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Japan's Modified International Standards (JMIS): Accounting Standards Comprising IFRSs and the ASBJ Modifications

ASBJ Modification Accounting Standard No. 2

Accounting for Other Comprehensive Income

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Accounting Standards Board of Japan

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Objective

1. This Standard forms part of "Japan's Modified International Standards (JMIS): Accounting Standards Comprising IFRSs and the ASBJ Modifications". The objective of this Standard is to make 'deletions or modifications' to the Standards and Interpretations (collectively referred to as 'Standards') issued by the International Accounting Standards Board ('IASB') relating to the accounting for other comprehensive income and related presentation and disclosures.

2. The basis for conclusions accompanies, but does not form part of, this Standard.

3. [This paragraph is not used for the English version.]

Accounting Standard

Accounting

Changes in the fair value of investments in equity instruments measured at fair value through other comprehensive income

4. 'Deletions or modifications' shall be made to the requirements regarding the accounting for changes in the fair value of investments in equity instruments measured at fair value through other comprehensive income in IFRS 9 *Financial Instruments* (2013) ('IFRS 9 (2013)') in the following manner (new text is underlined and deleted text is struck through):

J-5.7.6A A gain or loss on an investment in an equity instrument for which an irrevocable election was made in accordance with paragraph 5.7.5 shall be recognised in other comprehensive income except for impairment losses (see paragraph J-5.7.6B) until the investment is derecognised. When the investment is derecognised, the cumulative gain or loss previously recognised in other comprehensive income shall be reclassified from accumulated other comprehensive income to profit or loss as a reclassification adjustment.

J-5.7.6B An entity shall assess at the end of each reporting period whether there is any objective evidence that an investment in an equity instrument for which an irrevocable election was made in accordance with paragraph 5.7.5 is impaired. If any such evidence exists, the cumulative loss previously recognised in other comprehensive income shall be reclassified from accumulated other comprehensive income to profit or loss as a reclassification adjustment.

J-5.7.6C In addition to the types of events listed in paragraph 59 of IAS 39, objective evidence of impairment for an investment in an equity instrument includes information about significant changes with adverse effects that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

J-5.7.6D The amount of the cumulative loss that is reclassified from accumulated other comprehensive income to profit or loss under paragraph J-5.7.6B shall be the difference between the acquisition cost and current fair value, less any impairment loss on that investment in an equity instrument previously recognised in profit or loss.

J-5.7.6E Impairment losses recognised in profit or loss for an investment in an equity instrument for which an irrevocable election was made in accordance with paragraph 5.7.5 shall not be reversed.

B5.7.1 Paragraph 5.7.5 permits an entity to make an irrevocable election to present in other comprehensive income changes in the fair value of an investment in an equity instrument that is not held for trading. This election is made on an instrument-by-instrument (ie share-by-share) basis. ~~Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss. However, the entity may transfer the cumulative gain or loss within equity.~~ Dividends on such investments are recognised in profit or loss in accordance with IAS 18 unless the dividend clearly represents a recovery of part of the cost of the investment.

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

4-2. ‘Deletions or modifications’ shall be made to the requirements regarding the accounting for fair value hedges of investments in equity instruments measured at fair value through other compresive income in IFRS 9 (2013) in the following manner (new text is underlined and deleted text is struck through):

J-6.5.8A The gain or loss on the hedging instrument shall be recognised in other comprehensive income, if the hedging instrument hedges an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income in accordance with paragraph 5.7.5. When profit or loss is recognised for that hedged item in accordance with either paragraph J-5.7.6A, J-5.7.6B or 5.7.6, the cumulative gain or loss for the hedging instrument previously recognised in other comprehensive income corresponding to the profit or loss for the hedged item shall be reclassified to profit or loss as a reclassification adjustment, regardless of the requirements in paragraphs 6.5.3 and 6.5.8.

Changes in the fair value of financial liabilities measured at fair value through profit or loss attributed to the changes in the issuer's own credit risk

5. 'Deletions or modifications' shall be made to the requirements regarding the accounting for changes in the fair value of financial liabilities measured at fair value through profit or loss attributed to the changes in the issuer's own credit risk in IFRS 9 (2013) in the following manner (new text is underlined and deleted text is struck through):

J-5.7.9A When the financial liability designated as at fair value through profit or loss in accordance with paragraph 5.7.7 is derecognised, the cumulative gain or loss previously recognised in other comprehensive income shall be reclassified from accumulated other comprehensive income to profit or loss as a reclassification adjustment.

If an entity repays or repurchases a portion of a financial liability, the entity shall allocate the cumulative gain or loss previously recognised in other comprehensive income between the portion that continues to be recognised and the portion that is derecognised based on the relative fair values of those portions on the date of the repayment or the repurchase. The amount allocated to the portion that is derecognised shall be reclassified from accumulated other comprehensive income to profit or loss as a reclassification adjustment.

B5.7.9 [Deleted] ~~Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss. However, the entity may transfer the cumulative gain or loss within equity.~~

Remeasurements of the net defined benefit liability (asset)

6. 'Deletions or modifications' shall be made to the requirements regarding the accounting for remeasurements of the net defined benefit liability (asset) in IAS 19 *Employee Benefits* in the following manner (new text is underlined and deleted text is struck through):

57 Accounting by an entity for defined benefit plans involves the following steps:

(a) determining the deficit or surplus. This involves:

(i) using an actuarial technique, the projected unit credit method, to make a reliable estimate of the ultimate cost to the entity of the benefit that employees have earned in return for their service in the current and prior periods (see paragraphs 67–69). This requires an entity to determine how much benefit is attributable to the current and prior periods (see paragraphs 70–74) and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that will affect the cost of the benefit (see paragraphs 75–98).

