January 14, 2014

To: International Accounting Standards Board

Keidanren
Committee on Corporate Accounting
Sub-Committee on Corporate Accounting

Our Comments on IASB Discussion Paper "A Review of the Conceptual Framework for Financial Reporting"

We at Keidanren pay our respects to IASB for starting the review work on the Conceptual Framework in response to feedback from those working in the market on the "Agenda Consultation 2011," and express our gratitude for giving us the opportunity to provide our comments on the discussion paper.

In Japan, companies have been allowed to voluntarily adopt IFRS from the fiscal year that ended in March 2010. The government has been taking measures for wider use of IFRS, and we have also been working for smooth acceptance of IFRS on an ongoing basis. In order that IFRS be adopted by many entities in Japan, it is essential that quality of particular Standards be improved. In this sense, review of the "Conceptual Framework," which forms the basis for development of Standards, is believed to one of the key projects for IASB. We hope that IASB listen well to what those working in the market have to say, and bring the project to a successful conclusion.

I. Our major concerns over the Discussion Paper are as follows.

The Discussion Paper, "A Review of the Conceptual Framework for Financial Reporting," has themes to be discussed in the Conceptual Framework in an exhaustive manner, and we pay our respects to IASB for its efforts. However, the Conceptual Framework still has gaps from what we expect of a conceptual framework.

First, although the "profit or loss, other comprehensive income (OCI), and recycling," which we presented as major issue in the Agenda Consultation 2011, is discussed in Section 8, the "profit or loss" is stipulated as residual profit (profit or loss = comprehensive income – OCI) and is not defined as element of the financial statements in a straightforward manner. As preparers of the financial statements, we believe the "profit or loss," which represents the "realized" gains and losses in a reporting period, is the most important concept of profits that indicate the financial performance of an entity, and is indispensable for providing relevant information. Based on this premise, we advocate the necessity to recycle OCI items in full. In the current Discussion Paper, OCI items are identified and classified without first defining the profit or loss, and based on such identification and classification discussions are directed to whether or not to recycle them. As it is, it will be very difficult to persuade Japanese corporate managers to accept IFRS. We strongly request that "profit or loss” be defined first of all with reference to our comments on Questions 4 and 20.

Secondly, in connection with the “presentation and disclosure” discussed in Section 7, many Japanese preparers feel that the disclosure required by current IFRS is excessive. This is because disclosure low in necessity for users is compulsory across the board under the stipulations in IFRS. To solve the issue, we believe it essential to review the “cost-benefit balance” through discussions between the preparers and users. Solution of this issue is also essential for wider use of IFRS in Japan. We include specific proposals in our comments on Questions 16 and 17 for your review.

Thirdly, the “probability” and “prudence” in recognition of assets and liabilities are discussed in Section 4 “Recognition and derecognition” and Section 9 “Other issues.” We believe that both “probability” and “prudence” are essential in recognizing appropriate amounts of assets and liabilities/income and expenses to provide relevant information. We include specific views on this point in our comments on Questions 8 and 22 for your review.

Our comments on individual questions in the Discussion Paper are found in section II below. We hope you listen to what preparers and others in the market have to say during the review process and complete the project successfully.

II. Our comments on the questions are as follows:

Section 1 – Introduction

Question1

Paragraphs 1.25–1.33 set out the proposed purpose and status of the Conceptual Framework. The IASB's preliminary views are that:

(a) the primary purpose of the revised Conceptual Framework is to assist the IASB by identifying concepts that it will use consistently when developing and revising IFRSs; and

(b) in rare cases, in order to meet the overall objective of financial reporting, the IASB may decide to issue a new or revised Standard that conflicts with an aspect of the Conceptual Framework. If this happens the IASB would describe the departure from the Conceptual Framework, and the reasons for that departure, in the Basis for Conclusions on that Standard.

Do you agree with these preliminary views? Why or why not?

<<Out Comment>>

We agree to the descriptions (a) and (b) on the object of the Conceptual Framework, provided that the following two points are added.

- Concerning the description (a), we believe that "facilitation of understanding and interpretation of IFRS for those working in the market, such as developers and users of IFRS" should be added to the objective of the Conceptual Framework. This is because not only IASB but also preparers, users, auditors, and others working in the market are also concerned with development and use of IFRS under appropriate due diligence.
- With reference to (b), we do not disagree to establishment of the departure clause per se, but there should be operational constraints. We would appreciate it if you consider including specific examples in some way that can be considered as departure.

