Accounting Standards Board of Japan
Kowa Building No.9,
1-8-10, Akasaka, Minato-ku, Tokyo
107-0052
Japan

Tel: +81-3-5561-8449
Fax: +81-3-5561-9624

http://www.asb.or.jp

September 13, 2002

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

Comments on the Exposure Draft of Proposed Improvements to International Accounting Standards

The Accounting Standards Board of Japan (ASBJ) is pleased to comment on the Exposure Draft of Proposed "Improvements to International accounting standards." The views expressed in this letter are those of International Issues Standing Committee of the ASBJ and does not represent an official position of the ASBJ based on its due process.

We comment only on items with which we do not agree. We hope that our comments will contribute to the work of the IASB in arriving at its final decision.

Best Regards,

Ikuo Nishikawa

Chairman, International Issues Standing Committee
Vice Chairman, Accounting Standards Board of Japan

IAS 1 Presentation of Financial Statements

Other

Information to be presented on the Face of the Income Statement (paragraph 76)

ED Paragraph 76 provides minimum line items on the face of the income statement and " the results of operating activities" is removed. We believe that the results of operating activities should remain as a minimum line item because it is considered useful information of performance.

IAS 2 Inventories

Question 1

Do you agree with eliminating the allowed alternative of using the last-in, first-out (LIFO) method for determining the cost of inventories under paragraphs 23 and 24 of IAS 2?

A. Disagree.

We believe that LIFO sometimes ensures reasonable matching between revenue and costs. Considering such merit, we believe that the reasons of elimination shown in the Basis for Conclusions are not conclusive and the alternative of LIFO is worth retaining.

Question 2

IAS 2 requires reversal of write-downs of inventories when the circumstances that previously caused inventories to be written down below cost no longer exist (paragraph 30). IAS 2 also requires the amount of any reversal of any write-down of inventories to be recognised in profit or loss (paragraph 31). Do you agree with retaining those requirements?

A. Disagree.

In the case that an inventory item that had been previously written down remains unsold, it is appropriate to recognise gain when it is sold rather than when market price is recovered. In addition, it should be considered that it is sometimes difficult to determine the amount to be reversed, especially when using the average method. Therefore, we do not believe it is necessary to retain the reversal of write-downs of inventories.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Question 1
Do you agree that the allowed alternative treatment should be eliminated for voluntary changes in accounting policies and corrections of errors, meaning that those changes and corrections should be accounted for retrospectively as if the new accounting policy had always been in use or the error had never occurred (see paragraphs 20, 21, 32 and 33)?

A. Disagree.
In some jurisdictions, as is the case in Japan, due to domestic legal systems, it may be difficult to accept the benchmark treatment (the retrospective approach). We believe that the allowed alternative treatment should be retained in order to encourage an entity in such jurisdictions to use IFRSs.

IAS 16 Property, Plant and Equipment

Question 1
Do you agree that all exchanges of items of **property, plant and equipment** should be measured at fair value, except when the fair value of neither of the assets exchanged can be determined reliably (see paragraphs 21 and 21A)?

A. Disagree.
We believe to retain the existing IAS 16.22 because of following reasons and to maintain a rather narrow definition of exchanges of items of property, plant and equipment that should be measured at fair value.

1. Similarity of nature and value of assets
If all exchanges of items of property, plant and equipment should be measured at fair value as the ED proposal states, it shall make ease to recognise an increase of value of its asset as any gain arbitrarily through an exchange transaction of same (or similar) assets with a certain third party over again whenever entities need, though there is no change made in economic substances. We believe to retain existing IAS 16.22 as an exception, while exchanged plant, property and equipment shall be measured at fair value in principle.

2. Reliable measurement of the fair value
We believe that the definition of "when the fair value can be determined reliably" should be clarified. Fair value of assets exchanged can be determined reliably when and only when

there is an observable price in an active market related to its asset, or a price based on an expectation of market participants can be determined. If such price is not available and only an entity specific value is available, we believe such exchange should not be measured at that value. In an exchange of assets held for use, an entity specific value of asset includes subjective goodwill and leads to arbitrary measurement of the value.
Therefore, we believe that the ED paragraph 21A should be replaced by "when and only when there is an observable price in an active market related to its asset, or a price based on an expectation of market participants can be determined".

