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Comments on Exposure Draft (ED/2019/2) *Annual Improvements to IFRS Standards 2018-2020* Relating to IFRS 1 *First-time Adoption of International Financial Reporting Standards*

1. The Accounting Standards Board of Japan (the "ASBJ" or "we") welcome the opportunity to provide our comments on the International Accounting Standards Board ("IASB")'s Exposure Draft (ED/2019/2) *Annual Improvements to IFRS Standards 2018-2020* (the "ED"), issued in May 2019.

2. Regarding the proposed amendment to IFRS 1 *First-time Adoption of International Financial Reporting*, we agree that, when a subsidiary that becomes a first-time adopter later than its parent applies paragraph D16(a) of IFRS 1 and measures its assets and liabilities based on the parent's date of transition to IFRSs, measuring the cumulative translation differences (CTDs) based on the parent's date of transition to IFRSs would reduce costs for many first-time adopters without being detrimental to users of financial statements.

3. However, the requirement to measure the CTDs based on the parent's date of transition to IFRSs may not reduce costs for some subsidiaries. This may be the case, for example, when the parent directly consolidates each of its subsidiaries and the accounting records of the CTDs for such subsidiaries based on the parent's date of transition to IFRSs are not known. In this regard, we think the current proposal may not achieve the IASB's objective of amending IFRS 1 as stated in the ED.

4. Accordingly, consistent with our comments on the Tentative Agenda Decision relating to this issue (see Appendix 2), we believe that IFRS 1 should be amended so that a subsidiary that applies paragraph D16(a) of IFRS 1 and measures its assets and liabilities based on the parent's date of transition to IFRSs may choose to measure the CTDs based on either the parent's date of transition to IFRSs or on the subsidiary's date of transition to IFRSs.

5. For our comments on the specific questions to the ED, please refer to Appendix 1 of this letter.

6. We hope our comments are helpful for the IASB's consideration in the future. If you have any questions, please feel free to contact us.

Yours sincerely,

Atsushi Kogasaka
Chair
Accounting Standards Board of Japan

Appendix 1

Question—Proposed amendments (Subsidiary as a first-time adopter)
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 do you recommend instead?

1. Regarding the proposed amendment to IFRS 1 *First-time Adoption of International Financial Reporting*, we agree that, when a subsidiary that becomes a first-time adopter later than its parent applies paragraph D16(a) of IFRS 1 and measures its assets and liabilities based on the parent's date of transition to IFRSs, measuring the CTDs based on the parent's date of transition to IFRSs would reduce costs for many first-time adopters without being detrimental to users of financial statements.

2. However, the requirement to measure the CTDs based on the parent's date of transition to IFRSs may not reduce costs for some subsidiaries. This may be the case, for example, when the parent directly consolidates each of its subsidiaries and the accounting records of the CTDs for such subsidiaries based on the parent's date of transition to IFRSs are not known.

3. Based on the existing IFRS 1, a subsidiary that chooses to apply paragraph D16(a) of IFRS 1 recognises the CTDs either at zero or on a retrospective basis at its date of transition to IFRSs. The proposal in the ED eliminates the current exemption available to a subsidiary to recognise the CTDs at zero at its date of transition to IFRSs. In this regard, we think the current proposal may not achieve the IASB's objective of amending IFRS 1 as stated in the ED, that is, to reduce costs for the first-time adopter due to the elimination of the exemption.

4. Accordingly, consistent with our comments on the Tentative Agenda Decision relating to this issue (see Appendix 2), we believe that IFRS 1 should be amended so that a subsidiary that applies paragraph D16(a) of IFRS 1 and measures its assets and liabilities based on the parent's date of transition to IFRSs may choose to measure the CTDs based on either the parent's date of transition to IFRSs or on the subsidiary's date of transition to IFRSs.

5. In particular, we recommend amending paragraph D13 of IFRS 1 as follows (new text is underlined).

IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Cumulative translation differences

D13 However, a first-time adopter need not comply with these requirements for cumulative translation differences that existed at the date of transition to IFRSs.

If a first-time adopter uses this exemption:

(a) the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to IFRSs; and

(b) the gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition to IFRSs and shall include later translation differences.

