

30 November 2015

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

Re: Comment on the IASB's ED Conceptual Framework for Financial Reporting

1. The Accounting Standards Board of Japan (the "ASBJ" or "we") welcome the opportunity to provide comments on the IASB's Exposure Draft *Conceptual Framework for Financial Reporting* (the "ED").
2. We highly appreciate the IASB's efforts to improve the *Conceptual Framework for Financial Reporting* (the "*Conceptual Framework*"), because we believe that the *Conceptual Framework* should play a critical role for the IASB when it develops Standards based on consistent concepts. We thus believes that the development of a high quality *Conceptual Framework* is essential for the IASB to appropriately develop or revise its Standards that would contribute to the provision of useful financial information by entities that prepare financial statements in accordance with IFRSs.
3. We have devoted significant amount of time for considering the proposals in the ED, and shared our views through the participation in international meetings and publication of papers¹. In addition, we published the ASBJ's *Request for Views* (hereinafter referred to as the "ASBJ's RfV") to Japanese constituents so as to reflect as much views as possible from our stakeholders in this letter. We summarised the views received that are not reflected in the main body of this letter in the Appendix-II of this letter.
4. As for its comments on the ED, first and foremost, the ASBJ in the capacity of the accounting standard setter believes that the IASB should clarify that the primary role of

¹ The ASBJ published papers including the following:

- A paper titled, *Profit or Loss / OCI and Measurement* submitted for the December 2013 Accounting Standards Advisory Forum (ASAF) meeting;
- Short Paper Series No. 1 titled, *Is OCI Unnecessary?* published in May 2014;
- A paper titled, *Identification, Description and Classification of Measurement Bases* submitted for the March 2015 ASAF meeting;
- A paper titled, *Role of "Nature of an Entity's Business Activities" in Accounting Standard-Setting* submitted for the March 2015 ASAF meeting; and
- Short Paper Series No. 2 titled, *Recognition Criteria in the Conceptual Framework* published in November 2015.

the *Conceptual Framework* is to assist the IASB when it develops Standards that are based on consistent concepts. In our view, the clarification of the nature of the document would be significantly helpful in determining what should be described in the *Conceptual Framework* (see paragraph 152 of this letter.)

5. Based on its view that the *Conceptual Framework* should be designed to assist the IASB in developing Standards based on consistent concepts, we would like to highlight the following comments that it suggests in this letter:

- (a) Profit or loss and recycling of other comprehensive income (OCI) (Chapter 7 of the ED)

Due to its critical importance in meeting the objectives of financial statements, we believe that 'profit or loss' should be defined as one of the elements of financial statements. Drawing on the proposals in the ED, we suggest that profit or loss could be explained as follows:

Profit or loss is a measure which depicts the return for the period that the entity has made on its economic resources from its business activities conducted.

- (a) The return should be depicted when the uncertainty of the return expected at the timing of the initial investment is reduced to the point where it is irreversible or deemed irreversible reflecting the nature of the entity's business activities conducted.

- (b) Profit or loss should be 'all-inclusive' so that the accumulated amount of profit or loss for all accounting periods equals that of cash flows for all accounting periods.

In addition, we suggest that paragraphs 7.23 to 7.27 of the ED should be amended to state that OCI should be recycled sometime in the future with no exceptions (see paragraphs 122 to 144 of this letter.)

- (b) Selection of measurement bases (Chapter 6 of the ED)

We believe that the selection of appropriate measurement bases is critically important both for the purpose of reporting an entity's *financial performance* for the accounting period as well as its *financial position* as of the end of the accounting period. Thus, we suggest modifying paragraph 6.54 of the ED describing the selection of a relevant measurement basis, noting these two different purposes (see paragraphs 82 to 110 of this letter.)

- (c) Recognition criteria (Chapter 5 of the ED)

We believe that the recognition criteria proposed in the ED is too flexible and thus

suggests that the ‘probability criterion’ be stated more robustly as part of the recognition criteria in the *Conceptual Framework* (see paragraphs 60 to 66 of this letter.)

6. Based on the feedback received on the ASBJ’s RfV, we have found that these three issues were identified by virtually all of its major constituents (including financial statement users, preparers and auditors) as the most important issues that should be addressed in the IASB’s redeliberation process.
7. For our comments on specific questions to the ED, please refer to the Appendix-I of this letter.
8. We hope that our comments will be helpful for the IASB’s future consideration. If you have any questions, please feel free to contact us.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Yukio Ono', with a stylized flourish at the end.

Yukio Ono

Chairman of the Accounting Standards Board of Japan

Comments on the Specific Questions in the ED**Question 1—Proposed changes to Chapters 1 and 2**

Do you support the proposals:

- (a) to give more prominence, within the objective of financial reporting, to the importance of providing information needed to assess management’s stewardship of the entity’s resources;
- (b) to reintroduce an explicit reference to the notion of prudence (described as caution when making judgements under conditions of uncertainty) and to state that prudence is important in achieving neutrality;
- (c) to state explicitly that a faithful representation represents the substance of an economic phenomenon instead of merely representing its legal form;
- (d) to clarify that measurement uncertainty is one factor that can make financial information less relevant, and that there is a trade-off between the level of measurement uncertainty and other factors that make information relevant; and
- (e) to continue to identify relevance and faithful representation as the two fundamental qualitative characteristics of useful financial information?

Why or why not?

Stewardship

9. We support the IASB’s proposal to give more prominence, within the objective of financial reporting, to the importance of providing information needed to assess management’s stewardship of the entity’s resources. Consistent with paragraph BC1.9 of the ED, we believe that some information (including the information about management remuneration) may be important in assessing stewardship, but may be less important in assessing the prospects for future net cash inflows, although such information would be rare. Hence, we believe that the proposal represents an improvement of the descriptions about the objectives of general purpose financial reporting by filling the gap. Based on the feedback received on the ASBJ’s RfV, we have found that this view is shared by almost all of our major constituents (including financial statement users, preparers and auditors).

10. Additionally, we do not believe that provision of information that would help assess management's stewardship is in itself the objective of financial reporting. This is because we believe that the information about management's stewardship forms part of the information used to make decisions about whether to buy, sell or hold an investment, or provide or settle loans and other forms of credit (in particular, the decision as to whether and how to 'hold' the investment).

Prudence

(Cautious prudence)

11. We support the IASB's proposal to reintroduce an explicit reference to the notion of prudence (referred to as 'cautious prudence' in the ED) in *the Conceptual Framework* as caution when making judgments under conditions of uncertainty, and to state that prudence is important in achieving neutrality. Based on the feedback received on the ASBJ's RfV, we have also found that almost all of our major constituents (including financial statement users, preparers and auditors) agree with this view.
12. After the IASB eliminated the term 'prudence' from *the Conceptual Framework* in 2010, we have observed that the term has been understood differently by different stakeholders. In our understanding, the term 'prudence' has been discussed within the following different contexts:
 - (a) Development of accounting standards by the IASB;
 - (b) Selection of accounting policies by the entity; and
 - (c) Application of accounting policies by the entity.
13. By reinstating the notion of 'prudence' in *the Conceptual Framework* and clarifying that prudence is the 'exercise of caution when making judgments under conditions of uncertainty' in paragraph 2.18 of the ED, we believe that the meaning of the term has been clarified within the context of (c) above, which would help avoid confusion in the discussions in the standard-setting process. In addition, as the ED proposes to clarify that the exercise of prudence neither allows for overstatement nor understatement of assets and liabilities (or income and expenses), we do not believe that the proposed notion of 'prudence' would give rise to inconsistency with the notion of 'neutrality.'

(Asymmetrical prudence)

14. On the other hand, we do not agree with the ED that proposes to discuss 'asymmetric prudence' (that corresponds to (a) in paragraph 12 of this letter) only in the Basis for Conclusions (BC). We do not object to the IASB's view that *the Conceptual*

Framework should not discuss asymmetrical prudence in Chapter 2 – *Qualitative characteristics of useful financial information*. However, consistent with the explanations in the BC, we believe that the notion of ‘asymmetric prudence’ is applicable and important within the standard-setting process. This is because the application of the notion of ‘asymmetric prudence’ is said to have the effect of counteracting the possible tendency towards an entity using optimistic assumptions in financial reporting.

15. Accordingly, we suggest that the concept of ‘asymmetrical prudence’ be explicitly discussed in Chapter 5 – *Recognition and derecognition of the Conceptual Framework* and Chapter 6 – *Measurement* (Please note that we are not suggesting use of this term itself.) Please see our specific suggestion in our comments to Question 6 of the ED. Based on the feedback received on the ASBJ’s RfV, we have found that this view is shared by financial statement preparers.

Substance over form

16. We agree with the IASB’s proposal to state explicitly that a faithful representation represents the substance of an economic phenomenon instead of merely representing its legal form (which is often referred to as the ‘substance over form’). Based on the feedback received on the ASBJ’s RfV, we have found that this view is shared by many of our major constituents (including financial statement preparers and auditors).
17. We believe that the legal form represents the substance of the economic phenomenon in many cases, but there are cases where the legal form does not necessarily represent the substance of the economic phenomenon. In such cases, in order to meet the objective of general purpose financial reports (which is to provide information about the entity’s economic resources and the claims against the reporting entity as well as the effects of transactions and other events that change a reporting entity’s economic resources and claims – see paragraph 1.12 of *the Conceptual Framework*), we believe that representing the substance of an economic phenomenon should be prioritized over representing the legal form.

Effects of measurement uncertainty

18. We do not agree with the IASB’s proposal to clarify that measurement uncertainty is one factor that can make financial information less relevant. Instead, we suggest that measurement uncertainty be explained as a factor that affects whether, and if so how, an economic phenomenon can be represented faithfully. Based on the feedback received

on the ASBJ's RfV, we have found that this view is shared by some of our major constituents (including financial statement preparers).

