

**Accounting Standards Board of Japan (ASBJ)**

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24 May 2017

Mr. Hans Hoogervorst  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

**Re: Comments on the Exposure Draft *Prepayment Features with Negative Compensation* (Proposed amendments to IFRS 9)**

1. The Accounting Standards Board of Japan (the “ASBJ” or “we”) welcome the opportunity to provide our comments on the International Accounting Standards Board’s (“IASB”) Exposure Draft *Prepayment Features with Negative Compensation* (Proposed amendments to IFRS 9) (the “ED”), issued in April 2017.
2. We understand that the IASB’s initiative to address the concerns expressed by constituents who are in the process of implementing IFRS 9. Therefore, we do not disagree with the main proposals in this Exposure Draft.
3. However, with the effective date of IFRS 9 approaching, we believe that any amendment to IFRS Standards should be very limited in scope so that IFRS Standards can be adopted by various jurisdictions with confidence as international accounting standards. In this context, we believe the references to ‘reasonable additional compensation for the early termination of the contract’ in the Basis for Conclusions of the ED should be separated from the proposed amendments in the ED and be considered following the normal due process. This is because such references go beyond the request for clarification that was submitted to the IFRS Interpretations Committee and may affect the measurement of financial instruments with prepayment features that may only result in ‘positive compensation’.
4. We are gravely concerned that the IASB has set the comment period for the ED to 30 days. While we acknowledge that the Due Process Oversight Committee

(DPOC) has approved this comment period, the standard period of 120 days prescribed in the IASB and the IFRS Interpretations Committee's *Due Process Handbook* should be enforced to the extent possible so that the various constituents in various jurisdictions have sufficient time to discuss the proposals. It should also be noted that some jurisdictions need the time to translate the proposals into other languages. We do not think the IASB had a convincing reason to justify the comment period of 30 days. We urge the IASB to fully consider the ramifications of setting a shorter comment period so that it would not take away the opportunity of constituents to comment on the proposals.

5. For our other comments on the specific questions to the ED, please refer to Appendix of this letter.
6. We hope that our comments will contribute to the IASB's deliberations. If you have any questions, please feel free to contact us.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Yukio Ono', written in a cursive style.

Yukio Ono

Chairman of the Accounting Standards Board of Japan

**Question 1—Addressing the concerns raised**

Paragraphs BC3–BC6 describe the concerns raised about the classification of financial assets with particular prepayment features applying IFRS 9. The proposals in this Exposure Draft are designed to address these concerns.

Do you agree that the Board should seek to address these concerns? Why or why not?

1. We understand that the IASB’s initiative to address the concerns expressed by constituents who are in the process of implementing IFRS 9. Therefore, we do not disagree with the main proposals in this Exposure Draft.
2. However, given the wide variety of financial assets that exist, we think it is undesirable to make exceptions for a single contractual feature such as this proposed amendment, because it could lead to make IFRS 9 a rule-based standard.
3. Furthermore, considering that the principles of classification and measurement in IFRS 9 were developed after extensive deliberations, we think the concerns this Exposure Draft is intended to address should be addressed more comprehensively as part of the processes including the post-implementation review (PIR) of IFRS 9 that would be conducted in the future.

## Question 2—The proposed exception

The Exposure Draft proposes a narrow exception to IFRS 9 for particular financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature. Specifically, the Exposure Draft proposes that such a financial asset would be eligible to be measured at amortised cost or at fair value through other comprehensive income, subject to the assessment of the business model in which it is held, if the following two conditions are met:

- (a) the prepayment amount is inconsistent with paragraph B4.1.11(b) of IFRS 9 only because the party that chooses to terminate the contract early (or otherwise causes the early termination to occur) may receive reasonable additional compensation for doing so; and
- (b) when the entity initially recognises the financial asset, the fair value of the prepayment feature is insignificant.

Do you agree with these conditions? Why or why not? If not, what conditions would you propose instead, and why?

