28 March 2025

International Accounting Standards Board
7 West Ferry Circus
Canary Wharf
London E14 4HD
United Kingdom
Email: commentletters@ifrs.org

Dear Sir/Madam

SAICA SUBMISSION ON IFRS/DPH/ED/2024 – PROPOSED AMENDMENTS TO IFRS FOUNDATION *DUE PROCESS HANDBOOK*

In response to your request for comments on IFRS/DPH/ED/2024 – Proposed Amendments to IFRS Foundation *Due Process Handbook*, attached is the comment letter prepared by the South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of SAICA's Accounting Practices Committee (APC), which comprises members from reporting organisations, preparers, regulators, auditors, IFRS specialists, investment analysts and academics.

We thank you for the opportunity to provide comments on this Exposure Draft.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Prof Ahmed Mohammadali-Haji
Chairperson: APC

Mulala Ratshitanga
Project Director: Financial Reporting

Cc: Bongeka Nodada
Executive: Corporate Reporting

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

Do you agree with how the Due Process Oversight Committee ("DPOC") proposes to reflect the creation of, and the due process for, the International Sustainability Standards Board ("ISSB") in the Handbook?

In general, our members agreed with how the creation of the ISSB was incorporated in the Handbook by the DPOC. Our members however, raised concerns with respect to the changes proposed in reference to "general purpose financial reports", the process as it relates to the translations, the use of surveys and the SASB Standards.

Our comments in this regard are set out under the headings below.

General purpose financial reports

With respect to the proposed amendment to refer to "financial statements" as "general purpose <u>financial reports</u>" [our own emphasis added]. We have considered the various terminology used in reference to "general purpose financial reports in various IFRS® Accounting Standards as issued by the IASB, as well as the definition of "general purpose financial reports" as is presented in the DPOC Handbook. We are concerned that the proposed wording might create unintended tension between the various texts, and that ideally these definitions should be aligned to ensure that there is no misunderstanding or misinterpretation between the Standards and the Handbook. We have noted the following:

- IFRS 18 Appendix A defines "general purpose financial reports" and notes that these reports include – but are not limited to – an entity's general purpose financial statements and sustainability-related financial disclosures;
- The Conceptual Framework defines "general purpose financial reports" as "a report that provides financial information about the reporting entity's economic resources, claims against the entity and changes in those economic resources and claims that is useful to primary users in making decisions relating to providing resources to the entity". This definition does not appear to link to sustainability reporting as envisaged by the Handbook;
- For the purposes of IAS 1 whilst it remains in issue, paragraph 7 defines "General purpose <u>financial statements</u>" [our own emphasis added] as those "financial statements" intended to meet the needs of users not in a position to require an entity to prepare reports tailored to their needs", which and is then referred to throughout in IAS 1 as "financial statements"; and
- The DPOC Handbook (pg. 13) introduces the intended change of "financial statements" to "general purpose financial reports" and this is done to include disclosures covered by IFRS Sustainability Disclosure Standards, except where financial statements only is meant to apply. The DPOC Handbook then refers to "financial statements" on page 13 and "financial statements and sustainability related financial disclosures" in paragraph 3.80. We would like more clarity and how these terms should be used (particular is IFRS 18 Appendix A refers to general purpose financial statements in addition to financial statements).

We believe that it would be helpful for the Board to develop a clear definition of what constitutes the general-purpose financial <u>reports</u> which distinguishes financial reporting from sustainability reporting and that these definitions should be aligned amongst the various Standards and the DPOC Handbook.

Furthermore, whilst IAS 1 is still effective, IAS 1 paragraph 9 describes the objective of financial statements and paragraph 15 of IAS 1 requires an explicit statement when the financial statements comply with IFRS, which we understand to mean in this context to refer to IFRS Accounting Standards and not the IFRS Sustainability Disclosure (sustainability) standards. Whilst we note that general purpose financial reports will ultimately include financial effects from the sustainability standards and that the ED notes that the ISSB's work is consistent with the definition of financial reporting in the *Conceptual Framework*, there is no jurisdictional requirement in South Africa to comply with the sustainability standards. We believe that aligning the definitions throughout the Standards should alleviate this tension, however, we recommend that the Board provide guidance in order to preserve the application of the compliance statement in IAS 1 where the sustainability standards have not yet been adopted, or not yet effective.