(ii) discounting that benefit in order to determine the present value of the defined benefit obligation and the current service cost (see paragraphs 67–69 and 83–86).

(iii) deducting the fair value of any plan assets (see paragraphs 113–115) from the present value of the defined benefit obligation.

(b) determining the amount of the net defined benefit liability (asset) as the amount of the deficit or surplus determined in (a), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling (see paragraph 64).

(c) determining amounts to be recognised in profit or loss, except for the amount to be reclassified from accumulated other comprehensive income to profit or loss as a reclassification adjustment determined in accordance with J-(e):

(i) current service cost (see paragraphs 70–74).

(ii) any past service cost and gain or loss on settlement (see paragraphs 99–112).

(iii) net interest on the net defined benefit liability (asset) (see paragraphs 123–126).

(d) determining the remeasurements of the net defined benefit liability (asset), to be recognised in other comprehensive income, comprising:

(i) actuarial gains and losses (see paragraphs 128 and 129);

(ii) return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 130); and

(iii) any change in the effect of the asset ceiling (see paragraph 64), excluding amounts included in net interest on the net defined benefit liability (asset).

J-(e) determining the amount within the cumulative amount of remeasurements of the net defined benefit liability (asset) that was recognised in other comprehensive income and accumulated in a separate component of equity to be reclassified from accumulated other comprehensive income to profit or loss as a reclassification adjustment (see paragraphs J-122A and J-122B).

Where an entity has more than one defined benefit plan, the entity applies these procedures for each material plan separately.

120 An entity shall recognise the components of defined benefit cost, except to the extent that another IFRS requires or permits their inclusion in the cost of an asset, as follows:

(a) service cost (see paragraphs 66–112) in profit or loss;

(b) net interest on the net defined benefit liability (asset) (see paragraphs 123–126) in profit or loss; ~~and~~

(c) remeasurements of the net defined benefit liability (asset) (see paragraphs 127–130) in other comprehensive income~~.~~; and

J-(d) the amount within the cumulative amount of remeasurements of the net defined benefit liability (asset) that was recognised in other comprehensive income and accumulated in a separate component of equity to be reclassified from accumulated other comprehensive income to profit or loss as a reclassification adjustment (see paragraphs J-122A and J-122B) in profit or loss.

122 [Deleted] ~~Remeasurements of the net defined benefit liability (asset) recognised in other comprehensive income shall not be reclassified to profit or loss in a subsequent period. However, the entity may transfer those amounts recognised in other comprehensive income within equity.~~

J-122A Any incurred amount of remeasurements of the net defined benefit liability (asset) that was recognised in other comprehensive income and accumulated in a separate component of equity shall generally be reclassified from accumulated other comprehensive income to profit or loss as a reclassification adjustment over the average remaining working lives of the employees (the estimated average period between now and retirement).

Notwithstanding the above, an entity is permitted to begin the reclassification to profit or loss as a reclassification adjustment from the period following the period in which remeasurements of the net defined benefit liability (asset) have incurred.

J-122B When a defined benefit plan is withdrawn or curtailed, the cumulative amount of remeasurements of the net defined liability (asset) that was recognised in other comprehensive income and accumulated in a separate component of equity that relates to the portion of the defined benefit plan that is withdrawn or curtailed, shall be determined based on a reasonable method, such as the relative present value of the defined benefit liability as of the date when the withdrawal or curtailment occurs. Such amounts shall be reclassified from accumulated other comprehensive income to profit or loss as a reclassification adjustment.

Basis adjustments in cash flow hedges

6-2. 'Deletions or modifications' shall be made to the requirements regarding basis adjustments in cash flow hedges in IFRS 9 (2013) in the following manner (new text is underlined and deleted text is struck through):

6.5.11 As long as a cash flow hedge meets the qualifying criteria in paragraph 6.4.1, the hedging relationship shall be accounted for as follows:

…

(d) the amount that has been accumulated in the cash flow hedge reserve in accordance with (a) shall be accounted for as follows:

(i) if a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or a hedged forecast transaction for a non-financial asset or a non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the entity shall remove that amount from the cash flow hedge reserve by recognising it in other comprehensive income and include it ~~directly~~ in the initial cost or other carrying amount of the asset or the liability. ~~This is not a reclassification adjustment (see IAS 1 *Presentation of Financial Statements*) and hence it does not affect other comprehensive income.~~

…

Accounting for the time value of options in hedge accounting

6-3. 'Deletions or modifications' shall be made to the requirements regarding accounting for the time value of options in hedge accounting in IFRS 9 (2013) in the following manner (new text is underlined and deleted text is struck through):

6.5.15 When an entity separates the intrinsic value and time value of an option contract and designates as the hedging instrument only the change in intrinsic value of the option (see paragraph 6.2.4(a)), it shall account for the time value of the option as follows (see paragraphs B6.5.29–B6.5.33):

…

(b) the change in fair value of the time value of an option that hedges a transaction related hedged item shall be recognised in other comprehensive income to the extent that it relates to the hedged item and shall be accumulated in a separate component of equity. The cumulative change in fair value arising from the time value of the option that has been accumulated in a separate component of equity (the ‘amount’) shall be accounted for as follows:

(i) if the hedged item subsequently results in the recognition of a non-financial asset or a non-financial liability, or a firm commitment for a non-financial asset or a non-financial liability for which fair value hedge accounting is applied, the entity shall remove the amount from the separate component of equity by recognising it in other comprehensive income and include it ~~directly~~ in the initial cost or other carrying amount of the asset or the liability. ~~This is not a reclassification adjustment (see IAS 1) and hence does not affect other comprehensive income.~~

…

Presentation

7. ‘Deletions or modifications’ shall be made to the requirements in IAS 1 *Presentation of Financial Statements* in the following manner (new text is underlined and deleted text is struck through):

