

3 July 2015

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

**Re: Comment on IASB's Exposure Draft "Effective Date of IFRS 15
(Proposed amendments to IFRS 15)"**

1. The Accounting Standards Board of Japan (“ASBJ” or “we”) welcomes the opportunity to provide comments on the International Accounting Standards Board’s (“IASB”) Exposure Draft (“ED”) *Effective date of IFRS 15* (Proposed amendments to IFRS 15).
2. The ASBJ supports the proposal in the ED that would defer the effective date of IFRS 15 *Revenue from Contracts with Customers* for one year. In principle, we believe that deferral of the effective date of a standard after issuance should be significantly discouraged because it would risk undermining the reliability of the standard and the authority of the standard-setter. However, we think that the proposed one-year deferral is appropriate in this case, because we found that there are the following compelling reasons that justify the exceptional decision:
 - (a) Need for additional preparation time before implementation of IFRS 15; and
 - (b) Importance of maintaining a consistent effective date between IFRS 15 and Topic 606.

Need for Additional Preparation Time before Implementation of IFRS 15

3. As stated in the Basis for Conclusions in the ED, entities’ implementation time has become shorter than originally anticipated because IFRS 15 was issued later than had been anticipated when the IASB set the effective date of the Standard. In addition, subsequent discussion at the Transition Resource Group (TRG) has raised uncertainty about the status of the standard and has posed entities to wonder when and how an entity should launch the IFRS 15 implementation process. Considering the effects, we find it necessary to provide additional preparation time

before IFRS 15 is required to be implemented; and accordingly, we believe that the proposed one-year deferral of the effective date is appropriate.

4. In formulating our view, we discussed with Japanese entities using IFRSs to find out their views on the proposal of the ED to defer the effective date for one year. Japanese entities using IFRSs voiced strong support for the proposal for many reasons including, but not limited to the following:
 - (a) IFRS 15 includes changes to the fundamental concepts regarding revenue recognition, and thus, it may require significant changes to an entity's accounting practices. Where this is the case, an entity would need to substantially modify its information systems and relevant internal control systems to be compliant with the new standard, given that the revenue recognition standard relates to the entity's daily operational activities. In addition, so as to ensure that information systems are modified appropriately, the entity would not only need to test the modified system at a point of transition, but would need to run the system for some period of time. Considering the need for sufficient time for testing, finalising the entire preparation work before 1 January 2017 (which is the original effective date) seems significantly challenging.
 - (b) Some entities found it necessary to formulate a group accounting policy so as to properly implement IFRS 15, and a parent company would have to go through in-depth consultation with its group companies for the development of the policy. When a group has a number of subsidiaries with a wide global reach, it is likely that the parent company would have to spend a significant amount of time explaining and discussing the potential implementation effects of IFRS 15 with its group subsidiaries and their auditors. In addition, an entity would need to analyse and assess the impact that the changes would have on its comparative period results based on the new group accounting policy. Considering the time necessary in this regard, the proposed one-year deferral of the effective date is highly desirable.

Importance of Maintaining a Consistent Effective Date between IFRS 15 and Topic 606

5. We are aware that the FASB also proposes a one-year deferral regarding the effective date of Topic 606 *Revenue from Contracts with Customers*. Considering that IFRS 15 and Topic 606 are converged almost word for word, we believe that

maintenance of a consistent effective date would be highly desirable to promote comparability of entities' reported revenue amounts.

6. Japanese entities that chose to use IFRSs for preparation of their consolidated financial statements (especially, multinational global companies operating with subsidiaries in the US and other regions) expressed concern that the incremental practical burden would be significant if they were required to implement the two standards with different effective dates. This is mainly because they would have to maintain dual information systems to support the parallel implementation of the two standards.

Others

7. In addition to our comments in the preceding paragraphs, we would like to draw your attention to the ASBJ's initiative to develop a new revenue recognition standard as part of Japanese accounting standards with a view to promote convergence with the guidance in IFRS 15 and Topic 606. In our deliberation, we have been urged by Japanese entities using IFRSs or US GAAP to make our new revenue recognition standard available before the transition date of IFRS 15 or Topic 606. This would allow the Japanese entities to reduce the burden of making the adjustments necessary to prepare consolidated financial statements under IFRSs or US GAAP on the basis of individual financial statements prepared in accordance with Japanese accounting standards. Considering the significant challenges that the ASBJ foresees for proceeding with the development of the standard in accordance with the timeline, we welcome the proposal to defer the effective date of IFRS 15.
8. Lastly, the ASBJ supports the proposal in the ED that would continue to permit early application, so that those entities that are prepared to adopt IFRS 15 in accordance with the original transitional requirements would not be penalised. In addition, we would like to draw your attention to the fact that quite a few Japanese companies are expected to go through the first-time application of IFRSs before the effective date of IFRS 15. We worry that not permitting the earlier application would impede their transition to IFRSs as originally planned, because unless the earlier application were permitted, they would have to first apply IAS 18 *Revenue* and IAS 11 *Construction Contracts* before they apply IFRS 15.
9. For our comment on specific question to the ED, please refer to the Appendix of this letter.

10. The ASBJ hopes that our comments will be helpful for the IASB's future deliberations. If you have any questions, please feel free to contact us.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Atsushi Kogasaka', written in a cursive style.

Atsushi Kogasaka

Vice Chairman of the Accounting Standards Board of Japan

Chairman of the Technical Committee for Revenue Recognition in the ASBJ

Comment on Specific Question in the ED

Question: The IASB proposes to amend IFRS 15 so that entities would be required to apply IFRS 15 for annual reporting periods beginning on or after 1 January 2018. Earlier application would continue to be permitted. Do you agree? Why or why not?

11. For the reasons explained in paragraphs 2 to 8 of this letter, we support the proposal in the ED that would defer the effective date of IFRS 15 for one year and continue to permit the earlier application.