

25 December 2015

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

Re: Comment on Request for Views – 2015 Agenda Consultation

1. The Accounting Standards Board of Japan (the “ASBJ” or “we”) welcomes the opportunity to provide comments on the IASB’s Request for Views on *2015 Agenda Consultation* (the “RV”).
2. We believe that it is very important for the IASB to maintain a periodic public consultation process to understand the needs from different jurisdictions or sectors to appropriately identify the priority of its agendas. In proceeding with the public consultation, we believe it important for the IASB to step back and consider what went well (and what did not go well) in the previous consultation processes.
3. As for the priority of the current agendas, we believe that the following projects are critically important for the IASB in the next three years.

(a) Amortisation of goodwill

As has been communicated in previous submissions, we strongly believe that the reconsideration of accounting requirements regarding goodwill is critically important and urgent. We encourage the IASB to undertake a standard-setting project to consider replacing the current ‘impairment-only approach’ with the ‘amortisation and impairment approach’.

(b) Improvement of the *Conceptual Framework*

As stated in our comment letter to the IASB’s ED *Conceptual Framework for Financial Reporting*, we strongly believe that improvement of the *Conceptual Framework* is critically important so as to ensure that financial information resulting from the application of IFRSs (especially the information shown in ‘profit or loss’) is of high quality. Hence, we encourage the IASB to spend sufficient time and resources (including performing sufficient outreach activities to its constituents

around the world) before finalising the *Conceptual Framework* project and relevant other projects such as the project on Financial Instruments with Characteristics of Equity (FICE project).

(c) Development of the Principles of Disclosure

We strongly believe that the development of high quality principles of disclosure is critically important to address the issue of ‘disclosure overload’, cited by a number of stakeholders from the financial reporting community as major concern, and to improve the effectiveness of communication between an entity and users of financial reports. Hence, consistent with our comment on the *Conceptual Framework* project, we encourage the IASB to spend sufficient time and resources in progressing with the project.

4. In addition, before deciding on which agendas to take up, we believe that the IASB should clarify the role of both the post-implementation review and consultation carried out by national standards setters and regional groups.
5. Finally, as for frequency of Agenda Consultations, we do not support the proposal to change the current interval from 3 years to 5 years, because it would risk the IASB failing to obtain sufficient and timely inputs from its stakeholders as to the most important issues facing the financial reporting community and is not reflective of the dynamic and ever-changing international financial reporting environment that exists today.
6. For our comment on specific questions in the RV, please refer to the Appendices of this letter.
7. 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,



Yukio Ono
Chairman
Accounting Standards Board of Japan

Comment on Specific Questions in the RV**Q1 – The balance of the IASB’s project**

The IASB’s work plan includes five main areas of technical projects:

- (a) its research programme;
- (b) its Standards-level programme;
- (c) the *Conceptual Framework*;
- (d) the Disclosure Initiative; and
- (e) maintenance and implementation projects.

What factors should the IASB consider in deciding how much of its resources should be allocated to each area listed above?

8. In general, we think that the IASB appropriately identified the factors to consider in paragraph 55 of the RV, when deciding how much of its resources should be allocated to each of the technical projects in light of its strategic focus. However, as suggested in our comment letter to the IFRS Foundation’s Request for Views on *Trustees’ Review of Structure and Effectiveness: Issues for the Review*, we believe that ‘convergence’ remains an important factor to consider in promoting the comparability of financial information and achieving the long-term goal of a single set of high quality accounting standards.
9. Hence, we recommend the IASB adding ‘the convergence with US GAAP and other national standards’ as one of the factors to consider when it prioritises its projects.
10. In addition, although we found that the factors set out in the RV are generally appropriate, we think that the list of factors is too long to consider each one individually. Accordingly, we suggest that the factors should be grouped into categories as follows:
 - (a) Overall consideration: the overall balance of the work plan and the overall balance in the pipeline of research projects that may ultimately develop into Standards-level projects.
 - (b) Factors that supports consideration of whether to add agendas to its work programme:
 - The importance of the matter to users of financial reports;
 - The urgency of the problem to be resolved; and
 - Convergence with US GAAP and other national standards.

(c) Constraints that would impose limitations on the IASB when considering whether to add agendas to its work programme:

- Interaction with other current or possible projects;
- The complexity and breadth of the problem to be resolved, and the feasibility of possible solutions being developed;
- The capacity of stakeholders to respond to proposals, both as individual proposals and across the work plan as a whole; and
- The availability of sufficient time from IASB members and staff resources.