96 Reclassification adjustments do not arise on changes in revaluation surplus recognised in accordance with IAS 16 or IAS 38 ~~or on remeasurements of defined benefit plans recognised in accordance with IAS 19~~. These components are recognised in other comprehensive income and are not reclassified to profit or loss in subsequent periods. Changes in revaluation surplus may be transferred to retained earnings in subsequent periods as the asset is used or when it is derecognised (see IAS 16 and IAS 38). ~~In accordance with IFRS 9, reclassification adjustments do not arise if a cash flow hedge or the accounting for the time value of an option (or the forward element of a forward contract or the foreign currency basis spread of a financial instrument) result in amounts that are removed from the cash flow hedge reserve or a separate component of equity,~~

~~respectively, and included directly in the initial cost or other carrying amount of an asset or a liability. These amounts are directly transferred to assets or liabilities.~~

Remeasurements of the net defined benefit liability (asset)

8. ‘Deletions or modifications’ shall be made to the requirements regarding the presentation of remeasurements of the net defined benefit liability (asset) in IAS 19 in the following manner (new text is underlined and deleted text is struck through):

134 Paragraph 120 requires an entity to recognise service cost and net interest on the net defined benefit liability (asset) in profit or loss and reclassify the cumulative amount of remeasurements of the net defined benefit liability (asset) that was recognised in other comprehensive income and accumulated in a separate component of equity from accumulated other comprehensive income to profit or loss as a reclassification adjustment. This Standard does not specify how an entity should present service cost, ~~and~~ net interest on the net defined benefit liability (asset) and the amount within the cumulative amount of remeasurements of the net defined benefit liability (asset) to be reclassified from accumulated other comprehensive income to profit or loss as a reclassification adjustment. An entity presents those components in accordance with IAS 1.

Disclosure

Changes in the fair value of investments in equity instruments measured at fair value through other comprehensive income

9. ‘Deletions or modifications’ shall be made to the requirements regarding the disclosure of changes in the fair value of investments in equity instruments measured at fair value through other comprehensive income in IFRS 7 *Financial Instruments: Disclosures* in the following manner (new text is underlined and deleted text is struck through):

11A If an entity has designated investments in equity instruments to be measured at fair value through other comprehensive income, as permitted by paragraph 5.7.5 of IFRS 9, it shall disclose:

(a) which investments in equity instruments have been designated to be measured at fair value through other comprehensive income.

(b) the reasons for using this presentation alternative.

(c) the fair value of each such investment at the end of the reporting period.

(d) dividends recognised during the period, showing separately those related to investments derecognised during the reporting period and those related to investments held at the end of the reporting period.

(e) [Deleted] ~~any transfers of the cumulative gain or loss within equity during the period including the reason for such transfers.~~

20 An entity shall disclose the following items of income, expense, gains or losses either in the statement of comprehensive income or in the notes:

(a) net gains or net losses on:

…

(vii) financial assets measured at fair value through other comprehensive income~~,~~ showing separately the amount of gains or losses recognised in other comprehensive income during the period and the amount reclassified from accumulated other comprehensive income to profit or loss during the period.

…

Changes in the fair value of financial liabilities measured at fair value through profit or loss attributed to the changes in the issuer's own credit risk

10. 'Deletions or modifications' shall be made to the requirements regarding the disclosure of changes in the fair value of financial liabilities measured at fair value through profit or loss attributed to the changes in the issuer's own credit risk in IFRS 7 in the following manner (new text is underlined and deleted text is struck through):

10 If the entity has designated a financial liability as at fair value through profit or loss in accordance with paragraph 4.2.2 of IFRS 9 and is required to present the effects of changes in that liability's credit risk in other comprehensive income (see paragraph 5.7.7 of IFRS 9), it shall disclose:

(a) the amount of change, cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability (see paragraphs B5.7.13–B5.7.20 of IFRS 9 for guidance on determining the effects of changes in a liability's credit risk).

(b) the difference between the financial liability's carrying amount and the amount the entity would be contractually required to pay at maturity to the holder of the obligation.

(c) [Deleted] ~~any transfers of the cumulative gain or loss within equity during the period including the reason for such transfers.~~

(d) if a liability is derecognised during the period, the amount (if any) presented in other comprehensive income that was realised at derecognition.

20 An entity shall disclose the following items of income, expense, gains or losses either in the statement of comprehensive income or in the notes:

(a) net gains or net losses on:

(i) financial assets or financial liabilities measured at fair value through profit or loss, showing separately those on financial assets or financial liabilities designated as such upon initial recognition or subsequently in accordance with paragraph 6.7.1 of IFRS 9, and those on financial assets or financial liabilities that are mandatorily measured at fair value in accordance with IFRS 9 (eg financial liabilities that meet the definition of held for trading in IFRS 9). For financial liabilities designated as at fair value through profit or loss, an entity shall show separately the amount of gain or loss recognised in other comprehensive income, ~~and~~ the amount recognised in profit or loss and the amount reclassified from accumulated other comprehensive income to profit or loss during the period.

…

Remeasurements of the net defined benefit liability (asset)

11. 'Deletions or modifications' shall be made to the requirements regarding the disclosure of remeasurements of the net defined benefit liability (asset) in IAS 19 in a following manner (new text is underlined and deleted text is struck through):

135 An entity shall disclose information that:

(a) explains the characteristics of its defined benefit plans and risks associated with them (see paragraph 139);

(b) identifies and explains the amounts in its financial statements arising from its defined benefit plans (see paragraphs 140–144 and J-144A); and

(c) describes how its defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows (see paragraphs 145–147).

