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Japan’s Modified International Standards (JMIS): Accounting Standards Comprising IFRSs and the ASBJ Modifications

ASBJ Modification Accounting Standard Exposure Draft No. 2

Accounting for Other Comprehensive Income

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Accounting Standards Board of Japan

Contents Paragraph

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Objective

1. This Standard forms part of "Japan's Modified International Standards (JMIS): Accounting Standards Comprising IFRSs and the ASBJ Modifications". The objective of this Standard is to make 'deletions or modifications' to the Standards and Interpretations (collectively referred to as 'Standards') issued by the International Accounting Standards Board ('IASB') relating to the accounting for other comprehensive income and related presentation and disclosures.

2. The basis for conclusions accompanies, but does not form part of, this Standard.

3. [This paragraph is not used for the English version.]

Accounting Standard

Accounting

Changes in the fair value of investments in equity instruments measured at fair value through other comprehensive income

4. 'Deletions or modifications' shall be made to the requirements regarding the accounting for changes in the fair value of investments in equity instruments measured at fair value through other comprehensive income in IFRS 9 *Financial Instruments* (2010) ('IFRS 9 (2010)') in the following manner (new text is underlined and deleted text is struck through):

J-5.7.6A A gain or loss on an investment in an equity instrument for which an irrevocable election was made in accordance with paragraph 5.7.5 shall be recognised in other comprehensive income except for impairment losses (see paragraph J-5.7.6B) until the investment is derecognised. When the investment is derecognised, the cumulative gain or loss previously recognised in other comprehensive income shall be reclassified from accumulated other comprehensive income to profit or loss as a reclassification adjustment.

J-5.7.6B An entity shall assess at the end of each reporting period whether there is any objective evidence that an investment in an equity instrument for which an irrevocable election was made in accordance with paragraph 5.7.5 is impaired. If any such evidence exists, the cumulative loss previously recognised in other comprehensive income shall be reclassified from accumulated other comprehensive income to profit or loss as a reclassification adjustment.

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J-5.7.6C In addition to the types of events listed in paragraph 59 of IAS 39, objective evidence of impairment for an investment in an equity instrument includes information about significant changes with adverse effects that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

J-5.7.6D The amount of the cumulative loss that is reclassified from accumulated other comprehensive income to profit or loss under paragraph J-5.7.6B shall be the difference between the acquisition cost and current fair value, less any impairment loss on that investment in an equity instrument previously recognised in profit or loss.

J-5.7.6E Impairment losses recognised in profit or loss for an investment in an equity instrument for which an irrevocable election was made in accordance with paragraph 5.7.5 shall not be reversed.

B5.7.1 Paragraph 5.7.5 permits an entity to make an irrevocable election to present in other comprehensive income changes in the fair value of an investment in an equity instrument that is not held for trading. This election is made on an instrument-by-instrument (ie share-by-share) basis. ~~Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss. However, the entity may transfer the cumulative gain or loss within equity.~~ Dividends on such investments are recognised in profit or loss in accordance with IAS 18 unless the dividend clearly represents a recovery of part of the cost of the investment.

Changes in the fair value of financial liabilities measured at fair value through profit or loss attributed to the changes in the issuer's own credit risk

5. 'Deletions or modifications' shall be made to the requirements regarding the accounting for changes in the fair value of financial liabilities measured at fair value through profit or loss attributed to the changes in the issuer's own credit risk in IFRS 9 (2010) in the following manner (new text is underlined and deleted text is struck through):

J-5.7.9A When the financial liability designated as at fair value through profit or loss in accordance with paragraph 5.7.7 is derecognised, the cumulative gain or loss previously recognised in other comprehensive income shall be reclassified from accumulated other comprehensive income to profit or loss as a reclassification adjustment.

If an entity repays or repurchases a portion of a financial liability, the entity shall allocate the cumulative gain or loss previously recognised in other comprehensive income between the portion that continues to be recognised and the portion that is derecognised based on the relative fair values of those portions on the date of the repayment or the repurchase. The amount allocated to the portion that is derecognised shall be reclassified from accumulated other comprehensive income to profit or loss as a reclassification adjustment.