Q2 – Research projects (Addition to and Deletion from Research projects)

The IASB’s research programme is laid out in paragraph 32 and a further potential research topic on IFRS 5 is noted in paragraph 33.
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Should the IASB:

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| (a) add any further projects to its research programme? Which projects, and why? Please also explain which current research projects should be given a lower priority to create the capacity for the IASB to make progress on the projects(s) that you suggested adding. |
| (b) remove from its research programme the projects on foreign currency translation (see paragraphs 39-41) and high inflation (see paragraphs 42-43)? Why or why not? |
| (c) remove any other projects from its research programme? |

Whether to add projects to the IASB’s research programme

11. In general, we think that the IASB has appropriately identified its research projects in the RV. However, we suggest that the IASB add a research project on the accounting requirements of development costs. Many Japanese preparers question if the requirement to capitalise the cost results in useful information to users. In addition, based on our research, we found that the accounting practice of entities using IFRSs was diverse as to the recognition of costs arising from the development phase of an internal project.

Whether to remove the existing projects from the IASB’s research programme

12. As for the projects on foreign currency translation and high inflation, we offer the following views:

- (a) **Project on foreign currency translation**

In principle, we do not believe that the IASB should remove the project on foreign currency translation from its research programme, because a number of conceptual and practical issues have been identified in this area, especially regarding the interplay between the concept of measurement and translation. If the IASB does decide to remove the project from the research programme, we believe that the IASB should, as a minimum, undertake a project to make limited modifications to accounting requirements regarding determination of functional currency. This issue has been identified as one of the key obstacles for certain segments of the Japanese market in considering a transition to IFRSs, while a possible solution is expected to be relatively straightforward¹.

(b) Project on high inflation

We agree that the IASB should remove the high inflation project from its research programme, considering the relative importance of the issue compared to the other projects on the IASB's list.

13. Of the projects identified in the IASB's research programme, we believe that the project on goodwill should be migrated into a list of standard-setting projects for the following reasons:

- (a) Based on the feedback received during the course of the PiR, the IASB identified accounting requirements for goodwill as one of the issues with 'higher' priority. In the ASBJ's view, the feedback received very clearly indicated the issues and possible solutions.
- (b) A lot of relevant information including feedback from international stakeholders has been made available to the IASB through the publication of the Discussion Paper *Should Goodwill Still Not Be Amortised?*, a collaboration of the ASBJ, European Financial Reporting Advisory Group (EFRAG) and Organismo Italiano di Contabilità (OIC). In our view, such information should constitute part of the 'evidence' in the IASB's standard-setting considerations.
- (c) The Financial Accounting Standards Board (FASB) has been working on a project regarding the accounting requirements regarding goodwill. Considering the magnitude of the project in relation to the comparability of financial information across different regions, we think that it is important for the IASB to work together

¹ For example, it might be possible for the IASB to proceed with limited amendments to paragraphs 9 and 10 of IAS 21 *The Effects of Changes in Foreign Exchange Rates* by reference to the equivalent requirements in US GAAP, which emphasise the importance of management judgment in the contexts of relevant facts and circumstances when determining the functional currency.

with the FASB, so as to maintain the degree of convergence on this accounting requirement as much as possible.

14. In addition, we think that the ‘discount rate’ project could be removed. We think that so far, the IASB’s work on the fact-finding study has been very useful in relation to the use of discount rates in Standards. At the same time, due to the nature of the findings, we think that any possible future works should be incorporated into the IASB’s other existing projects as opposed to progressing with the work within the scope of the discount rate project.

Q3- Research projects (Relative importance and urgency)
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For each project on the research programme, including any new projects suggested by you in response to Question 2, please indicate its relative importance (high/medium/low) and urgency (high/medium/low).

Please also describe the factors that led you to assign those rankings, particularly for those items you ranked as high or low.

15. First and foremost, from the viewpoint of Japanese constituents, we believe that the following projects are critically important and urgent.

(a) Amortisation of goodwill

As has been communicated in previous submissions and as stated in paragraph 13 of this letter, we strongly believe that reconsideration of the accounting requirements regarding goodwill is critically important and urgent. Specifically, we encourage the IASB to undertake a standard-setting project to consider replacing the current ‘impairment-only approach’ with the ‘amortisation and impairment approach’.

