

13 April 2021

Ms. Sue Lloyd
Chair of the IFRS Interpretations Committee
International Accounting Standards Board
Columbus Building, 7 Westferry Circus
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**Comments on the Tentative Agenda Decision Relating to
Costs Necessary to Sell Inventories (IAS 2 Inventories)**

1. The Accounting Standards Board of Japan (the “ASBJ” or “we”) welcome the opportunity to comment on the IFRS Interpretation Committee (the “Committee”)’s tentative agenda decision relating to “Costs Necessary to Sell Inventories (IAS 2 *Inventories*)” in the February 2021 IFRIC Update.
2. We do not support the issuance of this tentative agenda decision for the following reasons:
 - (a) As noted by IASB staff, IAS 2 does not identify which specific costs are ‘necessary to make the sale’ of inventories, and as a result, diversity in views exists. Including non-incremental costs in ‘costs necessary to make the sale,’ simply because there is no specific guidance nor basis in IAS 2 for including incremental only costs ‘necessary to make the sale,’ is inconsistent with the conclusion of the tentative agenda decision which states that the principles and requirements in IFRS Standards provide an adequate basis.
 - (b) Although the tentative agenda decision concludes that an entity uses its judgement to determine which costs, including non-incremental costs, are necessary to make the sale considering its specific facts and circumstances, the tentative agenda decision does not provide specific guidance for determining the costs that should be considered as ‘costs necessary to make the sale.’ Accordingly, the issuance of this tentative agenda decision would not necessarily

resolve the diversity in views regarding the ‘costs necessary to make the sale’.

- (c) The tentative agenda decision particularly rejects the notion of limiting ‘costs necessary to make the sale’ to incremental costs. Our understanding is that there is a considerable number of entities that have adopted the notion of limiting ‘costs necessary to make the sale’ to incremental costs. However, IAS 2 nor the tentative agenda decision does not clearly prescribe which costs other than incremental costs should be included in ‘costs necessary to make the sale’. Because it is not easy to determine the costs other than incremental costs in terms of identifying which costs to include and how to allocate costs that relate to multiple items, requiring an entity to determine the ‘costs necessary to make the sale’ without specific guidance is likely to cause confusion in practice. Therefore, we believe that the tentative agenda decision should not be issued in its current form.
3. In our view, the principles and requirements of IAS 2 do not provide an adequate basis for addressing this issue. If the IASB were to address this issue, the IASB should consider adding this issue on its agenda as a standard-setting project in accordance with paragraph 5.16 of the Due Process Handbook.
 4. Because the agenda decision is likely to lead to changes in accounting for a considerable number of entities and is likely to cause confusion in practice, we believe that this issue should not be concluded hastily through the issuance of an agenda decision. We note that some are asking for aligning the definition of ‘cost’ across IFRS Standards. If the IASB were to address this issue, we think that it would be necessary to sufficiently discuss the scope of standard-setting project, that is, whether or not the project should address only the cost of inventories.
 5. We hope that our comments are helpful for the Committee’s and the IASB’s consideration in the future. If you have any questions, please feel free to contact us.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'A. Kogasaka'.

Atsushi Kogasaka

Chair

Accounting Standards Board of Japan