B5.7.9 [Deleted] ~~Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss. However, the entity may transfer the cumulative gain or loss within equity.~~

Remeasurements of the net defined benefit liability (asset)

6. ‘Deletions or modifications’ shall be made to the requirements regarding the accounting for remeasurements of the net defined benefit liability (asset) in IAS 19 *Employee Benefits* in the following manner (new text is underlined and deleted text is struck through):

57 Accounting by an entity for defined benefit plans involves the following steps:

(a) determining the deficit or surplus. This involves:

(i) using an actuarial technique, the projected unit credit method, to make a reliable estimate of the ultimate cost to the entity of the benefit that employees have earned in return for their service in the current and prior periods (see paragraphs 67–69). This requires an entity to determine how much benefit is attributable to the current and prior periods (see paragraphs 70–74) and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that will affect the cost of the benefit (see paragraphs 75–98).

(ii) discounting that benefit in order to determine the present value of the defined benefit obligation and the current service cost (see paragraphs 67–69 and 83–86).

(iii) deducting the fair value of any plan assets (see paragraphs 113–115) from the present value of the defined benefit obligation.

(b) determining the amount of the net defined benefit liability (asset) as the amount of the deficit or surplus determined in (a), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling (see paragraph 64).

(c) determining amounts to be recognised in profit or loss, except for the amount to be reclassified from accumulated other comprehensive income to profit or loss as a reclassification adjustment determined in accordance with J-(e):

(i) current service cost (see paragraphs 70–74).

(ii) any past service cost and gain or loss on settlement (see paragraphs 99–112).

(iii) net interest on the net defined benefit liability (asset) (see paragraphs 123–126).

(d) determining the remeasurements of the net defined benefit liability (asset), to be recognised in other comprehensive income, comprising:

(i) actuarial gains and losses (see paragraphs 128 and 129);

(ii) return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 130); and

(iii) any change in the effect of the asset ceiling (see paragraph 64), excluding amounts included in net interest on the net defined benefit liability (asset).

J-(e) determining the amount within the cumulative amount of remeasurements of the net defined benefit liability (asset) that was recognised in other comprehensive income and accumulated in a separate component of equity to be reclassified from accumulated other comprehensive income to profit or loss as a reclassification adjustment (see paragraphs J-122A and J-122B).

Where an entity has more than one defined benefit plan, the entity applies these procedures for each material plan separately.

120 An entity shall recognise the components of defined benefit cost, except to the extent that another IFRS requires or permits their inclusion in the cost of an asset, as follows:

(a) service cost (see paragraphs 66–112) in profit or loss;

(b) net interest on the net defined benefit liability (asset) (see paragraphs 123–126) in profit or loss; ~~and~~

(c) remeasurements of the net defined benefit liability (asset) (see paragraphs 127–130) in other comprehensive income~~.~~; and

J-(d) the amount within the cumulative amount of remeasurements of the net defined benefit liability (asset) that was recognised in other comprehensive income and accumulated in a separate component of equity to be reclassified from accumulated other comprehensive income to profit or loss as a reclassification adjustment (see paragraphs J-122A and J-122B) in profit or loss.

122 [Deleted] ~~Remeasurements of the net defined benefit liability (asset) recognised in other comprehensive income shall not be reclassified to profit or loss in a subsequent period. However, the entity may transfer those amounts recognised in other comprehensive income within equity.~~

J-122A Remeasurements of the net defined benefit liability (asset) that was recognised in other comprehensive income and accumulated in a separate component of equity in each period shall generally be reclassified from accumulated other comprehensive income to profit or loss as a reclassification adjustment over the average remaining working lives (the estimated average period between now and retirement) of the employees.
Notwithstanding the above, an entity is permitted to begin the reclassification to profit or loss as a reclassification adjustment from the period following the period in which remeasurements of the net defined benefit liability (asset) have incurred.