3. Convergence
Since many jurisdictions have similar requirements to the existing IAS 16.22, we believe the elimination of such requirements does not promote the convergence of accounting standards in the world. Rather, we recommend improving existing IAS 16.22.

Question 2
Do you agree that all exchanges of **intangible assets** should be measured at fair value, except when the fair value of neither of the assets exchanged can be determined reliably? (See the amendments in paragraphs 34-34B of IAS 38, Intangible Assets, proposed as a consequence of the proposal described in Question 1.)
(Note that the Board has decided not to amend, at this time, the prohibition in IAS 18, Revenue, on recognising revenue from exchanges or swaps of goods or services of a similar nature and value. The Board will review that policy later in the context of a future project on the Recognition of Revenue.)

A. Disagree.
Similarly to Question 1, we do not agree with the proposed requirement for exchanges of intangible assets. We believe that the existing IAS 38.35 should be retained after some improvements we have suggested with regard to Question 1 above.

Question 3
Do you agree that depreciation of an item of property, plant and equipment should not cease when it becomes temporarily idle or is retired from active use and held for disposal (see paragraph 59)?

A. Partly Disagree.
While we agree that depreciation should not cease when an asset becomes temporarily idle, we do not agree with continuance of depreciation when an asset is retired from active use and held for disposal. We believe that existing IAS 16.59 should be retained because we

agree with the description in the paragraph A10 on the proposed ED of IAS 16, especially the argument that accounting for such asset should be a process of valuation rather than allocation of costs. In addition, the accounting for assets held for disposal can produce a similar consequence with that by the lower of cost or market method by applying IAS 36.

IAS 21 The Effects of Changes in Foreign Exchange Rates

Question 2
Do you agree that a reporting entity (whether a group or a stand-alone entity) should be permitted to present its financial statements in any currency (or currencies) that it chooses?

A. Disagree.
There is not sufficient reasons that an entity can select a presentation currency without any limitations. We believe that the range of choice of a presentation currency should be limited to the functional currencies used by any of significant components within the entity group or the local currency in the country where major operation of the entity is located.

Question 3
Do you agree that all entities should translate their financial statements into the presentation currency (or currencies) using the same method as is required for translating a foreign operation for inclusion in the reporting entity's financial statements (see paragraphs 37 and 40)?

A. Partly Disagree.
We do not agree the proposed requirement of paragraph 37 that equity items shall be translated at the closing rate at the balance sheet date. We believe they should be translated at the historical rate.
According to the proposed procedure, capital stock and retained earnings shall be translated at the closing rate at each balance sheet date, and translation differences between the closing rate of the prior balance sheet date and that of the current date are included in each item. If those items are translated at the historical rate, such differences shall be included in the translation adjustment and apart from capital stock and retained earnings. We believe that it provides more appropriate presentation of the equity items on the balance sheet.

Question 5
Do you agree that (a) goodwill and (b) fair value adjustments to assets and liabilities that arise on the acquisition of a foreign operation should be treated as assets and liabilities of the foreign operation and translated at the closing rate (see paragraph 45)?

A. Disagree.
While we acknowledge the rationales for translating goodwill at the closing rate often hold true, we believe that the existing paragraph 33 (b), that states any goodwill and fair value adjustments shall be reported as assets and liabilities of the reporting entity and translated at the rate of transaction date, should be retained as an alternative method because of the following reasons.
In certain business combinations, an acquirer intends to obtain synergy from an acquiree into its own operation. Goodwill arisen from such transaction is an asset of parent (acquirer) rather than that of subsidiary (acquiree), so it should not be treated in the same way with assets of the foreign operation (acquiree). In addition, in a case of acquisition of multi-national companies, it is impossible for entities to identify how much goodwill shall be allocated to each region and what the functional currency shall be used for translation of goodwill.

