

(Translation for reference purpose only)

Issuance of JMIS Exposure Draft No. 3, Proposed amendments to “Japan’s Modified International Standards (JMIS): Accounting Standards Comprising IFRSs and the ASBJ Modifications”

6 December 2016

Accounting Standards Board of Japan

The Accounting Standards Board of Japan (‘ASBJ’) undertakes the endorsement process on the Standards and Interpretations (collectively referred to as ‘Standards’) issued by the International Accounting Standards Board (‘IASB’) and issues “Japan’s Modified International Standards (JMIS): Accounting Standards Comprising IFRSs and the ASBJ Modifications”. To date, JMIS has been issued as a result of the endorsement process covering Standards issued by the IASB as at 31 December 2013.

For this round the ASBJ undertook the endorsement process on the Standards issued by the IASB from 1 January 2014 to 30 September 2016 which become effective by 31 December 2017. Today, the ASBJ issued JMIS Exposure Draft No. 3, Proposed amendments to “Japan’s Modified International Standards (JMIS): Accounting Standards Comprising IFRSs and the ASBJ Modifications”, which was approved at its 350th Board meeting held on 2 December 2016.

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Background

1. The ASBJ, following “The Present Policy on the Application of International Financial Reporting Standards (IFRS)” (June 2013) issued by the Business Accounting Council, an advisory body to the Financial Services Agency of Japan (‘FSA’), established the “Working Group for the Endorsement of IFRS” in July 2013 and undertook its endorsement process on the Standards and Interpretations (collectively referred to as ‘Standards’) issued by the IASB as at 31 December 2012 (hereinafter called the “initial endorsement process”). As a result of the initial endorsement process, the ASBJ issued “Japan’s Modified International Standards (JMIS): Accounting Standards Comprising IFRSs and the ASBJ Modifications” on 30 June 2015.
2. The ASBJ undertook the endorsement process on the Standards issued by the IASB during 2013 and issued the Amendments to JMIS on 25 July 2016.
3. For this round, the ASBJ undertook the endorsement process on the Standards issued by the IASB from 1 January 2014 to 30 September 2016 which become effective by 31 December 2017 and as its result issued this Exposure Draft. The Exposure Draft proposes amendments to the *Application of “Japan’s Modified International Standards”* which constitutes JMIS.

Scope of the endorsement process for this round

4. As described in paragraph 3, the endorsement process for this round covered new or amended Standards issued by the IASB from 1 January 2014 to 30 September 2016 which become effective by 31 December 2017. Specifically, the Standards covered were as follows:
 - (a) IFRS 14 *Regulatory Deferral Accounts* (issued in January 2014)
 - (b) *Accounting for Acquisitions of Interests in Joint Operations* (Amendments to IFRS 11) (issued in May 2014)
 - (c) *Clarification of Acceptable Methods of Depreciation and Amortisation* (Amendments to IAS 16 and IAS 38) (issued in May 2014)
 - (d) *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41) (issued in June 2014)
 - (e) *Equity Method in Separate Financial Statements* (Amendments to IAS 27) (issued in August 2014)
 - (f) *Annual Improvements to IFRSs 2012-2014 Cycle* (issued in September 2014)
 - (g) *Disclosure Initiative* (Amendments to IAS 1) (issued in December 2014)
 - (h) *Investment Entities: Applying the Consolidation Exception* (Amendments to IFRS 10, IFRS 12 and IAS 28) (issued in December 2014)
 - (i) *Recognition of Deferred Tax Assets for Unrealised Losses* (Amendments to IAS 12) (issued in January 2016)
 - (j) *Disclosure Initiative* (Amendments to IAS 7) (issued in January 2016)

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5. *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* (Amendments to IFRS 4) (issued in September 2016) was not included within the scope for this round, because it was considered to be rare that this Standard would become effective before 31 December 2017 through the use of the overlay approach.

