Accounting Standards Board of Japan (ASBJ)

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

Re: Comments on Exposure Draft *Annual Improvements to IFRSs 2015-2017 Cycle*

1. The Accounting Standards Board of Japan (the "ASBJ" or "we") welcome the opportunity to provide our comments on the International Accounting Standards Board's ("IASB") Exposure Draft *Annual Improvements to IFRSs 2015-2017 Cycle* (the "ED"), issued in January 2017.

2. We believe that the proposed amendments to IAS 28 *Investments in Associates and Joint Ventures* would be inappropriate, because that essentially may result in the double counting of losses for long-term interests. We think that, if IFRS 9 were to be applied to long-term interests based on the proposals in the ED, other requirements should be reviewed so that the losses are not double counted. In addition, we think that the accounting for long-term interests should be reconsidered as part of a comprehensive review of the equity method, taking into account that long-term interests include various types of interests.

3. We believe the transitional provisions for entities that have already adopted IFRS and first-time adopters should not be different, especially for relatively minor amendments to IFRS Standards such as annual improvements. Our understanding is that the proposals to amend IAS 23 *Borrowing Costs* and IAS 28 in the ED have differences in the transitional provisions. Such differences create complexity that is unnecessary and thus should be eliminated.

4. For our comments on the specific questions to the ED, please refer to Appendix of this letter.

5. We hope that our comments will contribute to the IASB's deliberations. If you have any questions, please feel free to contact us.

Yours sincerely,

Yasunobu Kawanishi

Chairman of the Technical Committee for IFRS Implementation

Accounting Standards Board of Japan

Appendix

Question 1—Proposed amendments (Income tax consequences of payments on financial instruments classified as equity)
Do you agree with the Board's proposal to amend the Standards in the manner described in the Exposure Draft? If not, why, and what alternative do you propose?

1. We do not disagree with the proposed amendments to IAS 12 *Income Taxes* for the reasons described in paragraphs BC2 to BC4 of the ED.

2. However, we think that the benefits of the proposal would be limited due to the lack of clarification on whether all or part of the "interest" payments on the perpetual bonds, as raised in the original submission, qualifies as dividends (distributions of profits). Possible approaches to further improve the proposal include, for example, defining "dividends" in IAS 12 and providing additional guidance regarding how to distinguish income tax consequences of dividends that are recognised in profit or loss from those that are recognised outside of profit or loss.

Question 1—Proposed amendments (Borrowing costs eligible for capitalisation)
Do you agree with the Board's proposal to amend the Standards in the manner described in the Exposure Draft? If not, why, and what alternative do you propose?

3. We agree with the proposed amendments to IAS 23 for the reasons described in the ED. However, we suggest the IASB to consider the following point:

   (a) Instead of using a negative expression as proposed in paragraph 14 of IAS 23, "An entity shall exclude from this calculation borrowings made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare that asset for its intended use or sale are complete" and state what should be excluded from the calculation, we think an affirmative phrase shall be used to state what should be included in general borrowings. Specifically, we think the description in paragraph BC2 of IAS 23, "If any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing then becomes part of the funds that an entity borrows generally" is easier to understand.

Question 1—Proposed amendments (Long-term interests in an associate or joint venture)
Do you agree with the Board's proposal to amend the Standards in the manner described in the Exposure Draft? If not, why, and what alternative do you propose?

4. We disagree with the proposed amendments to IAS 28 for the following reasons:

   (a) We think that the accounting for long-term interests should be reconsidered as part of a comprehensive review of the equity method, taking into account that long-term interests include various types of interests.

   (b) However, it is likely that a comprehensive review of the equity method will take a considerable amount of time before the amended standard becomes effective. In order to reduce diversity in practice, we think that it would be useful to amend existing standards as a temporary treatment.

   (c) Even in that case, we believe that it would be inappropriate to allocate the entity's share of the losses of an associate or joint venture to long-term interests by applying paragraph 38 of IAS 28 after the measurement requirements in IFRS 9 are applied to those long-term interests, because that essentially may result in the double counting of losses. We think that, if IFRS 9 were to be applied to long-term interests based on the proposals in the ED, other requirements should be reviewed so that the losses are not double counted.

Question 2—Effective date of the proposed amendments to IAS 28 Investments in Associates and Joint Ventures
The Board is proposing an effective date of 1 January 2018 for the proposed amendments to IAS 28. The reasons for that proposal are explained in paragraphs BC7–BC9 of the Basis for Conclusions on the proposed amendments to IAS 28. Do you agree with the effective date for those proposed amendments? If not, why, and what alternative do you propose?

5. We agree with the effective date of the proposed amendments to IAS 28 for the reasons described in the ED.

6. We also agree with the transitional provisions, as proposed in the ED, regarding the proposed amendments to IAS 28. However, we find the proposed transitional provisions difficult to understand because the option that the entity would not be required to restate comparative information is not clearly stated in proposed paragraph 45F of IAS 28 in the ED.

7. Therefore, regarding the transitional provisions, we recommend using the following wording, which is based on the October 2016 IASB Update:

   > An entity shall apply the amendments retrospectively in accordance with IAS 8 for annual periods beginning on or after 1 January 2018.
   >
   > However, if an entity does not restate comparative information on initial application of IFRS 9, it is not required to restate comparative information when it first applies the proposed amendments, but may choose to do so to reflect the application of IAS 39 in the comparative period.

Other comments — Transitional provisions for entities that have already adopted IFRS Standards and first-time adopters

8. In Japan, voluntary application of IFRS Standards is permitted, and the number of entities adopting IFRS Standards has been increasing year by year. Unlike other jurisdictions that have adopted IFRS Standards at once, IFRS 1 continues to be an important part of IFRS Standards.

9. We believe the transitional provisions for entities that have already adopted IFRS and first-time adopters should not be different, especially for relatively minor amendments to IFRS Standards such as annual improvements. Our understanding is that the proposals to amend IAS 23 and IAS 28 in the ED have differences in the transitional provisions. In particular:

   (a) The proposed amendments to IAS 23 provide transitional provisions for entities that have already adopted IFRS Standards but do not provide short-term exemptions to first time adopters by making consequential amendments to IFRS 1. Consequently, when the first IFRS reporting period begins after the effective date of the proposed amendment of IAS 23, first-time adopter would be required to apply the amendment retrospectively from the date of transition or from the date specified in accordance with paragraph D23 of IFRS 1.

   (b) The transitional provisions for the proposed amendments to IAS 28 clearly state that entities that have already adopted IFRS Standards may choose to restate comparative information to reflect the application of IAS 39. However, reading the exemption of the proposed consequential amendments to IFRS 1, it is unclear whether first-time adopters who present comparative information that does not reflect the application of IFRS 9 (2014) may choose to reflect the application of the proposed amendments of IAS 28 in such comparative information.

   (c) The transitional provisions for the proposed amendments to IAS 28 clearly state the treatment for insurers who have already adopted IFRS Standards and apply the temporary exemption from IFRS 9 in accordance with IFRS 4 *Insurance Contracts*. However, reading the exemption of the proposed consequential amendments to IFRS 1, the treatment for insurers who are first-time adopters is not specified. Therefore, it is unclear whether insurers who are first-time adopters of IFRS Standards and apply the temporary exemption from IFRS 9 in accordance with IFRS 4 can apply the exemption of the proposed consequential amendments to IFRS 1.

These differences create complexity that is unnecessary and thus should be eliminated.