

(Translation for reference purpose only)

Issuance of the amendments to “Japan’s Modified International Standards (JMIS): Accounting Standards Comprising IFRSs and the ASBJ Modifications”

31 October 2017

Accounting Standards Board of Japan

The Accounting Standards Board of Japan (‘ASBJ’) undertakes the endorsement process on the Standards and Interpretations (collectively referred to as ‘Standards’) issued by the International Accounting Standards Board (‘IASB’) and issues “Japan’s Modified International Standards (JMIS): Accounting Standards Comprising IFRSs and the ASBJ Modifications”. To date, JMIS has been issued as a result of the endorsement process covering Standards issued by the IASB as at 30 September 2016 which become effective by 31 December 2017.

For this round the ASBJ undertook the endorsement process mainly on IFRS 15 *Revenue from Contracts with Customers* (hereinafter referred to as ‘IFRS 15’). Today, the ASBJ issued the amendments to “Japan’s Modified International Standards (JMIS): Accounting Standards Comprising IFRSs and the ASBJ Modifications”, which was approved at its 371st Board meeting held on 26 October 2017.

The ASBJ issued the Exposure Draft on the amendments to JMIS for public comment on 20 June 2017. Having considered the comments received on the Exposure Draft, the ASBJ finalised the amendments to JMIS, with some modifications to the Exposure Draft.

(Translation for reference purpose only)

Background

1. The ASBJ, following “The Present Policy on the Application of International Financial Reporting Standards (IFRS)” (June 2013) issued by the Business Accounting Council, an advisory body to the Financial Services Agency of Japan (‘FSA’), established the “Working Group for the Endorsement of IFRS” in July 2013 to undertake its endorsement process on the Standards issued by the IASB and issue “Japan’s Modified International Standards (JMIS): Accounting Standards Comprising IFRSs and the ASBJ Modifications”.
2. The ASBJ issued its latest amendments to JMIS on 11 April 2017 and, as a result of its works to date, has concluded its endorsement process on the Standards issued by the IASB as at 30 September 2016 which become effective by 31 December 2017.
3. For this round, the ASBJ, having undertaken the endorsement process on IFRS 15 and its related amended Standards as well as Standards issued by the IASB from 1 October 2016 to 31 December 2016 and become effective by 31 December 2017. As a result, the ASBJ issued amendments to *Application of “Japan’s Modified International Standards”* and “ASBJ Modification Accounting Standard No.2, *Accounting for Other Comprehensive Income*” which constitutes JMIS. The endorsement process for this round covered the Standards shown below.
 - (a) IFRS 15 and its related amended Standards, namely:
 - (i) IFRS 15 (issued in May 2014);
 - (ii) *Effective date of IFRS 15* (issued in September 2015); and
 - (iii) *Clarifications to IFRS 15* (issued in April 2016).
 - (b) Amendments to IFRS 12 *Disclosure of Interests in Other Entities* (hereinafter referred to as ‘Amendments to IFRS 12’) included in *Annual Improvements to IFRS Standards 2014-2016 Cycle* (issued in December 2016).

Outline of the endorsement process

4. The endorsement process is a mechanism of determining whether individual Standards issued by the IASB are acceptable in Japan and, for certain Standards, making ‘deletions or modifications’ when considered necessary, and having them designated by the FSA.
5. In undertaking the endorsement process on the Standards listed in paragraph 3, consistent with the previous endorsement processes, the ASBJ considered the following factors as the criteria for endorsing individual Standards, from the viewpoints of public interest and investor protection, on the premise that the application of JMIS would be voluntary:
 - fundamental thinking on accounting standards generally accepted in Japan;
 - difficulties in practice (preparation costs exceed benefits, etc.); and
 - relationship with peripheral regulations (whether various industry regulations make it

(Translation for reference purpose only)

difficult, or cause significant costs to adopt).