J-144A An entity shall disclose the length of the period over which the cumulative amount of remeasurements of the net defined benefit liability (asset) that was recognised in other comprehensive income and accumulated in a separate component of equity is reclassified from accumulated other comprehensive income to profit or loss as a reclassification adjustment.

149 If an entity participates in a defined benefit plan that shares risks between entities under common control, it shall disclose:

(a) the contractual agreement or stated policy for charging the net defined benefit cost or the fact that there is no such policy.

(b) the policy for determining the contribution to be paid by the entity.

(c) if the entity accounts for an allocation of the net defined benefit cost as noted in paragraph 41, all the information about the plan as a whole required by paragraphs 135–147.

(d) if the entity accounts for the contribution payable for the period as noted in paragraph 41, the information about the plan as a whole required by paragraphs 135–137, 139, 142–144, J-144A and 147(a) and (b).

Effective Date

12. An entity shall apply this Standard as issued in June 2015 (the '2015 Standard') to consolidated financial statements for annual periods ending on or after 31 March 2016. Regarding quarterly financial reporting, an entity shall apply this Standard to consolidated interim financial statements for quarters within annual periods beginning on or after 1 April 2016.

12-2. An entity shall apply this Standard as amended in July 2016 (the '2016 Amendments') to consolidated financial statements for annual periods which IFRS 9 (2013) listed in Appendix 1 of *Application of "Japan's Modified International Standards"* as amended in July 2016 is first applied. Regarding quarterly financial reporting, an entity shall apply the 2016 Amendments to consolidated interim financial statements from the first quarter of that annual period.

Approval by the Board

13. The 2015 Standard was approved for issuance by all 12 Board members attending the 314th Board meeting of the Accounting Standards Board of Japan. The following Board members attended this Board meeting:

Yukio Ono (Chairman)
Takehiro Arai (Vice Chairman)
Atsushi Kogasaka (Vice Chairman)
Tomokazu Sekiguchi
Aiko Sekine
Yasuyuki Fuchita
Hisayoshi Masawaki
Kazuyuki Masu
Masao Yanaga
Katsuhito Yanagibashi
Minoru Yoshida
Hitoshi Watanabe

13-2. The 2016 Amendments was approved for issuance by all 12 Board members attending the 341st Board meeting of the Accounting Standards Board of Japan. The following Board members attended this Board meeting:

Yukio Ono (Chairman)
Atsushi Kogasaka (Vice Chairman)
Makoto Kaimasu
Yasunobu Kawanishi
Kengo Nishiyama
Ryota Yasui
Masao Yanaga
Katsuhito Yanagibashi
Yoshio Yukawa
Minoru Yoshida
Kazutaka Yoneda
Hitoshi Watanabe

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Basis for Conclusions

History of the project

14. The Accounting Standards Board of Japan ('ASBJ') started the endorsement process of International Financial Reporting Standards ('IFRS') in line with "The Present Policy on the Application of International Financial Reporting Standards (IFRS)" issued in June 2013 by the Business Accounting Council, an advisory body to the Financial Services Agency of Japan. The scope of the initial endorsement process covered the Standards issued by the IASB as at 31 December 2012.

15. In the initial endorsement process, based on the discussions at its Board meetings, the ASBJ decided to make 'deletions or modifications' to the Standards issued by the IASB relating to so-called 'non-recycling', where reclassification adjustments (recycling) will not be made for items previously recognised in other comprehensive income, because the ABSJ determined that the thinking in IFRS is critically different from the fundamental thinking on accounting standards generally accepted in Japan (see paragraphs 16-39).

15-2. After the initial endorsement process, the ASBJ undertook an endorsement process covering the Standards issued by the IASB during 2013. Having identified some items for which 'deletions or modifications' regarding non-recycling should be made during that process, on 17 March 2016, the ASBJ issued JMIS Exposure Draft No.2 [DRAFT] ASBJ Modification Accounting Standard No. 2 "Accounting for Other Comprehensive income" (the '2016 ED') for public comments. After considering the comments received on the 2016 ED, the ASBJ issued the 2016 Amendments (see paragraphs 40-52).

Basis for Conclusions of the 2015 Standard

Necessity of recycling of other comprehensive income

16. In existing IFRS, some items included in other comprehensive income are recycled and others are never recycled. Non-recycling is required for the following items:

    (a) changes in the fair value of investments in equity instruments measured at fair value through other comprehensive income in IFRS 9 *Financial Instruments* (2010);

    (b) changes in the fair value of financial liabilities measured at fair value through profit or loss attributed to the changes in the issuer's own credit risk in IFRS 9 (2010);

    (c) remeasurements of the net defined benefit liability (asset) in IAS 19 *Employees Benefits;* and

    (d) revaluation surplus under the revaluation model in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*.

17. The reasons for adopting non-recycling are explained in the Basis for Conclusions of individual Standards as follows:

(a) changes in the fair value of investments in equity instruments measured at fair value through other comprehensive income

(i) a gain or loss on those investments should be recognised once only; therefore, recognising a gain or loss in other comprehensive income and subsequently transferring it to profit or loss is inappropriate.

(ii) recycling of gains and losses to profit or loss would create something similar to the available-for-sale category in IAS 39 *Financial Instruments: Recognition and Measurement* and would create the requirement to assess the equity instruments for impairment, which had created application problems. That would not significantly improve or reduce the complexity of financial reporting for financial assets.

(b) changes in the fair value of financial liabilities measured at fair value through profit or loss attributed to the changes in the issuer's own credit risk

(i) the overall objective of other comprehensive income is not clarified, including when an item should be presented in other comprehensive income and whether amounts in other comprehensive income should be reclassified to profit or loss (and if so, when).

(ii) this accounting is consistent with the requirement in IFRS 9 that prohibits recycling for investments in equity instruments that are measured at fair value with changes presented in other comprehensive income.

