

November 25, 2015

To the International Accounting Standards Board

Japanese Bankers Association

Comments on the International Accounting Standards Board's Exposure Draft
"Conceptual Framework for Financial Reporting"

We, the Japanese Bankers Association ("JBA"), are an organization that represents the banking industry in Japan; and our members comprise banks and bank holding companies operating in Japan.

We would like to express our gratitude for this opportunity to comment on the Exposure Draft (ED) "Conceptual Framework for Financial Reporting", published by the International Accounting Standards Board ("IASB").

We respectfully expect that the following comments will contribute to your further discussion on this issue.

1. Overall comment

We support the ED in that it removed the two approaches related to other comprehensive income ("OCI") proposed in the discussion paper ("DP") published in 2013 and regarded income and expenses included in the statement of profit or loss as the primary source of information about an entity's financial performance for the period.

The ED, however, does not still provide a specific definition of profit or loss and OCI. This makes it difficult to distinguish the two and thus to depict the actual financial performance for the period. It should be noted that this may prevent the achievement of the purpose desired to make appropriate financial reporting. Further, the ED sets out that "all income and all expenses will be included in the statement of profit or loss" which appears to be suggesting that all income and all expenses will be included in profit or loss without using any OCI items. This gives rise to a concern that profit or loss will be substantially equated with comprehensive income; and therefore, this description should be deleted.

It is considered as a positive move to propose a presumption that items of income or expenses included in OCI will be reclassified into the statement of profit or loss

(recycled). Nevertheless, there are different views across jurisdictions regarding which items should be recycled and included in profit or loss to enhance the relevance and it is unlikely that consensus will be reached in the near future. Given this circumstance, items of income or expenses included in OCI will be reclassified into the statement of profit or loss at appropriate timing, and this presumption should not be made rebuttable.

See our comments in detail in the next section.

2. Comments on specific questions provided in the ED

Question 12—Description of the statement of profit or loss

Do you support the proposed description of the statement of profit or loss? Why or why not?

If you think that the Conceptual Framework should provide a definition of profit or loss, please explain why it is necessary and provide your suggestion for that definition.

(Summary)

- The Conceptual Framework should provide an explicit definition of profit or loss and OCI in order to ensure the relevance.
- We agree that the statement of profit or loss is the primary source of information about an entity's financial performance for the period. However, the presumption that all income and all expenses will be included in the statement of profit or loss should be replaced with the description that all income and all expenses that relate to an entity's financial performance for the period will be included in the statement of profit or loss.

(Basis, etc.)

<Definition of profit or loss>

- While the ED regards the relevance as one of qualitative characteristics of financial information, it would be difficult to achieve the relevance if a definition of each item described in the Conceptual Framework is unclear. Therefore, the IASB should first clearly define profit or loss and then to develop a framework that ensures the relevance.
- Market participants or other stakeholders in Japan view profit or loss to be a measure that reflects the outcome of business management; namely, return on various forms of investments made by management in the period. In line with this common view, income and expenses associated with the outcome of business activities which are not yet recognised as return should not be included in profit

or loss until they are recognised as return. Given this, for example, a definition of profit or loss proposed by the Accounting Standards Board of Japan in its comment letter could be applied: “profit or loss is a measure which depicts the return for the period that the entity has made on its economic resources from its business activities conducted”.

- Further, OCI should include those income and expenses that are excluded from profit or loss.
- If the Conceptual Framework cannot provide a definition of profit or loss and OCI, the IASB should just describe in the Conceptual Framework that “all income and all expenses that relate to an entity’s financial performance for the period are included in the statement of profit or loss”, leave further discussions on profit or loss and OCI to other projects (e.g. Primary Financial Statements) instead of reaching a conclusion on the discussion about profit or loss and OCI in the Conceptual Framework, and make an effort to obtain understanding of stakeholders.

<Description of the statement of profit or loss>

- The ED describes that “all income and all expenses will be included in the statement of profit or loss”, which appears to be indicating that all income and all expenses will be recognized as profit or loss without using OCI items. This gives rise to a concern that there will be little difference in substance to distinguish profit or loss from comprehensive income. This description therefore should be deleted.
- Para.BC7.56 stipulates that the use of an arbitrary basis for the reclassification of OCI to profit or loss should be avoided. This demonstrates most clearly that profit or loss is an item which investors focus on to capture an entity’s financial performance for the period. It should therefore be clarified that profit or loss is the sole indicator of financial performance for the period by including the description that all income and all expenses that relate to an entity’s financial performance for the period will be included in the statement of profit or loss.
- Further, para.BC7.40 describes that an in-depth understanding of performance requires an analysis of income and expenses included in OCI. In so far as we know, however, there is no investor analysing and raising questions about OCI. The IASB should indicate the volume of stakeholders who are considering that such an analysis is necessary.