Outline of the endorsement process

6. The endorsement process is a mechanism of determining whether individual Standards issued by the IASB are acceptable in Japan and, for certain Standards, making ‘deletions or modifications’ when considered necessary, and having them designated by the FSA.
7. In undertaking the endorsement process on the Standards listed in paragraph 4, consistent with the previous endorsement processes, the ASBJ considered the following factors as the criteria for endorsing individual Standards, from the viewpoints of public interest and investor protection, on the premise that the application of JMIS would be voluntary:
 - fundamental thinking on accounting standards generally accepted in Japan;
 - difficulties in practice (preparation costs exceed benefits, etc.); and
 - relationship with peripheral regulations (whether various industry regulations make it difficult, or cause significant costs to adopt).
8. In addition, consistent with the previous endorsement processes, in undertaking the endorsement process on the Standards for this round, the ASBJ decided to limit the ‘deletions or modifications’ to a minimum, i.e., after thorough consideration under the policy of adopting the Standards without ‘deletions or modifications’ to the extent possible, only making ‘deletions or modifications’ for the requirements that have been determined to be unacceptable from the viewpoints of fundamental thinking on accounting standards generally accepted in Japan and difficulties in practice, because:
 - IFRS Standards have been developed and issued through the specified due process and also with the involvement by the ASBJ and Japanese constituents.
 - Too many ‘deletions or modifications’ might prevent the JMIS from being perceived as derived from IFRS Standards by constituents.
 - Looking at the endorsement processes in foreign countries or regions, only a limited number of countries or regions make ‘deletions or modifications’ and those ‘deletions or modifications’ are minimal even when they are made.
 - Consideration of comparability with the Standards issued by the IASB is needed.
 - Limiting ‘deletions or modifications’ to a small number of items would enable expressing Japanese views more strongly.

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Considerations at the endorsement process for this round

Whether ‘deletions or modifications’ are needed

9. In the light of criteria described in paragraphs 7 and 8, the ASBJ examined the new or amended Standards listed in paragraph 4. Specifically, for those Standards, the ASBJ examined whether additional ‘deletions or modifications’ were needed from the viewpoints described in paragraph 7, by confirming new or amended requirements compared with those of the Standards which had already been endorsed and comparing them with the corresponding requirements in Japanese standards.
10. As a result of the examination mentioned above, the Standards listed in paragraph 4, in principle, were considered to provide interim guidance or clarifications to existing requirements and thus contain no items which would require additional examination regarding whether ‘deletions or modifications’ were needed from the viewpoints described in paragraph 7. Accordingly, the ASBJ concluded that there would be no proposed item for ‘deletions or modifications’.

Amendments to the “Application of ‘Japan’s Modified International Standards’”

11. As a result of the considerations described in paragraph 10, this Exposure Draft proposes to amend Appendix 1 *Standards Issued by the IASB and Adopted by the ASBJ of the Application of “Japan’s Modified International Standards”*.

Effective date and transition

12. This Exposure Draft proposes that the *Application of “Japan’s Modified International Standards”*, as amended, should be effective for the annual period beginning on or after its issuance date for consolidated financial statements prepared in accordance with JMIS. This Exposure Draft also proposes that the *Application of “Japan’s Modified International Standards”*, as amended, may be applied to the consolidated financial statements for the annual period which includes the issuance date, in order to facilitate the timely application of the Standards covered by the endorsement process for this round. In that case, this Exposure Draft proposes that the *Application of “Japan’s Modified International Standards”*, as amended, be applied to consolidated quarterly financial statements from the first quarter of the following annual period.

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(For Reference Purpose Only) The ASBJ's tentative policy for the endorsement process on the Standards issued by the IASB in or after 2014

The ASBJ's tentative policy for the endorsement process on the Standards issued by the IASB in or after 2014 is as follows:

- (a) First, the endorsement process will be undertaken on the Standards issued by the IASB from 1 January 2014 to 30 September 2016 which become effective by 31 December 2017 in order to achieve early completion of the endorsement process on the Standards that have already become effective.
- (b) After (a), the endorsement process on the following Standards which become effective on or after 1 January 2018 will be individually undertaken to issue Exposure Drafts in the order below:
 - (i) IFRS 15 *Revenue from Contracts with Customers* (including Effective Date of IFRS 15 (issued in September 2015) and *Clarifications to IFRS 15 Revenue from Contracts with Customers* (issued in April 2016));
 - (ii) IFRS 9 *Financial Instruments* (2014); and
 - (iii) IFRS 16 *Leases*.