<u>If a subsidiary that becomes a first-time adopter later than its parent applies paragraph D16(a) of IFRS 1, that subsidiary may choose to apply this paragraph by replacing the references to 'the date of transition to IFRSs' in this paragraph with 'the parent's date of transition to IFRSs'. Similarly, if an associate or joint venture that becomes a first-time adopter later than an entity that has significant influence or joint control over it applies paragraph D16(a) of IFRS 1, that associate or joint venture may choose to apply this paragraph by replacing the references to 'the date of transition to IFRSs' in this paragraph with 'the date of transition to IFRSs of the entity that has significant influence' or 'the date of transition to IFRSs of the entity that has joint control'.</u>

6. Based on paragraph BC54 of IFRS 1, our understanding is that paragraph D13 of IFRS 1 permits a first-time adopter to reset the CTDs at zero at the date of transition to IFRSs so that the first-time adopter could keep control of the CTDs for each foreign operation and appropriately transfer the CTDs to the income statement when the foreign operation is disposed of. We believe that this treatment not only reduces the practical burden on the first-time adopter but also improves the benefits to users, from the viewpoint of transparency and comparability. Accordingly, we think it is

appropriate to maintain the current exemption to reset the CTDs at zero at the subsidiary’s date of transition to IFRSs.

Accounting Standards Board of Japan (ASBJ)

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22 May 2017

IFRS Interpretations Committee
International Accounting Standards Board
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Comments on the Tentative Agenda Decision Relating to IFRS 1 *First-time Adoption of International Financial Reporting Standards* —Subsidiary as a first-time adopter

1. The Accounting Standards Board of Japan (the "ASBJ") welcomes the opportunity to comment on the IFRS Interpretation Committee's (the "Committee") tentative agenda decision relating to IFRS 1 *First-time Adoption of International Financial Reporting Standards*— Subsidiary as a first-time adopter in the March 2017 IFRIC Update.

2. We agree that, based on current IFRS Standards, a subsidiary that becomes a first-time adopter later than its parent should apply paragraphs D12 and D13 of IFRS 1 and recognise cumulative translation differences (CTD) either at zero or on a retrospective basis at its date of transition to IFRSs, as stated in the tentative agenda decision.

3. However, our understanding is that paragraphs D16(a) and D13 of IFRS 1 were established from the viewpoint of reducing the practical burden on first-time adopters. If that were the case, in the light of promoting the adoption of IFRS, we think the IASB should review the requirement that, when a subsidiary that becomes a first-time adopter later than its parent and applies paragraph D16(a) of IFRS 1 and measures its assets and liabilities based on the parent's date of transition to IFRSs, paragraph D13 of IFRS 1 should be applied based on the subsidiary's date of

transition to IFRSs. This is because this would place a burden on the subsidiary to maintain two sets of records relating to the CTD for a long period of time. We note that similar issues exist when an associate or joint venture applies paragraph D16(a) of IFRS 1.

4. Accordingly, we believe the IASB should amend IFRS 1 so that a subsidiary that becomes a first-time adopter later than its parent may choose to apply paragraph D13 of IFRS 1 based on the parent's date of transition to IFRSs when the subsidiary applies the provisions of paragraph D16(a) of IFRS 1 and measures assets and liabilities based on the parent company's date of transition to IFRSs.
5. The details of our comments are as shown in the appendix.
6. We hope our comments are helpful for the Committee’s and the IASB’s consideration in the future. If you have any questions, please feel free to contact us.

Yours sincerely,

Yukio Ono
Chairman of the Accounting Standards Board of Japan

The requirement of paragraph D16(a) of IFRS 1

1. We agree that, based on current IFRS Standards, paragraph D16(a) of IFRS 1 should be applied only to assets and liabilities and not to CTD. However, considering that equity is the residual interest in the assets after deducting an entity's liabilities, we believe that this paragraph was not intended to explicitly exclude the components of equity. Accordingly, we think that this issue is essentially asking whether the provisions of paragraph D16(a) of IFRS 1 should be applied to the components of equity.