We agree with translating fair value adjustment at the closing rate.

IAS 24 Related Party Disclosures

<u>Other</u>
Disclosure of pricing policies
We do not agree with the elimination of the provision that requires the disclosure of pricing policies (existing paragraph 23(c)). We recognise that it is one of key item for stakeholders to understand related parties transactions and it contributes to check an activity of preparers. However, the proposed provision does not require any disclosure unless an entity can prove that related party transactions are under same conditions as arms-length transactions. Also, the provision only requires a disclosure whether it is equivalent to the fair value or not, if required. In our view, Japan and US implicitly requires such disclosures.

IAS 27 Consolidated and Separate Financial Statements

Question 2
Do you agree that minority interests should be presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity (see paragraph 26)?

A. Disagree.
We believe that IASB should not change the current treatment of minority interests described in existing IAS 1 that minority interests should be presented between liabilities and equity on the balance sheet, until IASB has done overall discussion of the treatment of minority interests. In our understanding, IASB has not concluded about the purpose of consolidated financial statements, that is, whether it should adopt the parent's perspective or the group's perspective. Considering such circumstances, we cannot find any convincing reasons for the proposed requirement that minority interests shall be presented in equity, except for a literal interpretative reason that they do not meet the definition of liability in IASB Framework.

Question 3
Do you agree that investments in subsidiaries, jointly controlled entities and associates that are consolidated, proportionately consolidated or accounted for under the equity method in the consolidated financial statements should be either carried at cost or accounted for in accordance with IAS 39, Financial Instruments: Recognition and Measurement, in the investor's separate financial statements (paragraph 29)? Do you agree that if investments in subsidiaries, jointly controlled entities and associates are accounted for in accordance with IAS 39 in the consolidated financial statements, then such investments should be accounted for in the same way in the investor's separate financial statements (paragraph 30)?

A. Partly Disagree.
We believe that the alternative to account for investments in subsidiaries in accordance with IAS 39 should be eliminated. Investments in subsidiaries are essentially business investments and measuring them at market value is not consistent with the purpose of holding them.

We agree with the proposed paragraph 30.

IAS 33 Earnings Per Share

Question 2
Do you agree with the following approach to the year-to-date calculation of diluted earnings per share (as illustrated in Appendix B, examples 7 and 12)?

- The number of potential ordinary shares is a year-to-date weighted average of the number of potential ordinary shares included in each interim diluted earnings per share calculation, rather than a year-todate weighted average of the number of potential ordinary shares weighted for the period they were outstanding (ie without regard for the diluted earnings per share information reported during the interim periods).
- The number of potential ordinary shares is computed using the average market price during the interim periods reported upon, rather than using the average market price during the year-to-date period.
- Contingently issuable shares are weighted for the interim periods in which they were included in the computation of diluted earnings per share, rather than being included in the computation of diluted earnings per share (if the conditions are satisfied) from the beginning of the year-to-date reporting period (or from the date of the contingent share agreement, if later).

A. Disagree.
We believe that it is not reasonable that frequency of interim reporting might affect a diluted EPS for an entire year. In addition, we believe that the proposed approach does not have an advantage because sum of diluted EPS for each interim period anyway will not equal to that of the year-to date, if the number of shares is fluctuated during the period.

IAS 40 Investment Property

Question 3
Do you agree that the Board should not eliminate the choice between the cost model and the fair value model in the Improvements project, but should keep the matter under review with a view to reconsidering the option to use the cost model in due course?

A. Partly Disagree.
We fully agree with the retention of the choice of the cost model, but disagree with stating in the Basis for conclusions an intention to reconsider the option to use the cost model.
IAS 40 has been introduced only since 2001 and there have been arguments about the

definition of investment property, so we believe that the IASB shall first reconsider the definition of investment property. In our view, rental properties held for a long-term real investment have nature similar to property, plant and equipment rather than to financial assets. Therefore, it is not appropriate to require the fair value model, which treats them in the same way with financial assets held for trading.