

Accounting Standards Board of Japan (ASBJ)

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

Dear Sirs,

Comments on Discussion Paper "Management Commentary"

We are pleased to comment on the Discussion Paper "Management Commentary" (Discussion Paper). The views expressed in this letter are not officially those of the Accounting Standards Board of Japan (ASBJ) but those of members of International Issues Standing Committee of the ASBJ.

We believe that reference to the Discussion Paper would be useful for improvement of quality of MC in future, when the requirements for Management Commentary (MC) would be developed. We appreciate the contribution of the project team who prepared the Discussion Paper.

However, we do not believe that development of requirements for MC is a priority, given that the IASB is now tackling the convergence projects with the FASB and the ASBJ and plans to develop many important accounting standards in the next five years. Furthermore, MC is not an integral part of financial statements although it is useful to constituents. Therefore, we believe that the development of requirements for MC should not be considered as a priority for the IASB and that the IASB should allocate its resource to the development of accounting standards, especially focusing on convergence. We believe that discussion about MC should await the results of the phase E "Presentation and Disclosure" of the Conceptual Framework project conducted jointly between the IASB and the FASB, to avoid possible conflicts.

In summary, we believe that it is not appropriate to add this project as a priority for the IASB, because the IASB should give more priority to development of accounting standards and the discussion of MC should await the results of the phase E of the Conceptual Framework.

We would like to make comments on each question in details as follows.

Question 1: Do you agree that MC should be considered an integral part of financial reports? If not, why not?

We do not agree. We do not believe that MC should be considered an integral part of financial reports, although it is useful information to stakeholders including investors. We believe that MC is not included in financial reports, because MC includes non-financial information, as described in paragraph 35.

Question 2: Should the development of requirements for MC be a priority for the Board? If not, why not? If yes, should the IASB develop a standard or non-mandatory guidance or both?

We do not agree. We do not believe the development of requirements for MC should be a priority for the IASB. From the standpoint of promotion of international convergence through developing high quality, common accounting standards for use in the world's capital markets, we believe that the priorities for the IASB should be the items set out in the MOU between the IASB and the FASB, issued in February 2006, and those addressed in the joint project with the ASBJ. Furthermore, as mentioned above, the issues discussed in this Discussion Paper will be addressed in the phase E "Presentation and Disclosure" of the Conceptual Framework project conducted jointly between the IASB and the FASB. In summary, we consider it premature for the IASB to add the MC project to its priorities, because there are other more important priorities and the MC project should await the results of the Conceptual Framework project.

Question 3: Should entities be required to include MC in their financial reports in order to assert compliance with IFRSs? Please explain why or why not.

We do not agree. MC is Management's disclosure of information which should not be included in financial statements but is useful to investors and, as described in paragraph 35, it contains non-IFRS financial and non-financial measures. We do not believe that inclusion of such information should be a necessary condition for compliance with IFRSs. In our understanding, the premise of the MC project is that MC is disclosure of information which has different nature from notes to financial statements, which are the subject of IFRSs. Therefore, since MC is not a subject of IFRSs, we do not believe that entities should be required to include MC in their financial reports in order to assert compliance with IFRSs.

Question 9: Are the placement criteria suggested by the project team helpful and, if applied, are they likely to lead to more consistent and appropriate placement of information within financial reports? If not, what is a more appropriate model?

We do not believe that the suggested placement criteria would be helpful. As described in paragraph 155, there is a risk that the views of this project on placement criteria might not align with the views that emerge from the joint Conceptual Framework project between the IASB and the FASB. The placement criteria should be addressed pending development of the Conceptual Framework project. Once the scope of notes to financial statements is determined, disclosure items which have different nature from those would automatically fall within MC.

Best Regards,

Ikuo Nishikawa
Chairman, International Issues Standing Committee
Vice-Chairman, Accounting Standards Board of Japan