Section 2 – Elements of financial statements

Question2

The definitions of an asset and a liability are discussed in paragraphs 2.6–2.16. The IASB proposes the following definitions:

(a) an asset is a present economic resource controlled by the entity as a result of past events.

(b) a liability is a present obligation of the entity to transfer an economic resource as a result of past events.

(c) an economic resource is a right, or other source of value, that is capable of producing economic benefits.

Do you agree with these definitions? Why or why not? If you do not agree, what changes do you suggest, and why?

Question3

Whether uncertainty should play any role in the definitions of an asset and a liability, and in the recognition criteria for assets and liabilities, is discussed in paragraphs 2.17–2.36. The IASB's preliminary views are that:

(a) the definitions of assets and liabilities should not retain the notion that an inflow or outflow is 'expected'. An asset must be capable of producing economic benefits. A liability must be capable of resulting in a transfer of economic resources.

(b) the Conceptual Framework should not set a probability threshold for the rare cases in which it is uncertain whether an asset or a liability exists. If there could be significant uncertainty about whether a particular type of asset or liability exists, the IASB would decide how to deal with that uncertainty when it develops or revises a Standard on that type of asset or liability.

(c) the recognition criteria should not retain the existing reference to probability.

Do you agree? Why or why not? If you do not agree, what do you suggest, and why?

<<Our Comments>>

We generally agree to the definitions of an asset and a liability. We do not agree, however, to the following points.

- In Question 3(c), it is proposed that the recognition criteria should not retain the existing reference to probability. This means that an asset and a liability whose outcome is uncertain are recognized as if there were future cash flows, and does not provide relevant information. We will further elaborate on this point in our comments to your Question 8, but the recognition criteria should retain the reference to probability.
- We appreciate that "existence uncertainty" rarely exists, such as litigation. In such a rare case that can be assumed, the impact can be very large on not only future performance but also operations of the reporting entity. Accordingly, we appreciate it if the "existence uncertainty" be incorporated in the definitions of an asset and a liability.
- With reference to Questions 2(a) and (b), the term "events" in the definitions of an asset and a liability can be interpreted too broadly. We appreciate it if you can define the "event."

Question4
Elements for the statement(s) of profit or loss and OCI (income and expense), statement of cash flows (cash receipts and cash payments) and statement of changes in equity (contributions to equity, distributions of equity and transfers between classes of equity) are briefly discussed in paragraphs 2.37–2.52. Do you have any comments on these items? Would it be helpful for the Conceptual Framework to identify them as elements of financial statements?

<<Our Comments>>

"A profit or loss" is the most important item showing the financial performance, and we strongly require that it should be defined as element. We would like to propose the following definition built around the concept of "realization" that is convincing and easy to understand from the viewpoint of management and reporting of financial performances of business entities. Also, as response to the criticism that the concept is ambiguous, we provide (supplementary explanation) about the nature of the "profit or loss." By defining and explaining the "profit or loss" this way, it is possible that the "profit or loss" should provide explanatory value to the user in making cash flow predictions.

■ A "profit or loss" is a realized profit or loss free from investment risks.

(Supplementary Explanation)

- A profit or loss is "realized" when future cash flows are obtained with certain probability, namely, when the investment results are finalized. This is similar to the definition that a profit or loss shall be realized "when irreversible outcomes are obtained," which ASBJ presented at the December ASAF.
- One of the criteria for determining "realization" is whether a critical decision was made at the entity.
- The profit or loss is differentiated from the comprehensive income in that the former does not contain unrealized gains and losses. The unrealized gains and losses are the other comprehensive income, which is recycled to the profit or loss automatically when "realized."

Section 3 – Additional guidance to support the asset and liability definitions

Question5
Constructive obligations are discussed in paragraphs 3.39–3.62. The discussion considers the possibility of narrowing the definition of a liability to include only obligations that are enforceable by legal or equivalent means. However, the IASB tentatively favours retaining the existing definition, which encompasses both legal and constructive obligations—and adding more guidance to help distinguish constructive obligations from economic compulsion. The guidance would clarify the matters listed in paragraph 3.50. Do you agree with this preliminary view? Why or why not?

<<Our Comments>>

We agree to your preliminary view. Narrowing the definition of a liability to include only obligations that are enforceable by legal or equivalent means is not appropriate from the viewpoint of prudence, as it may lead to understatement of liabilities. Let us add that inclusion of constructive obligations is inseparable from reference to probability.

