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Dear Sir

Exposure Draft - Due Process Handbook

We are pleased to comment on the above Exposure Draft (the ED). Following consultation with the BDO network¹, this letter summarises views of member firms that provided comments on the ED.

We support the objective of the Due Process Oversight Committee (DPOC) to improve the due process steps undertaken by both the IASB and ISSB. We believe that many of the proposed amendments are an improvement to practice, and the formal documentation of ISSB due process steps is crucial for the credibility of standards issued by that board.

However, we do have a number of concerns with the proposed amendments, including:

- The lack of sufficient due process steps relating to the SASB Standards;
- The basis for the first phase of post-implementation reviews and their start date;
- The lack of clarity surrounding how amendments to and the withdrawal of IFRS Interpretation Committee agenda decisions are to be carried out; and
- Several other concerns relating to targeted improvements.

Our detailed responses to the questions in the ED, along with the reasons for our concerns, are set out in the attached Appendix.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them, please contact me at +44 (0)7875 311782 or by email at abuchanan@bdoifra.com.

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Yours faithfully

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Global Head of IFRS and Corporate Reporting

Appendix

Question 1 – Reflecting the creation of the ISSB in the *Handbook*

Do you agree with how the DPOC proposes to reflect the creation of, and the due process for, the ISSB in the Handbook?

We agree with most of the amendments proposed by the DPOC, as they clarify the due process requirements related to the ISSB, including the fundamentally different role of the IFRS Foundation given the existence of two standard setting boards.

However, we do not agree with the proposed due process for the SASB Standards, which would subject amendments to the standards to a lower level of due process compared with other standard setting activities of the IASB and ISSB.

We do not consider it appropriate that the SASB Standards are subject to a lower level of due process than other standards, such as IFRS Accounting Standards and IFRS Sustainability Disclosure Standards. This is because while SASB Standards in their entirety are not currently mandatory, IFRS S1 requires entities to ‘refer to and consider’ the SASB Standards when identifying sustainability related risks and opportunities. Therefore, elements of the SASB Standards must be referred to when entities apply IFRS Sustainability Disclosure Standards.

Additionally, the development of the SASB Standards were subject to the due process of legacy organisations when the standards were developed primarily for use in the United States. When the IFRS Foundation assumed ownership and responsibility for the SASB Standards, they were ‘internationalised’ with exposure of proposed amendments to make the standards suitable for international use. However, to date, the SASB Standards have yet to be subject to full due process on the basis of their use in international capital markets.

We are concerned that this historical lack of due process, taken together with plans for future ‘reduced’ due process steps compared with other standards, may hinder the credibility of the SASB Standards. For jurisdictions still considering whether to endorse the use of IFRS Sustainability Disclosure Standards which have an intrinsic link to SASB Standards, this lack of due process may hinder endorsement; jurisdictions may also be tempted to delete the requirement to ‘refer to and consider’ the SASB Standards. This concern would be amplified if the ISSB intends in the future to make the SASB Standards mandatory.

Question 2 – Enhancements and clarifications

Do you agree with the proposed enhancements and clarifications to the Handbook?

We agree with many of the proposed enhancements and clarifications in the handbook. However, we have concerns with the following proposed amendments.

Post-implementation reviews

We support the goal of clarifying and improving the post-implementation review (PIR) review process. However, we are concerned with aspects of the proposed amendments. These concerns are as follows:

