Accounting Standards Board of Japan (ASBJ)

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January 31, 2011

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
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Dear Sir or Madame,

Comments on Request for Views on Effective Dates and Transition Methods

We appreciate the consideration by the International Accounting Standards Board (IASB) to develop an implementation plan for the several new IFRSs expected to be issued in 2011, which would help interested parties to manage the pace and cost of changes to financial reporting. And we welcome the opportunity to comment on Request for Views on *Effective Dates and Transition Methods*.

General Comments

1. In Japan, listed companies meeting certain criteria are allowed voluntary adoption of IFRSs for consolidates financial statements for annual periods ending on or after March 31, 2010. It is expected to be decided around 2012 whether IFRSs should be required for consolidated financial statements of listed companies. If the mandatory adoption would be decided in 2012, great many companies would start applying IFRSs from 2015 or 2016, with a preparation period of at least three years.

2. Smooth transition to IFRSs by those first-time adopters is very important not only to them but also to interested parties including users of financial statements. It would also contribute to enhancement of the presence of IFRSs all over the world.

3. Accordingly, we consider it absolutely necessary to allow treatments different from requirements for the existing adopters concerning effective dates and earlier application so that burdens on first-time adopters and potential confusions could be mitigated.

4. Although there would not be many Japanese companies which will apply the new requirements as the existing adopters rather than first-time adopters, we comment on the questions on effective dates and earlier application of new requirements (Q5 and Q6). We believe that as new requirements would improve financial reporting, those that could be easier to apply should

become effective earlier in a sequential manner. We believe that the single date approach would be unfavourable because aligning the effective dates of all projects with those which will take longer time to apply would unnecessarily delay the improvement of financial reporting in other areas.

<u>Comments on specific questions</u>

Our comments on the questions set out in the Request for Views are as follows:

Background information

Q1 Please describe the entity (or the individual) responding to this Request for Views.

5. We are the accounting standards setter in Japan and working on convergence between Japanese GAAP and IFRSs.

Preparing for transition to the new requirements

Q4 Do you agree with the transition method as proposed for each project, when considered in the context of a broad implementation plan covering all the new requirements? If not, what changes would you recommend, and why? In particular, please explain the primary advantages of your recommended changes and their effect on the cost of adapting to the new reporting requirements.

6. For insurance contracts and leases, full retrospective application should be permitted when an entity can do so.

7. The transition method proposed for the insurance contracts would impair comparability with contracts entering into after the date of transition because it would regard the residual margins of existing contracts as zero. A deemed residual margin at the date of transition should be determined in some way.

8. We disagree with the retrospective treatment of post employment benefits, because it would be unduly burdensome to entities which defer recognition of actuarial gains and losses according to the corridor approach under the existing IAS 19 and include amortization of those amounts in costs of inventories.

Effective dates for new requirements and early adoption

Q5 In thinking about an overall implementation plan covering all of the standards that are the subject of this Request for Views:

(a) Do you prefer the single date approach or the sequential approach? Why? What are the advantages and disadvantages of your preferred approach? How would your preferred approach minimise the cost of implementation or bring other benefits? Please describe the sources of those benefits (for example, economies of scale, minimising disruption, or other synergistic benefits).

(b) Under a single date approach and assuming the projects noted in the introduction are completed by June 2011, what should the mandatory effective date be and why?

(c) Under the sequential approach, how should the new IFRSs be sequenced (or grouped) and what should the mandatory effective dates for each group be? Please explain the primary factors that drive your recommended adoption sequence, such as the impact of interdependencies among the new IFRSs.

(d) Do you think another approach would be viable and preferable? If so, please describe that approach and its advantages.

<u>Response to question (a)</u>

9. We prefer the sequential approach. Given that new requirements would improve financial reporting, the requirements that could be easier to apply should be required earlier.

10. A major concern about the sequential approach would be that retrospective (or limited retrospective) application of the new IFRSs would be required year after year, which would be burdensome for preparers. Nevertheless, we recommend the sequential approach, considering the disadvantages of the single date approach as described below.

11. If the effective dates of all projects were aligned with the projects such as insurance and financial instruments (impairment methodology), which would take a particularly long time to implement, improvements of financial reporting in other areas would be unduly delayed. Therefore, the single date approach would be unfavourable.

12. Application of new accounting standards would require changes in information systems and accounting processes and might induce changes in the management strategy of the company or business practices. If the single date approach were adopted, such voluminous tasks would be concentrated in the same time period and therefore operational risk would be high. Furthermore, there would be a concern about shortage of resources. The sequential approach is also preferable from these viewpoints.

13. Japan experienced, between late 1990's and early 2000's, a series of major revisions to accounting standards aiming at international harmonisation. At that time several standards[1]

[1] For example, accounting standards for Consolidated Financial Statements, Statement of Cash Flows, Research and Development Costs, Post-employment Benefits, Income Taxes, Financial Instruments

were introduced in a sequential manner and the implementation of those new standards were generally smooth. In the light of such experience, we recommend the sequential approach to the implementation of the standards subject to this Request for Views.

Response to question (c)

14. The following paragraphs set out the possible mandatory effective dates for the individual standards under the sequential approach, assuming those projects are completed by June 2011 as scheduled. Those dates are shown just for illustrating our suggestion regarding the sequence of implementing the standards and are not necessarily absolute ones.