Question6
The meaning of 'present' in the definition of a liability is discussed in paragraphs 3.63–3.97. A present obligation arises from past events. An obligation can be viewed as having arisen from past events if the amount of the liability will be determined by reference to benefits received, or activities conducted, by the entity before the end of the reporting period. However, it is unclear whether such past events are sufficient to create a present obligation if any requirement to transfer an economic resource remains conditional on the entity's future actions. Three different views on which the IASB could develop guidance for the Conceptual Framework are put forward: (a) View 1: a present obligation must have arisen from past events and be strictly unconditional. An entity does not have a present obligation if it could, at least in theory, avoid the transfer through its future actions. (b) View 2: a present obligation must have arisen from past events and be practically unconditional. An obligation is practically unconditional if the entity does not have the practical ability to avoid the transfer through its future actions. (c) View 3: a present obligation must have arisen from past events, but may be conditional on the entity's future actions. The IASB has tentatively rejected View 1. However, it has not reached a preliminary view in favour of View 2 or View 3. Which of these views (or any other view on when a present obligation comes into existence) do you support? Please give reasons.

<<Our Comments>>

The View 2 is the easiest to understand. However, there exist standards corresponding to Views 1 to 3 under the current IFRS, and these are all accounting treatments that are in line with the economic reality. Specifying one of the Views as "definition" conceptually restricts the accounting standards that conform to the economic reality and does not appear particularly appropriate. For the time being at least, it may be that it is not necessary to do so in the Conceptual Framework.

Question7
Do you have comments on any of the other guidance proposed in this section to support the asset and liability definitions?

<<Our Comments>>

We agree to preparation of guidance, but please take note of the following points.

- We do not agree to the description that “the economic resource is not the underlying object but a right (or set of rights) to obtain the economic benefits generated by the physical object (paragraph 3.7).” The concept of accounting all physical objects, such as an item of property, plant and equipment, as a right (or set of rights) is not consistent with the reality and is, we believe, inappropriate.
- Paragraph 3.109 stipulates that “executory contracts” are generally not recognized as liabilities in the financial statements, and we do not believe that such “executory contracts” are subject to disclosure (in the notes). If “executory contracts” are required to be disclosed, substantial additional costs will be incurred to list up details of all the contracts comprehensively. Such costs will be unjustifiably high in comparison to the benefits to the users. Accordingly, in order to avoid confusions when the standards are established, we would appreciate it if you can spell out that the “executory contracts are not subject to disclosure” in some way.

Section 4 – Recognition and Derecognition

Question8
Paragraphs 4.1–4.27 discuss recognition criteria. In the IASB's preliminary view, an entity should recognise all its assets and liabilities, unless the IASB decides when developing or revising a particular Standard that an entity need not, or should not, recognise an asset or a liability because: (a) recognising the asset (or the liability) would provide users of financial statements with information that is not relevant, or is not sufficiently relevant to justify the cost; or (b) no measure of the asset (or the liability) would result in a faithful representation of both the asset (or the liability) and the changes in the asset (or the liability), even if all necessary descriptions and explanations are disclosed. Do you agree? Why or why not? If you do not agree, what changes do you suggest, and why?

<<Our Comments>>

We strongly oppose to removal of reference to probability from the recognition criteria for assets and liabilities on the following grounds. We believe it appropriate to retain the two requirements: (a) high likelihood; and (b) measurement with reliability; as found in the current Conceptual Framework.

- Removal of reference to probability from the recognition criteria forces accounting treatment as if future cash flows existed for assets and liabilities that have uncertain outcome at the time of recognition. Consequently, there will be frequent reversals in the subsequent reporting periods, which will not provide relevant information.
- The more uncertainty an asset or a liability has, the more difficulty its measurement will involve. The costs for preparation of financial statements and for audit will increase accordingly. As a result, under the proposed criteria, the information provided will be less accurate with more costs incurred to the preparers of the financial statements in comparison to the current criteria.
- In paragraph 4.26, cases are indicated in which recognition of an asset or a liability might not provide relevant information. These indicators are all qualitative and may lead to great variability in establishing the criteria. In order also to maintain consistence for all of IFRS, it is necessary to retain the reference to probability that is a quantitative requirement.
- Removal of reference to probability from recognition criteria most affects estimates of liabilities. Please re-acknowledge that there were many objections to the proposal for revision of IAS 37 in 2005 in which removal of probability requirement was included.
- In paragraph 2.35(c), it is stated as problem that including a probability threshold would lead to a failure to recognize some items, for example, options. It is not reasonable, however, to remove the probability requirement from the recognition criteria of all the assets and liabilities simply because of the options. In our opinion, it suffices just to stipulate a particular Standard separately for options.