J-122B When a defined benefit plan is withdrawn, curtailed or settled, the cumulative amount of remeasurements of the net defined liability (asset) that was recognised in other comprehensive income and accumulated in a separate component of equity that relates to the portion of the defined benefit plan that is withdrawn, curtailed or settled, shall be determined based on the relative present value of the defined benefit liability as of the date when the withdrawal, curtailment or settlement occurs. Such amounts shall be reclassified from accumulated other comprehensive income to profit or loss as a reclassification adjustment.

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Presentation

7. ‘Deletions or modifications’ shall be made to the requirements in IAS 1 *Presentation of Financial Statements* in the following manner (new text is underlined and deleted text is struck through):

96 Reclassification adjustments do not arise on changes in revaluation surplus recognised in accordance with IAS 16 or IAS 38~~ or on remeasurements of defined benefit plans recognised in accordance with IAS 19~~. These components are recognised in other comprehensive income and are not reclassified to profit or loss in subsequent periods. Changes in revaluation surplus may be transferred to retained earnings in subsequent periods as the asset is used or when it is derecognised (see IAS 16 and IAS 38).

Remeasurements of the net defined benefit liability (asset)

8. ‘Deletions or modifications’ shall be made to the requirements regarding the presentation of remeasurements of the net defined benefit liability (asset) in IAS 19 *Employee Benefits* in the following manner (new text is underlined and deleted text is struck through):

134 Paragraph 120 requires an entity to recognise service cost and net interest on the net defined benefit liability (asset) in profit or loss and reclassify the cumulative amount of remeasurements of the net defined benefit liability (asset) that was recognised in other comprehensive income and accumulated in a separate component of equity from accumulated other comprehensive income to profit or loss as a reclassification adjustment. This Standard does not specify how an entity should present service cost, ~~and~~ net interest on the net defined benefit liability (asset) and the amount within the cumulative amount of remeasurements of the net defined benefit liability (asset) to be reclassified from accumulated other comprehensive income to profit or loss as a reclassification adjustment. An entity presents those components in accordance with IAS 1.

Disclosure

Changes in the fair value of investments in equity instruments measured at fair value through other comprehensive income

9. ‘Deletions or modifications’ shall be made to the requirements regarding the disclosure of changes in the fair value of investments in equity instruments measured at fair value through other comprehensive income iin IFRS 7 *Financial Instruments: Disclosures* in the following manner (new text is underlined and deleted text is struck through):

11A If an entity has designated investments in equity instruments to be measured at fair value through other comprehensive income, as permitted by paragraph 5.7.5 of IFRS 9, it shall disclose:

(a) which investments in equity instruments have been designated to be measured at fair value through other comprehensive income.

(b) the reasons for using this presentation alternative.

(c) the fair value of each such investment at the end of the reporting period.

(d) dividends recognised during the period, showing separately those related to investments derecognised during the reporting period and those related to investments held at the end of the reporting period.

(e) [Deleted] ~~any transfers of the cumulative gain or loss within equity during the period including the reason for such transfers.~~

20 An entity shall disclose the following items of income, expense, gains or losses either in the statement of comprehensive income or in the notes:

(a) net gains or net losses on:

…

(vii) financial assets measured at fair value through other comprehensive income~~,~~ showing separately the amount of gains or losses recognised in other comprehensive income during the period and the amount reclassified from accumulated other comprehensive income to profit or loss during the period.

…

Changes in the fair value of financial liabilities measured at fair value through profit or loss attributed to the changes in the issuer's own credit risk

10. 'Deletions or modifications' shall be made to the requirements regarding the disclosure of changes in the fair value of financial liabilities measured at fair value through profit or loss attributed to the changes in the issuer's own credit risk in IFRS 7 *Financial Instruments: Disclosures* in the following manner (new text is underlined and deleted text is struck through):

10 If the entity has designated a financial liability as at fair value through profit or loss in accordance with paragraph 4.2.2 of IFRS 9 and is required to present the effects of changes in that liability's credit risk in other comprehensive income (see paragraph 5.7.7 of IFRS 9), it shall disclose:

(a) the amount of change, cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability (see paragraphs B5.7.13–B5.7.20 of IFRS 9 for guidance on determining the effects of changes in a liability's credit risk).