(c) remeasurements of the net defined benefit liability (asset)

(i) there is no consistent policy on the reclassification of other comprehensive income to profit or loss in IFRS, and it would have been premature to address this matter in the context of the amendments made to IAS 19 in 2011.

(ii) it is difficult to identify a suitable basis to determine the timing and amount of such reclassifications.

(d) revaluation surplus under revaluation model for property, plant and equipment and intangible assets

In the Basis for Conclusions of IAS 16 and IAS 38, there is no explanation for the reasons for non-recycling of revaluation surplus under the revaluation model for property, plant and equipment and intangible assets.

18. In contrast, the ASBJ believes that profit or loss should be an all-inclusive measure and, thus, all

items included in other comprehensive income should be subsequently recycled to profit or loss, for the following reasons:

(a) profit or loss, as an overall measure of the performance of an entity, has been used as the basis for various key measures, including earnings per share. It has been noted that, in assessing the value of an entity, users of financial statements often rely on information about the flows in order to assess the prospects of future net cash inflows to the entity, and profit or loss is one of the most useful measures to which they can refer. Those users might think that profit or loss would not be useful if the integrity of profit or loss information is not supported by its consistency with the cash flows.

 The accumulated total profit or loss and the accumulated total cash flows over all accounting periods since the inception of the entity would be the same when all other comprehensive income items are recycled. On the other hand, if any other comprehensive income item is not recycled, some of the cash flows would never be reflected in profit or loss, which would change the fundamental characteristic of profit or loss and impair the usefulness of profit or loss as an overall measure of performance.

(b) the accumulated total comprehensive income would also be the same as the accumulated total cash flows over all accounting periods. However, the ASBJ does not think that comprehensive income can be an overall measure of performace to replace profit or loss, because comprehensive income contains changes in the measures of assets and liabilities that are not relevant from the viewpoint of reporting an entity's financial performance. Comprehensive income represents a mere change in net assets during the period on the basis of the measures that may still be subject to the uncertainty of cash flows in the light of the viewpoint of the nature of the investments, whereas profit or loss provides information about the actual results after uncertainty about the outcome of the entity's business activities has been sufficiently reduced in the light of the nature of the investments.

 In addition, profit or loss is considered to have more confirmatory value because it provides information about the actual results which provides feedback about assessments made in the past. The *Conceptual Framework for Financial Reporting* issued by the IASB states that relevant financial information is capable of making a difference in the decisions made by users if it has predictive value, confirmatory value or both.

(c) the ASBJ believes that the difference between comprehensive income and profit or loss should only arise from using, for certain assets and liabilities, a measurement basis for the balance sheet that is different from the measurement basis used for determining profit or loss. Accordingly, the diffenece can be viewed as essentially being a timing difference. In concept, recycling of all items included in other comprehensive income would ensure that the accumulated total profit or loss over all accounting periods since the inception of the entity would equal the accumulated total comprehensive income over all accounting periods since the inception of the entity.

(d) the ASBJ also believes that recycling of other comprehensive income is necessary from the viewpoint of stewardship. From the viewpoint of stewardship, profit or loss should be all-inclusive and, therefore, even the effects of non-recurring transactions or events should be included in profit or loss because they may affect the assessment of the capability of management.

19. The ASBJ decided to make 'deletions or modifications' to the Standards issued by the IASB to eliminate all of the non-recycling requirements and to require the recycling of all items included in other comprehensive income in principle, because the thinking in IFRS not to recycle all items included in other comprehensive income described above is critically different from the fundamental thinking on accounting standards generally accepted in Japan, that is to recycle all items included in other comprehensive income. However, the ASBJ decided not to make 'deletions or modifications' to the accounting for revaluation surplus under the revaluation model on property, plant and equipment and intangible assets, considering that it appears to have aspects different from other non-recycling items in that there is a conceptual debate as to whether revaluation surplus is based on the concept of physical capital maintenance.

20. The sections below describe the considerations in deciding on the specific 'deletions or modifications' regarding the items considered in the 2015 Standard, that is, changes in the fair value of investments in equity instruments measured at fair value through other comprehensive income, changes in the fair value of financial liabilities measured at fair value through profit or loss attributed to the changes in the issuer's own credit risk and remeasurements of the net defined benefit liability (asset).

Changes in the fair value of investments in equity instruments measured at fair value through other comprehensive income (paragraph 4)

21. IFRS 9 (2010) allows an entity to make an irrevocable election at initial recognition to present in other comprehensive income subsequent changes in the value of an investment in an equity instrument that is not held for trading (paragraph 5.7.5 of IFRS 9 (2010)). Recycling of the amounts presented in other comprehensive income to profit or loss is prohibited, even in the case of subsequent sales (paragraph B5.7.1 of IFRS 9 (2010)).

22. Non-recycling of accumulated other comprehensive income on investments in equity instruments for which the irrevocable option has been elected fails to reflect the ultimate cash flows on its sales in

profit or loss.

Some argue that gains or losses on the sales of such investments would not be useful because such gains or losses only represent the past record of the historical stock price movements. However, the ASBJ believes that it is necessary to recycle this item, which in this case would reflect the cash flows from the sales in profit or loss in order to maintain the usefulness of profit or loss information as an overall measure of performance.

In addition, the ASBJ also believes that it is necessary to report such gains or losses when the transactions occur in order to provide information regarding how efficiently and effectively an entity's management have discharged their responsibilities to use the entity's assets.

23. Similarly, similar to the treatments of other financial assets and other fixed assets, the ASBJ believes that it is also necessary to recognise impairment losses for investments in equity instruments, when the value of such investments declined to a certain extent in order to maintain the usefulness of profit or loss information as an overall measure of performance.