Section 5 – Definition of equity and distinction between liabilities and equity instruments

Question10
The definition of equity, the measurement and presentation of different classes of equity, and how to distinguish liabilities from equity instruments are discussed in paragraphs 5.1–5.59. In the IASB's preliminary view: (a) the Conceptual Framework should retain the existing definition of equity as the residual interest in the assets of the entity after deducting all its liabilities. (b) the Conceptual Framework should state that the IASB should use the definition of a liability to distinguish liabilities from equity instruments. Two consequences of this are: (i)obligations to issue equity instruments are not liabilities; and (ii)obligations that will arise only on liquidation of the reporting entity are not liabilities (see paragraph 3.89(a)). (c) an entity should: (i)at the end of each reporting period update the measure of each class of equity claim. The IASB would determine when developing or revising particular Standards whether that measure would be a direct measure, or an allocation of total equity. (ii)recognise updates to those measures in the statement of changes in equity as a transfer of wealth between classes of equity claim. (d) if an entity has issued no equity instruments, it may be appropriate to treat the most subordinated class of instruments as if it were an equity claim, with suitable disclosure. Identifying whether to use such an approach, and if so, when, would still be a decision for the IASB to take in developing or revising particular Standards. Do you agree? Why or why not? If you do not agree, what changes do you suggest, and why?

<<Our Comments>>

In IASB, distinction between liabilities and equity instruments is not agreed upon among those working in the market and the discussion has been halted. It is therefore not appropriate to fundamentally revise the notion of equity. In particular, in paragraph (c), it is proposed that, at the end of each reporting period, the measure of each class of equity claim is updated, and that updates to those measures are recognized in the statement of changes in equity as a transfer of wealth between classes of equity claim. <u>We strongly oppose to the proposal</u>, as it overturns the calculation structure of current financial statements. In paragraph 5.11, it is stated that existing and potential investors need the information. Let us add that we have never come across with such investor needs.

Section 6 – Measurement

Question11
How the objective of financial reporting and the qualitative characteristics of useful financial information affect measurement is discussed in paragraphs 6.6–6.35. The IASB's preliminary views are that: (a) the objective of measurement is to contribute to the faithful representation of relevant information about: (i) the resources of the entity, claims against the entity and changes in resources and claims; and (ii) how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources. (b) a single measurement basis for all assets and liabilities may not provide the most relevant information for users of financial statements; (c) when selecting the measurement to use for a particular item, the IASB should consider what information that measurement will produce in both the statement of financial position and the statement(s) of profit or loss and OCI; (d) the relevance of a particular measurement will depend on how investors, creditors and other lenders are likely to assess how an asset or a liability of that type will contribute to future cash flows. Consequently, the selection of a measurement: (i) for a particular asset should depend on how that asset contributes tofuture cash flows; and (ii) for a particular liability should depend on how the entity will settle or fulfil that liability. (e) the number of different measurements used should be the smallest number necessary to provide relevant information. Unnecessary measurement changes should be avoided and necessary measurement changes should be explained; and (f) the benefits of a particular measurement to users of financial statements need to be sufficient to justify the cost. Do you agree with these preliminary views? Why or why not? If you disagree, what alternative approach to deciding how to measure an asset or a liability would you support?

<<Our Comments>>

We generally agree to these preliminary views. In particular, we strongly agree to: (b) denial of a single measurement basis; (c) that when selecting the measurement to use for a particular item, the IASB should consider what information that measurement will produce in both the statement of financial position and the statement(s) of profit or loss and OCI; and (f) that the benefits of a particular measurement to users of financial statements need to be sufficient to justify the cost. However, we would appreciate it if the following points are taken into consideration.

- As a presumption to (c), we believe it necessary to study in detail what the statement of financial position and statement of other comprehensive income indicate.
- In (e), the "number of different measurements used" is referred to. What is important here is selection of measurement attributes that provide relevant information, and we do not believe it necessary to levy constraints on the number of measurements.
- In paragraph 6.34, it is stated that "a highly uncertain estimate will be faithfully represented if it is properly described." This is an inappropriate statement ignoring the verifiability and should be removed.
- In the same paragraph (paragraph 6.34), an exception to recognition is referred to in the

paragraph starting with “Section 4 covers...” The relationship between exceptions to the recognition criteria and paragraph 6.34 is rather unclear, and should be clarified.