(b) the difference between the financial liability's carrying amount and the amount the entity would be contractually required to pay at maturity to the holder of the obligation.

(c) [Deleted] ~~any transfers of the cumulative gain or loss within equity during the period including the reason for such transfers.~~

(d) if a liability is derecognised during the period, the amount (if any) presented in other comprehensive income that was realised at derecognition.

20 An entity shall disclose the following items of income, expense, gains or losses either in the statement of comprehensive income or in the notes:

(a) net gains or net losses on:

(i) financial assets or financial liabilities measured at fair value through profit or loss, showing separately those on financial assets or financial liabilities designated as such upon initial recognition, and those on financial assets or financial liabilities that are mandatorily measured at fair value in accordance with IFRS 9 (eg financial liabilities that meet the definition of held for trading in IFRS 9). For financial liabilities designated as at fair value through profit or loss, an entity shall show separately the amount of gain or loss recognised in other comprehensive income, ~~and~~ the amount recognised in profit or loss and the amount reclassified from accumulated other comprehensive income to profit or loss during the period.

…

Remeasurements of the net defined benefit liability (asset)

11. 'Deletions or modifications' shall be made to the requirements regarding the disucosure of remeasurements of the net defined benefit liability (asset) in IAS 19 *Employee Benefits* in a following manner (new text is underlined and deleted text is struck through):

135 An entity shall disclose information that:

(a) explains the characteristics of its defined benefit plans and risks associated with them (see paragraph 139);

(b) identifies and explains the amounts in its financial statements arising from its defined benefit plans (see paragraphs 140–144 and J-144A); and

(c) describes how its defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows (see paragraphs 145–147).

J-144A An entity shall disclose the length of the period over which the cumulative amount of remeasurements of the net defined benefit liability (asset) that was recognised in other comprehensive income and accumulated in a separate component of equity is reclassified from accumulated other comprehensive income to profit or loss as a reclassification adjustment.

149 If an entity participates in a defined benefit plan that shares risks between entities under common control, it shall disclose:

(a) the contractual agreement or stated policy for charging the net defined benefit cost or the fact that there is no such policy.

(b) the policy for determining the contribution to be paid by the entity.

(c) if the entity accounts for an allocation of the net defined benefit cost as noted in paragraph 41, all the information about the plan as a whole required by paragraphs 135–147.

(d) if the entity accounts for the contribution payable for the period as noted in paragraph 41, the information about the plan as a whole required by paragraphs 135–137, 139, 142–144, J-144A and 147(a) and (b).

Effective Date

12. The effective date of this Standard is [to be determined].

(The effective date of this Standard will be determined after JMIS are incorporated in the regulations prescribed by the Financial Services Agency of Japan.)

Basis for Conclusions

History of the project

13. The Accounting Standards Board of Japan (‘ASBJ’) started the endorsement process of International Financial Reporting Standards (‘IFRS’) in line with “The Present Policy on the Application of International Financial Reporting Standards (IFRS)” issued in June 2013 by the Business Accounting Council, an advisory body to the Financial Services Agency of Japan. The scope of the initial endorsement process covered the Standards issued by the IASB as at 31 December 2012.

14. Based on the discussions at its Board meetings, the ASBJ decided to make ‘deletions or modifications’ to the Standards issued by the IASB relating to the non-recycling of other comprehensive income because the ABSJ determined that the thinking in IFRS is critically different from the fundamental thinking on accounting standards generally accepted in Japan.

Necessity of recycling of other comprehensive income

15. In existing IFRS, some items included in other comprehensive income are recycled and others are never recycled. Non-recycling is required for the following items:

    (a) changes in the fair value of investments in equity instruments measured at fair value through other comprehensive income in IFRS 9 *Financial Instruments* (2010);

    (b) changes in the fair value of financial liabilities measured at fair value through profit or loss attributed to the changes in the issuer’s own credit risk in IFRS 9 (2010);

    (c) remeasurements of the net defined benefit liability (asset) in IAS 19 *Employees Benefits;* and

    (d) revaluation surplus under the revaluation model in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*.

