

Accounting Standards Board of Japan (ASBJ)

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International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
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Dear Sir/Madam,

Comments on Exposure Draft of Proposed Amendments to IAS 1 “Presentation of Financial Statements”

Accounting Standards Board of Japan (ASBJ) is pleased to comment on the Exposure Draft of Proposed Amendments to IAS 1 “Presentation of Financial Statements.” The views expressed in this letter were deliberated in the International Issues Standing Committee of the ASBJ.

General View

We have been monitoring the Performance Reporting Project (hereinafter referred to as “the Project”), which led to the issuance of this Exposure Draft (hereinafter referred to as “the ED”), with serious concern about the treatment of “net income” among others. We believe that information about profit is extremely useful for decision making of investors who are the primary users of financial statements, in that it helps them to test the ex-ante expectations about return on investment against the ex-post result, in other words it provides “feedback value” of financial information. And we believe that “net income” accompanied with the mechanism of recycling (reclassification adjustments) is useful information consistent with such a concept and, therefore, it has information value different from comprehensive income which is defined as changes in net assets other than those from transactions with owners.

From that standpoint, we appreciate the ED in that it requires presentation of “profit or loss” (hereinafter referred to as “net income”) as well as “recognised income and expense” (hereinafter referred to as “comprehensive income”). However, our concern that net income might be eliminated is still unresolved, because discussion about recycling is postponed to Segment B of the Project which will not be constrained by the conclusion in Segment A. We believe that the IASB should have first discussed the issue of the recycling and decided to retain the recycling mechanism before the issuance of the ED.

The following are our comments on individual issues.

Comments on Questions

Question 1 - Names of financial statements

We see no particular merits in a name change at this stage. A change from names familiar to preparers and users will cause various confusions. In addition, it is difficult to decide what names are appropriate until Segment B of the project will complete. For those reasons, we believe that the discussion of a change of names of financial statements should be deferred until the conclusion of Segment B is determined.

If the IASB were to consider a change of names of financial statements, we would like to point out the following.

- IAS 1 uses the term “recognised” in the statement of recognised income and expense (paragraph 96 of IAS 1). However, information on financial statements is all “recognised” one. We disagree with such naming in the light of consistency with other components of financial statements. We believe that the IASB should consider the use of the name of “the statement of earnings and comprehensive income” which is already used under the U.S. GAAP and more familiar to preparers and users.
- IAS 1 uses the term “equity” in the statement of changes in equity (paragraph 96 of IAS 1). However, “equity” is sometimes used in the meaning of owners’ interests, not only the meaning of a residual concept of net assets (assets minus liabilities) as defined in the IASB Framework. We believe that the use of “equity” should be deliberated carefully, because the scope of owners is a controversial issue and there is a predominant argument that owners’ interests are not necessarily equal to net assets.

We appreciate the realistic proposal that an entity may use titles for the statements other than those used in the ED.

Question 2 - Statement of financial position as at the beginning of the period

We disagree with the introduction of the concept of “the statement of financial position as at the beginning of the period” and consequently disagree with the proposal that three statements of financial position should be required when presenting comparative information.

The primary purpose of the statement of financial position is to present the financial position at the end of the reporting period, not the beginning financial position. Therefore, a complete set of financial statements should consist of four statements, that is, the statement of financial position (at the end of the period), the statement of recognised income and expense, the statement of changes in equity, and the statement of cash flows.

We believe that respective components of financial statements for two periods are enough to satisfy

the needs of users, considering that the purpose of comparative information is to present the change from the previous period.

Furthermore, we would like to point out that the proposal of the ED causes various confusions among constituents concerning disclosures in cases where the statement of financial position as at the beginning of the current period and the statement of financial position as at the end of the previous period are different, for example, due to business combinations as at the beginning of the current period or retrospective adjustment of changes in accounting policy.

Question 3 - Name of recognised income and expense

As mentioned in the comment on Question 1, information on respective financial statements are all “recognised” and it is not consistent to use the term “recognised” only for “recognised income and expense.” We believe that the term “total income and expense” used in paragraph 96(c) of IAS 1 should be retained until the completion of discussion in Segment B.

If the IASB were to change the name, it should consider the use of “comprehensive income” which is already used under the U.S. GAAP and more familiar to preparers and users.

Question 4 - Separation of all non-owner changes in equity from owner changes in equity

We believe that separation of changes in net assets arising from transactions with owners from other changes in net assets is the basic concept of accounting. However, we believe that it is also important to present separately net income and comprehensive income because of the following reasons. First, other comprehensive income items are recognised at the different timing in net income and in comprehensive income. Second, unlike comprehensive income, the scope of net income should be limited to shareholders’ interests of the parent entity and minority interests should be excluded from net income.

Question 5 - Single statement method and two statements method

We appreciate the ED permitting the two statements method in displaying components of comprehensive income, as well as the single statement method. As described in the abovementioned General View, net income fulfils an important role of indicating the results of investments that is necessary information for users to estimate the future cash flows. We believe that the two statements method is more understandable to users than the single statement method, because net income is presented at the bottom of the statement and earnings per share (EPS) is displayed just below net income.

Question 6 - Other recognised income and expense - reclassification adjustments

We have no objection to the disclosure of reclassification adjustments for each component of other comprehensive income (other recognised income and expense). Reclassification adjustment is an

essential mechanism to present net income and comprehensive income together. Presentation of the amount of reclassification adjustment will help users to understand financial statements.

Question 7 - Other recognised income and expense – income tax

We do not agree with the proposal to disclose income tax relating to each component of other comprehensive income (other recognised income and expense). Information of income tax relating to each component of other comprehensive income is considered to have little value and would impair clarity of presentation by messy disclosure on the face of financial statements or in the notes. Considering income tax information for components of net income is not necessarily disclosed, we do not feel the necessity for disclosure of income tax amounts for each component of other comprehensive income.

Question 8 - Presentation of per-share measures

We agree. As described in the comment for Question 5, net income fulfils an important role of providing information of the results of investments that helps users to estimate the future cash flows. Therefore, we believe that the requirement that earnings per share should be the only per-share information presented on the face of statements of recognised income and expense under IAS 33 should be retained.

Other Comments

(1) First-time adoption of IFRSs

The existing IFRS 1 requires a first-time adopter to include in its first IFRS financial statements a reconciliation of net income (profit or loss) in accordance with previous GAAP to net income (profit or loss) in accordance with IFRSs for the latest period. The ED proposes the replacement of the term “profit or loss” with “total recognised income and expense (or its equivalent)”.

We disagree with elimination of the term “profit or loss” from the text of IFRS 1. Although reconciliation of profit or loss is shown in IG Example 11, the example is not a mandatory requirement of the standard.

(2) Definition of reclassification adjustments

Paragraph 7 of the ED states that “reclassification adjustments are amounts reclassified to profit or loss in the current period that were recognised in other recognised income and expense in previous periods.” On the other hand, paragraph 18 of U.S. SFAS 130 states that “adjustments shall be made to avoid double counting in comprehensive income items that are displayed as part of net income for a period that also had been displayed as part of other comprehensive income in that period or earlier periods.” The example in paragraph IG8 complies with the U.S. definition. The IASB should reconsider the definition to keep consistency between the text of the ED and the example.

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

Best regards,

Ikuo Nishikawa

Chairman, International Issue Standing Committee

Vice-chairman, Accounting Standards Board of Japan