Question12
The IASB’s preliminary views set out in Question 11 have implications for the subsequent measurement of assets, as discussed in paragraphs 6.73–6.96. The IASB’s preliminary views are that: (a) if assets contribute indirectly to future cash flows through use or are used in combination with other assets to generate cash flows, cost-based measurements normally provide information that is more relevant and understandable than current market prices. (b) if assets contribute directly to future cash flows by being sold, a current exit price is likely to be relevant. (c) if financial assets have insignificant variability in contractual cash flows, and are held for collection, a cost-based measurement is likely to provide relevant information. (d) if an entity charges for the use of assets, the relevance of a particular measure of those assets will depend on the significance of the individual asset to the entity. Do you agree with these preliminary views and the proposed guidance in these paragraphs? Why or why not? If you disagree, please describe what alternative approach you would support.

<<Our Comments>>

<u>We agree to the basic concept</u> that the measurement bases should be selected according to the way the assets contribute to future cash flows (nature of investments). However, we do not think that the current proposal is sufficient, and would like to have the following points studied additionally.

- As stated in Question 11, the measurement basis should be determined in consideration of both the statement of financial condition and the statement(s) of profit or loss and OCI. Accordingly, <u>the measurement bases should be studied separately for those that provide relevant information for indicating the financial position and for those that provide relevant information for indicating the financial performance</u>. As a presumption, it is necessary to define the profit or loss that provides the most relevant information indicating the financial performance. Please take into consideration our comments on your Question 4, and first define the profit or loss. Thereafter, please study the measurement bases again from the aspect of statement of financial position and that of statement(s) of profit or loss and OCI.
- As explanation, the proposal has four major ways assets contribute to future cash flows. However, there may be cases in which an asset may have two or more ways for contributing to future cash flows, such as investment property that may be sold or used. Please study the classifications again from a wider prospect, taking into consideration the purpose of owning an asset, salability, and other factors.
- We agree that the measurement basis should be selected in accordance to the way an asset contributes to the future cash flows. However, it is not the sole factor. As stated in Question 11(f), the selection should also depend on the cost-benefit consideration and salability of the asset, among others. For example, in more cases, cost-based measurements will be more appropriate than market price-based measurements for unlisted equities, both in terms of costs

and in terms of faithful representation. For this reason, the descriptions in paragraphs 6.73 to 6.93 on selection of measurement basis should not be assertive. The expression should be open to a wider interpretation, such as “highly likely.”

Question13
The implications of the IASB’s preliminary views for the subsequent measurement of liabilities are discussed in paragraphs 6.97–6.109. The IASB’s preliminary views are that: (a) cash-flow-based measurements are likely to be the only viable measurement for liabilities without stated terms. (b) a cost-based measurement will normally provide the most relevant information about: (i) liabilities that will be settled according to their terms; and (ii) contractual obligations for services (performance obligations). (c) current market prices are likely to provide the most relevant information about liabilities that will be transferred. Do you agree with these preliminary views and the proposed guidance in these paragraphs? Why or why not? If you disagree, please describe what alternative approach you would support.

<<Our Comments>>

We agree, although, as with the assets, let us add that there are cases where measurement bases are different for those that provide relevant information for indicating the financial position and for those that provide relevant information for indicating the financial performance.

Question15
Do you have any further comments on the discussion of measurement in this section?

<<Our Comments>>

Paragraphs 6.128 to 6.130 refer to the paradox of liabilities that gains are recognized when an entity’s credit standing is deteriorating. However, no clear views are given. There should be some clarification.

Section 7 – Presentation and disclosure

Question16
This section sets out the IASB's preliminary views about the scope and content of presentation and disclosure guidance that should be included in the Conceptual Framework. In developing its preliminary views, the IASB has been influenced by two main factors: (a) the primary purpose of the Conceptual Framework, which is to assist the IASB in developing and revising Standards (see Section 1); and (b) other work that the IASB intends to undertake in the area of disclosure (see paragraphs 7.6–7.8), including: (i) a research project involving IAS 1, IAS 7 and IAS 8, as well as a review of feedback received on the Financial Statement Presentation project; (ii) amendments to IAS 1; and (iii) additional guidance or education material on materiality. Within this context, do you agree with the IASB's preliminary views about the scope and content of guidance that should be included in the Conceptual Framework on: (a) presentation in the primary financial statements, including: (i)what the primary financial statements are; (ii)the objective of primary financial statements; (iii)classification and aggregation; (iv)offsetting; and (v)the relationship between primary financial statements. (b) disclosure in the notes to the financial statements, including: (i) the objective of the notes to the financial statements; and (ii)the scope of the notes to the financial statements, including the types of information and disclosures that are relevant to meet the objective of the notes to the financial statements, forward-looking information and comparative information. Why or why not? If you think additional guidance is needed, please specify what additional guidance on presentation and disclosure should be included in the Conceptual Framework.
Question17
Paragraph 7.45 describes the IASB's preliminary view that the concept of materiality is clearly described in the existing Conceptual Framework. Consequently, the IASB does not propose to amend, or add to, the guidance in the Conceptual Framework on materiality. However, the IASB is considering developing additional guidance or education material on materiality outside of the Conceptual Framework project. Do you agree with this approach? Why or why not?

