

## Accounting Standards Board of Japan (ASBJ)

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17 September 2021

Dr. Andreas Barckow

Chair

International Accounting Standards Board

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### **Comments on the Request for Information *Third Agenda Consultation***

1. The Accounting Standards Board of Japan (“the ASBJ” or “we”) welcome the opportunity to provide our comments on the International Accounting Standards Board (“the IASB”)’s Request for Information *Third Agenda Consultation* (hereinafter referred to as “the RFI”), issued in March 2021.
2. Issuing the RFI is a very important process for the IASB to seek input on its activities over the next five years. We appreciate the IASB’s initiatives to obtain the views of a wide range of stakeholders regarding the needs for standard setting. We would like to contribute to the IASB’s initiative to improve global accounting standards by submitting our comments on the RFI.
3. In achieving the long-term goal of developing a single set of high quality accounting standards, our main views on issues that the IASB should consider are described in the following paragraphs.

#### **Strategic direction and balance of the IASB’s activities**

4. If the establishment of the new sustainability standards board requires the resources of the IASB, we are of the view that the level of resources should be increased (rather than remaining constant), so that the IASB could maintain the resources available for the development of accounting standards. In maintaining the IASB’s resources, we note that it is important to consider maintaining the IASB’s ability to develop

accounting standards as a standard setter.

5. We also are of the view that, in order to improve accounting standards, the IASB should spend time not only on projects that can be resolved in the short term, but also on those for which reaching consensus may be difficult. We note that it is important to conduct research from a medium-to-long-term perspective, and this would include addressing issues that may not have immediate solutions. Accordingly, we propose that a certain amount of resources be allocated to medium-to-long-term research activities.

**Criteria for assessing the priority of financial reporting issues that could be added to the IASB's work plan**

6. We are concerned that placing too much emphasis on “the complexity and feasibility of the potential project and its solutions” (paragraph 21, Table 2, item 6 of the RFI), would make it difficult for the IASB to conduct research from a medium-to-long-term perspective. As stated in paragraph 5 of this letter, we are of the view that the IASB should spend time on projects that may be difficult to reach consensus immediately, and to do so a certain amount of resources should be allocated to medium-to-long-term research activities. Accordingly, we are of the view that the criteria in Table 2 of paragraph 21 of the RFI should be applied with flexibility depending on the nature of the project.
7. We are also of the view that “convergence with U.S. GAAP” is an important factor to be considered in achieving the long-term goals of promoting comparability of financial information and developing a single set of high quality accounting standards. Accordingly, we propose that “convergence with U.S. GAAP” be added to the criteria for the IASB to determine whether a potential project should be added to its work plan.

**Financial reporting issues that could be added to the IASB's work plan**

8. We are of the view that the following projects would be top priority projects for the IASB in the coming years.
  - (a) Goodwill and impairment

Although this project is currently classified as a research project, we welcome the fact that the IASB is considering whether or not to reintroduce the

amortisation of goodwill and hope that it will proceed to a standard-setting project in the near future. In addition, we hope that the IASB will proceed its discussions with the view to converge with U.S. GAAP.

(b) Other comprehensive income (recycling)

This project relates to multiple projects, including the research project on “Post-implementation Review of IFRS 9 — Classification and Measurement” and the potential projects on “Employee benefits” and “Other comprehensive income”. We hope that IFRS Standards would be amended to require recycling in accordance with the revised *Conceptual Framework*.

(c) Principles of disclosure

Although this project is currently classified as a standard-setting project, we are concerned that, based on what is proposed in the Exposure Draft, the project would lead to limited improvements in disclosures.

(d) Equity method of accounting

This project is currently classified as a research project and is expected to assess whether the application questions can be addressed by identifying and explaining the principles in IAS 28 *Investments in Associates and Joint Ventures*. However, we are of the view that the IASB should clarify when to focus on the aspect of one-line consolidation and when to focus on the aspect of a measurement basis<sup>1</sup> for investments to which the equity method of accounting applies.

9. As described in paragraph 5 of this letter, we are of the view that a certain amount of resources should be allocated to medium-to-long-term research activities. Specifically, we think the following items are candidates for research projects.