Translated versions

With respect to paragraph 3.30, the DPOC set out the existing process in preparing translated versions. In the wording, it appears that liaison between the technical staff and Foundation translation staff is at a later stage when the process is close to completion and the proposed document is ready for balloting (paragraph 3.30 states "as part of the balloting process"). We believe that completing the translation process earlier could create some efficiency and shorten the timelines in drafting new Standards or amendments thereto.

Comment letters and surveys

With respect to paragraph 3.68, our members voiced a concern that a survey does not always produce quality information, as typically a survey takes the form of a yes/no questionnaire with some fields included for additional information. This form could constrain the quality of the responses obtained. In some instances, a yes/no questionnaire can be useful when it's the aim of the IASB to quickly gain a general view from its participants. We note, however, that the IASB intends to use surveys to either supplement or proxy comment letter responses in its aim to create efficiencies in obtaining responses. Whilst we appreciate the IASB's intention in creating efficiencies and therefore making it easier for users to respond to comment letters, the responses may not indicate areas of concern or provide in-depth feedback from its stakeholders. When a survey is utilised, we recommend that feedback forms be utilised in conjunction with the surveys.

SASB Standards

We refer to the SASB standards which are included as Annexure B to the Handbook. We understand that the SASB Standards were developed by the Sustainability Accounting Standards Boards. It is also our understanding that the SASB Standards are used as guidance in fulfilling the requirements of IFRS Sustainability Disclosure Standards (refer to IFRS S1 par 55 and 58) and that the ISSB has committed to maintain, enhance and evolve these standards. We further note that the ED highlights the "importance of the SASB Standards in the application of IFRS S1, with the fact that the entities are not required to apply the SASB Standards", however are questioning the placement of the SASB Standards as an annexure to the DPOC Handbook. It is not clear whether the SASB Standards should be read as supplementary information, which aligns to our understanding or whether, including the SASB Standards in the DPOC Handbook requires preparers to apply the SASB Standards to meet the requirements of the IFRS Sustainability Standards. We are concerned that the SASB Standards may not have been taken through the due process as for all standards adopted (we refer to paragraph 1.5 which indicates that a due process for the SASB Standards does not exist). Our members are concerned that the ISSB does not have an equivalent of the Interpretations Committee, and we believe that such committee would be beneficial to the ISSB as the adoption and application of the IFRS Sustainability Standards mature.

Question 2—Enhancements and clarifications

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

The proposed enhancements and clarifications were discussed and similar to our response to question 1, we set out the areas where the processes as described in the Handbook could be further refined. Where no comment is provided, our members agree with the recommendations of the DPOC as presented in the Handbook. Our response is not necessarily limited to the enhancements or clarifications drafted.

Post-implementation reviews (“PIR”)

Our members did not express a specific concern regarding the proposed wording in explaining the PIR process. Our comment is raised specifically in relation to the PIR process followed for IFRS Accounting Standards. In considering the objective of the PIR set out in paragraph 6.50, we do believe that the Board might appear conflicted similar to a “self-review threat” where it is responsible for both issuing and reviewing the effectiveness of the new Standards. We recommend that this review process be undertaken by a separate committee by either expanding the remit of either the IFRS Interpretations Committee or the IFRS Technical Committee.

With respect to the principle-based definition of when to start a PIR, it seems to extend the timeline in an open-ended manner. Our members proposed to retain the two years’ timeline to start the PIR, but to introduce a ceiling of no more than three years post implementation to ensure that the PIR retains its relevance. In waiting too long post implementation, learnings from the implementation process are forgotten. We also recommend that if there is any reason why the PIR process cannot commence within this timeframe, the Boards provide an estimated timeframe of the PIR process.