<<Our Comments>>

[Overview]

We appreciate your intention to revise the excessive disclosure requirements under IFRS, but <u>we do not believe that the current proposal is sufficient.</u> IASB refers to amendments to IAS 1 and preparation of additional guidance on materiality, and we expect much of the projects. These measures alone, however, will not fundamentally reduce the amount of disclosure. <u>We have doubts about the need itself for some of the disclosure items and whether they provide relevant information.</u>

In order to reduce the amount of disclosure, it is imperative that, in the course of the development of Standards, management and investors thoroughly discuss the necessity for disclosure, which should then be incorporated in the Standards. The work volume purely for the sake of disclosure only has been increasing for the preparers, but information disclosed this way will not facilitate communications with investors, and accordingly, the costs exceed the benefits. For this reason, we would like that the following points should be clearly stipulated in the Conceptual Framework, presumably in paragraphs 7.48 to 7.50.

[Consideration of the Need for Disclosure]

- The requirements for disclosure in the financial reporting should be determined by balancing the costs for disclosure and benefits to users.
- Accordingly, IASB should pay due attention to the agreements arrived at between the preparers and users.
- In doing so, IASB should study the accuracy, timeliness, verifiability, etc. of the required disclosure items to determine if it is appropriate to disclose a certain item as financial, rather than as non-financial, information to establish the scope of minimum disclosure as financial information.
- This principle is applicable to the disclosure requirements under IFRS as well as to the development of guidance on disclosure.

[Particulars]

We are concerned about the following points.

- Paragraphs 7.38 to 7.40 refer to "forward-looking information." The objective of notes is supplementing the primary financial statements, and therefore notes should not include the "forward-looking information" except for qualitative information that forms the basis of estimates presented in the primary financial statements. The "forward-looking information" should basically be treated as non-financial information. From this viewpoint, the descriptions "Quantification of the sensitivity of recognized or disclosed measures to changes in key assumptions and inputs to provide information about measurement uncertainty" and "Description and quantification of alternative measurements" on Table 7.1 are inappropriate in consideration of the nature of the note as well as of their requiring quantitative information and should be removed. Question 16(b)(ii) refers to, without any qualification, the "forward-looking information" as an item in the notes to the financial statements, and we cannot agree to this paragraph.
- As described in the "Overview," thorough discussions between preparers and users are required for determining whether individual items of the notes are indeed needed. The way Table 7.1 is presented as disclosure example is misleading as it may be taken as a checklist, and is inappropriate for Conceptual Framework. In particular, we have serious doubts about relevance of "sensitivity," "maturity analysis," and "roll-forwards." We do not think that it is generally appropriate to require these items to be presented as relevant information, and we would like to have them removed. Similarly, the description in paragraph 7.35(b) should be removed.

Question18
The form of disclosure requirements, including the IASB's preliminary view that it should consider the communication principles in paragraph 7.50 when it develops or amends disclosure guidance in IFRSs, is discussed in paragraphs 7.48–7.52. Do you agree that communication principles should be part of the Conceptual Framework? Why or why not? If you agree they should be included, do you agree with the communication principles proposed? Why or why not?

<<Our Comments>>

It suffices to prepare disclosure guidance as required, provided that the guidance is in line with the objective of disclosure of the items in the note or materiality.

In paragraph 7.50(d), there is a description that disclosure guidance should "require or permit" entities to show the relationship between the information disclosed in different notes and also, where possible, with "other published information, such as disclosures in management commentary." At least, the wording "require" should be removed

Section 8 — Presentation in the statement of comprehensive income — profit or loss and other comprehensive income

Question19
The IASB's preliminary view that the Conceptual Framework should require a total or subtotal for profit or loss is discussed in paragraphs 8.19–8.22. Do you agree? Why or why not? If you do not agree do you think that the IASB should still be able to require a total or subtotal profit or loss when developing or amending Standards?