(b) Improvement of the *Conceptual Framework*

As stated in our comment letter to the IASB’s ED *Conceptual Framework for Financial Reporting*, we strongly believe that improvement of the *Conceptual Framework* is critically important so as to ensure that financial information resulting from the application of IFRSs (especially the information shown in ‘profit or loss’) is of high quality. Hence, we encourage the IASB to invest sufficient time and resources (including performing sufficient outreach activities to its stakeholders around the world) before finalising the project. In addition, we also recommend the IASB follow through process when it undertakes the FICE project.

(c) Development of the Principles of Disclosure

We strongly believe that development of high quality principles of disclosure is critically important to address the issue of ‘disclosure overload’ cited by a number of stakeholders from the financial reporting community and to improve the effectiveness of communication between an entity and users of financial reports. Hence, consistent with our comments on the *Conceptual Framework* project, we encourage the IASB to invest sufficient time and resources before finalising the project.

16. In addition, based on the comments we have heard so far from the IASB’s broader stakeholders, we think that each project on the research programme could be categorised as follows based on its relative importance and urgency.

Table 1: Relative importance and urgency

Urgency \ Importance	High	Medium	Low
High	Goodwill and Impairment Disclosure initiative – Principles of Disclosure	Equity Method Financial Instruments with Characteristics of Equity Post-employment Benefits Development Costs	N/A
Medium	N/A	Definition of Business Dynamic Risk Management Pollutant Pricing Mechanism Share-based Payment Review of IFRS 5	Business Combinations under Common Control
Low	N/A	Income Taxes	Discount Rates

17. As a footnote to Table 1, we note the following that explains how we assigned the degrees of importance and urgency in the previous paragraph:

- (a) Relative importance and urgency shown in the table is not a reflection of the views from the Japanese constituents only. Instead, the table summarises our understanding of the comments that would be received by the IASB from its broad range of stakeholders across the world. The specific priorities for Japanese constituents are explained in paragraph 15 of this letter.

- (b) Views on importance and urgency vary depending on stakeholders' roles in the financial reporting community. For example, in our discussions with our constituents, users assigned higher priority to the projects on 'Primary Financial Statements' and 'Disclosure Initiative', as these projects relate to presentation of subtotals of the statement of financial performance (such as operating income) as well as non-IFRS information. However, preparers do not think the same way, primarily because topics to be discussed in the project remain unclear. In addition, they believe that presentation and disclosure should be considered in parallel and suggest that projects on presentation and disclosure should be grouped altogether.
18. Please also note that we do not include projects on 'Primary Financial Statements' and 'A Review of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*' in Table 1. Although we understand that these projects are likely to have a significant impact on an entity's financial reporting, we are not still clear about what the IASB plans to consider in these projects. Our views will vary significantly based on what topics will be covered. Please see the following for further explanations.
- (a) Project on Primary Financial Statements: When the IASB undertook the project on 'Financial Statements Presentation' we disagreed with the proposal, especially in regard to the proposed principle of 'cohesiveness'. Thus, this project would have a relatively low, if the IASB plans to put forward the same or similar proposals. However, if the IASB considers other issues including the use of other comprehensive income (OCI), presentation of subtotals in the statement of financial performance (such as operating income) and non-IFRS information as part of the project, we believe that these issues are important and the project may be considered more relevant and important to Japanese constituents.
- (b) The project on a review of IAS 37: When the IASB previously undertook a project to revise IAS 37, we disagreed with the IASB's proposal, especially with regard to the proposal to abolish the 'probability criterion'. Hence, our priority for the project will be relatively low if the IASB plans to put forward the same or similar proposals. On the other hand, if the IASB plans to consider how the requirements of IAS 37 could be modified based on a revision to the *Conceptual Framework* (for example, withdrawing the guidance of IFRIC 21 *Levies*), we would support the direction. Nevertheless, we think that reconsideration of IFRIC 21 should be considered as a standard-setting project.

19. For other projects, we provide our brief commentary on a selected basis in Appendix-II of this letter.
20. Additionally, when we discussed with Japanese constituents, some expressed the view that a list of the IASB's research projects is too long, and consideration should be given to slimming down the list of the projects. We hope that our comments on the priority of projects helps the IASB to decide which projects could be dropped from its active agendas.

Q4- Major projects
Do you have any comments on the IASB's current work plan for major projects?

21. We offer the following comments on the IASB's current work plan for major projects.

(a) Projects on the *Conceptual Framework*

Consistent with our comments in previous paragraph, we believe that the IASB's project on the *Conceptual Framework* is critically important, as it is expected to assist the IASB to develop high quality Standards based on consistent concepts. Hence, we encourage the IASB to invest sufficient time and resources before finalising the project so that the revised *Conceptual Framework* fulfils the intended objective.

