" is available rather than after a fixed period adds flexibility. However a clear benchmark or maximum timeframe should be set to ensure timely reviews.
- Stricter oversight on third-party educational materials is necessary to ensure accuracy. This oversight might limit flexibility for national standard-setters to develop region-specific guidance. The IFRS Foundation should allow some flexibility for national standard-setters (such as ICAI) to develop supplemental educational materials while maintaining alignment with IFRS principles.

General Comments

We appreciate the proposed amendments aimed at enhancing the transparency, accountability, and efficiency of the Due Process Handbook. Our comments focus on areas that require further clarification and suggestions for improvement.

Question 1: Reflecting the Creation of the ISSB in the Handbook

Response:

Yes, we support the proposal to incorporate the ISSB into the Due Process Handbook. Given the growing significance of sustainability reporting, it is essential that the standard-setting process for the ISSB follows a well-defined due process to ensure consistency and credibility. Although the existing Due Process Guidance for the IASB has been implemented, integrating the ISSB into the framework will help eliminate inconsistencies and procedural gaps.

We also welcome:

1. The inclusion of ISSB advisory bodies such as the **Sustainability Standards Advisory Forum (SSAF)** and the **ISSB Investor Advisory Group**.

2. The proposed changes to **meeting procedures**, particularly the requirement for board members to be present individually in virtual or hybrid meetings, rather than appointing a proxy.
 3. The revision of the **supermajority definition**, but we suggest further clarification. Currently, the definition requires 8 out of 13 appointed members or 9 out of 14, which translates to 61%-64%, lower than the typical 67%-90% range. We propose inserting “or fewer” before “14” to ensure clarity.
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Question 2: Enhancements and Clarifications

We agree with the proposed enhancements, with the following observations:

1. Post-Implementation Reviews (PIRs)

- The existing review process occurs after two years. We suggest modifying this to a **flexible approach**, starting when sufficient information becomes available but within a **maximum period of five years**.
- PIRs should not only evaluate compliance but also assess the effectiveness of implementation, ensuring meaningful improvements.

2. Minor Amendments and Annual Improvements

- The term “**Annual Improvements**” should be renamed “**Packages of Minor Updates**” to reflect their broader scope and irregular timing.
- These updates should remain **limited to clarifications and minor modifications** to avoid unintended changes in accounting principles.

3. Supporting Materials for IFRS Standards

- The removal of the term “**educational material**” is a welcome change, but it may create ambiguity about the authority of such documents.
Recommendation:
 - Require disclaimers in all supporting materials to clarify that they do not override IFRS Standards.
 - Provide **guidance on co-developing materials with third parties** to ensure consistency and independence.

4. Interpretations Committee’s Role

- The revised criterion for assessing “**widespread effect**” is an improvement, but further specificity is required.
Recommendation:
 - Define “**widespread effect**” using quantitative and qualitative measures, such as the number of entities impacted, geographic reach, and industry significance.

5. SASB Standards and Due Process

- The introduction of **Annex B** for SASB Standards’ due process is useful, but there is potential overlap with IFRS Sustainability Disclosure Standards.
Recommendation:
 - Consider fully integrating SASB Standards into the IFRS framework to ensure coherence.

- Specify how SASB Standards will align with **IFRS S1 and S2** for cohesive sustainability disclosures.

6. Clarifications on IFRS Taxonomy

- Updating the definition of the **IFRS Taxonomy** to align with other Foundation materials is a positive step.
- However, the taxonomy development process must not influence **principles-based standard setting**.
- The IASB Board should **not** have a direct role in approving taxonomy content updates, as this falls outside its primary scope of expertise.

7. Stakeholder Consultation and Digital Integration

- Broader consultation should include underrepresented stakeholders, such as **SMEs and regional regulators**, to ensure inclusivity.
- The process for implementing **connectivity between IASB and ISSB** should be expanded, particularly regarding **overlapping disclosures**.
- Digital taxonomies and sustainability disclosures should be integrated to **improve global reporting consistency**.

Conclusion

The proposed amendments strengthen the due process framework by enhancing transparency and adaptability. However, to ensure effective implementation, we recommend:

1. **Defining review timelines** for post-implementation reviews.
2. **Renaming "Annual Improvements"** to better reflect its purpose.
3. **Clarifying the authority of supporting materials** through disclaimers.
4. **Providing clearer criteria for "widespread effect"** in agenda decisions.
5. **Exploring full integration of SASB Standards** into IFRS Sustainability Disclosure Standards.
6. **Ensuring that IFRS Taxonomy development does not override principles-based standard setting.**

We appreciate the opportunity to comment on this exposure draft and look forward to further refinements that enhance global financial reporting standards.

Thanks & Regards

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