19. We drew this conclusion by referring to paragraph 2.12 of the ED which explains that measurement uncertainty arises when a measure for an asset or a liability cannot be observed directly and must instead be estimated. Following the proposed description, we think that measurement uncertainty relates to the degree of 'verifiability', because different knowledgeable and independent observers may not reach consensus when significant measurement uncertainty arises (see paragraph QC26 of the existing *Conceptual Framework*). Considering that paragraph QC26 of the *Conceptual Framework* explains that 'verifiability' helps assure users that information *faithfully represents* the economic phenomena it purports to represent, we believe that measurement uncertainty should be considered as a factor that affects whether, and if so, how economic phenomena can be faithfully represented.
20. If the ED is restructured to acknowledge the effect of measurement uncertainty as suggested in the previous paragraph, the *Conceptual Framework* can effectively acknowledge a possible trade-off relationship between the notion of 'relevance' and that of 'faithful representation' instead of a trade-off between the level of measurement uncertainty and other factors that make information relevant.
21. With this clarification, we believe that the ED would be able to effectively reintroduce a possible trade-off relationship between 'relevance' and 'reliability', which many stakeholders have believed important. In our view, such description would represent a better reflection of a possible trade-off relationship. We think that this trade-off relationship seems appropriate. This is because, for example, even when the use of unobservable inputs (for example, level 3 inputs as defined in IFRS 13 *Fair Value Measurement*) in the valuation of assets or liabilities is supposed to contribute to the provision of relevant information, it may become difficult to faithfully represent their values due to their relatively lower level of verifiability.

Reliability

22. We do not object to the IASB's proposal to continue to identify 'relevance' and 'faithful representation' as the two fundamental qualitative characteristics of useful financial information, provided that our comments on Question 1 (b), (c), and (d) are accepted by the IASB. With these suggestions, we believe that concerns from stakeholders would be effectively addressed without reintroducing the term 'reliability' in the *Conceptual*

Framework. Based on the feedback received on the ASBJ’s RfV, we have found that this view is shared by many of our major constituents (including financial statement preparers and auditors).

23. In addition, we would like to note that the notion of ‘relevance’ is susceptible to different interpretations by different stakeholders, as it requires significant degree of judgement. Hence, rather than relying on the notion, we suggest the IASB try to use a more specific notion that crystallizes what is meant by ‘relevance’ within the respective contexts (such as the ‘probability criterion’ within the context of the recognition criteria).

Other comments

24. Besides the comments on specific questions in the ED, we suggest that the IASB emphasise the importance of the notion of ‘verifiability’ within the context of financial statements either in Chapter 2 or 3 of the *Conceptual Framework*. We agree that ‘verifiability’ is not an essential characteristic for financial information as a whole to be useful, because the term ‘financial information’ encompasses financial information presented in the financial statements as well as those provided through other means, and some explanations and forward-looking financial information that could be included elsewhere in the financial reports is difficult to verify until a future period. However, we believe that ‘verifiability’ is a very important characteristic for financial information contained in financial statements, because it would help improve the reliability of financial information presented in financial statements.

Question 2—Description and boundary of a reporting entity
--

Do you agree with:

- | |
|---|
| (a) the proposed description of a reporting entity in paragraphs 3.11–3.12; and |
| (b) the discussion of the boundary of a reporting entity in paragraphs 3.13–3.25? |

Why or why not?

Suggested modifications to paragraph 3.9 of the ED

25. Paragraph 3.9 of the ED states that financial statements are prepared from the perspective of the entity as a whole, instead of from the perspective of any particular group of investors, lenders or other creditors. Considering the description in the Basis for Conclusions of the ED, we think that it is unclear from which of the following matters this paragraph intends to discuss:

- (a) Whether an entity should be assumed to have substance of its own separate from that

of its proprietors or owners.

(b) The perspective from which consolidated financial statements are prepared.

Accordingly, we suggest that this paragraph be modified to clarify the IASB's intention. Our views on the respective issues set forth in the previous paragraph are explained in the following paragraphs

Whether an entity should be assumed to have substance of its own separately

26. Firstly, regarding paragraph 25(a) of this letter, paragraph BC3.3 of the ED states that paragraph 3.9 of the ED is consistent with the IASB's reasoning in paragraph BC1.8 of the existing *Conceptual Framework*. Paragraph BC1.8 of the existing *Conceptual Framework* states that 'the vast majority of today's businesses have legal substance separate from their owners by virtue of their legal form of organisation, numerous investors with limited legal liability and professional managers separate from the owners. Consequently, the Board concluded that *financial reports should reflect that separation by accounting for the entity (and its economic resources and claims) rather than its primary users and their interests in the reporting entity*' [emphasis added].
27. However, we think that it is difficult to derive the conclusion in paragraph BC1.8 of the existing *Conceptual Framework* from the proposed wording in paragraph 3.9 of the ED. Accordingly, if the IASB intends to discuss this matter in this paragraph, we think that paragraph 3.9 of the ED should be modified to explicitly state that 'an entity is assumed to have substance of its own separate from that of its proprietors or owners'.

A perspective to be used when preparing consolidated financial statements

28. Secondly, regarding the issue set forth in paragraph 25(b) of this letter, we wonder if paragraph 3.9 of the ED was described to explain the perspective to be used when preparing consolidated financial statements, assuming that an entity has substance of its own separate from that of its proprietors or owners. If this is the case, we think that the description regarding the perspective of preparing consolidated financial statements in paragraph 3.9 of the ED should be modified in view of making financial reporting more useful.
29. Regarding the perspective of preparing consolidated financial statements, our basic thinking is that consolidated financial statements should be prepared from the perspective of the most subordinated capital providers (hereinafter this is referred to as "the shareholders of the parent company", reflecting that, in the case of a conventional stock corporation, the most subordinated capital providers would be the common shareholders

of the parent company.)

This is because we think that the shareholders of the parent company, who bear the ultimate risks, are presumed to need more information than other users of the consolidated financial statements and thus providing information that would meet these shareholders' needs will generally result in fulfilling the information needs of other users.

30. At the same time, however, even if the IASB finds that consolidated financial statements should be prepared from the perspective of the entity as a whole, we think that it should not necessarily prevent an entity from providing additional information that focuses on the needs of the shareholders of the parent company.

This is consistent with paragraph OB8 of the existing *Conceptual Framework* and paragraph 1.8 of the ED which state that 'the IASB, in developing financial reporting standards, will seek to provide the information set that will meet the needs of the maximum number of primary users. However, focusing on common information needs does not prevent the reporting entity from including additional information that is most useful to a particular subset of primary users.' In fact, some IFRSs, such as IAS 33 *Earnings Per Share*, contain requirements to provide information that focuses on the needs of the shareholders of the parent company.

31. In summary, our basic thinking is that it is appropriate to prepare consolidated financial statements from the perspective of the shareholders of the parent company. However, considering the fact that some IFRSs seem to have been developed from the perspective of the entity as a whole and such Standards are supported by constituents to some extent, if the IASB continues to believe that consolidated financial statements should be prepared from the perspective of the entity a whole (that is, in our understanding, the proposal in the ED) , we think that the *Conceptual Framework* can be improved by describing the usefulness of providing additional information focusing on the needs of the shareholders of the parent company.

32. Specifically, we suggest that paragraph 3.9 of the ED be reworded as follows:

3.9 Financial statements are prepared from the perspective of the entity as a whole, instead of the perspective of any particular group of investors, lenders or other creditors. on the premise that an entity is assumed to have substance of its own separate from that of its proprietors or owners. In addition, financial statements are prepared from the perspective of the entity as a whole, but that does not prevent an entity from providing

additional information focusing on the needs of the most subordinated capital providers.
Rather, there may be situations where providing such information is necessary or
appropriate. (Additions are underlined and deletions are struck-out.)

Definition of a reporting entity

33. Paragraph 3.11 of the ED proposes that ‘a reporting entity is an entity that chooses, or is required, to prepare general purpose financial statements’. We support the proposed definition of a reporting entity, because we agree with the description in the Basis of Conclusions of the ED stating that the IASB has no authority to determine who must or should prepare general purpose financial statements.
34. Following our thinking explained in the preceding paragraph, we think that it is necessary for the IASB to identify the inconsistency between the proposed *Conceptual Framework* and IFRS 10 *Consolidated Financial Statements* as one of the main inconsistencies as those stated in paragraphs BCE 7 through BCE 11 of the ED because the proposed definition of a reporting entity is likely to contradict the requirements to prepare consolidated financial statements in IFRS 10.
35. Specifically, paragraph 4 of IFRS 10 requires a parent entity to present consolidated financial statements, but at the same time, it also provides an exemption that the parent entity needs not present consolidated financial statements if certain conditions are met.
36. If the definition of a reporting entity is finalised without changes from the proposal in the ED and the rationale for the definition is that the IASB has no authority to determine who must or should prepare general purpose financial statements, we think that the IASB also has no authority to require an entity to prepare consolidated financial statements at the Standards level, and thus the requirements to prepare consolidated financial statements should not be provided at the Standards level. Instead, we think that it is appropriate that the necessity of preparing consolidated financial statements should be determined by the regulators in each jurisdiction or by the entity itself.
37. In other words, the requirements to prepare consolidated financial statements set forth in IFRS 10 may have prevented regulators in each jurisdiction from requiring certain entities to prepare unconsolidated financial statements only, and thus may hinder such regulators to promulgate regulations that are consistent with the proposed definition of a reporting entity.

Relationship between consolidated financial statements and unconsolidated financial

statements

38. Paragraph 3.23 of the ED states that, ‘in general, consolidated financial statements are more likely to provide useful information to users of financial statements than unconsolidated financial statements’. We think that it is not necessary to include such description in the *Conceptual Framework* for the reasons stated in paragraphs 33 through 37 of this letter.
39. Assuming that whether to prepare consolidated financial statements and/or unconsolidated financial statements should be determined by the regulators reflecting various environmental factors in each jurisdiction or by the entity itself as explained above, we think that it is inappropriate to discuss the relative usefulness of consolidated financial statements and unconsolidated financial statements in the *Conceptual Framework*. In addition, we think that, considering the wide variety of stakeholders, it is difficult to make a determinative statement regarding the relative usefulness of consolidated financial statements and unconsolidated financial statements.
40. Besides, paragraph 3.25 of the ED proposes that it is necessary to disclose in the unconsolidated financial statements how users may obtain consolidated financial statements when an entity that is required to present consolidated financial statements also chooses, or is required, to present unconsolidated financial statements. We also think that such description should not be provided in the *Conceptual Framework*.