(b) Project on Disclosure Initiative

Consistent with our comments in previous paragraph, we believe that the Disclosure Initiative is a very important project so as to address the concern of 'disclosure overload' expressed by many of the financial reporting community and to improve the effectiveness of communication between an entity and users of financial reports. In addition, we believe that the IASB should try to avoid amending Standards in a patch-work manner so as to ensure that the disclosure requirements of the Standards as a whole achieve the objective and remain well balanced.

(c) Project on Insurance Contracts

We believe that it is critically important for the IASB to ensure that the new Insurance Contract Standards is sufficiently understandable and operational. Hence, we encourage the IASB to consider whether another public consultation is necessary. In addition, even if the IASB were to finalise the project without conducting another public consultation, we believe that it would be essential to go through a robust

process to ensure that the Standard is sufficiently understandable and operational, for example through conducting field-testing before finalising the Standard.

22. In addition, in our comment letter on the IASB's Exposure Draft ED/2013/6 *Leases*, we strongly encouraged the IASB working with the FASB to reach a common solution on the Standard of *Leases*. Hence, many of our constituents were disappointed to see that the both Boards could not reach a common solution on this project.

Q5- Maintenance and implementation projects
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Are the IASB and Interpretations Committee providing the right mix of implementation support to meet stakeholders' needs and is that support sufficient (see paragraphs 19-23 and 50-53)?

23. In general, we think that the IASB and IFRS Interpretations Committee provide the appropriate implementation support to meet stakeholders' needs. Specifically, we found that the IASB's initiative to operate Transition Resource Group on IFRS 15 *Revenue with Contracts with Customers* has been helpful for entities to avoid unnecessary costs before implementing the Standard, to the extent that the operation of the group is restricted to the limited life during the initial preparation stage.
24. In addition, we believe that the IASB should continue to consider the needs of first-time adopters when developing and revising the Standards, so as not to deter entities from a transition to IFRSs.

Q6- Level of change

Does the IASB's work plan as a whole deliver change at the right pace and at a level of detail that is appropriate to principle-based standard-setting? Why or why not?

25. We believe that the recent pace of change to the Standards is appropriate especially in comparison with that of the years 2010 to 2011, while some of our constituents expressed concern that the current pace of the change is still too fast.
26. With regard to the effect of changes to the Standards in practice, a majority of our constituents expressed the view that what's important is to ensure sufficient time for an entity to make the necessary changes to their internal processes (including any necessary investments in the IT solutions) so that they can deliver information in accordance with

the new requirements before the effective date of the Standard, and it is not necessarily so important for the IASB to try to align effective dates of different Standards.

27. On the other hand, we do not think that the level of detail is consistent throughout the Standards, because we have found the volume of some Standards to be very large (for example, IFRS 9 *Financial Instruments* and IFRS 15 *Revenue with Contracts with Customers*), while other Standards provide only the principles.

Q7– Any other comments

Do you have any other comments on the IASB’s work plan?

28. We think that the IASB should clarify the following matters in considering its work plan.

(a) Role and process of the post-implementation review (PiR)

We think that the role of PiR is unclear, especially as to when the IASB finds the feedback received during the course of a PiR sufficient to proceeding with the standard-setting agendas. We are of the view that the feedback from a PiR may constitute sufficient input for the IASB in deciding whether to undertake standard-setting projects, especially when the feedback indicates a strong need for change. In order to address the concern that the purpose of the PiR is only to provide an opportunity for stakeholders to identify shortcomings of the newly implemented Standards as opposed to possible remedies to the shortcomings, we suggest that the Request for Inputs published during the course of the PiR could ask questions about possible remedies as well as shortcomings respondents identified.

(b) Role of consultation performed by national standards setters and regional groups

In our view, it is important for the IASB to clarify the feedback received through the consultation performed by national standards setters and regional groups. For example, the ASBJ, EFRAG and OIC published a Discussion Paper regarding goodwill and received useful comments from stakeholders in different regions and global organisations. Yet it does not seem that the IASB has identified these feedbacks as part of the evidences that support its decision to initiate the standard-setting project. We believe that the IASB should clarify the best possible ways to effectively leverage their works so as to reduce the duplication of the number of consultations on the same topic to stakeholders.