16. The reasons for adopting non-recycling are explained in the Basis for Conclusions of individual Standards as follows:

    (a) Changes in the fair value of investments in equity instruments measured at fair value through other comprehensive income

        (i) A gain or loss on those investments should be recognised once only; therefore, recognising a gain or loss in other comprehensive income and subsequently transferring it to profit or loss is inappropriate.

        (ii) Recycling of gains and losses to profit or loss would create something similar to the available-for-sale category in IAS 39 and would create the requirement to assess the equity instruments for impairment, which had created application problems. That would not significantly improve or reduce the complexity of financial reporting for financial assets.

(b) Changes in the fair value of financial liabilities measured at fair value through profit or loss attributed to the changes in the issuer's own credit risk

(i) The overall objective of other comprehensive income is not clarified, including when an item should be presented in other comprehensive income and whether amounts in other comprehensive income should be reclassified to profit or loss (and if so, when).

(ii) This accounting is consistent with the requirement in IFRS 9 that prohibits recycling for investments in equity instruments that are measured at fair value with changes presented in other comprehensive income.

(c) Remeasurements of the net defined benefit liability (asset)

(i) There is no consistent policy on the reclassification of other comprehensive income to profit or loss in IFRS, and it would have been premature to address this matter in the context of the amendments made to IAS 19 in 2011.

(ii) It is difficult to identify a suitable basis to determine the timing and amount of such reclassifications.

(d) Revaluation surplus under revaluation model for property, plant and equipment and intangible assets

In the Basis for Conclusions of IAS 16 and IAS 38, there is no explanation for the reasons for non-recycling of revaluation surplus under the revaluation model for property, plant and equipment and intangible assets.

17. In contrast, the ASBJ believes that profit or loss should be an all-inclusive measure and, thus, all items included in other comprehensive income should be subsequently recycled to profit or loss, for the following reasons:

(a) Profit or loss, as an overall measure of the performance of an entity, has been used as the basis for various key measures, including earnings per share. It has been noted that, in assessing the value of an entity, users of financial statements often rely on information about the flows in order to assess the prospects of future net cash inflows to the entity, and profit or loss is one of the most useful measures to which they can refer. Those users might think that profit or loss would not be useful if the integrity of profit or loss information is not supported by its consistency with the cash flows.

The accumulated total profit or loss and the accumulated total cash flows over all accounting periods since the inception of the entity would be the same when all other comprehensive income items are recycled. On the other hand, if any other comprehensive income item is not recycled, some of the cash flows would never be reflected in profit or loss, which would change the fundamental characteristic of profit or loss and impair the usefulness of profit or loss as an overall measure of performance.

(b) The accumulated total comprehensive income would also be the same as the accumulated total cash flows over all accounting periods. However, the ASBJ does not think that comprehensive income can be an overall measure of performace to replace profit or loss, because comprehensive income is determined on the basis of measures of assets and liabilities that are relevant from the viewpoint of reporting an entity's financial position rather than the viewpoint of reporting an entity's financial performance. Comprehensive income represents a mere change in net assets during the period on the basis of the measures that may still be subject to the uncertainty of cash flows in the light of the viewpoint of the nature of the investments, whereas profit or loss provides information about the actual results after uncertainty about the outcome of the entity's business activities has been sufficiently reduced in the light of the nature of the investments.

In addition, profit or loss is considered to have more confirmatory value because it provides information about the actual results which provides feedback about assessments made in the past. The *Conceptual Framework for Financial Reporting* issued by the IASB states that relevant financial information is capable of making a difference in the decisions made by users if it has predictive value, confirmatory value or both.

(c) The ASBJ believes that the difference between comprehensive income and profit or loss should only arise from using, for certain assets and liabilities, a measurement basis for the balance sheet that is different from the measurement basis used for determining profit or loss. Accordingly, the diffenece can be viewed as essentially being a timing difference. In concept, recycling of all items included in other comprehensive income would ensure that the accumulated total profit or loss over all accounting periods since the inception of the entity would equal the accumulated total comprehensive income over all accounting periods since the inception of the entity.