This is because, consistent with our thinking regarding the relationship between consolidated financial statements and unconsolidated financial statements as described in the preceding paragraph, we think that whether to require the disclosure regarding how users may obtain consolidated financial statements in the unconsolidated financial statements should be determined by the regulators in each jurisdiction. Based on the feedback received on the ASBJ’s RfV, we found that this view is shared by financial statement preparers.

Suggested modifications to paragraph 3.24 of the ED

41. Paragraph 3.24 of the ED states that ‘consolidated financial statements of the parent are not intended to provide information to users of a subsidiary’s financial statements and investors, lenders and other creditors of a subsidiary seek information about the subsidiary’s resources, and the claims against the subsidiary, from the financial statements of the subsidiary.’

We support the spirit of this proposal, but we suggest that the IASB consider modifying

the wording in the proposal. This is because we think that the wording ‘consolidated financial statements of the parent are not intended to provide information to users of a subsidiary’s financial statements’ may not necessarily be consistent with the description relating to primary users in the existing *Conceptual Framework*, which include users of the subsidiary’s financial statements. Moreover, paragraph BC1.18 of the existing *Conceptual Framework* states that ‘the Board will seek the information set that is intended to meet the needs of the maximum number of users in cost-beneficial ways.’ Our understanding is that this description was included in the Basis for Conclusions of the existing *Conceptual Framework* notwithstanding the opinions of those who argued that the IASB should establish a hierarchy of primary users.

42. Accordingly, we suggest modifying the paragraph as follows:

3.24 Consolidated financial statements of the parent alone usually cannot ~~are not intended to~~ provide sufficient information to users of a subsidiary’s financial statements. Investors, lenders and other creditors of a subsidiary seek information about the subsidiary’s resources, and the claims against the subsidiary, from the financial statements of the subsidiary. (Additions are underlined and deletions are struck-out.)

Question 3—Definitions of elements

Do you agree with the proposed definitions of elements (excluding issues relating to the distinction between liabilities and equity):

- (a) an asset, and the related definition of an economic resource;
- (b) a liability;
- (c) equity;
- (d) income; and
- (e) expenses?

Why or why not? If you disagree with the proposed definitions, what alternative definitions do you suggest and why?

A set of elements in the financial statements

- 43. We do not agree with the proposals in the ED that explains that the elements of financial statements are an asset, a liability, equity, income and expenses.
- 44. In our view, the elements of financial statements should be a group of essential items that should be presented on the face of the financial statements as a minimum. This should be considered for the purpose of meeting the objective of financial reporting or for the

need to ensure the interrelationship between each of the essential items (the concept of the interrelationship between each of the elements are hereinafter referred to as “articulation” , following the description in the FASB’s Concept Statements No. 5 *Recognition and Measurement in Financial Statements of Business Enterprises*).

45. Based on the view explained in the previous paragraph we propose that the elements of financial statements should include²:
- (a) An asset, a liability, and equity (for the statement of financial position);
 - (b) Profit or loss, comprehensive income, and other comprehensive income (for the statement of financial performance); and,
 - (c) Contributions from and distributions to equity participants (for the statement of changes in equity).
46. As for the proposal in the previous paragraph, our rationale is as follows:
- (a) First, in the light of the following descriptions that are relevant to the objectives of general purpose financial reporting in the existing *Conceptual Framework*, we think that ‘an asset’, ‘a liability’, ‘equity’ and ‘profit or loss’ should be treated as elements of financial statements so as to meet the objectives of financial reporting described as follows:
 - (i) General purpose financial reports provide information about the entity’s economic resources and the claims against the reporting entity (paragraph OB12 of the *Conceptual Framework*).
 - (ii) Changes in a reporting entity’s economic resources and claims result from that entity’s financial performance and from other events or transactions such as issuing debt or equity instruments (paragraph OB15 of the *Conceptual Framework*).
 - (iii) Information about a reporting entity’s financial performance helps users to understand the return that the entity has produced on its economic resources (paragraph OB16 of the *Conceptual Framework*).
 - (b) Secondly, we think that ‘comprehensive income’ and ‘other comprehensive income (OCI)’ should be treated as elements of financial statements so that each element identified in the first step articulates (or interrelates) with each other. Specifically, it is necessary to treat ‘comprehensive income’ as an element when equity is treated as

² In our view, equity interest attributable to owners should be treated as an element for the statement of financial position. We, however, think that this relates to the discussion about distinction between liabilities and equity that the IASB is considering as part of its research project of *Financial Instruments with the Characteristics of Equity*, so we only note here such a possibility and expect extensive discussions within that research project.

an element of financial statements, so as to ensure the interrelationship between the elements. In addition, 'OCI' also needs to be treated as an element of financial statements so as to ensure the articulation between profit or loss and comprehensive income.

- (c) Thirdly, so as to ensure the interrelationship between the elements presented in the statement of financial performance and the statement of financial position, it is necessary to treat 'contributions from equity participants' and 'distributions to equity participants' as elements of financial statements.
- (d) Based on our thoughts explained above, it may not be necessary to treat income and expenses as separate elements of financial statements, because they would neither be necessary to meet the objective of financial reporting nor be necessary to ensure the interrelationship between elements of financial statements.

Definition of 'profit or loss'

47. As stated in the previous paragraph, we strongly believe that 'profit or loss' is essential to report an entity's financial performance for the accounting period. Treating 'profit or loss' as an element of financial statements would match its importance as part of financial information. The distinguishing characteristics of 'profit or loss' information are explained in the ED as follows:

- (a) For efficient and effective communication, items in the statement(s) of financial performance are classified either into those of the statement of profit or loss or other comprehensive income (paragraph 7.19 of the ED).
- (b) Income and expenses included in the statement of profit or loss are the primary source of information about an entity's financial performance for the period (paragraph 7.21 of the ED); and
- (c) Total or subtotal of profit or loss provides a highly summarised depiction of the entity's financial performance (paragraph 7.22 of the ED).

48. In paragraphs 122 to 135 of this letter, we will further explain our views on how 'profit or loss' could be defined or explained in more detail.

(a)(b) Definitions of an asset and a liability

49. We agree with the proposal in the ED in that it explains an asset is an economic resource and that a liability is a present obligation. We also agree with the deletion of the notion of 'an expected flow' from the definitions of an asset and a liability, although we disagree with the deletion of the 'probability criterion' from the recognition criteria.

50. However, we believe that the definition of an ‘economic resource’ should be improved in the following respects:

- (a) Firstly, we do not think that the term ‘economic benefits’ is sufficiently clear in the ED, while we think that it constitutes a key notion in explaining an economic resource. For example, paragraph 4.14 of the ED explains that the ‘economic benefits’ could include (i) receiving contractual cash flows, (ii) receiving another economic resources or exchanging resources with another party on favourable terms, and so forth. We found this description confusing, because it seems to imply that ‘economic benefits’ are actions (for example, receipt of cash flows) rather than an outcome of actions (for example, cash received). Although the term ‘economic benefits’ may be difficult to define, at least, we do not believe that they are actions. Accordingly, we suggest that the IASB define or explain the term ‘economic benefits’ before finalising the review of the *Conceptual Framework*. In doing so, we urge the IASB to clarify whether ‘economic benefits’ include items other than cash, and if so, what items should be included.
- (b) Secondly, we do not agree with the proposal in the ED that an ‘economic resource’ is a ‘right’ that has the potential to produce economic benefits. In our view, economic resources should include rights as well as other items such as goodwill, know-how, or cash, which are commonly understood as part of assets but are not necessarily ‘rights’. Accordingly, in order for the ‘economic resource’ to capture those items, the definition of the ‘economic resource’ should be rephrased as ‘a right that has the potential to produce economic benefits *or other source of economic benefits*’ [emphasis added] with the explanation that the term ‘other source of economic benefits’ include goodwill, know-how (that may be skills, knowledge, credibility or reputation of an entity), and cash (that is the economic value itself).

(c) The definition of ‘equity’

51. In our comment letter to the IASB’s Discussion Paper (DP) *A Review of the Conceptual framework for Financial Reporting*, we proposed the ‘three-category approach’, which would classify the most residual claim as equity, claims that represent present obligations as liabilities, and claims that are neither equity nor liabilities fall under the mezzanine category. The objective of the three-category approach is primarily to accomplish the following two purposes:

- (a) To distinguish transactions or events that give rise to income/expense from transactions with owners in their capacity as owners; and
- (b) To provide information about the solvency of an entity.

52. We remain of the view that the three-category approach is the most appropriate to accomplish the two different objectives. However, we understand that the IASB is now considering how to distinguish liabilities from equity in its research project of financial instruments with characteristics of equity, having considered the challenges to find out the best way to provide useful financial information. Accordingly, we encourage the IASB to perform thorough research (including the full consideration of the ‘three category approach’) to determine the most effective way to provide financial information that would meet the conflicting needs.

Question 4—Present obligation

Do you agree with the proposed description of a present obligation and the proposed guidance to support that description? Why or why not?

53. In general, we agree with the proposed description of a present obligation and the proposed guidance to support that description in the ED.
54. However, we do not agree with paragraph 4.31(b) of the ED, which explains that an entity should have received the ‘economic benefits’ or conducted the activities that establish the extent of its obligation for a present obligation to exist. Instead, we believe that the term ‘economic benefits’ should be replaced with ‘economic resource’. This is because there is a general consensus that a present obligation arises when an entity receives an economic resource even when the economic benefit has not been made available. For example, when an entity enters into a contract to purchase an inventory for sale, a present obligation (usually, accounted for as an account payable) is created by the purchase contract when it purchases an inventory (which is the economic resources, not the economic benefits).

Question 5—Other guidance on the elements

Do you have any comments on the proposed guidance?
Do you believe that additional guidance is needed? If so, please specify what that guidance should include.

Unit of account

55. We believe that the notion of the unit of account is extremely important, because the unit of account determines the subject of accounting treatments, and it affects the timing and method of recognition and derecognition and the selection of measurement bases.

