（Translation for reference purpose only）

Issuance of the amendments to "Japan's Modified International Standards (JMIS): Accounting Standards Comprising IFRSs and the ASBJ Modifications"

25 July 2016

Accounting Standards Board of Japan

In June 2015, the Accounting Standards Board of Japan ('ASBJ') issued "Japan's Modified International Standards (JMIS): Accounting Standards Comprising IFRSs and the ASBJ Modifications". JMIS was issued as a result of the endorsement process covering Standards and Interpretations (collectively referred to as 'Standards') issued by the International Accounting Standards Board ('IASB') as at 31 December 2012.

Since then, the ASBJ examined the Standards issued by the IASB during 2013, and today, the ASBJ issued the amendments to "Japan's Modified International Standards (JMIS): Accounting Standards Comprising IFRSs and the ASBJ Modifications" (hereinafter called the "the amendments to JMIS"), which was approved at its 341st Board meeting held on 25 July 2016.

The ASBJ issued and invited comments on the Exposure Draft on the amendments to JMIS on 17 March 2016. Having considered the comments received on the Exposure Draft, the ASBJ finalised the amendments to JMIS, with some modifications to the Exposure Draft.

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Background

1. The ASBJ, following “The Present Policy on the Application of International Financial Reporting Standards (IFRS)” (June 2013) issued by the Business Accounting Council, an advisory body to the Financial Services Agency of Japan (‘FSA’), established the “Working Group for the Endorsement of IFRS” in July 2013 and undertook its endorsement process on the Standards issued by the IASB as at 31 December 2012 (hereinafter called the “initial endorsement process”). As a result of the initial endorsement process, the ASBJ issued JMIS on 30 June 2015.

2. For this round the ASBJ undertook the endorsement process on the Standards issued by the IASB during 2013. As s result, the ASBJ issued the amendments to JMIS, which amends (a) and (b) shown below:

   (a) Application of “Japan’s Modified International Standards”

   (b) ASBJ Modification Accounting Standard No. 2 “Accounting for Other Comprehensive Income”

Scope of the endorsement process for this round

3. New or amended Standards issued by the IASB during 2013, which were covered by the endorsement process for this round, were as follows:

   (a) IFRS 9 *Financial Instruments* (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39) (issued in November 2013) (hereinafter called ‘IFRS 9 (2013)’)

   (b) IFRIC Interpretation 21 *Levies* (issued in May 2013) (hereinafter called ‘IFRIC 21’)

   (c) *Recoverable Amount Disclosure for Non-Financial Assets* (Amendments to IAS 36) (issued in May 2013)

   (d) *Novation of Derivatives and Continuation of Hedge Accounting* (Amendments to IAS 39) (issued in June 2013)

   (e) *Defined Benefit Plans: Employee Contributions* (Amendments to IAS 19) (issued in November 2013)

   (f) *Annual Improvements to IFRSs 2010-2012 Cycle* (issued in December 2013)

   (g) *Annual Improvements to IFRSs 2011-2013 Cycle* (issued in December 2013)

Outline of the endorsement process

4. The endorsement process is a mechanism of determining whether individual Standards issued by the IASB are acceptable in Japan and, for certain Standards, making ‘deletions or modifications’ when considered necessary, and having them designated by the FSA.

5. In undertaking the endorsement process on the Standards issued by the IASB during 2013,

consistent with the initial endorsement process, the ASBJ considered the following factors as the criteria for endorsing individual Standards, from the viewpoints of public interest and investor protection, on the premise that the application of JMIS would be voluntary:

- fundamental thinking on accounting standards generally accepted in Japan;
- difficulties in practice (preparation costs exceed benefits, etc.); and
- relationship with peripheral regulations (whether various industry regulations make it difficult, or cause significant costs to adopt).

6. In addition, consistent with the initial endorsement process, in undertaking the endorsement process, the ASBJ decided to limit the ‘deletions or modifications’ to a minimum, i.e., after thorough consideration under the policy of adopting the Standards without ‘deletions or modifications’ to the extent possible, only making ‘deletions or modifications’ for the requirements that have been determined to be unacceptable from the viewpoints of fundamental thinking on accounting standards generally accepted in Japan and difficulties in practice.

Considerations at the endorsement process for this round

Items for which ‘deletions or modifications’ were made

7. The ASBJ examined the new or amended Standards issued by the IASB during 2013 as listed in paragraph 3 in the light of the criteria described in paragraphs 5 and 6.　As a result, the ASBJ decided to make ‘deletions or modifications’ for the following two items related to IFRS 9 (2013):

   (a) Non-recycling of the hedging gain or loss on fair value hedges of investments in equity instruments measured at fair value through other comprehensive income

   (b) Basis adjustments in cash flow hedges (including the accounting for the time value of options in hedge accounting)

‘Deletions or modifications’ related to ‘non-recycling of the hedging gain or loss on fair value hedges of investments in equity instruments measured at fair value through other comprehensive income’

8. IFRS 9 (2013) requires that, if a hedged item in a fair value hedge is an investment in an equity instrument measured at fair value through other comprehensive income, the gain or loss on the hedging instrument remain in other comprehensive income, i.e., subsequent recycling of that gain or loss is prohibited (paragraph 6.5.8 and BC6.115 of IFRS 9 (2013)).