(a) Research project to comprehensively review IAS 38 *Intangible Assets*

IAS 38 is an accounting standard that focuses on the physical form of the assets

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<sup>1</sup> The term ‘measurement basis’ used in this letter does not refer to that term as defined in paragraph 6.1 of the IASB’s *Conceptual Framework for Financial Reporting* but refers to that term as used by European Financial Reporting Advisory Group (EFRAG) in EFRAG Short Discussion Series *The Equity Method: A Measurement Basis or One-Line Consolidation?* issued in 2014. Paragraph 29 of the EFRAG paper describes this view as “the equity method is about measurement of an asset rather than being one-line consolidation”.

and applies to assets that are intangible. We are of the view that improvement is warranted because the accounting may differ depending on whether the transaction gives rise to a tangible item or an intangible item, even when the substance of that transaction is the same. In particular, we are concerned that, while assets held for trading should generally be measured at fair value through profit or loss, such measurement is not permitted when they are intangible assets.

We are of the view that this research project should focus on accounting for intangible assets that are currently recognised, and do not support expanding the scope of intangible assets that should be recognised. We believe that internally generated intangible assets should not be recognised and such requirement is one of the critical preconditions for accounting that should be strictly maintained.

We note that the potential project “Cryptocurrencies and related transactions” may be addressed as part of this project.

(b) Research project to comprehensively review IAS 19 *Employee Benefits*

As described in paragraph 8 (b) of this letter, we are of the view that IAS 19 should be amended to require recycling of other comprehensive income that arise from defined benefit plans in accordance with the revised *Conceptual Framework*. However, we note that there are other issues in IAS 19 that should be considered, in addition to recycling. For example, constituents in our jurisdiction have concerns with the accounting for hybrid plans that have both the features of defined benefit plans and defined contribution plans.

10. We are of the view that the work that is currently undertaken by the IASB in relation to the “Management Commentary” project is likely to overlap with the work that is to be undertaken by the new sustainability standards board, which is expected to be established in the near future. We acknowledge that the IASB has proposed revisions to IFRS Practice Statement (PS) 1 *Management Commentary*. However, we think it is necessary to discuss whether the IASB or the new sustainability standards board should address this project going forward.
11. For our comments on the specific questions, please refer to the Appendix.
12. 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,

A handwritten signature in black ink, appearing to read 'A. Kogasaka'.

Atsushi Kogasaka

Chair

Accounting Standards Board of Japan

<p>Question 1 — Strategic direction and balance of the Board’s activities</p> <p>The Board’s main activities include:</p> <ul style="list-style-type: none"> <li>● developing new IFRS Standards and major amendments to IFRS Standards;</li> <li>● maintaining IFRS Standards and supporting their consistent application;</li> <li>● developing and maintaining the <i>IFRS for SMEs</i> Standard;</li> <li>● supporting digital financial reporting by developing and maintaining the IFRS Taxonomy;</li> <li>● improving the understandability and accessibility of the Standards; and</li> <li>● engaging with stakeholders.</li> </ul> <p>Paragraphs 14 – 18 and Table 1 provide an overview of the Board’s main activities and the current level of focus for each activity. We would like your feedback on the overall balance of our main activities.</p> <p>(a) Should the Board increase, leave unchanged or decrease its current level of focus for each main activity? Why or why not? You can also specify the types of work within each main activity that the Board should increase or decrease, including your reasons for such changes.</p> <p>(b) Should the Board undertake any other activities within the current scope of its work?</p>
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Question (a) and (b)

1. Paragraph 5 of the RFI states that if decisions from the IFRS Foundation Trustees’ review identify the need for capacity from the IASB to support any interaction between the work of the IASB and any new sustainability standards board, such a need will be considered in finalising the IASB’s priorities for 2022 to 2026. Our understanding is that the establishment of any new sustainability standards board may reduce the resources available to the IASB for the development of accounting standards.
2. In this regard, we are of the view that, if the establishment of the new sustainability

standards board requires the resources of the IASB, the level of resources should be increased (rather than remaining constant), so that the IASB could maintain the resources available for the development of accounting standards. In maintaining the IASB's resources, we note that it is important to consider maintaining the IASB's ability to develop accounting standards, for example, by ensuring that the IASB has sufficient experienced staff.

3. In addition, we are concerned that the IASB focuses too much on projects that can be completed in the short term. We think it is necessary to spend time not only on projects that can be resolved in the short term, but also on those for which reaching consensus may be difficult. We note that it is important to conduct research from a medium-to-long-term perspective, and this would include addressing issues that may not have immediate solutions. Accordingly, we propose that a certain amount of resources be allocated to medium-to-long-term research activities.