24. Based on the discussions above, the ASBJ decided to make 'deletions or modifications' to the Standards issued by the IASB to require that the cumulative gains or losses previously recognised in other comprehensive income should be reclassified to profit or loss as a reclassification adjustment on the derecognition of the investments in equity instruments for which the option had been elected. Consequently, the ASBJ decided to make 'deletions or modifications' to the requirement prohibiting subsequent reclassification of other comprehensive income to profit or loss and the requirement allowing transfers within equity. In addition, acknowledging that impairment requirements would be needed for investments in equity instruments for which changes in fair value are recognised in other comprehensive income rather than in profit or loss, the ASBJ decided to make 'deletions or modifications' to the Standards issued by the IASB to add the impairment requirements based on paragraph 61 of IAS 39.

25. To be consistent with the 'deletions or modifications' to require the recycling of other comprehensive income on investments in equity instruments for which the option has been elected, the ASBJ also considered making 'deletions or modifications' to the disclosure requirements. In the light of the disclosures required by paragraphs 11A and 20 of IFRS 7, the ASBJ decided to make 'deletions or modifications' to the disclosure requirements regarding transfers of accumulated gains or losses within equity during the period, and to require separate disclosures for the amount of gains or losses recognised in other comprehensive income during the period and the amount reclassified from accumulated other comprehensive income to profit or loss during the period.

Changes in the fair value of financial liabilities measured at fair value through profit

or loss attributed to the changes in the issuer's own credit risk (paragraph 5)

26. IFRS 9 (2010) requires an entity to present in other comprehensive income the amount of changes in the fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the entity's own credit risk, unless it creates or enlarges an accounting mismatch in profit or loss (paragraph 5.7.7 of IFRS 9 (2010)). The related accumulated other comprehensive income would not be recycled to profit or loss, even when the liability is derecognised (paragraph B5.7.9 of IFRS 9 (2010)).

27. Non-recycling of other comprehensive income for changes in the fair value of financial liabilities designated as at fair value through profit or loss attributable to the entity's own credit risk fails to reflect in profit or loss the actual cash flows arising from the prepayment or repurchase of the liabilities. In order to maintain the usefulness of profit or loss information as an overall measure of performance, it is necessary to recycle this item, which in this case would reflect the realised credit risk in profit or loss.

    Accordingly, the ASBJ decided to make 'deletions or modifications' to the Standards issued by the IASB to require that the cumulative gains or losses previously recognised in other comprehensive income should be reclassified to profit or loss as a reclassification adjustment on the derecognition of those financial liabilities, and to make 'deletions or modifications' to the requirement prohibiting subsequent reclassification of other comprehensive income to profit or loss and the requirement allowing transfers within equity.

    In addition, when an entity repays or repurchases a portion of a financial liability, the ASBJ decided to require the entity to allocate the cumulative gain or loss previously recognised in other comprehensive income between the portion that continues to be recognised and the portion that is derecognised based on the relative fair values of those portions on the date of the repayment or the repurchase. The ASBJ also decided to require the entity to reclassify the amount allocated to the portion that is derecognised from accumulated other comprehensive income to profit or loss as a reclassification adjustment, similar to the requirements in paragaraph 3.3.4 of IFRS 9.

28. To be consistent with the 'deletions or modifications' to require the recycling of other comprehensive income for the changes in fair value of financial liabilities measured at fair value through profit or loss attributed to the changes in the issuer's own credit risk, the ASBJ also considered making 'deletions or modifications' to the disclosure requirements. The ASBJ decided to make 'deletions or modifications' to the disclosure requirements regarding transfers of accumulated gains or losses within equity during the period, and to require the disclosure of the amount reclassified to profit or loss during the period.

Remeasurements of the net defined benefit liability (asset) (paragraph 6)

29. IAS 19 (revised in 2011) requires remeasurements of the net defined benefit liability (asset) to be immediately recognised in other comprehensive income and prohibits the subsequent reclassification of the amount recognised in other comprehensive income to profit or loss (paragraphs 120 and 122 of IAS 19).

30. Non-recycling of other comprehensive income for remeasurements of the net defined benefit liability (asset) would result in remeasurements of the net defined benefit liability (asset) never being reflected in profit or loss, which would impair the all-inclusiveness of profit or loss information and its usefulness as an overall measure of performance. Accordingly, the ASBJ decided to make 'deletions or modifications' to the Standards issued by the IASB to require that the cumulative gains or losses on remeasurements of the net defined benefit liability (assets) that was previously recognised in other comprehensive income should be subsequently reclassified to profit or loss as a reclassification adjustment. Consequently, the ASBJ decided to make 'deletions or modifications' to the requirement prohibiting subsequent reclassification of other comprehensive income to profit or loss as well as the requirement allowing transfers within equity.

31. The ASBJ deliberated how to account for remeasurements of the net defined benefit liabilities (assets). Firstly, the ASBJ considered whether they should be immediately recognised in profit or loss when the net defined benefit liabilities (assets) are remeasured or in future periods. The ASBJ believes that it is appropriate to recognise them in profit or loss in future periods, because the immediate recognition of short-term fluctuations of the fair values of plan assets and discount rates in profit or loss would not necessarily be relevant from the viewpoint of reporting financial performance, given that defined benefit plans are of a long-term nature.

32. When remeasurements of the net defined benefit liabilities (assets) are recognised in future periods, the ASBJ believes that such remeasurements should initially be recognised in other comprehensive income and recycled in the subsequent periods. Regarding how to recycle remeasurements of the net defined benefit liabilities (assets), the Exposure Draft proposed to recycle the amount over the average remaining working lives, as a proxy for recycling remeasurements based on when the actual payments are made to individual employees. This was based on the notion of recycling the accumulated other comprehensive income corresponding to the defined benefit obligations and plan assets that have decreased due to the payments of retirement benefits to individual employees.