56. In our view, the ED marked an improvement in comparison to the discussions in the DP, such as providing additional examples and factors to determine the unit of account. In addition, we appreciate that paragraph 4.59 of the ED acknowledges the very important concept that ‘in some circumstances, it may be appropriate to select one unit of account for recognition and a different unit of account for measurement.’
57. However, we do not think that descriptions in the ED are robust enough to reflect the breadth of the issue. As stated in paragraph 55 of this letter, the notion of the unit of account affects broad areas of accounting such as recognition, derecognition and the selection of measurement bases. However, the unit of account is discussed only in a section in Chapter 4 *The elements of financial statements*, and there are not extensive descriptions in other chapters of the ED. We believe that the notion of the unit of account should be more robustly discussed in a separate chapter or in each of the relevant chapters (recognition and derecognition, and measurement) with extensive descriptions relevant to the discussions in the respective chapters.
58. In addition, although we appreciate that the ED provides factors to consider in the selection of the units of account, we do not think that the descriptions are sufficient and appropriate, because the ED does not provide which factors should be prioritised when deciding on the unit of account. We understand that this reflects the IASB’s view that the selection of the unit of account should be considered at the Standards-level.
59. However, we do not believe that such descriptions are sufficiently helpful for the IASB to develop or revise its Standards based on consistent concepts (paragraph IN1 of the ED). Given the critical importance of the ‘unit of account’, we suggest the IASB to continue to explore whether, and if so how, it can improve the descriptions about the unit of account by initiating a research project even if the IASB finalises the review of the *Conceptual Framework* without making significant improvement to the discussion.

Question 6—Recognition criteria
Do you agree with the proposed approach to recognition? Why or why not? If you do not agree, what changes do you suggest and why?

60. We do not agree with the proposed approach to recognition. Instead, we suggest that the ‘probability criterion’ be stated more robustly as part of the recognition criteria in the *Conceptual Framework* as discussed in the following paragraphs.

Recognition criteria based on the qualitative characteristics of financial information

61. We do not agree with the approach proposed in paragraph 5.9 of the ED, because we believe that the recognition criteria proposed in the ED is sufficiently relevant neither to assisting the IASB in developing Standards nor assisting all parties in understanding and interpreting Standards. In addition, paragraph 5.13 of the ED proposes guidance supporting the proposed recognition criteria that lists indicators to help in identifying when recognising an asset or a liability may ‘not’ provide users of financial statements with relevant information, instead of when recognising an asset or a liability may provide users of financial statements with relevant information. For example, the paragraph states that if there is only a low probability that an inflow or outflow of economic benefits will result, recognition may not provide relevant information (paragraph 5.13(b) of the ED). This is contrary to how the recognition criteria is stated in the existing *Conceptual Framework*, which states that an item that meets the definition of an element should be ‘recognised’ if it is ‘probable’ that any future economic benefit associated with the item will flow to or from the entity. We are concerned that the range of assets and liabilities recognised might be broadened unlike the intention of the IASB mentioned in paragraph BC5.13 of the ED.
62. Paragraph 5.9 of the ED describes the recognition criteria from three dimensions in line with the qualitative characteristics of useful financial information: whether recognition provides relevant information, whether recognition achieves faithful representation, and whether benefits of recognition exceed the cost. We do not believe that these qualitative characteristics are sufficiently helpful for the IASB as a reference point in the development of future accounting standards, because views regarding whether the financial information is relevant, is represented faithfully and meets the cost-benefit balance differ significantly depending on the individuals’ perspectives. For example, users may find that some information would meet the three qualitative characteristics, whereas preparers may have different views (especially, with regard to the costs and benefits). Accordingly, we believe that the *Conceptual Framework* should provide more concrete criteria that would be more helpful for the IASB to determine whether the resulting financial information would meet these qualitative characteristics.

Probability criterion of inflows or outflows of economic benefits

63. We think that the uncertainty of the existence of assets and liabilities, probability of inflows or outflows of economic benefits and measurement uncertainty are relevant factors to recognition, but we believe that the *Conceptual Framework* should at least set out the ‘probability’ criterion in determining whether elements should be recognised in the

primary financial statements. We published ASBJ Short Paper Series No.2 *Recognition Criteria in the Conceptual Framework* (hereinafter referred to as the “ASBJ Short Paper No. 2”) in November 2015 which discussed the need for the ‘probability’ criterion.

64. In ASBJ’s Short Paper No. 2, we stated our view that the ‘probability’ criterion is critically important, primarily for the following reasons:

- (a) If an entity recognises an asset or liability with low likelihood of occurrence of future cash flows and measure it based on the expected value (using virtually every possible cash flow scenario predicted by the entity), the entity would need to report on the consequences of non-occurrence of cash flows in future periods by recognising gains or losses for the difference between the future cash flow amount and the amount having been recognised in the financial statements. Such gains or losses recognised in future periods to reverse the previously recognised gains or losses are essentially considered to be a ‘noise’ for users of financial statements when assessing the amount, timing and uncertainty of future cash inflows to an entity, as they have no predictive value.
- (b) If an entity recognises an asset or a liability and measures it based on a particular cash flow scenario (for example, the most-likely scenario) or scenarios, even for an asset or a liability with a low likelihood of the occurrence of future cash flows, financial statements would become difficult to understand. By doing so, items with a higher possibility of occurrence and those with a lower possibility of occurrence would be added as if they have similar possibilities of future cash flows occurring. If related incomes or expenses are recognised by reference to the measurement of the asset or liability, an entity’s financial performance may be distorted.

65. At the same time, however, ASBJ Short Paper No. 2 stated our view that the probability criterion is not always necessary. Therefore, we proposed the following:

- (a) For the recognition of an asset or a liability created from a right or an obligation that arises from transactions, the probability criterion is unnecessary.
- (b) For the recognition of an asset or a liability (that is, an item) or a group of assets and/or liabilities (that is, a group of items) created from a right or an obligation (or rights and/or obligations) that arises from ‘other events’, the probability criterion is necessary.

66. For more details, please refer to ASBJ Short Paper No. 2.

Question 7—Derecognition

Do you agree with the proposed discussion of derecognition? Why or why not? If you do not agree, what changes do you suggest and why?

67. We agree with the proposed descriptions in the ED in the following respects:

- (a) Paragraph 5.26 of the ED which states that accounting requirements of derecognition aim to represent faithfully both:
 - (i) The assets and liabilities retained after the transaction of other event that led to derecognition; and
 - (ii) The change in the entity's assets and liabilities as a result of that transaction or other event.
- (b) Paragraphs 5.30 and 5.31 of the ED which explains that when it is difficult to achieve the both of the above aims, two aims may be achieved either by:
 - (i) Derecognising an item, while providing a separate presentation, or explanatory disclosure in the notes to the financial statements; or
 - (ii) Continuing to recognise not only the retained component as well as the transferred component, while recognising a new liability or asset instead of income or expenses.

68. However, we believe that the ED does not provide sufficient guidance for the IASB to develop or revise Standards based on consistent concepts, because the ED does not explain which of the two approaches stated in (b)(i) and (b)(ii) in the previous paragraph should be used when both aims are not met with derecognition. To date, decisions as to which approach should be adopted have often been a debate in the standard-setting process. In our view, this reflects the fact that derecognition is not simply a mirror image of recognition and that a clear basis that would help consistent application has yet to be found to date. Although we understand challenges to find an appropriate basis, we believe that it would be significantly meaningful, for the purpose of assisting the IASB in developing high quality accounting standards if the *Conceptual Framework* clarifies the hierarchy of this consideration.

69. Without making clarification about which of the aims should be prioritised, standard-setting decisions could become ad-hoc depending on the circumstances under which specific accounting standards are being developed.

70. In this connection, we would like to reiterate our view that information about an entity's financial performance is critically important for users to assess the prospect of future net cash inflows to an entity. Thus, where the two aims are not met at the time of derecognition, we recommend that the IASB clarify that reporting the change in the entity's assets and liabilities (that includes information about an entity's financial performance) should first be considered than reporting the balances of the assets and liabilities themselves.

Question 8—Measurement bases

Has the IASB:

- (a) correctly identified the measurement bases that should be described in the *Conceptual Framework*? If not, which measurement bases would you include and why?
- (b) properly described the information provided by each of the measurement bases, and their advantages and disadvantages? If not, how would you describe the information provided by each measurement basis, and its advantages and disadvantages?

Identification and classification of measurement bases

- 71. We do not agree that the ED correctly identified and classified the measurement bases that should be described in the *Conceptual Framework*.
- 72. We think that there are various ways to identify and classify measurement bases, which have been demonstrated in the IASB's previous deliberations from 2004 to 2010. However, in our view, the identification and classification of measurement bases in the *Conceptual Framework* should be designed to provide the appropriate foundation for the IASB to select measurement bases for assets and liabilities in its standard-setting process. In the light of this purpose, we believe that the ED's proposal to identify and classify measurement bases is not sufficiently relevant, and lacks conceptual justification.
- 73. Specifically, we think that the ED's proposal to classify measurement bases into two categories (historical cost and current value) is inappropriate, primarily in the following respects:
 - (a) Measures requiring partial update of inputs: The proposed classification does not appropriately explain measurement bases that update some inputs but lock in other inputs at inception. In order to classify measurement bases comprehensively, it would be relevant to acknowledge three dimensions: (i) time-horizon (this could be

analysed based on the basis of inputs), (ii) perspectives (that is, whether the market participants' perspective or the entity-specific perspective should be adopted) and (iii) entry/exit (this classification may not be necessary because the markets referred to effectively decide entry value or exit value.) In our view, the classification of measurement bases into the proposed two categories would fail to properly classify measurement bases that only update part of the inputs into an appropriate category.

- (b) The labels 'historical cost' and 'current value': It is confusing for stakeholders to classify the measurement bases into these classes (historical cost and current value), because the labels do not represent what they encompass. For example, the 'historical cost' category would include a measure immediately after impairment loss is recognised (where the asset is often measured at value in use or fair value less cost to sell), which many believe is counterintuitive and deter proper communication between stakeholders.

74. If the IASB agrees that the identification and classification of measurement bases should be designed to serve the IASB's standard-setting decisions, we suggest that the IASB develop descriptions (rather than classifications) based on our proposal in its paper presented at March 2015 Accounting Standard Advisory Forum (ASAF) meeting. In essence, the paper suggested that measurement bases be classified based on:

- (a) whether to update inputs for measurements; and
- (b) whether to adopt market participants' assumptions or entity-specific assumptions when measuring an asset or a liability.