(d) The ASBJ also believes that recycling of other comprehensive income is necessary from the viewpoint of stewardship. From the viewpoint of stewardship, profit or loss should be all-inclusive and, therefore, even the effects of non-recurring transactions or events should be included in profit or loss because they may affect the assessment of the capability of management.

18. The ASBJ decided to make ‘deletions or modifications’ to the Standards issued by the IASB to eliminate all of the non-recycling requirements and to require the recycling of all items included in

other comprehensive income in principle, because the thinking in IFRS not to recycle all items included in other comprehensive income described above is critically different from the fundamental thinking on accounting standards generally accepted in Japan, that is to recycle all items included in other comprehensive income. However, the ASBJ decided not to make ‘deletions or modifications’ to the accounting for revaluation surplus under the revaluation model on property, plant and equipment and intangible assets, considering that it appears to have aspects different from other non-recycling items in that there is a conceptual debate as to whether revaluation surplus is based on the concept of physical capital maintenance.

19. The sections below describe the considerations in deciding on the specific ‘deletions or modifications’ regarding changes in the fair value of investments in equity instruments measured at fair value through other comprehensive income, changes in the fair value of financial liabilities measured at fair value through profit or loss attributed to the changes in the issuer’s own credit risk and remeasurements of the net defined benefit liability (asset).

Changes in the fair value of investments in equity instruments measured at fair value through other comprehensive income

20. IFRS 9 (2010) allows an entity to make an irrevocable election at initial recognition to present in other comprehensive income subsequent changes in the value of an investment in an equity instrument that is not held for trading (paragraph 5.7.5 of IFRS 9 (2010)). Recycling of the amounts presented in other comprehensive income to profit or loss is prohibited, even in the case of subsequent sales (paragraph B5.7.1 of IFRS 9 (2010)).

21. Non-recycling of accumulated other comprehensive income on investments in equity instruments for which the irrevocable option has been elected fails to reflect the ultimate cash flows on its sales in profit or loss.

    Some argue that gains or losses on the sales of such investments would not be useful because such gains or losses only represent the past record of the historical stock price movements. However, the ASBJ believes that it is necessary to recycle this item, which in this case would reflect the cash flows from the sales in profit or loss in order to maintain the usefulness of profit or loss information as an overall measure of performance.

    In addition, the ASBJ also believes that it is necessary to report such gains or losses when the transactions occur in order to provide information regarding how efficiently and effectively an entity’s management have discharged their responsibilities to use the entity’s assets.

22. Similarly, similar to the treatments of other financial assets and other fixed assets, the ASBJ believes that it is also necessary to recognise impairment losses for investments in equity instruments, when

the value of such investments declined to a certain extent in order to maintain the usefulness of profit or loss information as an overall measure of performance.

23. Based on the discussions above, the ASBJ decided to make ‘deletions or modifications’ to the Standards issued by the IASB to require that the cumulative gains or losses previously recognised in other comprehensive income should be reclassified to profit or loss as a reclassification adjustment on the derecognition of the investments in equity instruments for which the option had been elected. Consequently, the ASBJ decided to make ‘deletions or modifications’ to the requirement prohibiting subsequent reclassification of other comprehensive income to profit or loss and the requirement allowing transfers within equity. In addition, acknowledging that impairment requirements would be needed for investments in equity instruments for which changes in fair value are recognised in other comprehensive income rather than in profit or loss, the ASBJ decided to make ‘deletions or modifications’ to the Standards issued by the IASB to add the impairment requirements based on paragraph 61 of IAS 39.

24. To be consistent with the ‘deletions or modifications’ to require the recycling of other comprehensive income on investments in equity instruments for which the option has been elected, the ASBJ also considered making ‘deletions or modifications’ to the disclosure requirements. In the light of the disclosures required by paragraphs 11A and 20 of IFRS 7, the ASBJ decided to make ‘deletions or modifications’ to the disclosure requirements regarding transfers of accumulated gains or losses within equity during the period, and to require separate disclosures for the amount of gains or losses recognised in other comprehensive income during the period and the amount reclassified from accumulated other comprehensive income to profit or loss during the period.

