（Translation for reference purpose only）

Amendments to ASBJ Modification Accounting Standard No. 2, *Accounting for Other Comprehensive Income* (comparative version)

25 July 2016

※New text and deleted text are shaded.

As amended	As Issued in June 2015
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** 30 June 2015 Amended 25 July 2016 Accounting Standards Board of Japan	**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** 30 June 2015 Accounting Standards Board of Japan
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): …	**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* (2010) ('IFRS 9 (2010)') in the following manner (new text is underlined and deleted text is struck through): …
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)	[Added]

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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): …	**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 (2010) in the following manner (new text is underlined and deleted text is struck through): …
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: …	[Added]

As amended	As Issued in June 2015
(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	[Added]

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<table>
<tr><th>As amended</th><th>As Issued in June 2015</th></tr>
<tr><td>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.~~

…</td><td></td></tr>
<tr><td>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.~~</td><td>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).</td></tr>
</table>

As amended	As Issued in June 2015
Disclosure **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): … 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. …	**Disclosure** **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): … 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, 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. …
Effective Date 12. An entity shall apply this Standard as issued in June 2015 (the '2015	**Effective Date** 12. An entity shall apply this Standard to consolidated financial statements for

<table>
<tr><th>As amended</th><th>As Issued in June 2015</th></tr>
<tr><td>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.</td><td>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.</td></tr>
<tr><td>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.</td><td>[Added]</td></tr>
<tr><td>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:

…</td><td>Approval by the Board
13. This 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:

…</td></tr>
<tr><td>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</td><td>[Added]</td></tr>
<tr><td>Basis for Conclusions</td><td>Basis for Conclusions</td></tr>
</table>

As amended	As Issued in June 2015
History of the project 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).	**History of the project** 15. 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.
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).	[Added]
Basis for Conclusions of the 2015 Standard **Necessity of recycling of other comprehensive income** ...	**Necessity of recycling of other comprehensive income** ...
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).	20. The sections below describe the considerations in deciding on the specific 'deletions or modifications' regarding 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) ...	**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	**Changes in the fair value of financial liabilities measured at fair**

(Translation for reference purpose only)

<table>
<tr><th>As amended</th><th>As Issued in June 2015</th></tr>
<tr><td>value through profit or loss attributed to the changes in the issuer's own credit risk (paragraph 5)
...</td><td>value through profit or loss attributed to the changes in the issuer's own credit risk
...</td></tr>
<tr><td>Remeasurements of the net defined benefit liability (asset) (paragraph 6)
...</td><td>Remeasurements of the net defined benefit liability (asset)
...</td></tr>
<tr><td>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.</td><td>[Added]</td></tr>
<tr><td>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</td><td>[Added]</td></tr>
</table>

As amended	As Issued in June 2015
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	[Added]

As amended	As Issued in June 2015
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	

As amended	As Issued in June 2015
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	

As amended	As Issued in June 2015
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)	[Added]

（Translation for reference purpose only）

As amended	As Issued in June 2015
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.	