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Japanese Bankers Association

Comments on the International Accounting Standards Board's Request for Information
Third Agenda Consultation

The Japanese Bankers Association (the "JBA")[1] is pleased to provide comments on the Request for Information *Third Agenda Consultation* (the "Agenda Consultation") published by the International Accounting Standards Board (the "IASB").

The JBA appreciates this public consultation on IASB's activities and work plan. We would like to provide some comments on the financial reporting issues that we believe should be prioritized for consideration in the IASB's work plan for 2022 to 2026.

Answers to specific questions

Question 3—Financial reporting issues that could be added to the Board's work plan—operating profit or loss
Paragraphs 24–28 provide an overview of financial reporting issues that could be added to the Board's work plan. (a) What priority would you give each of the potential projects described in Appendix B—high, medium or low—considering the Board's capacity to add financial reporting issues to its work plan for 2022 to 2026 (see paragraphs 27–28)? If you have no opinion, please say so. Please provide information that explains your prioritisation and whether your prioritisation refers to all or only some aspects of the potential projects. The Board is particularly interested in explanations for potential projects that you rate a high or low priority.

Priorities for reviewing the requirement to present a statement of cash flows for financial institutions

With respect to paragraphs B76(g) and B78(b) of the Agenda Consultation, we would like to request that a review of the requirement for financial institutions to prepare a statement of cash flows

[1] The Japanese Bankers Association is an organization that represents the banking industry in Japan. Its members are banks and bank holding companies operating in Japan.

be prioritized for consideration, with a view to removing the requirement for financial institutions to present a statement of cash flows.

As we stated in our comment paper on "General Presentation and Disclosure" submitted in August 2020, with regard to banks and other companies that provide financing to their customers as a main business activity (hereinafter referred to as "financial institutions"), unlike non-financial entities, there are questions about the usefulness of information disclosed by their statement of cash flows. Specifically, the following reasons[2] can be listed:

(1) information disclosed in the statements of cash flows does not reflect the actual practice of financial institutions' cash management and liquidity management;

(2) the needs of investors and other stakeholders are already met by disclosures based on IFRS 7 and Basel regulations, and

(3) because IFRS does not set out a basic concept to supplement the lack of classifications of current assets [liabilities]/ non-current assets [liabilities] (or fixed assets) in financial statements, some classifications depend on the entities' judgment and are not comparable.

In this regard, the statement of cash flows of financial institutions does not necessarily satisfy the IASB's Conceptual Framework's (the "CF") objectives (CF1.2: to provide financial information that is useful for users' decision-making), required qualitative characteristics (CF 2.6: relevance, CF 2.23: comparability, etc.) and cost constraints (CF2.39: justification of the cost of providing information by the benefit of it and etc.), and therefore an urgent review is desirable.

The development of a statement of cash flows for financial institutions proposed in paragraph B78(d) requires resolutions of the issues described in (1) and (3) above, and is expected to require a considerable amount of time and human resources. In addition to information on financial soundness, such as capital management, financial institutions are required to disclose details on risk management approaches and maturity analysis for each asset under IFRS 7, as well as liquidity coverage ratios and stable funding ratios based on the Basel Regulatory Framework, which already fully satisfy users' needs. Given the fact that some Japanese analysts, who use the statement of cash flows, have expressed their view that a statement of cash flows is unnecessary, the development of a statement of cash flows for financial institutions would not only increase the practical burden of disclosures on financial institutions, but could also lead to inefficient use of the IASB's resources. The development of a new statement of cash flows for financial institutions is neither practical nor cost effective, and therefore it is more reasonable for the IASB to remove the requirement to present a statement of cash flows.

Review of IAS 34 Interim Financial Reporting

We would like the IASB to proceed on the issues related to interim financial reporting in the

[2] For more details, please refer to pages 6-7 of our previous comments on the IASB's exposure draft "General Presentation and Disclosure".

direction of B55(c) "address interim accounting issues in each new IFRS Standard or major amendment," or B55(d) "review of the requirements of IAS 34." In addition, the requirements of the standard should be limited to minimum principles. If a company follows the rules of a jurisdiction that prescribes more detailed requirements and disclosure deadlines for interim financial reporting, the interim financial reporting in accordance with these rules should naturally be recognized as being in accordance with IFRS.

Interim financial statements are used in the quarterly financial reporting systems of many countries, but disclosure deadlines and the quarterly disclosure guidance vary from country to country. Therefore, it would be desirable not to specify detailed requirements in the standard for interim financial reporting, but to adopt a broad policy compatible with regulations and circumstances specific to each country.

For example, under Japanese GAAP, in principle, annual reporting is required within three months after the end of each fiscal year and quarterly reporting within 45 days after the end of the relevant quarter. However, based on the opinions of the business community and government policies that seek to reduce the practical burden in Japan, the requirement to prepare a quarterly statement of cash flows is exempted for the first and third quarters. In addition, financial institutions have been given a relaxed deadline for filing the second quarter statement (within 60 days after the end of the second quarter), in consideration of the additional disclosure requirements related to capital requirements.