Changes in the fair value of financial liabilities measured at fair value through profit or loss attributed to the changes in the issuer’s own credit risk

25. IFRS 9 (2010) requires an entity to present in other comprehensive income the amount of changes in the fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the entity’s own credit risk, unless it creates or enlarges an accounting mismatch in profit or loss (paragraph 5.7.7 of IFRS 9 (2010)). The related accumulated other comprehensive income would not be recycled to profit or loss, even when the liability is derecognised (paragraph B5.7.9 of IFRS 9 (2010)).

26. Non-recycling of other comprehensive income for changes in the fair value of financial liabilities designated as at fair value through profit or loss attributable to the entity’s own credit risk fails to reflect in profit or loss the actual cash flows arising from the prepayment or repurchase of the liabilities. In order to maintain the usefulness of profit or loss information as an overall measure of performance, it is necessary to recycle this item, which in this case would reflect the realised credit

risk in profit or loss. Accordingly, the ASBJ decided to make ‘deletions or modifications’ to the Standards issued by the IASB to require that the cumulative gains or losses previously recognised in other comprehensive income should be reclassified to profit or loss as a reclassification adjustment on the derecognition of those financial liabilities, and to make ‘deletions or modifications’ to the requirement prohibiting subsequent reclassification of other comprehensive income to profit or loss and the requirement allowing transfers within equity.

In addition, when an entity repays or repurchases a portion of a financial liability, the ASBJ decided to require the entity to allocate the cumulative gain or loss previously recognised in other comprehensive income between the portion that continues to be recognised and the portion that is derecognised based on the relative fair values of those portions on the date of the repayment or the repurchase. The ASBJ also decided to require the entity to reclassify the amount allocated to the portion that is derecognised from accumulated other comprehensive income to profit or loss as a reclassification adjustment, similar to the requirements in paragaraph 3.3.4 of IFRS 9.

27. To be consistent with the ‘deletions or modifications’ to require the recycling of other comprehensive income for the changes in fair value of financial liabilities measured at fair value through profit or loss attributed to the changes in the issuer’s own credit risk, the ASBJ also considered making ‘deletions or modifications’ to the disclosure requirements. The ASBJ decided to make ‘deletions or modifications’ to the disclosure requirements regarding transfers of accumulated gains or losses within equity during the period, and to require the disclosure of the amount reclassified to profit or loss during the period.

Remeasurements of the net defined benefit liability (asset)

28. IAS 19 (revised in 2011) requires remeasurements of the net defined benefit liability (asset) to be immediately recognised in other comprehensive income and prohibits the subsequent reclassification of the amount recognised in other comprehensive income to profit or loss (paragraphs 120 and 122 of IAS 19).

29. Non-recycling of other comprehensive income for remeasurements of the net defined benefit liability (asset) would result in remeasurements of the net defined benefit liability (asset) never being reflected in profit or loss, which would impair the all-inclusiveness of profit or loss information and its usefulness as an overall measure of performance. Accordingly, the ASBJ decided to make ‘deletions or modifications’ to the Standards issued by the IASB to require that the cumulative gains or losses on remeasurements of the net defined benefit liability (assets) that was previously recognised in other comprehensive income should be subsequently reclassified to profit or loss as a reclassification adjustment. Consequently, the ASBJ decided to make ‘deletions or modifications’ to the requirement prohibiting subsequent reclassification of other comprehensive

income to profit or loss as well as the requirement allowing transfers within equity.

30. Regarding how remeasurements of the net defined benefit liability (asset) recognised in other comprehensive income should be reclassified to profit or loss, the ASBJ first considered whether such remeasurements should be immediately recognised in profit or loss or recognised in profit or loss on a prospective basis. The ASBJ believes that they should be recognised in profit or loss on a prospective basis for the following reasons:

    (a) Actuarial gains and losses arising from differences between estimates of assumptions and their actual results (such as employee turnover rates and mortality rates) could converge in the long run because actuarial valuations of defined benefits obligations are normally carried out from the long-term perspective and the entire population of employees is treated as a single portfolio.