- 4. We agree that the IASB should be responsive to issues that were raised in the process of implementing IFRS 9.
- 5. Accordingly, we do not disagree with the proposed amendments to add paragraph B4.1.12A in the ED. However, we suggest adding the underlined words to clarify the nature of the prepayment features that are subject to the ED.
  - (a) the prepayment amount is inconsistent with paragraph B4.1.11(b) of IFRS 9 only because the party that chooses to terminate the contract early (or otherwise causes the early termination to occur) may (not only pay but also) receive reasonable additional compensation for doing so
- 6. Furthermore, with the effective date of IFRS 9 approaching, we believe that any amendment to IFRS Standards should be made very carefully and should be very limited in scope.
- 7. In this context, we believe the references to ‘reasonable additional compensation for the early termination of the contract’ described in the sentences after the 2nd sentence in paragraph BC18 (beginning with ‘For example,’) and paragraph BC23 should be deleted in its entirety because they are neither specified in existing IFRS 9 nor would it be specified if this proposed amendment were to be finalised. These references

are adding new interpretations and go beyond resolving the issue of ‘prepayment features with negative compensation’, which the Due Process Oversight Committee approved a shorter comment period because the scope was narrow and the issue was urgent. That is, we think that these new interpretations may change the application of the SPPI criterion (and the resulting classification) even in cases where the financial instruments with prepayment features may only result in ‘positive compensation’.

8. If the IASB considers that it is necessary to clarify the scope of ‘reasonable additional compensation for the early termination of the contract’, we think this matter should be separated from the proposed amendments in the ED and be addressed following the normal due process. If we have the opportunity to provide comments, it is likely that we would suggest changing the phrase ‘reasonable additional compensation’.
9. In our discussion, some were of the view that ‘the second eligibility condition’ was necessary to limit the scope of the proposed exception and others were of the view that ‘the second eligibility condition’ was unnecessary, to treat the proposed exception in the same manner as ‘positive compensation’ in the paragraph B4.1.11 (b) of IFRS 9 and to minimise the amendments. Furthermore, under the ‘the second eligibility condition’, some expressed their view that it may be difficult to determine whether the fair value of the prepayment feature was insignificant.

<b>Question 3—Effective date</b>
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For the reasons set out in paragraphs BC25–BC26, the Exposure Draft proposes that the effective date of the exception would be the same as the effective date of IFRS 9; that is, annual periods beginning on or after 1 January 2018 with early application permitted.
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Do you agree with this proposal? Why or why not? If you do not agree with the proposed effective date, what date would you propose instead and why? In particular, do you think a later effective date is more appropriate (with early application permitted) and, if so, why?
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10. We think, at a minimum, a preparation period of one year is needed between the mandatory effective date and the date the standard is finalised, because the proposed amendments would change the accounting treatment of existing IFRS 9. Accordingly, we think it is appropriate to set an effective date of 1 January 2019 or later, with early application permitted.

#### Question 4—Transition

The Board is proposing an effective date of 1 January 2018 for the proposed amendments to IAS 28. The reasons for that proposal are explained in paragraphs BC7–BC9 of the Basis for Conclusions on the proposed amendments to IAS 28.

Do you agree with the effective date for those proposed amendments?

If not, why, and what alternative do you propose?

For the reasons set out in paragraphs BC27–BC28, the Exposure Draft proposes that the exception would be applied retrospectively, subject to a specific transition provision if doing so is impracticable.

(a) Do you agree with this proposal? Why or why not? If not, what would you propose instead and why?

As described in paragraphs BC30–BC31, the Exposure Draft does not propose any specific transition provisions for entities that apply IFRS 9 before they apply the exception.

(b) Do you think there are additional transition considerations that need to be specifically addressed for entities that apply IFRS 9 before they apply the amendments set out in the Exposure Draft? If so, what are those considerations?

11. We agree with the proposal that the exception would be applied retrospectively, subject to a specific transition provision if doing so is impracticable.
12. We think additional transition considerations are necessary for entities that had early adopted IFRS 9 before they applied the amendments set out in the ED. Assuming that the concerns described in paragraph 7 of this letter are resolved (that is, the references to ‘reasonable additional compensation for the early termination of the contract’ described in the Basis for Conclusions are deleted), the proposed amendments would change the measurement of eligible financial assets that have been measured at fair value through profit or loss to amortised cost. We think transitional provisions similar to paragraphs 7.2.8(a) and 7.2.11 in the existing IFRS 9 should be included for the financial assets that are affected by the change.
13. If the IASB continues to include references to ‘reasonable additional compensation for the early termination of the contract’ as we discuss in paragraph 7 of this letter, we believe that these new interpretations may change the application of the SPPI criterion (and the resulting classification) even in cases where the financial instruments with prepayment features may only result in ‘positive compensation’ and,

accordingly, it would be necessary to apply the requirements prospectively with additional transition considerations (and not retrospectively).