Question 13—Reporting items of income or expenses in other comprehensive income
Do you agree with the proposals on the use of other comprehensive income? Do you think that they provide useful guidance to the IASB for future decisions about the use of other comprehensive income? Why or why not?
If you disagree, what alternative do you suggest and why?

(Summary)

- We agree with the proposals.

(Basis, etc.)

- As commented in our response to question 12, OCI should include those income and expenses excluded from profit or loss. Specifically, unlike profit or loss deemed as return in the period, OCI should be used as a category to classify income and expenses related to the outcome of business activities which are not yet recognised as return.

Question 14—Recycling

Do you agree that the Conceptual Framework should include the rebuttable presumption described above? Why or why not?
If you disagree, what do you propose instead and why?

(Summary)

- We agree that the Conceptual Framework should include the presumption that items of income or expenses included in OCI in one period will be reclassified into the statement of profit or loss in some future period, except for the point that it is deemed as rebuttable. The description that the presumption could be rebutted should be deleted, and instead items of income or expenses included in OCI should principally be reclassified into the statement of profit or income subsequently.

(Basis, etc.)

- There are various opinions across countries regarding which items should be recycled and included in profit or loss in order to enhance the relevance of the information and it is unlikely that a consensus will be formed in the near future in this respect. Given the circumstances, the Conceptual Framework should require income and expenses included in OCI to be reclassified into profit or loss, in an appropriate future period, and reclassified items to be disclosed. It would be appropriate to allow investors to exclude such reclassified items from the statement of profit or loss if it is deemed as necessary to do so in making decisions, or if not, utilize figures on the statement of profit or loss without

modification.

- For example, assuming that the definition of profit or loss proposed in our response to question 12 is applied, income and expenses related to the outcome of business activities need to be reclassified from OCI to profit or loss without exception once they are recognised as return for the period. Even in such cases, if reclassified items are disclosed, investors will be able to make investment decisions.

Question 6—Recognition criteria

Do you agree with the proposed approach to recognition? Why or why not? If you do not agree, what changes do you suggest and why?

(Summary)

- We do not agree with the proposed approach to recognition because it may recognise unnecessary amount of assets and liabilities that do not provide useful information relative to current financial information, thereby resulting in inappropriate disclosure of financial statements.

(Basis, etc.)

- Para. 5.13(b) describes that assets or liabilities need not be recognised if the probability is low, but does not give specific guidance as to the level of the probability that would require the recognition of assets/liabilities.
- Under the current Conceptual Framework, there is a practice in place where assets/liabilities satisfying specific probability thresholds (e.g. ‘probable’ and ‘reasonably possible’) are being recognised. Therefore, if, as proposed in the ED, assets/liabilities are not recognised on the basis that the probability is low, this may give rise to confusion in practice and also may lead to recognising unnecessary amount of assets and liabilities. This would undermine the usefulness of financial statements.
- If the reference to the level of probability is removed from the recognition criteria, the estimation of liabilities will be affected most significantly. The IASB is requested to carefully consider this point based on many negative feedbacks to the proposed revision to IAS 37 (2005) which proposed the removal of probability requirements.
- If the IASB considers that the probability thresholds have an issue in recognising some assets/liabilities, such as derivatives, it would be preferable to definitely specify the products that are not suitable for the probability thresholds within the Conceptual Framework or specify products that should not comply

with the Conceptual Framework in each standard.

Question 2—Description and boundary of a reporting entity

Do you agree with:

- (a) the proposed description of a reporting entity in paragraphs 3.11–3.12; and
- (b) the discussion of the boundary of a reporting entity in paragraphs 3.13–3.25?

Why or why not?

(Summary)

- We agree with the IASB’s view that “consolidated financial statements are more likely to provide useful information to users of financial statements than unconsolidated financial statements”, but consider that the description in paragraph 3.25, i.e. “it is necessary to disclose in the unconsolidated financial statements how users may obtain the consolidated financial statements”, should be deleted.

(Basis, etc.)

- The description regarding the usefulness of the consolidated financial statements relative to the unconsolidated financial statements is consistent with the description in paragraph 3.9 that “financial statements are prepared from the perspective of the entity as a whole” and thus is logical.
- On the other hand, the other description: “it is necessary to disclose in the unconsolidated financial statements how users may obtain the consolidated financial statements”; would be an opposite approach from the IASB’s efforts to date to enhance the usefulness of the consolidated financial statements. Further, as long as the IASB’s standards are set from the perspective of the entity as a whole, it is not preferable to provide a more-than-necessary description regarding the content of the unconsolidated financial statements which are not prepared from the perspective of the entity as a whole.
- Even if the IASB considers that this description is indispensable, it should be discussed as a matter to be described in the note and therefore should not be discussed in the wide-ranging concept of the Conceptual Framework but instead should be discussed under other ongoing projects (e.g. Primary Financial Statements).