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September 5, 2012

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

Dear Sir or Madame,

Comments on the Exposure Draft "Annual Improvements to IFRSs 2010-2012 Cycle"

We welcome the opportunity to express our comments on the Exposure Draft ñAnnual Improvements to IFRSs 2010-2012 Cycleò (hereinafter referred to as ñthe EDò).

1. We basically agree with the proposals in the ED on the annual improvements project 2010-2012 Cycle from the viewpoint that they would indeed be improvements to IFRSs.

2. However, we would like to comment specifically on the following six matters.
   - IFRS3 *Business Combinations* - Accounting for contingent consideration in a business combination.
   - IFRS8 *Operating Segment* - Aggregation of operating segments.
   - IAS1 *Presentation of Financial Statement* - Current/non-current classification of liabilities.
   - IAS7 *Statement of Cash Flow* - Interest paid that is capitalised.
   - IAS12 *Income Taxes* - Recognition of deferred tax assets for unrealised losses.
   - IAS24 *Related Party Disclosures* - Key management personnel.

   We hope the IASB will consider our comments to seek more appropriate improvements.

Accounting for contingent consideration in a business combination

3. Although we agree with the proposed accounting treatment in the ED, we have a concern with respect to its effective date.

4. This amendment proposes to be effective for business combinations for which the acquisition date is on or after January 1, 2015 and includes consequential amendments to classification of financial assets and financial liabilities in IFRS9. On the other hand, IASB is separately undertaking a project on limited amendments to IFRS9 regarding classification and measurement, aiming at

applying for the annual period beginning on or after January 1, 2015. The exposure draft of limited amendments to IFRS9 is planned to be published in the fourth quarter of 2012. We have a concern that the proposed consequential amendments to IFRS9 in this annual improvement cycle may give rise to unexpected confusion in relation to the limited amendments to IFRS9. Therefore we recommend this amendment should be addressed simultaneously with the exposure draft of the limited amendments to IFRS9 or in the annual improvement project cycle in the future.

Aggregation of operating segments

5. We agree with the clarification that judgements made by management regarding an aggregation of operating segments should be disclosed. However, we have a concern with respect to the examples of economic indicators to be assessed in determining that operating segments share similar economic characteristics.

6. We believe that the examples such as profit margin spreads or sales growth rate shown in the proposed paragraph 22(aa) should be deleted. This is because description of the basis for the managementôs judgment should be based on the actual situation of each individual entity and therefore such examples are unnecessary.

Current/non-current classification of liabilities

7. We agree with the clarification proposed in the ED. However, we have a concern with respect to ñsimilar termsò.

8. We note that the meaning of ñsimilar termsò in paragraph 73 is unclear and interpretative issues on ñsimilar termsò may occur in practice. Basis for conclusion (BC2) in the ED stipulates ñin the Boardôs view, terms are similar if the amendment of the terms would be expected to result in no substantial change to the rights and obligations of the parties to the loan facilityò. Consequently, in the case of a refinancing or rolling over that is not on the same terms, the guidance on derecognition of financial liabilities in IFRS 9[1] can be referred to interpret whether ñsimilar termsò in paragraph 73 is applicable. We have a concern that this may give rise to unintended results because of a wide variety of loan conditions in practice. Therefore, we recommend that ñsimilar

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1 IFRS9 3.3.2 (IAS39.40): An exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.
IFRS9 B3.3.6 (IAS39.AG62): For the purpose of paragraph 3.3.2, the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

termsò should be clarified in the requirement of the standard to avoid further unintended interpretation issues.

Interest paid that is capitalised

9. We agree with the proposed accounting treatment in the ED. However, we have a concern regarding the wording of the example in cash flows arising from investing activities.

10. We believe that the proposed example ñcapitalised borrowing costsò in paragraph 16(a) should be amended to ñcapitalised borrowing costs as part of the cost of property, plant and equipmentò, in order to avoid the possibility of misunderstanding with the intent of adding paragraph 33A and ensure consistency with paragraph 8 of IAS 23.

Recognition of deferred tax assets for unrealised losses

11. We agree with the clarification proposed in the ED. However we have a concern with respect to how to allocate the amount assessed as not realisable for the deferred tax assets.

12. We note that the clarification that realisability of deferred tax assets should be assessed on a combined basis rather than separately may give rise to an issue of how to allocate the amount assessed as not realisable to each deductible temporary difference which has been combined. We find that under the current IAS12 how to allocate the amount assessed as not realisable is vague. On the other hand, paragraphs 58 and 61A require presenting separately the deferred taxes between items to be recognised in profit or loss and items to be recognised outside profit or loss according to the underlying transaction, paragraph 81(a) and (ab) require disclosure of the income tax amount of each category and paragraph 81(g) requires disclosure of the amount of deferred tax asset recognised in the statement of financial position for each kind of deductible temporary difference. These requirements give rise to an issue of how to allocate those amounts. We believe that this allocation issue will become more evident as a result of the clarification in this annual improvement that assessment should be made on a combined basis as well as the Boardôs tentative decision to add the OCI category for eligible debt instruments in the limited amendments to IFRS9. Therefore, we recommend further consideration and clarification of how to allocate the amount assessed as not realisable for the deferred tax assets to each deductible temporary difference (for example, the allocation could be based on paragraphs 29A or 33 of exposure draft ñIncome Taxesò published in March 2009, and it should also take account of different characteristics of OCI items that are not recycled, OCI items that will be recycled and OCI items for debt instruments accounted for at FVOCI).

Key management personnel

13. We agree with the proposal in the ED. However, we have a concern with respect to key management personnel services provided by a management entity.

14. Although this proposal newly adds a management entity as a related party of the reporting entity, we have a concern that an unintended entity may be included as a related party of the reporting entity. This is because the definition of ñkey management personnel services provided by a management entityò is not clear enough. We recommend that paragraph 9(viii) stipulates an entity which provides key management personnel services to mutual funds, or an unrelated professional entity which provides key management personnel services would be applicable as examples. Additionally, we believe that ñkey management personnel services provided by a management entityò should be more clearly defined as óservices which an entity other than (i) to (vii) above provides to directly or indirectly plan and direct the activities of the entity based on the authority and responsibility to manage the entityô.

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We hope our comments will contribute to the forthcoming deliberations in the project.

Yours sincerely,

Atsushi Kato
Vice Chairman of the Accounting Standards Board of Japan