75. As stated earlier in this letter, the we believe that the selection of appropriate measurement bases is important not just for the purpose of reporting information about an entity's *financial position* as of the end of the accounting period but also for the purpose of reporting an entity's *financial performance* for the accounting period. As such, we believe that the identification of inputs to measurement bases at the concept level would facilitate the IASB's careful decision as to the choice of relevant inputs (such as discount rates) when it selects appropriate measurement bases, whereby contributing to the provision of useful financial information prepared in accordance with IFRSs.

76. Our views are explained in the ASBJ's paper titled, *Identification, Description and Classification of Measurement Bases* in detail³. The summary of our proposal is shown visually in the following table.

³ https://www.asb.or.jp/asb/asb_e/international_activities/discussion_asaf/20150305_01_e.pdf

Table 1: Classification of Measurement Bases

Assumptions Whether to update input	Market Assumptions	Participants'	Entity-Specific Assumptions
Fully update	<i>Current Market Measures⁴</i> (eg, fair value, fair value less cost to sell)		eg, Value in Use, Fulfilment Value
Partially update	eg, Measurements that does not reflect the changes in an entity's own-credit risks (as required by IFRS 9)		eg, Amortised Cost as defined in IFRS 9
Not updated (Lock-in)	eg, Original cost, Depreciated Balance		N/A

Transaction costs

77. We do not believe that the ED appropriately discusses whether to include transaction costs in the measurement of assets or liabilities. Although we agree that there is merit of discussing whether to include transaction costs in the measurement in the *Conceptual Framework*, we do not think it is appropriate to include the discussion unless the IASB defines the term even in a broad manner.
78. In addition, we believe that the descriptions in the ED are insufficient, because the ED failed to discuss dual measurement bases in the context of transaction costs, while it acknowledges the concept of ‘dual measurement bases’ in other discussions. Thus, some would question if the proposals in the ED suggested that transaction costs should (or should not) be included in measuring an asset at FV-OCI.
79. Accordingly, if the IASB still prefers to include the discussion of transaction costs in the *Conceptual Framework*, we suggest the following amendments:
- (a) Define (or explain the boundary of) the transaction costs in the *Conceptual Framework*; and
 - (b) Explain that whether to include transaction costs in a measurement basis should be determined on the basis of measurement bases for the purpose of reporting an entity’s *financial performance*.

Description of information provided by each of the measurement bases

⁴ This category corresponds to the upper left part of the table in paragraph 99 of this letter.

80. We do not believe that the ED properly described the information provided by each of the measurement bases and their advantages and disadvantages. Specifically, we found that the descriptions about the advantages and disadvantages in the ED merely state the outcome when the IASB fails to select relevant measurement bases.
81. In our view, the descriptions about advantages and disadvantages would become more useful if they were described in conjunction with the discussions about the selection of measurement bases. Hence, we suggest that the IASB eliminate, or restructure the discussion of advantages and disadvantages of individual measurement bases to be discussed within the context of discussions regarding the selection of measurement bases. Based on the feedback received on the ASBJ’s RfV, we have found that this view is shared by financial statement preparers.

Question 9—Factors to consider when selecting a measurement basis
Has the IASB correctly identified the factors to consider when selecting a measurement basis? If not, what factors would you consider and why?

82. We do not believe that the IASB correctly identified the factors to consider when selecting a measurement basis.
83. In principle, we agree with the IASB’s approach to discuss the effects on ‘relevance’, ‘faithful representation’, ‘enhancing qualitative characteristics’ and ‘cost constraints’ in the discussion of the selection of a measurement basis, because such an approach enables a comprehensive analysis of consideration to select a measurement basis. We also agree with paragraph 6.53 of the ED, which proposes as part of consideration of relevance that it is important to consider what information a measurement basis will produce in both the statement of financial position and the statement of financial performance when selecting a measurement basis. Based on the feedback received on the ASBJ’s RfV, we have found that many of our major constituents (including financial statement users and preparers) also agree with the view.
84. However, we believe that the proposals in the ED should be improved, primarily in the following respects:
- (a) Relevance
 - (i) Separate discussions regarding the dual measurement bases (that is, measurement bases relevant for the purpose of reporting an entity’s *financial*

performance for the accounting period and those relevant for the purpose of reporting an entity's *financial position* as of the end of the accounting period)

(ii) Reconsideration of factors set forth in paragraph 6.54 of the ED

(iii) Linkage between 'how that asset or liability contributes to future cash flows' and 'nature of an entity's business activities conducted'

(iv) Effects of measurement uncertainty

(b) Faithful representation

(v) Clarity of decision process of measurement bases of assets or liabilities

Separate discussions regarding the dual measurement bases

85. Paragraphs 6.74 to 6.77 of the ED acknowledge that sometimes, more than one measurement basis is needed to provide relevant information about an asset, liability, income or expense for information provided in the statement of financial position as of the end of the accounting period and the statement of financial performance for the accounting period (that is, the 'dual measurement bases'). However, paragraph 6.54 of the ED fails to separately discuss measurement bases for the purpose of reporting an entity's *financial performance* for the accounting period and those relevant for the purpose of reporting an entity's *financial position* as of the end of the accounting period .

86. We believe that paragraph 6.54 of the ED is of paramount importance, because paragraph 2.21 of the ED acknowledges that relevance is a primary consideration in selecting a measurement basis. Thus, without a separate discussion about the dual measurement bases, we think that the *Conceptual Framework* would not be sufficiently helpful for the IASB to develop Standards. Some may view that this is a major flaw of the *Conceptual Framework*.

87. Therefore, we strongly encourage the IASB to expand the description in the paragraph so that it discusses dual measurement bases. In addition, if the IASB decides to separately discuss dual measurement bases, we also encourage that the *Conceptual Framework* acknowledge that, as a principle, measurement bases for the purpose of reporting an entity's *financial performance* during the accounting period should be considered first in the standard-setting process. This is because, taking into account the current practice of users' decision making process, we generally believe that financial information about an entity's financial performance for the accounting period is most helpful for users to assess the prospects for future net cash inflows to an entity.

Reconsideration of factors set forth in paragraph 6.54 of the ED

88. Paragraph 6.54 of the ED sets forth two factors: (i) how an asset or liability contributes to future cash flows and (ii) the characteristics of the asset or the liability. We understand the reason why the IASB included ‘the characteristics of the asset or the liability’ (as explained in paragraphs BC6.54-BC6.55), but suggest that ‘the characteristics of the asset or the liability’ be removed from the factors for selecting a measurement basis of an asset or a liability and the related income and expenses.
89. In our view, by stating that ‘how an asset or a liability contributes to future cash flows’ should be *a* factor to consider when selecting measurement basis to produce relevant information, the *Conceptual Framework* can more clearly acknowledge the link between the objective of financial reporting and the discussion about the selection of the measurement basis.
90. Specifically, as the *Conceptual Framework* states that financial information provided by general purpose financial reporting should be helpful for users’ assessment of the prospects for future cash inflows to an entity (paragraphs OB4), we believe that financial information would become more relevant if the information is prepared on the basis of ‘how an asset or a liability contributes to future cash flows.’ In our view, financial information would become less relevant if a measurement basis is selected on the basis of factors other than the way future cash flows would be generated. We agree that the characteristics of an asset or a liability are important in selecting a measurement basis, but we think that it only influences the determination as to how an asset or a liability contributes to future cash flows.
91. With regard to ‘how an asset or a liability contributes to future cash flows’, we do not necessarily think that the way the future cash flows may be generated is a single. Instead, the expectation as to the way cash flows is generated may differ depending on whether a measurement basis is selected for the purpose of reporting an entity’s *financial performance* for the accounting period or its *financial position* as of the end of the accounting period.
92. When selecting a measurement basis for the purpose of reporting an entity’s *financial performance* for the accounting period, we believe that the way future cash flows would be generated is presumed on the basis of how an asset or a liability is likely to be used during the course of an entity’s business activities conducted. This is because except for the situation where a change in an entity’s business activities is known to the end of the

accounting period, the nature of an entity's business activities as of the end of the accounting period usually provides the most likely way as to how future cash flows are generated. In addition, unless an event that triggers the need of changes in measurement bases occurs, this would result in selecting the measurement basis that reflects how an asset or a liability was used during the course of an entity's business activities conducted, which would promote relevance of financial information, both in terms of its predictive value as well as confirmatory value. (For more detailed comments on the nature of an entity's business activities, please see paragraphs 95 to 101 of this letter.)

93. On the other hand, when selecting a measurement basis for the purpose of reporting an entity's *financial position* as of the end of the accounting period, we do not believe that the way cash flows is generated should necessarily be presumed on the basis of the way the asset or the liability is likely to be used during the course of an entity's business activities. Instead, where an entity has the practical ability to transfer an asset or a liability to third parties, it may be appropriate to presume the way cash flows would be generated on the basis of a transfer of an asset or a liability, even if the entity does not hold the asset or the liability in a trading business at the end of the accounting period. In our view, sometimes, reflecting such presumption in the financial statements may be helpful for users to assess an entity's liquidity and solvency. In addition, it would also be helpful for users to understand 'opportunity gains' (that is, the hypothetical amount of potential profits that the entity could have received if the asset or the liability were used in a way different from the way how the asset or the liability is used during the course of the entity's business activities.)
94. Lastly, when considering how an asset or liability contributes to future cash flows, we believe that the consideration of grouping assets, liabilities, or a group or assets of liabilities is critically important. We explain its views on grouping in paragraphs 103 to 105 of this letter.

Nature of an entity's business activities

95. Although we appreciate that paragraph 6.54(a) of the ED states that how an asset or liability contributes to future cash flows will depend in part on *the nature of the business activities conducted by the entity* [emphasis added], we believe that the discussion is insufficient and should be significantly amplified.