33. Because some respondents suggested that the rationale for recycling in the Exposure Draft was not sufficiently persuasive, the ASBJ redeliberated this issue after the comment period ended. In the redeliberations, it was suggested that remeasurements of the net defined benefit liabilities (assets) should be recycled over the average remaining working lives because it would be appropriate to allocate them in relation to the services provided by employees. This presumes that employee

benefits are paid when an employee provides services and that the net defined benefit liabilities (assets) are calculated based on the assumption that retirement benefits to be paid as consideration for the services provided by employees will be allocated over their working lives.

34. The notion in the Exposure Draft, as described in paragraph 32, was based on the view that the effects of differences in the estimates arising on the net defined benefit liabilities (assets) should be retained until the derecognition of related assets or liabilities and that they should recognised in profit or loss (recycled) on their derecognition. On the other hand, the notion described in paragraph 33 is based on the view that the effects of differences in estimates arising on the net defined benefit liabilities (assets) should be allocated to future periods in relation to services provided by employees and recognised in profit or loss in those periods. Both notions gained support in the redeliberations and both notions support the accounting treatment proposed in the Exposure Draft. Also referring to the existing Japanese accounting standards, the ASBJ decided that remeasurements of the net defined benefit liabilities (assets) should be recycled over the average remaining working lives.

35. In connection with the decision to require the recycling of remeasurements of the net defined liability (asset), the ASBJ also considered whether to make ‘deletions or modifications’ in relation to the following issues:

    (a) past service cost; and

    (b) the net interest approach.

36. IAS 19 requires an entity to recognise past service cost as an expense in the period when they are incurred. Some suggested that ‘deletions or modifications’ should be made to this requirement and require the recognition of past service cost on a prospective basis, because plan amendments, which give rise to past service cost, are often made in anticipation of enhancing employees’ morale over future periods and, therefore, it is inappropriate to immediately recognise past service cost as an expense.

37. Under the net interest approach in IAS 19, expected returns on plan assets are determined by multiplying the discount rate with the fair value of the plan assets. Some also suggested that ‘deletions or modifications’ should be made to this requirement because this approach does not provide a faithful representation of the expected returns on the plan assets as it ignores factors such as the composition of the plan assets and the risk profile of the portfolio, which actually affect the expectations of the returns on the plan assets.

38. However, from the viewpoint of minimising ‘deletions or modifications’ to the extent possible, the ASBJ decided not to make ‘deletions or modifications’ regarding the two issues mentioned above, limiting the ‘deletions or modifications’ to non-recycling of other comprehensive income and not

addressing the broader issue of how to determine the amounts to be recognised in other comprehensive income.

39. To be consistent with the 'deletions or modifications' to require the recycling of other comprehensive income for remeasurements of the net defined benefit liability (assets), the ASBJ also considered making 'deletions or modifications' to the disclosure requirements. The ASBJ decided to require disclosure of the length of the period over which the amount of remeasurements recognised in other comprehensive income is reclassified to profit or loss, in order to provide users of financial statements with the information regarding how the net defined benefit liability (assets) is to be recycled.

Basis for Conclusions of the 2016 Amendments to the Standard

Additional items of 'deletions or modifications'

40. In the 2016 Amendments, 'deletions or modifications' regarding the 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, the basis adjustments in cash flow hedges and the accounting for the time value of options in hedge accounting were added. Considerations of these items are discussed in paragraphs 41-44, 45-50 and 51-52, respectively.

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 (paragraph 4-2)

41. 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 (paragraphs 6.5.8 and BC6.115 of IFRS 9 (2013)).

42. As a result, IFRS 9 (2013) added another non-recycling item. However, in the initial endorsement process, 'deletions or modifications' were made 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 investment, instead of non-recycling (see paragraphs 4 and 24). Accordingly, the 2016 Amendments made 'deletions or modifications' corresponding to the above 'deletions or modifications' so that the gain or loss on the hedging instruments would also be reclassified to profit or loss, consistently with the gain and loss on the hedged items that are accumulated in other comprehensive income (see paragraph 4-2).

43. Regarding how to make the 'deletions or modifications' for this issue, the ASBJ considered, in

developing the 2016 ED, an alternative that would permit a method similar to accounting for fair value hedge from the viewpoint of ensuring consistency with the treatment in Japanese GAAP. Some respondents to the 2016 ED also suggested this alternative from the viewpoint of consistency with fair values hedges of available-for-sale financial assets under IAS 39 and convenience in practice. However, the ASBJ decided not to permit a method similar to accounting for fair value hedge, because (i) the problem identified in IFRS 9 (2013) was that the gain or loss on the hedging instrument was not recycled and remained in other comprehensive income and, accordingly, recognising the gain or loss in profit or loss when changes in fair value of the hedging instrument arises would not directly address that problem and (ii) in order to focus on the necessity of recycling such an alternative should not be provided.

44. The ASBJ also considered another alternative that would require the recognition of the ineffective portion of those hedges in profit or loss. However, the ASBJ decided not to include this alternative, from the viewpoint of emphasising the notion that all items included in other comprehensive income should be subsequently reclassified to profit or loss.

Basis adjustments in cash flow hedges (paragraph 6-2)

45. 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. Such treatment is commonly referred to as a ‘basis adjustment’. IFRS 9 (2013) states that this is not a reclassification adjustment and hence it does not affect other comprehensive income (paragraph 6.5.11(d) of IFRS 9 (2013)), which is a change from the treatment under IAS 39.

