

Accounting Standards Board of Japan (ASBJ)

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19 October 2017

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

Re: Comments on the Exposure Draft *Property, Plant and Equipment—Proceeds before Intended Use* (Proposed amendments to IAS 16)

1. The Accounting Standards Board of Japan (the “ASBJ” or “we”) welcomes the opportunity to provide our comments on the International Accounting Standards Board’s (“IASB”) Exposure Draft *Property, Plant and Equipment—Proceeds before Intended Use* (Proposed amendments to IAS 16) (the “ED”), issued in June 2017.
2. We have sympathy with the alternative view presented in the ED, which stated that the issue addressed in the ED may highlight inappropriate application and enforcement of the existing requirements in IAS 16.
3. Nevertheless, for the reasons described in paragraph BC10 of the ED, we support the proposed amendments in paragraph 17(e) of IAS 16 to clarify that testing is ‘assessing whether the technical and physical performance of the asset is such that the asset is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes’ and not assessing the ‘financial performance of an asset’.
4. On the other hand, we disagree with the proposal to recognise the proceeds from selling items produced and the costs of producing those items before intended use in profit or loss, instead of deducting from the cost of property, plant and equipment.
5. We understand that the proposed amendments attempt to align the accounting treatments for proceeds from selling items produced before property, plant and equipment is in the location and condition intended by management and thereafter,

by prohibiting entities from deducting such proceeds from the cost of property, plant and equipment, so that the accounting would not be affected by the management's judgement regarding when the asset has become available in the intended location and condition.

6. However, according to the proposed amendments in the ED, entities would be required to identify the costs of producing the items sold and to distinguish those costs from other costs of testing incurred before intended use of property, plant and equipment. On this point, our concerns are as follows:
 - (a) The Basis for Conclusions of the ED states that the proposed amendments would require little more judgement beyond that already required to apply IFRS Standards. However, we think more judgement may be required and there would be operational challenges of implementing the requirements when, for example, determining whether the labour costs incurred relates to the items sold or to other costs of testing.
 - (b) Preparers noted that they are concerned that the proposed amendments could deter entities from investing in new pieces of equipment which are likely to result in certain amounts of losses during the testing phase, especially for equipment introducing innovative technologies, if testing costs that had been recognised in the cost of property, plant and equipment would be required to be recognised in profit or loss.
7. In addition, from a consistency point of view, aligning the accounting for revenue recognition would not necessarily depict the entity's financial performance appropriately when the accounting for costs are different in the sense that depreciation is not included for the costs of items produced during testing.
8. Our understanding is that this issue arose from cases where the proceeds from selling items exceed the costs of testing in a few industries, such as those stated in paragraph BC3(a) of the ED. However, the existing requirements in paragraph 17(e) in IAS 16 are well understood and are applied by many other industries, and thus we are not convinced that there is a need to amend these requirements. Nevertheless, we think that clarifying the meaning of 'testing' is an improvement to the existing requirements and thus support the proposed clarification.

9. 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', with a stylized flourish at the end.

Yukio Ono

Chairman

Accounting Standards Board of Japan