6. In addition, consistent with the previous endorsement processes, in undertaking the endorsement process on the Standards for this round, the ASBJ decided to limit the ‘deletions or modifications’ to a minimum, i.e., after thorough consideration under the policy of adopting the Standards without ‘deletions or modifications’ to the extent possible, only making ‘deletions or modifications’ for the requirements that have been determined to be unacceptable from the viewpoints of fundamental thinking on accounting standards generally accepted in Japan and difficulties in practice, because:
 - IFRS Standards have been developed and issued through the specified due process and also with the involvement by the ASBJ and Japanese constituents.
 - Too many ‘deletions or modifications’ might prevent the JMIS from being perceived as derived from IFRS Standards by constituents.
 - Looking at the endorsement processes in foreign countries or regions, only a limited number of countries or regions make ‘deletions or modifications’ and those ‘deletions or modifications’ are minimal even when they are made.
 - Consideration of comparability with the Standards issued by the IASB is needed.
 - Limiting ‘deletions or modifications’ to a small number of items would enable expressing Japanese views more strongly.

Endorsement process on IFRS 15 and its related amended Standards

Considerations at the endorsement process for this round

Selection of the items to consider whether ‘deletions or modifications’ are needed

7. For the Standards described in paragraph 3(a), the ASBJ selected the items to consider whether ‘deletions or modifications’ are needed, through the following works:
 - (a) Examination of the endorsement status in the European Union (EU), that is, examination of the endorsement advices by the European Financial Reporting Advisory Group (EFRAG) to the European Commission (EC).
 - (b) Comparison with the Standards related to revenue recognition which the ASBJ has already endorsed (such as IAS 11 *Construction Contracts* (hereinafter referred to as ‘IAS 11’) and IAS 18 *Revenue* (hereinafter referred to as ‘IAS 18’)) and with the treatments under the corresponding Japanese standards.
 - (c) Examination of the implementation issues which the ASBJ identified in its efforts to develop a comprehensive standard on revenue recognition.
 - (d) Follow-up of the views expressed from Japan during the development of IFRS 15.
8. As a result of the works as described in the preceding paragraph, the ASBJ selected items (a) and (b) below as the main items to consider whether ‘deletions or modifications’ are needed. In

(Translation for reference purpose only)

addition, the ASBJ examined the items listed in (c) below in response to the suggestions raised by reference to the discussions in the efforts of standard-setting as mentioned in (c) in the preceding paragraph.

- (a) Application of the concept of ‘transfer of control’ to construction contracts
- (b) Disclosures (notes)
- (c) Other items (cost recovery method and the accounting for the sale of assets other than inventories (such as fixed assets))

Consideration of the application of the concept of ‘transfer of control’ to construction contracts

9. IFRS 15 requires that timing of revenue recognition is determined based on when the customer obtains control of the promised good or service (paragraph 31 of IFRS 15). During the endorsement process, some expressed concerns that the percentage-of-completion method would be inconsistent with the concept of ‘transfer of control’ because the percentage-of-completion method measures performance based on the activities of an entity. The ASBJ considered whether this issue warranted ‘deletions or modifications’ because the ASBJ considered it to be related to the basic concepts underlying IFRS 15, although it is not a matter related to the fundamental thinking on accounting standards generally accepted in Japan as described in paragraph 5 as one of three criteria in undertaking the endorsement process.
10. In the consideration described in the preceding paragraph, the ASBJ examined the details of discussions that led to the development of IFRS 15 regarding its application to construction contracts. The ASBJ’s understanding is that the IASB, maintaining the concept of ‘transfer of control’, arranged the application of the control concept to construction contracts under the framework of performance obligations satisfied over time, in response to concerns expressed by constituents (including those from Japan) that useful information about construction contracts would not be provided if the application of the percentage-of-completion method were not allowed in the new standard.
11. In the light of the development process of IFRS 15 as described above, the ASBJ decided not to make ‘deletions or modifications’ regarding the application of the concept of ‘transfer of control’ to construction contracts under IFRS 15.

Consideration of disclosures (notes)

12. Disclosure requirements in IFRS 15, which were largely enhanced when compared to IAS 11 and IAS 18, aim at helping users of financial statements to understand the revenue recognised. On the other hand, since the development stage of IFRS 15, Japanese constituents have expressed deep concerns about the practical burdens imposed by those enhanced disclosures. Among the various practical burdens identified, the deepest concerns expressed related to (a) the

(Translation for reference purpose only)

disaggregation of revenue (paragraphs 114 and 115 of IFRS 15), (b) the contract balances (paragraphs 116-118 of IFRS 15) and (c) the transaction price allocated to the remaining performance obligations (paragraphs 120-122 of IFRS 15). The ASBJ considered whether disclosure requirements in IFRS 15, particularly the three items for which the deepest concerns were raised, needed 'deletions or modifications' because those concerns were considered to be related to practical difficulties (preparation costs exceeding benefits), which is one of three criteria set out in paragraph 5 as one of three criteria in undertaking the endorsement process.