96. In the ASBJ's paper titled *Role of "Nature of an Entity's Business Activities" in Standard-Setting*, we stated our view that the following matters should be clarified in the *Conceptual Framework*.
- (a) How to identify the different natures of the entity's business activities conducted that are relevant for the purpose of accounting standards-setting, including:
 - (i) How to categorise different natures of the entity's business activities conducted; and
 - (ii) How they can be described in the *Conceptual Framework*.
 - (b) How to consider the different natures of the entity's business activities conducted in the development of accounting standards
97. Hence, for the reasons stated in that paper and paragraph 91 of this paper, we believe that merely stating that 'how an asset or liability contributes to future cash flows will depend *in part* on the nature of the business activities conducted by the entity [emphasis added]' is not sufficiently helpful for the IASB to develop Standards. Thus, we strongly suggest that the IASB amplify the discussion of the linkage between 'how an asset or liability contributes to future cash flows' and 'the nature of the business activities conducted by the entity' by acknowledging the following matters.
98. With regard to how to classify and describe the nature of an entity's business activity, we propose that the *Conceptual Framework* clarify the following principles:
- (a) For an asset (or a group of assets), the measurement basis that is relevant from the perspective of reporting the entity's *financial performance* should be updated at the end of the period to reflect the price changes in the market during the period so that the effect of price changes is recognised in profit or loss, **when an asset (or a group of assets) is held as part of an entity's business activity in which it aims to gain net proceeds from the price changes** under and subject to the entity's practical ability to sell the asset (or the group of assets). In other situations, in principle, the said measurement basis should not be updated to reflect the price changes during the period.
 - (b) For a liability, the measurement basis that is relevant from the perspective of reporting the entity's *financial performance* should be determined as follows:
 - (i) Where a liability is managed in combination with an asset or a group of assets, the said measurement basis should be updated at the end of the period to reflect the price changes in the market during the period so that the effect of price

changes is recognised in profit or loss, **when a liability corresponds to funding of the asset or the group of assets that is held as part of an entity’s business activity in which the entity aims to gain net proceeds from the price changes** under and subject to the entity’s practical ability to sell the asset or the group of assets. In other situations, in principle, the said measurement basis should not be updated to reflect the price changes during the period.

- (ii) Where a liability is not managed in combination with the corresponding asset or group of assets, the said measurement basis should be updated at the end of the period to reflect the price changes in the market during the period so that the effect of price changes is recognised in profit or loss, **when in the exceptional situation that the liability is held as part of an entity’s business activity in which the entity aims to gain net proceeds by transferring it to third parties** under and subject to the entity’s practical ability to transfer the liability. In other situations, in principle, the said measurement basis should not be updated to reflect the price changes during the period.

99. Our proposal in the previous paragraph is visually shown in the following table.

Table 2: Measurement Basis of an Asset or a Group of Assets for Reporting an Entity’s Financial Performance and the Nature of an Entity’s Business Activities Conducted

Nature of an entity’s business activities Practical ability to sell	The business activity in which an entity aims to gain net proceeds from the price changes of an asset (or a group of assets)	Other types of business activities (including an asset or a group of assets as the input to generate future cash inflows)
An entity has practical ability to sell an asset or a group of assets	(Category-I) Current market measure ⁵ <i>Price changes of an asset or a group of assets (ie, unrealised gains or losses) should be recognised in profit or loss.</i>	(Category-II) Other measures ⁶ <i>Price changes of an asset or a group of assets should not be recognised in profit or loss.</i>
An entity does not have practical	(Category-III)	(Category-IV)

⁵ The term “current market measures” denotes fair value-based measures, such as fair value and fair value less cost to sell, and is explained in paragraph 41 of the other ASBJ’s paper titled, *Identification, Classification and Descriptions of Measurement Bases*.

⁶ The term “other measures” denotes any measurement bases other than those classified in the current market measures.

ability to sell an asset or a group of assets	Other measures <i>Price changes of an asset or a group of assets should not be recognised in profit or loss.</i>	Other measures <i>Price changes of an asset or a group of assets should not be recognised in profit or loss.</i>
---	---	---

100. In addition, we suggest that the *Conceptual Framework* acknowledge the following:

- (a) The nature of an entity’s business activities conducted has the major effect on the decisions of:
 - (i) whether, and if so how, to group assets and/or liabilities in determining the measurement bases; and
 - (ii) the measurement bases relevant from the perspective of reporting an entity’s *financial performance* for the accounting period.
- (b) The said decisions have knock-on effects on the determination of ‘profit or loss’ and *OCI* (where a measurement basis from the perspective of reporting an entity’s *financial performance* for an accounting period is different from that from the perspective of reporting an entity’s *financial position* as of the end of the accounting period) and nature of disclosure considered necessary.

101. For details, please refer to the ASBJ’s paper titled, *Role of “Nature of an Entity’s Business Activities” in Standard-Setting*⁷

Effects of measurement uncertainty

102. As stated in paragraphs 18 to 21 of this letter, we believe that measurement uncertainty should be explained as a factor that affects whether, and if so how, an economic phenomenon can be represented faithfully (instead of a factor that can make financial information less relevant). Hence, we recommend that paragraphs 6.55 and 6.56 of the ED should be reconsidered.

Decision process of measurement bases

103. As part of the discussion regarding faithful representation, paragraph 6.58 of the ED acknowledges that using a similar measurement basis for related assets or liabilities may provide more useful information for users of financial statements than using dissimilar measurement bases, which we understand is a ‘grouping of assets and liabilities in selecting measurement bases’

⁷ https://www.asb.or.jp/asb/asb_e/international_activities/discussion_asaf/20150305_02_e.pdf

104. However, we question if the description is suitable within the context of ‘faithful representation’. Paragraph 2.21 of the ED states that the most efficient and effective process for applying the fundamental qualitative characteristics would usually be (a) first, to identify an economic phenomenon that is capable of being useful to users of the reporting entity’s financial information, and (b) second, to identify the type of information about that phenomenon that would be most *relevant* if it is available and *faithfully represented* [emphasis added]. However, paragraph 6.58 of the ED seems to suggest that consideration of ‘faithful representation’ comes before the consideration of ‘relevance’, which is inconsistent with paragraph 2.21 of the ED.

105. Accordingly, we suggest that the *Conceptual Framework* should not discuss paragraph 6.58 of the ED within the context of ‘faithful representation.’ Instead, we suggest that the IASB clarify that the grouping decision should be discussed within the context of ‘relevance’. For details, please refer to the ASBJ’s paper titled *Role of “Nature of an Entity’s Business Activities” in Standard-Setting*.

Question 10—More than one relevant measurement basis

Do you agree with the approach discussed in paragraphs 6.74–6.77 and BC6.68? Why or why not?
--

106. We appreciate that the ED explicitly discusses ‘dual measurement’, because we believe that this would help explain the nature of ‘profit or loss’ and the use of OCI. Based on the feedback received on the ASBJ’s RfV, we have found that this view is shared by many of our major constituents (including financial statement preparers and auditors).

107. However, we do not support paragraph 6.75 of the ED, which states that, in most cases, the most understandable way to provide relevant information is (a) to use a single measurement basis for the asset or the liability both in the statement of financial position and for related income and expenses in the statement of financial position, and (b) to disclose in the notes to the financial statements additional information using the other measurement basis.

108. We have the impression that this paragraph seems to attach greater importance to the notion of ‘understandability’ than that of ‘relevance’. As ‘understandability’ is merely one of the enhancing qualitative characteristics, we think that the proposed description is inappropriate.

109. Instead, we believe whether to use different measurement bases for the purpose of reporting an entity's *financial performance* for the accounting period and *financial position* as of the end of the accounting period on the face of financial statements depends on users' views at the time of standard-setting, which may be influenced by the nature of subject of the standard-setting and tools available for users' analyses of financial information.

110. Accordingly, we suggest that the IASB eliminate the presumption or amend the paragraph in line with the previous paragraph.

Question 11—Objective and scope of financial statements and communication
--

Do you have any comments on the discussion of the objective and scope of financial statements, and on the use of presentation and disclosure as communication tools?
--

General comments

111. Our understanding is that the IASB has been working on the revision of the *Conceptual Framework* and the Disclosure Initiative simultaneously. In this regard, we are concerned that the boundary between the scope of the Conceptual Framework project and the scope of the Disclosure Initiative project is not sufficiently clear and that we cannot see the whole picture of these two projects altogether. Considering that one of the main purposes of the *Conceptual Framework* is to assist the IASB in developing Standards, we think that it is necessary to appropriately choose what should be included in the *Conceptual Framework*. Details of our suggestions are described in paragraphs 112 through 117 of this letter.

The IASB's decision process relating to presentation and disclosure

112. Relating to the objective and scope of financial statements, we think that the proposals in the ED are insufficient to assist the IASB in developing Standards in the future because we think that they do not sufficiently provide the basic thinking regarding how the notions of relevance and faithful representation can be achieved in the context of presentation and disclosure.

113. Our understanding is that many stakeholders view that the disclosure of voluminous irrelevant information is a problem. We understand that the IASB has been conducting the Disclosure Initiative to address this issue, but we think that this issue should be addressed more appropriately by describing in the *Conceptual Framework* the basic

thinking regarding how the notions of relevance and faithful representation can be achieved in the context of presentation and disclosure and by establishing the IASB's decision process relating to presentation and disclosure.

Communication principles

114. We think that the descriptions in the section of 'Presentation and disclosure as communication tools' in the ED include descriptions that would assist the IASB in developing Standards as well as those that would assist preparers in preparing financial statements.

115. For example, paragraph 7.16 of the ED would assist the IASB in developing Standards as well as preparers in preparing financial statements. We agree that the *Conceptual Framework* should include such description.

116. On the other hand, some descriptions (for example, paragraph 7.18 (a) in the ED) do not seem to assist the IASB in developing Standards, while they may be helpful for preparers in preparing financial statements.

117. We believe that the *Conceptual Framework* should be designed primarily to assist the IASB in developing Standards. Accordingly, we think that the descriptions in the Section 'Presentation and disclosure as communication tools' that would not seem to assist the IASB in developing Standards should be addressed in the Disclosure Initiative project, as opposed to the *Conceptual Framework*.

Descriptions relating to cost

118. Paragraph 7.9 of the ED states that the benefits of the information provided by presentation and disclosure must be sufficient to justify the cost of providing that information. We support the ED explicitly referring to the cost constraints relating to presentation and disclosure. This is because the DP did not describe cost constraints relating to presentation and disclosure while the preliminary views relating to the recognition criteria and measurement included discussions relating to cost constraints.