Q8– Frequency of Agenda Consultations

Because of the time needed to complete individual major projects, the IASB proposes that a five year interval between Agenda Consultations is more appropriate than the three year interval currently required. Do you agree? Why or why not?

If not, what interval do you suggest? Why?

29. We do not support the proposal in the RV to change the interval between Agenda Consultations from the current three years to five years, because it would risk the IASB failing to obtain sufficient and timely inputs so as to decide whether to add a new project to or drop an existing project from its work plan.
30. However, if the IASB were to proceed with the five-year interval as proposed in the RV, we believe that the following actions are required.
- (a) Clarifying the role of Agenda Consultations. In our discussion, some expressed strong concerns over the proposal to extend the interval period because they think that the prolonged interval period would result in the IASB failing to respond to stakeholders' concerns in a timely manner. We think that such a concern could, in part, be addressed by the IASB if it clarifies that the IASB can undertake additional agendas without necessarily going through Agenda Consultations, and the role of Agenda Consultations is to confirm the completeness of the views the IASB has heard from various other channels.
 - (b) Clarifying the process to cease the active projects. In our discussion, some expressed concern that the IASB would lose the opportunity to cease its project if it reduces the frequency of Agenda Consultations. It is relatively easy for standard setters to add projects, and the real challenge is the decision regarding if and how to cease an active agenda when the prospect of finalising the project becomes gloomy. Therefore, especially if the IASB changed the interval, it would become more important to identify the process of how to cease an active project.
 - (c) Clarifying how to count the interval cycle. In considering the interval cycle, there has been a lack of common understanding as to how it should be counted. For example, some have understood that the second Agenda Consultation would be launched in 2014, as the first consultation was carried out in 2011. Hence, we suggest that the IASB clarify that the interval cycle be calculated from the publication date of the RV of the previous consultation, so that the next consultation will be launched in 2020 (instead of 2021).

(d) Convening a session dedicated to discuss whether the IASB's agendas remain balanced and appropriate and whether there are agendas to be added or removed at least annually during the Accounting Standards Advisory Board (ASAF) and IFRS Advisory Council (IFRS-AC) meetings. Such a process would be effective if the IASB develops a benchmark that the IASB should refer to in making the decision on the priority of agendas so that the IASB better fulfils the accountability for the decision. In our view, the result of consultation may become obsolete, especially where the economic developments are dynamic. Thus, such periodic consultation would more effectively help ensure that the IASB's agendas remain balanced and appropriate, given the most recent circumstances as the views of the ASAF and IFRS-AC members are expected to collectively reflect the views of the IASB's major stakeholders.

Commentary on selected projects of the IASB's research programme

In the following, we provide a brief explanation on a selected basis as a justification to our priority shown in the Table 1 in this letter.

- (a) Equity method: We carried out a survey regarding Japanese constituents' views on the equity method of accounting. Although our constituents identified various areas for further improvement that should be considered in the research project, few of them believed that the equity method should be abolished. In addition, considering that the issues identified by constituents are intertwined with each other, we suggest that the IASB endeavour to identify the underlying concept behind the equity method rather than trying to undertake limited amendments to the requirements of IAS 28 *Investments in Associates and Joint Ventures* as a short-term project.
- (b) Financial Instruments with Characteristics of Equity: We think that many important issues relating to the credit side of the statement of financial position are left unaddressed in the IASB's Conceptual Framework project. Hence, we encourage the IASB to thoroughly consider this matter including as to whether the 'three-category approach' is appropriate.
- (c) Post-employment Benefits: We believe that it is important for the IASB to carry out the post-implementation review of IAS 19 *Employee Benefits*, focusing on areas that the IASB has found controversial during the standard-setting process (such as, non-recycling of OCI and accounting requirements of net interest on the net defined benefit liability (asset)).
- (d) Development Costs: We believe that the IASB should carry out a post-implementation review to evaluate whether the requirement to capitalise costs arising from the development phase of an internal project is appropriate. Many Japanese preparers question if the requirement to capitalise the cost would result in useful information to users. In addition, based on our research, we found that the accounting practice was diverse as to whether to recognise costs arising from the development phase of an internal project.
- (e) Review of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: We believe that the IASB should consider, not just areas that the IFRS Interpretations Committee identified as issues for medium to long term projects in its September

2015 meeting, but also issues that the IFRS Interpretations Committee addressed through agenda decisions (i.e., the issues regarding the allocation of an impairment loss to non-current assets within a disposal group and the presentation of intra-group transactions between continuing and discontinued operation) as part of the research programme.