9. In the amendments to JMIS, the ASBJ decided to make ‘deletions or modifications’ to IFRS 9 (2013) so that the gain or loss on the hedging instrument arising from fair value hedges described in paragraph 8 that are recognised in other comprehensive income is reclassified to profit or loss.

10. The ‘deletions or modifications’ described in paragraph 9 correspond to the ‘deletions or

modifications' made in the initial endorsement process for investments in equity instruments, which are the hedged items in the above case, so that gain or loss accumulated in other comprehensive income would be reclassified to profit or loss on the derecognition of the investments, instead of non-recycling.

'Deletions or modifications' related to 'basis adjustments in cash flow hedges (including the accounting for the time value of options in hedge accounting)'

11. Under IFRS 9 (2013), if a hedged forecast transaction in a cash flow hedge subsequently results in the recognition of a non-financial asset or a non-financial liability, the amount of the gain or loss on the hedging instrument that has been accumulated in other comprehensive income should be removed from the cash flow hedge reserve and included directly in the initial or other carrying amount of the asset or the liability (paragraph 6.5.11(d) of IFRS 9 (2013)). Such treatment is commonly referred to as a 'basis adjustment'.

12. In the amendments to JMIS, 'deletions or modifications' were made regarding the basis adjustment described in paragraph 11 so that when the amount is removed from the cash flow hedge reserve, which is a component of equity, a corresponding amount is included in other comprehensive income in the statement of comprehensive income. The ASBJ decided to make this 'deletion or modification' in order to consistently assert its view that the difference between profit or loss and comprehensive income is essentially a timing difference, which is one of the reasons why the ASBJ argued that all items included in other comprehensive income must be recycled in the initial endorsement process.

13. The ASBJ also decided to make similar 'deletions or modifications' regarding the accounting for changes in the time value of options in certain circumstances such as in hedging the forecast purchase of goods in order to be consistent with the objective of making the 'deletions or modifications' described in paragraph 12. This is because a similar treatment as mentioned in paragraph 11 would be required for accumulated other comprehensive income related to the changes in the time value of those options.

Item for which 'deletions or modifications' were considered but were not made

14. As mentioned in paragraph 7, the ASBJ examined the new or amended Standards issued by the IASB during 2013 as listed in paragraph 3 in the light of criteria described in paragraphs 5 and 6. As a result, in addition to IFRS 9 (2013), the ASBJ considered whether 'deletions or modifications' are necessary for IFRIC 21.

15. IFRIC 21, as an interpretation of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, provides guidance on when to recognise a liability for a levy imposed on an entity in accordance with legislation. It provides that a liability to pay a levy should be recognised when the activity that triggers the payment of the levy (the obligating event) occurs. Although IFRIC 21 does not provide guidance for the debit side (such as when to recognise an expense), the timing of recognising a liability for a levy can affect the timing of recognising an expense

and thus might affect the usefulness of the resultant profit or loss. Accordingly, the ASBJ considered it from the viewpoint of fundamental thinking on accounting standards. In addition, the ASBJ also considered the difficulties in practice because the effect on the timing of recognising an expense may have some effects on internal management controls.

16. As a result of the deliberations, the ASBJ concluded that, although there might be difference in fundamental thinking on accounting standards, this item is not so significant to justify ‘deletions or modifications’ from the viewpoint of minimising ‘deletions or modifications’. Regarding the concern about the potential effects on internal management controls, the ASBJ concluded that, although future increases in the voluntary application of IFRSs may enlarge the actual effects attributable to the difference in the fundamental thinking on accounting standards and may require further consideration, at present it has not identified difficulties in practice that require ‘deletions or modifications’. In the light of these considerations, the ASBJ decided to accept IFRIC 21 in JMIS without any ‘deletions or modifications’.

Amendments to “Application of ‘Japan’s Modified International Standards’ ” and “ASBJ Modification Accounting Standard No. 2”

17. As a result of the considerations described in paragraphs 7-16, the ASBJ amended Appendix 1 *Standards Issued by the IASB and Adopted by the ASBJ* and Appendix 2 *ASBJ Modification Accounting Standards* of the *Application of “Japan’s Modified International Standards”* and ASBJ Modification Accounting Standard No. 2.

Effective date and transition

18. The ASBJ decided that *Application of “Japan’s Modified International Standards”* as amended as described in paragraph 17 should be effective from the annual reporting period beginning on or after the issuance date of this Standard when an entity prepares consolidated financial statements in accordance with JMIS.

19. Because of the concerns related to the complexities and lower comparability arising from coexistence of IFRS 9 *Financial Instruments* (2010) and IFRS 9 (2013), the ASBJ decided to adopt IFRS 9 (2013) only and to exclude IFRS 9 *Financial Instruments* (2010), which was adopted in the initial endorsement process, from Appendix 1 *Standards Issued by the IASB and Adopted by the ASBJ* of the *Application of “Japan’s Modified International Standards”*.