119. Nevertheless, we think that the description of the costs relating to presentation and disclosure in the ED is inappropriate because the phrase 'the cost of providing that information' implies that only the costs that are incurred by preparers when preparing financial statements are considered. Accordingly, we suggest modifications to this phrase taking into account the following points.

120.Regarding the costs incurred by preparers, in addition to the costs to prepare financial statements, competitive harm of the entity by disclosing particular information would also be considered as the costs.

121.Besides, in addition to costs incurred by preparers, we think that cost incurred by users should also be taken into account. In particular, if information provided to users is excessively complicated due to the inclusion of excessive immaterial disclosures or poor structure, users may find it difficult to understand and analyse the information, thereby incurring additional cost. Furthermore, additional efforts made by users to find information when disclosures are insufficient can be considered costs as well.

Question 12—Description of the statement of profit or loss

Do you support the proposed description of the statement of profit or loss? Why or why not? If you think that the Conceptual Framework should provide a definition of profit or loss, please explain why it is necessary and provide your suggestion for that definition.
--

122.We disagree with the IASB’s proposal that the *Conceptual Framework* does not provide the definition of ‘profit or loss’, because we believe that the definition is critical in terms of providing useful information about an entity’s financial performance during the period. Based on the feedback received on the ASBJ’s RfV, we found that almost all Japanese constituents (including financial statement users, preparers and auditors) strongly believe that the definition of profit or loss is necessary.

123.The IASB has argued that it is difficult (if not impossible) to define the term ‘profit or loss’, but at the same time, paragraph 7.20 of the ED proposes the purpose of the statement of profit or loss. We think that this description appropriately describes the nature of profit or loss at a high level and therefore it is possible to define ‘profit or loss’ by modifying the description as follows:

Profit or loss is a measure which depicts the return for the period that the entity has made on its economic resources from its business activities conducted.

124.At the same time, we propose the following two supporting guidance that should be considered integral to the proposed definition in explaining the nature of profit or loss:

- (a) The return should be depicted when the uncertainty whether the return expected at the timing of the initial investment can be obtained is reduced to the point where it is irreversible or deemed ‘irreversible’ reflecting the nature of the entity’s business activities conducted.

- (b) Profit or loss should be ‘all-inclusive’ so that the accumulated amount of profit or loss for all accounting periods equals that the accumulated amount of cash flows for all accounting periods.

In the paragraphs 126 through 135 of this letter, we explain our thinking behind the guidance.

125. In the definition described in paragraph 123 of this letter, we added the phrase ‘from its business activities conducted’ to the description of purpose of profit or loss in paragraph 7.20 of the ED. We think that this addition is necessary in order to clarify the difference between profit or loss and comprehensive income. Considering that an entity chooses its activities among various alternatives, profit or loss is different from comprehensive income in that profit or loss is determined by the business activities the entity actually conducted, while comprehensive income may include ‘opportunity gains (losses)’ which would have been generated from its business activities which the entity did not actually conduct (Please refer to paragraph 93 of this letter for the explanation of ‘opportunity gains’). This may be the case, because the measurement basis of the items in the statement of financial position are determined based what is relevant from the perspective of reporting an entity’s financial position for users to assess an entity’s liquidity and solvency. We believe that our proposed definition of profit or loss would contribute to enhancing the usefulness of financial information such that users find that ‘profit or loss’ information is helpful in assessing prospects for future cash flows and in assessing management’s stewardship of the entity’s resources.

Irreversibility

126. An entity conducts one or more business activities. In some cases, an entity conducts a business activity in which it aims to gain net proceeds from the price changes. In other cases, an entity conducts a business activity in which it does not aim to gain net proceeds from the price changes (for example, a business activity in which an entity purchases an asset and sells it after adding value).

127. Although there are various kinds of business activities, for each business activity, an entity acquires an asset (for example, an investment in equity securities) or a combination of assets and liabilities (for example, a new plant for a new business and related financing). For the sake of simplifying the explanation, the acquisition of an asset or a combination of assets and liabilities are hereinafter referred to as ‘investments’.

128. At the timing of initial investment, an entity usually develops its plan to recoup its investment and expects a return which exceeds the initial investment. However, at the timing of initial investment, the return the entity can obtain from the investment is merely an expectation and therefore there is uncertainty regarding whether an entity can obtain the return as it expected. Over time, the uncertainty regarding whether the return expected at the timing of the initial investment can be obtained changes through the occurrence of relevant facts.

129. Based on the understanding described in paragraphs 126 through 128, we think that 'profit or loss' should be recognised when the expectation at the timing of the initial investment subsequently turns into facts and the uncertainty regarding whether the return expected at the timing of the initial investment can be obtained is reduced to the point where it is irreversible or deemed irreversible reflecting the nature of an entity's business activities conducted from the perspective of reporting an entity's financial performance.

130. We think that 'profit or loss' should be determined by the activities the entity actually conducted. When the uncertainty regarding whether the return expected at the timing of the initial investment can be obtained is reduced to the point where it is irreversible or deemed irreversible reflecting the nature of an entity's business activities conducted, the information has confirmatory value to provide feedback about the previous estimates. This is because users can assess the degree of the precision about their past estimate relating to future net cash inflows to the entity using profit or loss information by comparing their estimates against the actual results. In addition, the information has predictive value as well, because based on the assessment of the precision of their estimates, users can use profit or loss information as an input when users predict whether a similar return can be obtained in the future.

Therefore, we think that the provision of relevant information which has confirmatory and predictive value would only be possible by recognising profit or loss when the uncertainty regarding whether the return expected at the timing of the initial investment can be obtained is reduced to the point where it is irreversible or deemed irreversible reflecting the nature of an entity's business activities conducted.

131. In addition, we think that even when the current value of an asset or a liability changes, it is not relevant to recognise the change in the current value of the asset or the liability unless the uncertainty regarding whether the return expected at the timing of the initial investment can be obtained is reduced to the point where it is irreversible or deemed

irreversible reflecting the nature of an entity's business activities conducted due to insufficient confirmatory and predictive value.

132. In this regard, we think that the nature of an entity's business activities conducted affects how the uncertainty regarding whether the return expected at the timing of the initial investment can be obtained should be treated and, as a result, the selection of measurement bases should be influenced by the nature of an entity's business activities conducted. Regarding the discussion relating to the selection of measurement bases, please refer to our comments to Question 9 in this letter.

All-inclusiveness

133. When assessing the value of an entity, users of financial statements normally depend on flow information to assess the prospects for future net cash inflows to that entity. Users of financial statements have suggested that profit or loss is one of the most useful indicators of financial information that they can refer to. However, these users may find it difficult to refer to profit or loss if the integrity of profit or loss information is not supported by its consistency with cash flows.

134. Accordingly, we strongly believe that the accumulated amount of profit or loss for all accounting periods should equal the accumulated amount of cash flows for all accounting periods.

135. For details, please refer to paragraphs 29 to 34 of the ASBJ's paper titled, *Profit or loss/OCI and Measurement* which was submitted for discussion at the December 2013 ASAF meeting.

Question 13—Reporting items of income or expenses in other comprehensive income
--

Do you agree with the proposals on the use of other comprehensive income? Do you think that they provide useful guidance to the IASB for future decisions about the use of other comprehensive income? Why or why not?
--

If you disagree, what alternative do you suggest and why?

Presumption that all income and all expenses will be included in the statement of profit or loss

136. Paragraph 7.23 of the ED proposes a presumption that all income and all expenses will be included in the statement of profit or loss. We do not agree with this presumption because the application of the presumption may result in lowering the usefulness of profit

or loss, when income and expenses for the period are determined by using measurements which are irrelevant from the perspective of reporting an entity's *financial performance* although such measurements are relevant from the perspective of the reporting the entity's *financial position*. Based on the feedback received on the ASBJ's RfV, we found that this view was shared by financial statement preparers.

137.If income and expenses included in the statement of profit or loss are the primary source of information about an entity's financial performance for the period as proposed in paragraph 7.21 of the ED, we think that profit or loss should be determined using measurement bases that are relevant from the perspective of reporting an entity's *financial performance*. If measurement bases that are relevant from the perspective of reporting an entity's *financial performance* are different from measurement bases that are relevant from the perspective of reporting an entity's *financial position* and thus the amount reported in profit or loss is different from that in comprehensive income, OCI should be used as the linkage factor.

138.Accordingly, we think that the *Conceptual Framework* should state that profit or loss should be determined by using measurement bases which are relevant from the perspective of reporting an entity's *financial performance*, instead of having a presumption that all income and all expenses will be included in the statement of profit or loss as proposed in the ED.

Inconsistency with the description of the categories of measurement bases

139.Paragraph 7.23 (b) of the ED proposes that the presumption that all income and all expenses will be included in the statement of profit or loss cannot be rebutted for components of income or expenses related to assets and liabilities measured at current values if the components are separately identified and are of the type that would arise if the related assets and liabilities were measured at historical cost.

We do not necessarily disagree with this proposal, but this description seems to imply that the measurement bases for which the input factors are partially updated in the measurement of an assets or a liability are categorised as current values. We think that this is at least inconsistent with the proposal in paragraph 6.9 of the ED that amortised cost should be categorised as historical cost.

140.In our comments to Question 8, we suggest that measurement bases be classified on the basis of (a) whether to update inputs for measurements and (b) whether to adopt market participants' assumptions or entity-specific assumptions when measuring an asset or a

liability. When categories are based on whether to update inputs for measurement, we think that there are three categories; namely (a) measures with fully-updated inputs, (b) measures with partially-updated inputs and (c) measures with locked-in inputs. Of the three categories, we think the measurement basis which is treated in paragraph 7.23 (b) falls under the category of measures with partially-updated inputs.

Question 14—Recycling
Do you agree that the Conceptual Framework should include the rebuttable presumption described above? Why or why not? If you disagree, what do you propose instead and why?

Rebuttable presumption relating to recycling

141.Paragraph 7.26 of the ED proposes a presumption that OCI will be reclassified into the statement of profit or loss in some future period, whereas paragraph 7.27 of the ED proposes that the presumption could be rebutted. We disagree with the proposal in paragraph 7.27 of the ED because we think that all OCI items should be recycled. Based on the feedback received on the ASBJ's RfV, we found that many Japanese constituents (including financial statement users and preparers) strongly believe that all OCI items should be recycled.