15. The mandatory effective dates of ***Presentation of Items of Other Comprehensive Income*** should be January 1, 2012, considering relatively light burdens for their implementation.

16. The mandatory effective date of ***Fair Value Measurement***, ***Consolidation***, ***Financial Instruments (Phase I: Classification and Measurement), Financial Instruments (Phase III: Hedging)*** and ***Post Employment Benefits*** should be January 1, 2013. The effective date of ***Consolidation*** and ***Joint Arrangements*** should be the same because they are related to each other.

17. We acknowledge that there is a view that the effective date of ***Financial Instruments (Phase I: Classification and Measurement)*** should be aligned with *Financial Instruments (Phase II: Impairment Methodology)***.** However, as mentioned in paragraph 19 below, we consider that *Financial Instruments (Phase II)* needs a long preparation period. If the effective date of *Financial Instruments (Phase I)* were aligned with it, the period between its issuance date and its effective date would be significantly long. On the other hand, requiring the application of Phase I earlier than Phases II would cause no significant problems (for example, impairment of financial assets measured at amortised cost could be dealt with by the impairment provisions of IAS 39). Therefore, we do not consider it necessary to align the effective date of *Financial Instruments (Phase I)* with other phases of *Financial Instruments*.

18. The mandatory effective date of ***Revenue from Contracts with Customers*** (hereinafter referred to as the "***Revenue***") should be January 1, 2014, considering that it would take a time to prepare for changes in accounting for contracts with multiple elements and construction contracts. The effective date of ***Leases*** should be aligned with that of ***Revenue*** because they correlate in some respects such as the treatment of distinct service elements.

19. The mandatory effective dates of ***Financial Instruments (Phase II: Impairment Methodology)*** and ***Insurance Contracts*** should be January 1, 2015, considering significant time necessary to develop information systems and accumulate data.

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and Impairment of Long-lived Assets

Q6 Should the IASB give entities the option of adopting some or all of the new IFRSs before their mandatory effective date? Why or why not? Which ones? What restrictions, if any, should there be on early adoption (for example, are there related requirements that should be adopted at the same time)?

20. Early adoption should be permitted in principle because new IFRSs would improve financial reporting.

21. However, from the viewpoint of comparability, the period for which early adoption would be permitted should be limited (for example, the interval between the mandatory effective date and the earliest date of early adoption should be no longer than two years).

22. In case of early adoption, relationship between projects should be taken into consideration as follows:

- *Consolidation* and *Joint Arrangement* should be adopted at the same time.
- *Revenue* and *Leases* should be adopted at the same time.

International convergence considerations

Q7 Do you agree that the IASB and FASB should require the same effective dates and transition methods for their comparable standards? Why or why not?

23. IASB should place more emphasis on consistency within IFRSs and cost-benefit considerations for companies adopting IFRSs than consistency between IFRSs and US GAAP. However, from the viewpoints of comparability, it would be desirable to align the treatments under IFRSs and US GAAP.

Considerations for first-time adopters of IFRSs

Q8 Should the IASB permit different adoption dates and early adoption requirements for first-time adopters of IFRSs? Why or why not? If yes, what should those different adoption requirements be, and why?

24. In Japan, listed companies meeting certain criteria are allowed voluntary adoption of IFRSs for consolidates financial statements for annual periods ending on or after March 31, 2010. It is expected to be decided around 2012 whether IFRSs should be required for consolidated financial statements of listed companies. If the mandatory adoption would be decided in 2012, great many companies would start applying IFRSs from 2015 or 2016.

25. Smooth transition to IFRSs by those first-time adopters is very important not only to them but

also to interested parties including users of financial statements. From this viewpoint, our comments on Q8 as mentioned below give the most attention to practical aspects for preparers, unlike our comments on Q5 and Q6 intended for the existing adopters.

26. We believe that different treatments from the existing adopters about adoption dates should be permitted for first-time adopters of IFRSs. It is because their burdens are heavier than the existing adopters due to the necessity to deal with the existing IFRSs as well as new IFRSs.

27. Early adoption should be permitted for first-time adopters even when it is not permitted for the existing adopters of IFRSs. It is because significant two time changes in accounting in a short period of time would not only impose heavy burdens on first-time adopters but also confuse users of their financial statements. Needless to say, first-time adopters should also take into consideration the relationship between projects as we mentioned in comments on Q6 (paragraph 22), when applying a certain standard early.

28. Also, companies which adopt IFRSs for the first-time at early dates (for example, in 2012) should be allowed to delay adoption of some or all of new or amended IFRSs for certain periods. We believe that such care would encourage more companies to voluntarily adopt IFRSs early.

29. Some would object to treatments described above, arguing that they would impair comparability between the existing adopters and first-time adopters and between different first-time adopters. However, in the circumstance that adoption of or convergence with IFRSs is currently in process in many jurisdictions, priority should be given to enabling smooth transitions to IFRSs. Therefore we believe that flexible treatments for first-time adopters are necessary.

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We hope our comments would contribute to the IASB's forthcoming deliberations.

Yours sincerely,

Yoshihiro Nomura

Board Member of the Accounting Standards Board of Japan