Document No. 319
21 March , 2013

Accounting & Tax Committee
Japan Foreign Trade Council, Inc.

To the International Accounting Standards Board

Comments on "Equity Method: Share of Other Net Asset Changes"

The following are the comments of the Accounting & Tax Committee of the Japan Foreign Trade Council, Inc. (JFTC) made in response to the solicitation of comments regarding the International Accounting Standards Board Exposure Draft "Equity Method: Share of Other Net Asset Changes". The JFTC is a trade-industry association with trading companies and trading organizations as its core members, while the principal function of its Accounting & Tax Committee is to respond to developments in domestic and international accounting standards. (Member companies of the Accounting & Tax Committee of JFTC are listed at the end of this document.)

Question 1

Response:

We do not agree with the proposal.

Reasons for Disagreement:

As possible causes of other net asset changes are wide-ranging, accounting treatment should be based on the characteristics of transactions (see reference information below). Therefore, we do not agree with recognizing all other net asset changes in the investor's equity.

* Reference information
[Accounting treatment for classification 1]
 Transactions resulting in changes (increase or reduction) in an investor's ownership interest in the investment
With respect to changes in ownership interest, an increase in ownership interest should be accounted for as an incremental purchase of the investment, and a reduction in ownership interest should be accounted for as a partial disposal.
(Accounting treatment proposed to the IASB by the IFRS Interpretations Committee, which is consistent with treatment under US GAAP [ASC 323-10-35].)

[Accounting treatment for classification 2]
 Transactions resulting in no change in an investor's ownership interest in the investment
In this classification, discussion focused on where to recognize transactions in the three categories of equity, OCI, and profit or loss. No final decision was reached.

Therefore, regarding [Accounting treatment for classification 2] above, we request that thought be given to issuing appropriate guidance for resolving the observed diversity in practice. If [Accounting treatment for classification 2] is to be uniformly recognized under equity transaction, we would request that necessary revisions ensuring consistency with IAS 1 and IFRS 10 also be considered.

Question 2

Response:

We do not agree with the proposal..

As we do not agree with the proposal in Question 1 in the first place, we also cannot agree with the proposal, 'an investor shall reclassify to profit or loss the cumulative amount of equity that the investor had previously recognized when the investor discontinues the use of the equity method'.

Reasons for Disagreement:

In this proposal, an entity shall reclassify the amount that had previously been recognised in equity to profit or loss. That is, this proposal contradicts the fundamental principle of distinguishing between equity transactions and profit or loss transaction. In other words, this proposal would newly require an equity item—in addition to OCI items—to be reclassified to profit or loss under IFRS. Normally, it would be necessary to justify such a proposal and to specify its conceptual position within the Conceptual Framework. Because this proposal has been presented with neither of the above, preparers of financial statements cannot effectively consider its contents.

Question 3

We comment on "effective date and transition."

As stated above, we are opposed to the proposals made in this Exposure Draft. However, in the event that IAS 28 is revised in line with these proposals, in light of the burden to preparers, we would request that application be solely prospective (no retrospective application). We are opposed to mandating retrospective application for the following two reasons.

1. As transactions involving other net asset changes are wide-ranging, retrospectively revising financial statements regarding all such transactions would not be feasible from an operational perspective.

2. While the proposals contain theoretical problems, they are presented as a narrow-scope amendment to address the observed diversity in practice in the short term. In light of this fact, we feel that mandating retrospective application goes too far.

Japan Foreign Trade Council, Inc.

World Trade Center Bldg. 6th Floor,
4-1, Hamamatsu-cho 2-chome,
Minato-ku, Tokyo 105-6106, Japan
URL. http://www.jftc.or.jp/

Members of the Accounting & Tax Committee of JFTC

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