We refer to the deletions made in paragraph 6.57 as it relates to securities regulators, accounting standard setting bodies, regional bodies involved in standard setting, auditors and investors. The deletions appear to exclude these bodies in the Board’s initial phase of research and publication of a request for information. We are concerned that by excluding these parties, phase 1 of the PIR could be constrained and all relevant issues with the application of a new Standard might not be considered. We recommend that if it is not the intention of the Board to exclude these parties, the word “other affected parties” be included after the proposed wording “*IFRS Standards-related bodies and interest stakeholders, including the respective board’s consultative groups* <u>*and other affected parties”.*</u> Alternatively, our recommendation is that the deletion should be retracted.

IFRS Interpretations Committee (“IFRIC”)

Our comment refers to the practical issues our members observed when the IFRIC publishes its agenda decisions, and or IFRIC updates, or other material as described in paragraph 8.8 of the DPOC Handbook. These agenda decisions are useful, and our members observed that oftentimes, the interpretation of the IFRS Accounting Standards could be different to how such Standards have been interpreted and applied in practice. This results in a scramble to report information immediately in line with the interpretation of the IFRIC, which in some cases requires a change in systems and processes, resulting in significant pressure due to reporting deadlines. In this respect, we recommend that the IFRIC considers providing an effective date and where relevant a transition process for agenda decisions. This date need not be long after the agenda decision is issued but still needs to allow adequate time for entities to transition and this transition process need not be long or extensive. We note that paragraph 8.6 uses the concept of "sufficient time", however this is entity specific concept and could hamper comparability.

Furthermore, we refer to the proposed clarification of "widespread effect" as indicated in paragraph 5.17(a). In this light we refer to IAS 29 – *Financial Reporting in Hyperinflationary Economies* ("IAS 29"). The IFRIC discussed the application of IAS 29 to identify when an economy becomes hyperinflationary. The conclusion published in the IFRIC Update November 2024 states that the matter described in the submission does not have a widespread effect and therefore the Committee decided not to add a standards-setting project to the work plan. We believe that the application of "widespread effect" appears to be too narrow, in that the specific IFRS Accounting Standard is not considered to be widely applied as only a handful of economies are hyperinflationary. However, once the IFRS Accounting Standard is applicable it would need to be applied by all reporting entities who operate in hyperinflation economies. In addition, the application of the Standard is not only limited to the reporting entities within these economies but affects all multinational groups with subsidiaries operating in these economies. We have also observed diversity amongst these multinational groups in applying the IFRS Accounting Standard. The use of "widespread effect" seems to limit the work of the IFRIC, whereas the IFRIC should consider whether issued IFRS Accounting Standards are still fit for purpose, regardless of whether the Accounting Standard may have a limited scope in application.

Other material to support application of IFRS Standards

We generally agree with the proposed change of relabeling "Educational material" to "other material to support application of IFRS Standards". However, our members recommend that the "other material" should clearly and explicitly state that it does not form part of the standards. We take note of the contents of paragraph 8.9 of the DPOC Handbook; however, we recommend that if such material is issued, it is accompanied by this explicit statement as members do not always refer back to the DPOC Handbook for clarity.

Other matters

Our members raised three additional considerations for the Board in its revision of the DPOC Handbook:

- The DPOC Handbook does not include or refer to the IFRS for SMEs Accounting Standard. In this regard, we recommend the Board clarifies how the Handbook is applied to the SME Standards. We also want to draw the Board's attention to the glossary of terms as it relates to the definition of "IFRS Standards", the definition does not include any reference to the SME Standards; and
- We also noted that the withdrawal of the IFRIC Agenda Decisions is not explicitly dealt with, and we recommend that this process should be included in the DPOC Handbook.

- We refer to the sentence on page 9 of the DPOC Handbook which states *"The proposed amendments also reflect that the formal remit of the Interpretations Committee as specified in the Constitution relates to the IASB and IFRS Accounting Standards. At present, the ISSB and its Transition Implementation Group on IFRS S1 and IFRS S2 consider questions arising on IFRS Sustainability Disclosure Standards".* Our members are concerned that if an interpretations committee is subsequently created for the ISSB standards, there is no provision in the Handbook for the Handbook to also apply to that committee. The above extract appears to only look at the current situation, with no provision for the future. This could mean that if a committee is created in the future, another process would need to be followed in order to amend the Handbook such that it provides for the committee. Our members recommend that the Handbook is amended in this process to require its application to any possible future interpretations committee. This would simplify any future processes.