13. The concerns regarding the practical burdens imposed by those disclosure requirements were continuously raised during the development process of IFRS 15. The IASB addressed those concerns by amending some proposed disclosures to mitigate the practical burdens. For those amended disclosure requirements, Japanese constituents continue to express concerns that such mitigation of practical burdens were insufficient.
14. Notwithstanding the situation described in the preceding paragraph, because there is only limited information about actual cases of early application of IFRS 15 in Japan and other jurisdictions and about how Japanese companies are implementing IFRS 15, the ASBJ determined that it cannot find sufficient rationale to reject the conclusion by the IASB that the benefits of the disclosure requirements in IFRS 15 would outweigh the costs involved. Accordingly, the ASBJ decided not to make 'deletions or modifications' regarding disclosure requirements in IFRS 15 including the three items identified in paragraph 12.

Consideration of other items

(Cost recovery method (paragraph 45 of IFRS 15))

15. In undertaking the endorsement process, the ASBJ considered how to treat the cost recovery method, in the light of concerns that the application of the cost recovery method may distort the financial measures relating to construction contracts and make comparison among periods difficult, which were raised by Japanese constituents in the ASBJ's discussion to develop a comprehensive accounting standard on revenue recognition. As a result of the discussions, the ASBJ did not select this item as one to consider whether 'deletions or modifications' were needed, because the ASBJ did not believe that it could reject the rationale that this would 'reflect the fact that the entity is making progress in satisfying the performance obligation' (paragraph BC180 of IFRS 15).

(Accounting for the sale of assets other than inventories, such as fixed assets (Amendments to IAS 16 *Property, Plant and Equipment* and amendments to IAS 38 *Intangible Assets* in Appendix D of IFRS 15))

16. The ASBJ also considered how to treat the accounting for the sale of assets such as fixed assets, because accounting for such sales were not included in the scope of the comprehensive accounting standard on revenue recognition being developed by the ASBJ and the sale of fixed assets in which

(Translation for reference purpose only)

the transferor has continued involvement may require different consideration from the sale of inventories, which is the major subject of IFRS 15. As a result of the discussions, the ASBJ decided not to make ‘deletions or modifications’ regarding the accounting for the sale of fixed assets, because there can be some flexibility in judging when to derecognise them and, similar to the sale of inventories, the ASBJ did not believe that it could find sufficient rationale to reject the uniform application of the concept of ‘transfer of control’ to fixed assets.

Endorsement process on other Standards

Considerations at the endorsement process for this round

17. The ASBJ additionally undertook the endorsement process on the Amendments to IFRS 12 (paragraph 3(b)) included in *Annual Improvements to IFRS Standards 2014-2016 Cycle*, because they were effective for annual periods beginning on or after 1 January 2017 and therefore their prompt endorsement was considered necessary.
18. The ASBJ did not believe that it needed to consider whether ‘deletions or modifications’ were needed regarding the Amendments to IFRS 12, because the amendments were clarifications to the requirements in IFRS 12 which applied to an entity’s interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities that were classified as held for sale or discontinued operations in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and thus they did not change the basic treatments in IFRS 12.

Amendments to the ‘Japan’s Modified International Standards’

Amendments to the “Application of ‘Japan’s Modified International Standards’”

19. As a result of the considerations described above, the ASBJ has amended Appendix 1 *Standards Issued by the IASB and Adopted by the ASBJ of the Application of “Japan’s Modified International Standards”*.

Amendments to “ASBJ Modification Accounting Standard No. 2, Accounting for Other Comprehensive Income”

20. As a result of the considerations described paragraphs 7-18, no ‘deletions or modifications’ have been made for this round of endorsement process. However, some wordings in “ASBJ Modification Accounting Standard No.2, *Accounting for Other Comprehensive Income*” have been amended to reflect amendments to IFRS 9 *Financial Instruments* (2013) made by IFRS 15.

Effective date

21. Like previous amendments, the amended *Application of “Japan’s Modified International Standards”* would apply to consolidated financial statements for annual periods beginning on or after its issuance date.