    (b) Similarly, even when measuring plan assets at fair value is considered to be appropriate from the viewpoint of reporting an entity's financial position in the statement of financial position, reflecting short-term fluctuations in the fair values would not necessarily be relevant from the viewpoint of reporting an entity's financial performance, because plan assets will be withdrawn only when the retirement benefits are paid to each employee.

    (c) Regarding the changes of estimates arising from fluctuations in actuarial assumptions (including the discount rate), individual accounting standards prescribe whether they are recognised in profit or loss on a catch-up basis or on a prospective basis, whichever is considered relevant on a standard-by-standard basis. The ASBJ believes that the changes of estimates regarding defined benefit obligations should be recognised in profit or loss prospectively, because the ASBJ considered that it would not be relevant to recognise changes of estimates arising from short-term fluctuations in actuarial assumptions (including the discount rate) in profit or loss in the period when they occur, given that defined benefit obligations will be settled over a long period of time.

31. Next, the ASBJ considered how to recycle remeasurements of the net defined benefit liabilities (assets).

    Given that a defined benefit plan represents the aggregation of a number of contracts with employees, the ASBJ first considered the appropriate approach at the individual employee level. The ASBJ believes that it may be appropriate to recycle those remeasurements to profit or loss when the retirement benefits are paid to each employee, because at that time the entity's obligation for that retired employee would extinguish and, accordingly, it would become necessary to extinguish the accumulated other comprehensive income relating to that obligation. Similarly, it may be considered appropriate to recycle remeasurements of plan assets that correspond to the decrease in the retirement benefit obligation when retirement benefits are paid to each employee because at that time it becomes necessary to extinguish the accumulated other comprehensive income relating to that retired employee.

As discussed above, at the individual employee level, the ASBJ considered that it may be appropriate to recycle remeasurements of the net defined benefit liabilities (assets) when retirement benefits are paid to each employee. However, the ASBJ found it difficult to adopt this approach in practice, because, in many cases, plan assets are managed at the portfolio level covering all employees and actuarial valuations of defined benefits obligations are not usually managed for each employee. Accordingly, the ASBJ decided that remeasurements of the net defined benefit liabilities (assets) should be allocated and reclassified from the accumulated other comprehensive income to profit or loss over the average remaining working lives, as a proxy for recycling based on the actual payments to individual employees.

32. In connection with the decision to require the recycling of remeasurements of the net defined liability (asset), the ASBJ also considered whether to make ‘deletions or modifications’ in relation to the following issues:

    (a) past service costs; and

    (b) the net interest approach.

33. IAS 19 requires an entity to recognise past service costs as an expense in the period when they are incurred. Some suggested that ‘deletions or modifications’ should be made to this requirement and require the recognition of past service cost on a prospective basis, because plan amendments, which give rise to past service costs, are often made in anticipation of enhancing employees’ morale over future periods and, therefore, it is inappropriate to immediately recognise past service costs as an expense.

34. Under the net interest approach in IAS 19, expected returns on plan assets are determined by multiplying the discount rate with the fair value of the plan assets. Some also suggested that ‘deletions or modifications’ should be made to this requirement because this approach does not provide a faithful representation of the expected returns on the plan assets as it ignores factors such as the composition of the plan assets and the risk profile of the portfolio, which actually affect the expectations of the returns on the plan assets.

35. However, from the viewpoint of minimising ‘deletions or modifications’ to the extent possible, the ASBJ decided not to make ‘deletions or modifications’ regarding the two issues mentioned above, limiting the ‘deletions or modifications’ to non-recycling of other comprehensive income and not addressing the broader issue of how to determine the amounts to be recognised in other comprehensive income .

36. To be consistent with the ‘deletions or modifications’ to require the recycling of other

comprehensive income for remeasurements of the net defined benefit liability (assets), the ASBJ also considered making ‘deletions or modifications’ to the disclosure requirements. The ASBJ decided to require disclosure of the length of the period over which the amount of remeasurements recognised in other comprehensive income is reclassified to profit or loss, in order to provide users of financial statements with the information regarding how the net defined benefit liability (assets) is to be recycled.