46. The IASB made such a change mainly for the following reasons (paragraphs BC6.380 and BC6.381 of IFRS 9 (2013)):

    (a) Accounting for the basis adjustment as a reclassification adjustment would distort comprehensive income because the amount would affect comprehensive income twice but in different periods: first (in other comprehensive income) in the period in which the non-financial item is recognised; and again in the later periods when the non-financial item affects profit or loss (for example, through depreciation expense or cost of sales).

    (b) Presenting a basis adjustment as a reclassification adjustment would create the misleading impression that the basis adjustment was a performance event.

    The IASB acknowledged that, as a result of such a change, total comprehensive income will not reflect the changes in net assets (other than those from transactions with owners in their capacity as owners) over all periods because the gain or loss on the hedging instrument is recognised in other comprehensive income whereas the cumulative hedging gain or loss is included directly in the initial or other carrying amount of a non-financial asset or a non-financial liability without affecting comprehensive income. However, the IASB made the change because of concerns related to the effects on comprehensive income in the period in which the basis adjustment is made.

47. As described in paragraph 18, the 2015 Standard explained the ASBJ's rationale for requiring all items included in other comprehensive income to be subject to subsequent reclassification to profit or loss, stating 'the ASBJ believes that the difference between comprehensive income and profit or loss should only arise from using, for certain assets and liabilities, a measurement basis for the balance sheet that is different from the measurement basis used for determining profit or loss. Accordingly, the difference can be viewed as essentially being a timing difference', and 'in concept, recycling of all items included in other comprehensive income would ensure that the accumulated total profit or loss over all accounting periods since the inception of the entity would equal the accumulated total comprehensive income over all accounting periods since the inception of the entity' (see paragraph 18(c)). Thus the ASBJ's argument for the 'deletions or modifications' regarding non-recycling is based on the reasoning that the difference between profit or loss and comprehensive income is essentially a timing difference.

48. Under the treatment of basis adjustments under IFRS 9 (2013), certain changes in net assets (other than those changes resulting from transactions with owners in their capacity as owners) would not be reflected in comprehensive income and thus the difference between profit or loss and comprehensive income would include a difference other than a timing difference and total profit or loss for all periods would not equal comprehensive income for all periods. Therefore, in order to consistently assert its view regarding the relationship between profit or loss and comprehensive income as described in paragraph 47, the ASBJ decided to make 'deletions or modifications' regarding the treatment of basis adjustments in IFRS 9 (2013). In other words, the ASBJ believes that making 'deletions or modifications' even for the treatments such as the basis adjustments, which may not directly relate to the recycling to profit or loss, would emphasise the notion underpinning the ASBJ's argument for recycling to profit or loss that changes in net assets (other than those changes resulting from transactions with owners in their capacity as owners) over all accounting periods should be reflected in both profit or loss and comprehensive income.

49. On this point the IASB changed the treatment for the two reasons described in paragraph 46. However, the ASBJ does not believe that those reasons are sufficiently persuasive, because:

(a) Regarding the IASB's concern that the comprehensive income would be affected twice, the ASBJ believes that the two effects have separate meanings and thus there is no particular problem. That is, the effect on comprehensive income in the period in which the non-financial item is recognised represents the deduction of other comprehensive income recognised for the hedging instruments before the recognition of the non-financial item and thereby would ensure that the total comprehensive income would reflect the changes in net assets (other than those changes resulting from transactions with owners in their capacity as owners) for all periods. The effect on comprehensive income in the later periods when the non-financial item affects profit or loss reflects the gain or loss on the hedging instrument included in the asset or the liability in comprehensive income through profit or loss.

(b) Regarding the IASB's concern about the misleading impression that the basis adjustment was a performance event, the ASBJ believes that other comprehensive income arising from basis adjustments would cause no problem from the viewpoint of performance reporting. The ASBJ does not consider the other comprehensive income arising from basis adjustments as performance, because it considers comprehensive income as the change in net assets (other than those changes resulting from transaction with owners in their capacity as owners) during a period, measured by applying the measurement basis that is relevant from the viewpoint of reporting the entity's financial position to the recognised assets and liabilities that comprise such net assets.

50. During the deliberations, some argued that 'deletions or modifications' should not be made regarding the basis adjustments in IFRS 9 (2013) from the viewpoint of minimising 'deletions or modifications', because it is an issue of whether the change is recognised in other comprehensive income when the amount is removed from the cash flow hedge reserve and does not affect profit or loss. However, the ASBJ decided to make the 'deletions or modifications', considering that the notion described in paragraph 47 is important to express its view regarding the necessity of recycling to profit or loss.

Accounting for the time value of options in hedge accounting (paragraph 6-3)

51. Paragraph 6.5.15 of IFRS 9 (2013) requires that changes in the time value of options be recognised in other comprehensive income when an entity designates as the hedging instrument only the change in intrinsic value of the options in certain circumstances such as in the hedging of the forecast purchase of goods. It also requires that, if the hedged item subsequently results in the recognition of a non-financial asset or non-financial liability, the entity should remove the amount from the separate component of equity and include it directly in the initial cost or other carrying amount of the asset or the liability. The ASBJ decided to make 'deletions or modifications' for the accounting for the time value of options because this treatment was similar to 'basis adjustments in cash flow hedges', on which 'deletions or modifications' were made in paragraph 6-2.

52. Paragraph 6.5.16 of IFRS 9 (2013) stipulates that, when an entity separates the forward element and the spot element of a forward contract and designates as the hedging instrument only the change in the value of the spot element, the entity may apply paragraph 6.5.15 to the forward element in the same manner as it is applied to the time value of an option. Although this treatment is also subject to ‘deletions or modifications’, no additional ‘deletions or modifications’ are needed because the ‘deletions or modifications’ made on paragraph 6.5.15 are automatically reflected in the treatment under paragraph 6.5.16.

（Translation for reference purpose only）