- Basis for the first phase of the PIR process: paragraph 6.50 implies that the basis of the first phase of a PIR assessment would largely be to determine whether the effects of applying new requirements were ‘as intended’, with this assessment being made on the basis of the effects analysis of the likely benefits and initial and ongoing costs arising from the new requirements (the effects analysis). The effects analysis is prepared by staff of the relevant board, and are not subject to public consultation. Therefore, the relevant board will only identify whether new requirements ‘work as intended’ if the relevant matters are identified in the effects analysis prepared by staff. We appreciate that not all documents can be subject to full due process, however, we believe it would be appropriate for this crucial aspect of the PIR process to include considerations beyond the effects analysis. That is because, in accordance with paragraph 6.56, this first phase of the PIR process determines which issues the board will seek public consultation on. While we acknowledge that paragraph 6.51 does refer to consideration of unintended consequences, if the first phase of the PIR is based primarily on the effects analysis, which was not subject to public consultation, the relevant board may miss the identification of significant unintended consequences.
- Start date for PIRs: the start date for a PIR would be when ‘information is available to assess the requirements’ effects in their entirety’. This principles-based requirement would replace the more rules-based requirement where PIRs ‘normally’ begin after the new requirements have been applied internationally for two years, which is generally about 30-36 months after the effective date. We understand that the shift to a principles-based requirement is intended to allow the relevant board to make an assessment of when sufficient information is available. However, the proposed requirements place no emphasis on the need for PIRs to be completed promptly. The greater the amount of time that passes before a PIR is performed increases the risk that issues identified during the PIR process will not be addressed because practice on those matters has ‘settled’. We are also concerned that the timing of a PIR is open ended, and believe that a ‘backstop’ date should be added to the DPH, (we suggest after the new requirements have been applied internationally for four years) which would be a date where a relevant board is presumed to have sufficient information to begin the PIR process.

IFRS Interpretations Committee

We agree with most of the proposed amendments concerning the IFRS Interpretation Committee. However, we believe that one critically important topic has not been addressed by the ED.

In Q3 and Q4 2024, IASB staff and IFRS Interpretations Committee members discussed concerns about the staff's proposed approach concerning IFRS Interpretations Committee agenda decisions that had been finalised and published while IAS 1 was effective. The staff proposed to make annotations and amendments to those agenda decisions, but numerous IFRS Interpretations Committee members objected to this proposed approach. At the November 2024 IFRS Interpretations Committee meeting, staff proposed a [revised approach in agenda paper 8](#).

We believe that the DPH must address the approach required to be taken by the board when new requirements affect previously finalised and published agenda decisions, or when agenda decisions are otherwise proposed to be amended or withdrawn. This matter will be of increased significance as the boards finalise other major, new standards. For example, when the IASB finalises the *Financial Instruments with Characteristics of Equity* project, there will likely be substantial amendments to the requirements of IFRS 9, IAS 32, etc. These amendments will have a major effect on many finalised agenda decisions, some of which have had a major role in enhancing consistent application of complex financial reporting issues for years. It is imperative that there is sufficient due process and clarity about how any amendments or withdrawals to agenda decisions will be governed.

Other targeted improvements

We agree with most of the other targeted improvements to the DPH. However, we have the following concerns:

- Use of surveys: we agree that surveys can be a useful tool in performing outreach with stakeholders. However, we caution that surveys often provide limited ability for stakeholders to provide their views in a nuanced way. For example, a survey question may ask a respondent to provide one of five pre-populated answers, while the respondent's view does not fit 'neatly' into any of those pre-populated answers. We are not recommending that surveys not be used, only that they should be used with caution and only where their use is clearly appropriate.
- Work plan consultation: we believe that both the IASB and ISSB should be required to consider the connectivity of projects before they are added to either of the board's work plans. This would ensure connectivity is considered at the inception of any project.
- The process to end a project: we believe it would be more appropriate for a supermajority (e.g. 2/3 majority) to be required for a project to be ended. Otherwise, a simple majority could, at any time, end a project that the relevant board may have invested years of resources into. A supermajority would also be appropriate because the research and standard setting process may take many years, with some board members being involved in the process of deciding whether to end a project who were not present at the project commencement.
- Re-exposure criteria: paragraph 6.30 states that 'the board weighs the cost of delaying improvements to financial reporting against the relative urgency to introduce the

changes and any additional steps it has taken to consult stakeholders since the **exposure draft was published**'. We believe that weighing only cost and urgency may lead to inappropriate priorities, particularly because the period between exposure and finalisation of a standard may be substantial with significant changes made to proposals in an exposure draft when the final standards are being drafted and finalised. In the recent past, both IFRS 15 and IFRS 17 were amended shortly after they were issued because issues were identified with the final standards before they became effective. This practice was disruptive to preparers and costly, as entities had already invested significant time and resources into systems and processes, which had to be modified to accommodate revised requirements. Therefore, in paragraph 6.30, we believe that the complexity of changes made in comparison to the exposure draft should be emphasised as an additional factor in evaluating whether to re-expose.