

Accounting Standards Board of Japan
Kowa Building No.9,
1-8-10, Akasaka, Minato-ku, Tokyo 107-0052
Japan
Tel: +81-3-5561-8449
Fax: +81-3-5561-9624
<http://www.asb.or.jp>



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International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

Comments on the Exposure Draft 1 “First time application of IFRS”

The Accounting Standards Board of Japan (ASBJ) is pleased to comment on the Exposure Draft 1 “First time application of IFRS”. The views expressed in this letter are those of ASBJ technical staff responsible for its preparation. Accordingly, this letter should be considered as a staff reply and it does not represent an official position of the ASBJ based on its due process.

We hope that our comments will contribute to the work of the IASB in arriving at its final decision.

Best Regards,

Masayoshi Ogiwara
Technical Manager, Accounting Standards Board of Japan

Question 1

The proposed IFRS would apply when an entity first adopts International Financial Reporting Standards (IFRSs) as its new basis of accounting, by an explicit and unreserved statement of compliance with all IFRSs (paragraphs 1-5 and paragraphs BC4-BC10 of the Basis for Conclusions). Is this an appropriate description of the circumstances when this proposed IFRS should apply? If not, what changes would you suggest, and why?

A.

We express doubts about the necessity for the paragraph 5, “Subsidiaries”.

The paragraph 5 provides requirements for a subsidiary that is reporting using IFRSs internally but will subsequently begin to present financial statements in accordance with IFRSs. However, we suppose that the intention of the paragraph 5 will be generally achieved by the application of the latter two sentences in the paragraph 13. Therefore, we suggest that the paragraph 5 can be deleted.

Question 2

The proposed IFRS proposes a requirement that an entity shall prepare its opening IFRS balance sheet using accounting policies that comply with each IFRS effective at the reporting date for its first IFRS financial statements. Paragraphs 13-24 propose limited exemptions from this requirement. Are all of these exemptions appropriate? Should the Board amend any of these exemptions or create any further exemptions (paragraphs BC11-BC89)? If so, why?

A.

1. Clarification the relationship between the paragraph 7 and the paragraph 13.

In our understanding, the ED1 prescribes both that the basic treatment of First-time Application of IFRSs shall be “to comply with each IFRSs effective at the reporting date, with using exemptions in paragraphs 13-24” and that the optional treatment shall be “to apply the IFRSs that were effective in each period, as SIC- 8 stated”.

In the light of this view, we recommend to sort out the relationship between the paragraph 7 and the paragraph 13 more clearly. For instance, the latter two sentences of the paragraph 13 may be moved to the paragraph 7 or inserted as a new paragraph immediately after it.

In addition, we also recommend that the following paragraphs shall be added to “Main features of this IFRS” and it makes ease to understand the overall picture of this standard.

“When an entity adopts IFRSs for the first-time as its basis of an accounting, the financial statements of the entity shall be prepared:

- (a) with using exemptions in paragraphs 13 - 24. In that case, the entity shall comply with each IFRSs effective at the reporting date, and shall not apply the transitional provisions of the effective Standards and Interpretations; or
- (b) as if the financial statements had always been prepared in accordance with the

Standards and Interpretations effective for the period of first-time application. In that case, the entity shall apply the transitional provisions of the effective Standards and Interpretations only for periods ending on the date prescribed in the respective Standards and Interpretations, and shall not use exemptions in paragraphs 13 - 24. However, the entity shall disclose information in accordance with this Standard.

2. Derecognition of financial instruments (paragraph 24 and IG 43).

We believe that some exemptions should be permitted with regard to the proposed paragraph IG 43 (related to the proposed paragraph 24), which requires an entity to recognise all financial assets and liabilities that qualify for recognition under IAS 39 and have not yet qualified for derecognition under IAS 39. Reinstatement of previously recognised finance assets may sometimes be burdensome to first-time adopters. We recommend that the Standard should permit the entity not to recognise the financial assets that had been derecognised under the previous GAAP, if their reinstatement would require undue cost or effort.