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Kevin Stevenson
Chairman
International Financial Reporting Interpretation Committee

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

Dear Kevin,

Comments on IFRIC D2 "Changes in Decommissioning, Restoration and Similar Liabilities

The Accounting Standards Board of Japan (ASBJ) is pleased to comment on IFRIC D2 "Changes in Decommissioning, Restoration and Similar Liabilities". The International Issues Standing Committee of ASBJ has considered this issue as a liaison standard setter and has reached a view different from the proposal of D2. We hope that our comment will contribute to the discussion in both IFRIC and IASB.

Best Regards,

Masayoshi Ogiwara

International Issues Standing Committee
Technical Manager, Accounting Standards Board of Japan

1. We do not agree with the proposed treatment in IFRIC D2. For changes in the estimated outflow of resources embodying economic benefits, we believe assets should be adjusted for the same amount as the liabilities, and for changes in discount rates, we believe the change should not be reflected on either asset or liability. The changes in this Draft should not be accounted for referring to past periods as if it were a correction of an error; we believe the changes should be accounted for as changes in accounting estimates and the effect shall be allocated prospectively.

2. Our proposal turns out to support the treatment required in SFAS143. We acknowledge that our proposed treatment regarding changes in discount rates might not be in conformity with paragraph 47 of IAS 37. However, if that is the case, we believe that IAS 37 should be amended.

3. This Draft is in the position that changes in the estimated outflow of resources embodying economic benefits and changes in discount rates shall be treated in the same manner (paragraph BC10). However, we believe these changes are different in nature and hence the accounting for them needs not to be the same.

Changes in the Estimated Outflow of Resources Embodying Economic Benefits

4. For changes in the estimated outflow of resources embodying economic benefits, we believe that the carrying amounts of assets should be adjusted for the same amount as the changes in the carrying amounts of liabilities. In the exceptional case where the decrease in the amount of liability exceeds the carrying amount of the asset, such excess shall be recognised as a gain.

5. The treatment proposed in this Draft recognises the change in income in the period the change has occurred. This change is the difference between (a) the accretion expense and depreciation expense if the revised estimate were made at initial recognition and (b) the actual amount recognised in prior periods. Such adjustment can be characterised as prior period adjustments. However, we believe the economic substance of this change is a change in accounting estimate. Therefore, we believe the effect shall not be allocated retrospectively but prospectively.

6. The discount rate used in recognising the changes in estimated outflow of resources embodying economic benefits, we believe the following approach in SFAS 143 is appropriate:
   (a) For upward revisions, use the discount rate at the time of change.
   (b) For downward revisions, use the discount rate that existed when the original liability was recognised. (However, entities may use the weighted-average discount rate if they cannot identify the prior period to which the downward revision relates.)

As we state below, we believe that the changes in discount rates for provisions should not be revised and therefore the discount rate should be fixed at the discount rate used when the liability was originally recognised. However, for increases in estimated outflow of resources embodying economic benefits, the discount rate at the time of increase should be used if the change is due to changes in laws, etc. In principle, increases in existing liability and additional liability should be distinguished and the former should be discounted at the discount rate used when originally recognised; however, in reality it may be difficult to distinguish between them. Considering practical reasons, all increases in estimated outflow of resources embodying economic benefits shall be treated as additional liability.

7. In the Draft, IFRIC has pointed out the possibility that the carrying amount of the asset will be negative and the concerns pertaining to the possibility that carrying amounts of assets increase largely shortly before the end of the estimated useful lives as reasons for not allocating the effects of the changes prospectively (paragraphs B6 and B12). We acknowledge that such phenomena might occur; however, in the former case such possibility would be extremely thin and in the latter there would be little effect in practice since impairment of the asset will be immediately recognised. We believe such extreme cases cannot be sufficient rationale for judging the appropriate treatment.

Changes in Discount Rates

8. As stated at the beginning, we believe that subsequent changes in discount rates regarding provisions should not be reflected in the measurement of the provisions. Recognising changes in present value of liabilities are not relevant unless such liabilities are part of financial investment activities. Estimated outflow of resources embodying economic benefits do not change even if discount rates change, since it is highly unlikely that liabilities would be settled before maturity. Following the same logic as held-to-maturity investments, such liabilities should be measured using the amortised cost method.

9. We acknowledge that our view above might be inconsistent with paragraph 47 of IAS 37. Our understanding is that paragraph 47 originally intended to identify the treatment for initial recognition and not clearly addresses treatment of changes in discount rates. If the only way to interpret paragraph 47 is to remeasure the provisions whenever there is a change in discount rates, we would rather suggest IAS 37 should be amended.

The Appendix shows the journal entries under our proposal corresponding to draft illustrative examples in D2.

Appendix: Journal Entries Under Our Proposal

Example 1: A change in estimated cash flows

Journal Entries at the Period the Change was Made

(Dr)	Liabilities	4,000	(Cr)	Assets	4,000

Journal Entries for Depreciation for Subsequent Periods

(Dr)	Depreciation	117	(Cr)	Acc. Depreciation	117
	117 = (7,500 - 4,000) / 30				

Example 2: A change in the discount rate

N/A