In spite of these measures under Japanese practice, when preparing financial statements based on IFRS standards, a quarterly statement of cash flows needs to be prepared within 45 days for the first and third quarters, in accordance with IAS 34. Given the practices of Japanese financial institutions, it is impracticable to prepare an IFRS-based statement of cash flows within 45 days.[3] This circumstance is one of the factors that makes it difficult for Japanese financial institutions to adopt IFRS. We believe that a review of the current requirements will contribute to encouraging the consideration of voluntary adoption of IFRS.

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[3] In the case of voluntary adoption of IFRS in Japan, the general process of preparing IFRS based statement of cash flows is as follows. First, consolidated BS and PL under Japanese GAAP are prepared based on non-consolidated financial statements under Japanese GAAP. Second, the IFRS based consolidated BS and PL are prepared by adjusting the differences in standards between Japanese GAAP and IFRS. In other words, the consolidated financial statements need to be prepared twice. Finally, unique journal entries for the statement of cash flows are prepared to create the IFRS based statement of cash flows. Taking into account the time frame required for these tasks, as well as the review period of the accounting auditors, the 45-day period is extremely tight.

Furthermore, the following two circumstances unique to financial institutions further increase the workload. The workflow for preparing the statement of cash flows is not systematized and generally it is prepared manually because the structure of the statement of cash flows is not in line with the actual practices of cash management and liquidity management at financial institutions. In addition, the practice of reclassification in the preparation of the statement of cash flows is more unique and requires more individual judgments relative to non-financial corporations, and therefore the consideration of journal entries requires more time than non-financial entities (for details, please refer to pp.6-7 (ii) of our comment on IASB's "General Presentation and Disclosure").

Disclosure line items for operating segments

With respect to paragraph B60(c) of the Agenda Consultation, additional disclosure requirements should be limited to the information that is reported to the chief operating decision maker.

Paragraph B60(c) states that the line items for which additional disclosures should be required could include "revenue, assets, equity, capital expenditures, business combinations, non-current assets held for sale and discontinued operations" and further states that "[t]hese additional disclosures should be required regardless of whether the information is regularly provided to the chief operating decision maker." However, given that segment information is only management-based information and should be provided on the premise of a management approach whereby the chief operating decision maker uses the same segments for external reporting purposes as they use in deciding how to allocate resources and measure performance, it is inappropriate to disclose information that is not regularly reported to the chief operating decision maker. Such a disclosure requirement would raise concerns from both companies and users of financial information. Conceivable examples are as follows:

・Concerns from the company's side

Information that is not reported to the chief operating decision maker may not be governed in a manner commensurate with its disclosure, given its materiality. In light of the fact that, as stated in the paragraph 60(c), the IASB amended IAS 8 to remove the descriptions which required disclosure of segment assets regardless of whether they were regularly reported to the chief operating decision maker because such information is unavailable in some industries, it is assumed that such provisions may require data that is not available to the entity. Therefore, if additional disclosures were to be required, it would become an excessive practical burden for the company, or the company may not be able to comply due to data limitations.

・Concerns from the user's side

Users expect that, when the segment information is reported using the management approach, this approach is consistently applied across a range of documents. Therefore, using a different approach may raise a concern from a user benefit perspective.

Question 4— Other comments
Do you have any other comments on the Board's activities and work plan? Appendix A provides a summary of the Board's current work plan.

About the Dynamic Risk Management Project

Of the IASB's current work plan, we would like the IASB to continue to give priority to the dynamic risk management project.

This project, which aims to appropriately reflect the dynamic interest rate risk management of financial institutions in financial statements, is extremely meaningful, and there is a high demand for it from financial institutions, as evidenced by the fact that most of the participants in the outreach on this project supported this objective.[4]

On the other hand, as has been discussed by the IASB, there is a concern that incorporating the aspect of interest rate risk management strategies of financial institutions in dynamic risk management models may present significant conceptual challenges. However, in light of the objectives of this project and based on the practices of financial institutions as expressed in the outreach, we hope that a new framework will be developed that is not bound by the norms of past accounting standards. With respect to Japanese financial institutions, as requested in the outreach, we would like to see a new framework that takes into account the actual practices of ALM operations; for example, permitting to set a range of target net interest income (NII), and expanding items that are eligible as hedged items to include each asset and liability, rather than limiting to interest rate risk of net open risk positions.

Scope of disclosure of related party transactions

Although related party transactions are not addressed in the Agenda Consultation, we would like to make the following request for clarification of the standard as an issue of financial reporting that should be considered by the IASB.

The scope of disclosure of related party transactions should be limited to those considered to be material in terms of amounts or unusual conditions.

IAS 24 Related Party Disclosures states that if an entity has had a related party transaction during the period covered by the financial statements, it shall disclose the nature of the related party relationship as well as information necessary for users to understand the potential effect of the relationship on the financial statements. In this context, as the standard does not specify any materiality threshold, practically all transactions are required to be disclosed, which places a significant practical burden on the preparer to collect and compile information for disclosure. Considering that the objective of the standard is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties, we believe that the purpose of disclosure will be adequately fulfilled even if the scope of disclosures is limited by materiality in terms of amounts or unusual conditions.

(End)

[4] IASB meeting Staff Paper, April 2021, Dynamic Risk Management (DRM), 4A.