142.For the reason described in paragraph 133 of this letter, we think that profit or loss should be all-inclusive so that the accumulated amount of profit or loss for all accounting periods equals that of cash flows for all accounting periods. In order to ensure that the accumulated amount of profit or loss for all accounting periods equals the accumulated amount of cash flows for all accounting periods, it is necessary to recycle all OCI items in some future period.

143.In addition, paragraph 7.27 of the ED proposes that the presumption that such a reclassification will occur could be rebutted, for example, if there is no clear basis for identifying the period in which reclassification would enhance the relevance of the information in the statement of profit or loss. We strongly disagree with this proposal because we think that it is always possible to identify the period in which profit or loss should be recognised by recycling an OCI item, following the proposed definition and supporting guidance of profit or loss in our comments to Question 12.

144.Furthermore, paragraph 7.27 of the ED states that if no such basis can be identified, this may indicate that the income or expenses should not be included in other comprehensive

income. We strongly disagree with this description as well, because the judgement of whether to use OCI should be solely determined based on the effect on the relevance of profit or loss recognised for the period and the judgement of whether to use of OCI has nothing to do with the judgment regarding the timing of recycling in some future period.

Question 15—Effects of the proposed changes to the Conceptual Framework
--

Do you agree with the analysis in paragraphs BCE.1–BCE.31? Should the IASB consider any other effects of the proposals in the Exposure Draft?

145. Although we understand the challenges to appropriately identify the possible effects of changes to the *Conceptual Framework*, we find that the analysis in paragraphs BCE.1–BCE.31 of the ED insufficient or inappropriate for the following reasons:

- (a) Although the definitions of an asset or a liability and the recognition criteria are inseparable for the purpose of recognition, these paragraphs explain inconsistencies only in light of the definitions.
- (b) Paragraph 3.11 of the ED seems to indicate the IASB’s view that it has no authority to require an entity to prepare financial statements, but paragraph 4 of IFRS 10 indicates otherwise (see paragraphs 33 to 37 of this letter.) In our view, this is one of the major inconsistencies between proposals in the ED and requirements in the existing Standard, while it was not identified as part of the inconsistencies in the explanation contained in the ED.
- (c) The distinction between main inconsistencies and minor inconsistencies does not appropriately reflect the degree of importance, especially because setting forth disclosure objectives (as explained in paragraph BCE.14) seems to be critically important, which should not be regarded as one of the minor inconsistencies.

146. In addition, we think that there is a risk of misunderstanding the term ‘reliable’ if it remains in Standards even after the *Conceptual Framework* is overhauled. Accordingly, we suggest that the IASB attach footnotes to each of the term in the Standards, and explain that the term ‘reliability’ was one of the qualitative characteristics of financial statements in the *Framework for the Preparation and Presentation of Financial Statements* which was superseded by the *Conceptual Framework* in 2010.

Question 16—Business activities
--

Do you agree with the proposed approach to business activities? Why or why not?

147. We believe that the nature of an entity's business activities would play a critically important role in accounting standard-setting, and thus submitted its paper titled, *Role of "Nature of an Entity's Business Activities" in Accounting Standard-Setting*.

148. In this paper, we stated the following:

- (a) The nature of an entity's business activities has a significant effect on various aspects of accounting standard-setting, and thus the ASBJ thinks that there should be an overarching description in the *Conceptual Framework* that should be applied consistently throughout the standard-setting process.
- (b) Following matters should be clarified in the Conceptual Framework:
 - (i) How to identify the nature of an entity's business activities conducted that are relevant for the purpose of accounting standard-setting, including:
 - How to classify the nature of an entity's business activities conducted into categories; and
 - How they should be described in the Conceptual Framework.
 - (ii) How the nature of an entity's business activities should be considered in the development of accounting standards.

149. Based on the feedback received on the ASBJ's RfV, we have found that the importance of giving consideration to the 'nature of an entity's business activities concocted' is shared by almost all of our major constituents (including financial statement users, preparers and auditors). For details of this matter, please refer to our comments on Questions 9 and 13 of this letter.

Question 17—Long-term investment

Do you agree with the IASB's conclusions on long-term investment? Why or why not?

150. We believe that concerns over long-term investments could be (and should be) addressed by establishing the robust definition of 'profit or loss' and describing the selection of appropriate measurement bases robustly in the *Conceptual Framework*.

151. Specifically, we believe that the selection of appropriate measurement bases should be determined on the basis of whether an asset or a liability is (or a group of assets and liabilities are) held as part of an entity's business activity in which it aims to gain net proceeds from the price changes or not. Hence, when an entity carries long-term investments with a view to gaining proceeds other than through price changes of the

investments, the price changes of the investments should not be reflected in profit or loss until the uncertainty of the investments become irreversible or deemed irreversible. For details, please refer to our comments on Questions 9 and 12 of this letter.

Question 18—Other comments

Do you have comments on any other aspect of the Exposure Draft? Please indicate the specific paragraphs or group of paragraphs to which your comments related (if applicable).
--

As previously noted, the IASB is not requesting comments on all parts of Chapter 1 and 2, on how to distinguish liabilities from equity claims (see Chapter 4) or on Chapter 8.

Roles of the *Conceptual Framework*

152. As stated in the covering letter, in the capacity of an accounting standard setter, we believe that it is important for the IASB to clarify that the primary role of the *Conceptual Framework* is to assist the IASB when it develops Standards that are based on consistent concepts. This is because without specifying its primary role, judgement as to what should be described therein would become inconsistent; thereby resulting in descriptions of the *Conceptual Framework* being less consistent and with weaker focus. In addition, we believe that the sound and robust *Conceptual Framework* is expected to contribute to the development of high quality accounting standards, whereby contributing to the improvement of the quality of an entity's financial information. Indeed, the IASB has very often referred to the *Conceptual Framework* when it developed accounting standards, and it is very likely that the revised *Conceptual Framework* will continue to be used as a reference point by the IASB Board members and Staff in the future standard setting.

Measurement of equity

153. We agree with the description in paragraph 6.78 of the ED that the total amount at which equity is shown in the statement of financial position (total equity) is not measured directly.

154. However, we do not agree with paragraph 6.80 of the ED which states that some individual classes or categories of equity may be measured directly, because it seems to indicate that a component of equity may be directly remeasured subsequent to initial recognition. In our view, it is inappropriate to directly remeasure a component of equity (even if it is possible), because equity is defined as residual in the first place. Thus, we

suggest that the paragraph be amended to state that individual classes or categories of equity would not be remeasured directly after initial recognition, except when physical capital maintenance is adopted for an entity's financial reporting.

Views received from Japanese constituents not reflected on the main body of this letter

As stated in the covering letter, we published the ASBJ's RfV for public comment from Japanese constituents with the comment period ending 26 October 2015, and reflected feedback received from its constituents in this letter so that the letter reflects more comprehensive views from Japanese constituents. However, we decided not to reflect some of the feedback received in the main body of this letter, for example because these views are not necessarily consistent with our views. The following provide a summary of feedback received on the ASBJ's RfV, which are not reflected in the main body of this letter.

Chapter 2 – Qualitative characteristics of useful financial information

The trade-off between the level of measurement uncertainty and other factors that make information relevant

1. Sometimes, there is a trade-off relationship between the level of measurement uncertainty and other factors that make information relevant, but it such a relationship does not exist all the time. Hence, it would be helpful if the IASB could rephrase the relevant sentences to clarify the effect. (Financial statement auditors)
2. The *Conceptual Framework* should clarify that when the level of measurement uncertainty is higher than a certain level, the financial information is supposed to lose relevance. (Financial statement preparers)

Chapter 4 –The elements of financial statements

Classification of cooperative shares

3. Claims that represent members' shares in cooperatives should be considered to be equity claims explained in paragraph 4.30 of the ED, because they do not contain an obligation to transfer economic resources. The IASB should sufficiently take into account the features of cooperative activities in considering how to distinguish liabilities from equity in the research project of *Financial Instruments with Characteristics of Equity*. (Financial statement preparers)

Chapter 5 –Recognition and derecognition

Cost-benefit consideration in the recognition criteria

4. There are the following contrasting views among respondents as to whether cost-benefit consideration should be explicitly stated as part of recognition criteria.
 - (a) Paragraph 5.9(c) of the ED which refers to cost-benefit consideration in the recognition criteria should be reconsidered, because appropriate information might not be provided due to such cost-benefit consideration, taking into account that the term 'benefits' are differently understood by users and preparers. Accordingly, paragraph 5.9(c), its related paragraph 5.24, and paragraph 4.62(c) of the ED should be entirely deleted. (Financial statement users)
 - (b) It is appropriate to include cost-benefit consideration as part of the recognition criteria (as is included in paragraph 5.9(c) of the ED). (Financial statement preparers)

Retention of the concept of 'reliable measurement' in the recognition criteria

5. The IASB should retain the concept of 'reliability of measurement' in the recognition criteria, because the concept is essential to achieving faithful representation of financial reporting. (Financial statement preparers)

Chapter 6 - Measurement

'Value in use' and 'fulfilment value'

6. Paragraphs 6.24 and 6.36 of the ED should be eliminated, because measurement of a liability should be more thoroughly considered as part of a separate project. In addition, paragraphs 6.25 and 6.30 of the ED should also be eliminated, because these descriptions seem to contradict the descriptions given in Chapter 1 of the *Conceptual Framework*. (Financial statement users)

Table 1 - Information provided by various measurement bases

7. The ED sets out Table 1- *Information provided by various measurement bases*, which explains what information would be provided by each of measures (that is, historical cost measures, fair value and value in use). Although the table is helpful, it would be more appropriate if the table is positioned as an annex to the *Conceptual Framework* as opposed to as part of the main body of the *Conceptual Framework*. (Financial statement auditors)

Other comments

8. The role of the *Conceptual Framework* should not be limited to the purpose of assisting the IASB when developing Standards based on consistent concepts, because the *Conceptual Framework* is found to be useful for preparers to discuss with auditors and decide appropriate accounting policies when no Standard applies to a particular transaction or event. (Financial statement preparers)