<<Our Comments>>

We agree to the preliminary view that the Conceptual Framework should require a total for profit or loss. The profit or loss is the most important item to indicate the financial performance, and, as already stated in our comments on Question 4, we strongly require that the profit or loss should be defined as element.

Question20
The IASB's preliminary view that the Conceptual Framework should permit or require at least some items of income and expense previously recognised in OCI to be recognised subsequently in profit or loss, ie recycled, is discussed in paragraphs 8.23–8.26. Do you agree? Why or why not? If you agree, do you think that all items of income and expense presented in OCI should be recycled into profit or loss? Why or why not? If you do not agree, how would you address cash flow hedge accounting?

<<Our Comments>>

All items recognized in OCI should be recycled to the profit or loss. This point can be explained from the following two viewpoints: the concept of "realization;" and "two measurement bases for the same item."

(1) Explanation from concept of "realization"

As explained in our comments on Question 4, the profit or loss is "realized profit or loss free from investment risks." It is differentiated from the comprehensive income in that it does not include unrealized gains and losses. Unrealized gains and losses represent OCI, which, when "realized," are recycled automatically to the profit or loss.

The view that the triggers of "realization" are not straightforward is understandable. However, it is clear that in the course of ongoing management process of an entity, all the investment results will be finalized at some point. If OCI is not recycled because the triggers are not straightforward, it is like the tail wagging the dog. It is the mission of IASB that is to clarify the triggers in particular Standards in consideration of the real world. At least in the process of developing the Japanese and US standards such efforts have been made, and both the preparers and users believe that the details of the standards are fairly reasonable. That items that are "realized" at some point are not recycled and are left in the accumulated other comprehensive income (AOCI) forever does not represent the actual transactions of ongoing entities appropriately and is extremely unhealthy. In order to ensure integrity of the profit or loss, all the OCI items must be recycled.

(2) Explanation from "two measurement bases for the same item"

In case the explanation based on the concept of "realization" is difficult to understand, the approach based on the "two measurement bases for the same item" is also useful, which ASBJ presented at the December ASAF. As IASB stated in paragraph 6.76 of the Discussion Paper, there are, in measuring assets and liabilities, cases where measurement bases are different for those that provide relevant information for indicating the financial position and for those that provide relevant information for indicating the financial performance, and the difference is shown in OCI. Namely, OCI arises due to differences in the two measurement bases, and when the assets and liabilities are extinguished, the differences arising from the measurement bases are also distinguished (both the measurement values converge to zero). The OCI therefore is also extinguished, and is automatically recycled to the profit or loss. In explaining from “two measurement bases for the same item,” it is necessary to define what are the “measurement bases that provide relevant information for indicating the financial position” and what are the “measurement bases that provide relevant information for indicating the financial performance.” This can be done only after the “profit or loss” is defined, the most important item indicating the financial performance.

Whether the explanation from the concept of “realization” is used or the explanation from the “two measurement bases for the same item” is used, OCI will automatically be recycled to the profit or loss. Let us repeat that, as a premise, it is indispensable to define the profit or loss.

Question21
In this Discussion Paper, two approaches are explored that describe which items could be included in OCI: a narrow approach (Approach 2A described in paragraphs 8.40–8.78) and a broad approach (Approach 2B described in paragraphs 8.79–8.94). Which of these approaches do you support, and why? If you support a different approach, please describe that approach and explain why you believe it is preferable to the approaches described in this Discussion Paper.

<<Our Comments>>

First, we strongly oppose to Approach 1, as it deviates from the discussions at IASB to date. In addition, we cannot support either Approach 2A or Approach 2B as they are stated. It is not possible to attach a meaning to OCI in an appropriate manner, which is a concept of residual profit or loss, without first defining the profit or loss. In fact, in the Discussion Paper, OCI is explained as “transitory measurements,” “bridging items,” or “mismatched remeasurements.” These are all unrealistic from our standpoint, and what they mean and how they differ are quite ambiguous.

If we define the profit or loss as “realized profit or loss free from investment risks,” OCI is the difference from the comprehensive income, which is a concept that includes unrealized gains and losses. OCI is then clearly a temporary storage area for placing unrealized gains and losses until they are “realized,” a “linkage factor that links the comprehensive income and profit or loss.” This clarifies that “OCI is a linkage factor that links the comprehensive income and profit or loss, and that the approach is appropriate that all the OCI items stipulated in the current IFRS are automatically recycled.” We would like that you first define the profit or loss, which is the most important concept of profits, and then study the nature of OCI again.

