

29 January 2016

Mr. Wayne Upton
Chairman
IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH
United Kingdom

Re: Comment on the tentative agenda decision on IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* – Variable payments for asset purchases

1. The Accounting Standards Board of Japan (the “ASBJ” or “we”) welcomes the opportunity to provide comments on the IFRS Interpretation Committee’s (the “Committee”) tentative agenda decision on IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* – Variable payments for asset purchases in the IFRIC Update in November 2015.
2. We agree with the Committee’s decision not to add this issue to its agenda because it is too broad for the Committee to address within the confines of existing IFRSs.
3. At the same time however, the deliberation by the Committee thus far has shown that there is a clear lack of guidance in this area. In addition, through the discussion with our constituents, we have been informed that asset purchases with variable payments are at least not uncommon in practice, and also that they are prevalent in some industries (for example, a purchase of intellectual property with milestone payments is relatively common in the pharmaceuticals industry). Some pointed out that the lack of guidance may lead to significant diversity in practice.
4. In addition, as has been pointed out during the Committee’s discussion, accounting requirements for variable payments are inconsistent in Standards of IFRSs (for example, IFRS 3 *Business Combinations*, IFRS 15 *Revenue with Contracts with Customers* and IFRS 16 *Leases*), and it is cited as the evidence that there is a lack of a clear concept in this respect.

5. Having regard to the circumstances, we think that it is at least undesirable if the IASB leaves the lack of clarify and consistency unaddressed.
6. Due to the cross-cutting nature of this issue, we think that aligning accounting requirements for variable payments in an appropriate manner is possible only when the IASB develops a clear definition and robust guidance of a 'liability'. We note that the IASB's Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting* (the "ED") proposed the definition and guidance of a liability. Yet, we found that the proposed definition and guidance in the ED were not robust enough to draw a conclusion on when variable payments are considered to meet a definition of a liability. Hence, in our comment letter to the ED, we encouraged the IASB to carry on the work so as to develop more robust and clear concepts with regard to a liability.
7. We expect that the IASB's ongoing deliberation regarding a review of the *Conceptual Framework* (particularly with regard to the revision of a definition of a liability) will contribute to clarifying the relevant concept and improving the consistency of this issue. Therefore, we believe that the IASB should address this issue as a medium- to long-term project building upon the outcome from the *Conceptual Framework* project, and that the Committee should recommend the IASB to do so.
8. We hope that our comment will be helpful for the Committee's and the IASB's consideration in the future. If you have any questions, please feel free to contact us.

Yours sincerely,



Tomo Sekiguchi

Board Member of the ASBJ

Chairman of the Technical Committee for IFRS Implementation in the ASBJ