2. However, if the IASB decided to consider whether the provisions of paragraph D16(a) of IFRS 1 should be applied to the components of equity, it is likely that it will take a considerable amount of time. Based on our understanding that paragraphs D16(a) and D13 of IFRS 1 were established from the viewpoint of reducing the practical burden on first-time adopters, in the light of promoting the adoption of IFRS, we think that it is useful to make a narrow scope amendment to the requirements regarding CTD as a temporary measure.

Reviewing the requirements regarding CTD

3. Based on paragraph BC54 of IFRS 1, our understanding is that paragraph D13 of IFRS 1 permitted a first-time adopter to reset the CTD for all foreign operations at zero at the date of transition to IFRSs so that that first-time adopter could keep control of the CTD for each foreign operation and appropriately transfer the CTD to the income statement at the time of disposal of the foreign operation. We believe that this treatment not only reduces the practical burden on first-time adopters but also improves the benefits to users, from the viewpoints of transparency and comparability. Accordingly, in the case a subsidiary that becomes a first-time adopter later than its parent and measures its assets and liabilities based on the parent's date of transition to IFRSs, we think that the objective of paragraph D13 of IFRS 1 is not compromised if the subsidiary reset the CTD for all foreign operations at zero at the parent's date of transition to IFRSs because the subsidiary could keep control of the CTD for each foreign operation. We think that that it is possible to address this issue as a narrow scope amendment, considering it separately from whether paragraph D16(a) of IFRS 1 should be applied to the components of equity.

Practical burden on entities

4. We think that the burden on a subsidiary that becomes a first-time adopter later than its parent is not that small. This is because the subsidiary would be required to maintain two sets of records relating to the CTD for each foreign operation, due to the provision of paragraph D16(a) of IFRS 1 which applies only to assets and liabilities.

5. Although the difference in the CTD is a day-1 difference, the balances of the two sets of records fluctuate every reporting period, considering the application of tax effects, partial disposals of the foreign operations, or changes in the parent company's ownership interest in the subsidiary. We believe that keeping control of such differences for each foreign operation for a long period of time until the disposal of a foreign operation causes a significant burden on entities.

Entities affected by this issue

6. We think that the entities affected by this issue are not limited.

7. For example, in Japan, IFRSs are adopted on a voluntary basis, and the listing of subsidiaries of listed companies is not prohibited. Accordingly, it is not uncommon that the parent first applies IFRSs voluntarily, and then the listed subsidiary follows by subsequently applying IFRSs voluntarily. For your reference, of about 3,700 listed companies in Japan, about 270 companies are listed subsidiaries.

8. Also, a subsidiary may become a listed company later than its parent in a jurisdiction where listed companies are required to apply IFRSs, or a subsidiary may be required to apply IFRSs when a jurisdiction decides to adopt IFRS. These cases where the subsidiary becomes a first-time adopter after its parent are not unique to Japan.

9. We believe that there are many cases where paragraph D16(a) of IFRS 1 would be applied when the subsidiary applies IFRS 1, and in such situation, the problem of maintaining two sets of records relating to the CTD will arise if the subsidiary had foreign operations.

10. We note that the submission and the tentative agenda decision only discuss the case of a subsidiary. However, we think this issue is also prevalent in the case of associates and joint ventures.

Our recommendation on amendment to paragraph D13 of IFRS 1

11. We recommend amending paragraph D13 of IFRS 1 as follows (new text is underlined).

IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Cumulative translation differences

D13 However, a first-time adopter need not comply with these requirements for cumulative translation differences that existed at the date of transition to IFRSs.

If a first-time adopter uses this exemption:

(a) the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to IFRSs; and

(b) the gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition to IFRSs and shall include later translation differences.

If a subsidiary that becomes a first-time adopter later than its parent applies paragraph D16(a) of IFRS 1, that subsidiary may choose to apply this paragraph by replacing the references to 'the date of transition to IFRSs' in this paragraph with 'the parent's date of transition to IFRSs'. Similarly, if an associate or joint venture that becomes a first-time adopter later than an entity that has significant influence or joint control over it applies paragraph D16(a) of IFRS 1, that associate or joint venture may choose to apply this paragraph by replacing the references to 'the date of transition to IFRSs' in this paragraph with 'the date of transition to IFRSs of the entity that has significant influence' or 'the date of transition to IFRSs of the entity that has joint control'.