<p>Question 2 — Criteria for assessing the priority of financial reporting issues that could be added to the Board's work plan</p>
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<p>Paragraph 21 discusses the criteria the Board proposes to continue using when assessing the priority of financial reporting issues that could be added to its work plan.</p>
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| <p>(a) Do you think the Board has identified the right criteria to use? Why or why not?</p> <p>(b) Should the Board consider any other criteria? If so, what additional criteria should be considered and why?</p> |
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Question (a)

4. We are concerned that placing too much emphasis on “the complexity and feasibility of the potential project and its solutions” (paragraph 21, Table 2, item 6 of the RFI), would make it difficult for the IASB to conduct research from a medium-to-long-term perspective.
5. As stated in paragraph 3 of this Appendix, we are of the view that projects that the IASB should spend time on projects that may be difficult to reach consensus immediately, and to do so a certain amount of resources should be allocated to medium-to-long-term research activities. Accordingly, we are of the view that the criteria in Table 2 of paragraph 21 of the RFI should be applied with flexibility

depending on the nature of the project.

Question (b)

6. We are of the view that “convergence with U.S. GAAP” is an important factor to be considered in achieving the long-term goals of promoting comparability of financial information and developing a single set of high quality accounting standards. Accordingly, we propose that “convergence with U.S. GAAP” be added to the criteria for the IASB to determine whether a potential project should be added to its work plan.

Question 3 — Financial reporting issues that could be added to the Board’s work plan

Paragraphs 24 – 28 provide an overview of financial reporting issues that could be added to the Board’s work plan.

- (a) What priority would you give each of the potential projects described in Appendix B — high, medium or low — considering the Board’s capacity to add financial reporting issues to its work plan for 2022 to 2026 (see paragraphs 27 – 28)? If you have no opinion, please say so. Please provide information that explains your prioritisation and whether your prioritisation refers to all or only some aspects of the potential projects. The Board is particularly interested in explanations for potential projects that you rate a high or low priority.
- (b) Should the Board add any financial reporting issues not described in Appendix B to its work plan for 2022 to 2026? You can suggest as many issues as you consider necessary taking into consideration the Board’s capacity to add financial reporting issues to its work plan for 2022 to 2026 (see paragraphs 27 – 28). To help the Board analyse the feedback, when possible, please explain:
  - (i) the nature of the issue; and
  - (ii) why you think the issue is important.

Question (a) and (b)

7. The projects we consider to be of priority are listed below. Note that we also refer to the projects listed in Appendix A of the RFI.



### Top priority projects

8. We are of the view that the following projects should be given the highest priority.

(a) Goodwill and impairment

Although this project is currently classified as a research project, we welcome the fact that the IASB is considering whether or not to reintroduce the amortisation of goodwill and hope that it will proceed to a standard-setting project in the near future. In addition, we hope that the IASB will proceed its discussions with the view to convergence with U.S. GAAP.

(b) Other comprehensive income (recycling)

This project relates to multiple projects, including the research project on “Post-implementation Review of IFRS 9 — Classification and Measurement” and the potential projects on “Employee benefits” and “Other comprehensive income”. We hope that IFRS Standards would be amended to require recycling in accordance with the revised *Conceptual Framework*.

(c) Principles of disclosure

Although this project is currently classified as a standard-setting project, we are concerned that, based on what is proposed in the Exposure Draft, the project would lead to limited improvements in disclosures.

(d) Equity method of accounting

This project is currently classified as a research project and is expected to assess whether the application questions can be addressed by identifying and explaining the principles in IAS 28 *Investments in Associates and Joint Ventures*. However, we are of the view that the IASB should clarify when to focus on the aspect of one-line consolidation and when to focus on the aspect of a measurement basis for investments to which the equity method of accounting applies.

### Projects that should be researched for the medium-to-long-term

9. As described in paragraph 3 of the Appendix, we are of the view that a certain amount of resources should be allocated to medium-to-long-term research activities. Specifically, we think the following items are candidates for research projects.

(a) Research project to comprehensively review IAS 38 *Intangible Assets*

IAS 38 is an accounting standard that focuses on the physical form of the assets and applies to assets that are intangible. We are of the view that improvement is warranted because the accounting may differ depending on whether the transaction gives rise to a tangible item or an intangible item, even when the substance of that transaction is the same. In particular, we are concerned that, while assets held for trading should generally be measured at fair value through profit or loss, such measurement is not permitted when they are intangible assets.

We are of the view that this research project should focus on accounting for intangible assets that are currently recognised, and do not support expanding the scope of intangible assets that should be recognised. We believe that internally generated intangible assets should not be recognised and such requirement is one of the critical preconditions for accounting that should be strictly maintained.