Section 9 – Other issues

Question22
Chapters 1 and 3 of the existing Conceptual Framework Paragraphs 9.2–9.22 address the chapters of the existing Conceptual Framework that were published in 2010 and how those chapters treat the concepts of stewardship, reliability and prudence. The IASB will make changes to those chapters if work on the rest of the Conceptual Framework highlights areas that need clarifying or amending. However, the IASB does not intend to fundamentally reconsider the content of those chapters. Do you agree with this approach? Please explain your reasons. If you believe that the IASB should consider changes to those chapters (including how those chapters treat the concepts of stewardship, reliability and prudence), please explain those changes and the reasons for them, and please explain as precisely as possible how they would affect the rest of the Conceptual Framework.

<<Our Comments>>

We believe that <u>the Conceptual Framework should expressly refer to the "stewardship."</u> Although the reasoning for the conclusion of the current Conceptual Framework states that the information on the stewardship is useful in making decisions about providing resources to the entity, it does not refer to the "stewardship" in an express manner. This has led to the misconception that the needs of short-term investors are given more importance than those of long-term investors. Express reference to the stewardship will help clear up such a misconception. Also, as the stewardship is referred to as objective of measurement in paragraph 6.10, the Conceptual Framework should refer to the "stewardship" in an express manner.

We also believe that <u>the Conceptual Framework should expressly refer to the "reliability."</u> As with the "Conceptual Framework" up to the year 2010, the Conceptual Framework should clearly state that the concept of reliability includes the aspects: "free from material error and bias;" "can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent;" "substance over form;" "neutrality;" "prudence;" and "completeness." Forward-looking estimates are indispensable in the measurement of fair value and depreciation. The values measured with estimates vary from entity to entity, and it would not be comfortable for users of financial statements to fully rely on information that is solely dependent on estimates containing subjective views and noises. Accordingly, we believe that, by clarifying the concept of reliability, we can also clearly articulate that financial statements, faithfully represented in consideration of facts that are free from the subjective views of the measurer, are disclosed.

Of these aspects, <u>it is particularly important to refer to the "prudence" in the body text of the Conceptual Framework in order to prevent overstatement of assets and earnings and understatement of liabilities and expenses when the management makes judgment under uncertain circumstances.</u> The concern stated in paragraph 9.18(a), that a requirement to be prudent would lead to bias in the preparation of financial statements, is off the mark, and the concept of prudence for prevention of overstatement/understatement is by no means inconsistent with the concept of neutrality. The concept of "prudence" also prevents optimistic estimates by management, thereby contributing to sustainable growth of an entity and elimination of factors for excessive market fluctuations.

Question23

Business model

The business model concept is discussed in paragraphs 9.23–9.34. This Discussion Paper does not define the business model concept. However, the IASB's preliminary view is that financial statements can be made more relevant if the IASB considers, when developing or revising particular Standards, how an entity conducts its business activities.

Do you think that the IASB should use the business model concept when it develops or revises particular Standards? Why or why not?

If you agree, in which areas do you think that the business model concept would be helpful?

Should the IASB define 'business model'? Why or why not?

If you think that 'business model' should be defined, how would you define it?

<<Our Comments>>

It is not necessary to define the "business model" in the Conceptual Framework. We think that it suffices to consider how an entity conducts its business activities when developing particular Standards, as stated in paragraph 9.32.

Question24

Unit of account

The unit of account is discussed in paragraphs 9.35–9.41. The IASB's preliminary view is that the unit of account will normally be decided when the IASB develops or revises particular Standards and that, in selecting a unit of account, the IASB should consider the qualitative characteristics of useful financial information.

Do you agree? Why or why not?

<<Our Comments>>

We agree. The "unit of account" is something that cannot be decided conceptually, and we have no objection to the preliminary view that it will normally be decided when developing particular Standards.

Question26

Capital maintenance

Capital maintenance is discussed in paragraphs 9.45–9.54. The IASB plans to include the existing descriptions and the discussion of capital maintenance concepts in the revised Conceptual Framework largely unchanged until such time as a new or revised Standard on accounting for high inflation indicates a need for change.

Do you agree? Why or why not? Please explain your reasons.

<<Our Comments>>

We agree. We have no objection to the preliminary view that the concept of "capital maintenance" needs not be reviewed under the current project for the Conceptual Framework.