We note that the potential project “Cryptocurrencies and related transactions” may be addressed as part of this project.

(b) Research project to comprehensively review IAS 19 *Employee Benefits*

As stated in paragraph 8 (b) of this Appendix, we are of the view that IAS 19 should be amended to require recycling of other comprehensive income that arise from defined benefit plans in accordance with the revised *Conceptual Framework*. However, we note that there are other issues in IAS 19 that should be considered, in addition to recycling. For example, constituents in our jurisdiction have concerns with the accounting for hybrid plans that have both the features of defined benefit plans and defined contribution plans.

Medium priority projects

10. We consider the following projects to be of medium priority.

(a) Cryptocurrencies and related transactions

As stated in (a) of the previous paragraph, we are of the view that the issue related to intangible assets held for trading should be addressed. However, in the context of crypto-assets, there are new transactions that did not previously exist. For such transactions, when there is consensus among preparers, users, auditors and other stakeholders (“the stakeholders”) regarding the substance of the

transaction, we are of the view that the accounting should appropriately reflect such substance. One example of such transactions is the holding of certain crypto assets that are widely recognised as being traded and invested in active markets and that have no claims on the issuer (such as Bitcoins). As described in (a) of the previous paragraph, if all intangible assets held for trading were to be measured at fair value through profit or loss, the accounting treatment would appropriately reflect the substance of holding such crypto assets.

In addition, we note that, for certain transactions that are subject to existing IFRS Standards, their substance (including the related rights and obligations and the nature of the investments) will not change but the accounting may change because the transaction will be digitalised and thus the IFRS Standard to be applied may change. For such transactions, we are of the view that the accounting should appropriately reflect their substance. One example of such transactions is STOs, which, in our view, have the same characteristics as existing securities. Another example is CBDCs, which, in our view, have the same characteristics as cash. If these crypto assets are not treated in the same manner as existing securities because they do not meet the definition of financial assets in IAS 32 *Financial Instruments: Presentation* or are not treated in the same manner as cash because they do not meet the definition of cash in IAS 7 *Statement of Cash Flows* and the implied definition of cash in IAS 32, the existing IFRS Standard which should be applied could be amended to clarify that that specific IFRS Standard would apply.

On the other hand, for new transactions where there is no consensus among the stakeholders regarding their substance, we believe that it is premature to undertake standard-setting activities. One example of such transactions is the issuance of ICO tokens. The status of legal developments and the contents of the contractual arrangements are critical for the understanding of the substance of the transaction, including its related rights and obligations. Regarding ICOs, our understanding is that the status of legal developments currently varies from jurisdiction to jurisdiction. Accordingly, we are of the view that a research project should be undertaken for ICOs and the IASB should monitor developments in practice. In the future, when there is consensus among the stakeholders regarding the substance of the ICOs, and if diversity in practice is observed, the IASB may need to consider the needs for standard-setting activities.

(b) Statement of cash flows and related matters

We are of the view that, under certain circumstances, the statement of cash flows prepared in accordance with IAS 7 has limited usefulness. For example, some users of financial statements in Japan have expressed that they do not use the statement of cash flows of financial institutions. Accordingly, we are of the view that a project could be undertaken to consider the requirements related to the statement of cash flows.

Low priority projects

11. We consider that the potential projects in Appendix B of the RFI, other than those listed in paragraphs 8 to 10 of this Appendix, are of relatively low priority.

Question 4 — Other comments
Do you have any other comments on the Board’s activities and work plan? Appendix A provides a summary of the Board’s current work plan.

About the “Management Commentary” project

12. We are of the view that the work that is currently undertaken by the IASB in relation to the “Management Commentary” project is likely to overlap with the work that is to be undertaken by the new sustainability standards board, which is expected to be established in the near future. We acknowledge that the IASB has proposed revisions to IFRS Practice Statement (PS) 1 *Management Commentary*. However, we think it is necessary to discuss whether the IASB or the new sustainability standards board should address this project going forward.

Remaining research pipeline projects

13. Table 3 and Appendix B of the RFI state the remaining research pipeline projects arising from the 2015 Agenda Consultation. Paragraph 26 of the RFI explains that these projects have not started because other urgent projects have started. However, we would like to understand if there are any factors other than timing that makes it difficult for the IASB to start the projects that have been placed on the agenda. We understand that the IASB may need to change its work plan from time to time, but in such case the nature and reasons for such change should be fully explained.