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Proposed amendments to Application of ASBJ Modification Accounting Standard No. 2, *Accounting for Other Comprehensive Income* in June 2015 (comparative version)

17 March 2016

※New text and deleted text are shaded.

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Japan's Modified International Standards (JMIS): Accounting Standards Comprising IFRSs and the ASBJ Modifications **ASBJ Modification Accounting Standard No. 2** **Accounting for Other Comprehensive Income** 30 June 2015 Amended dd mmmm yyyy Accounting Standards Board of Japan	**Japan's Modified International Standards (JMIS): Accounting Standards Comprising IFRSs and the ASBJ Modifications** **ASBJ Modification Accounting Standard No. 2** **Accounting for Other Comprehensive Income** 30 June 2015 Accounting Standards Board of Japan
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* (2013) ('IFRS 9 (2013)') in the following manner (new text is underlined and deleted text is struck through): …	**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): …
Non-recycling of the hedging gain or loss on fair value hedges of investments in equity instruments measured at fair value through other comprehensive income 4-2. 'Deletions or modifications' shall be made to the requirements regarding the accounting for fair value hedges of investments in equity instruments measured at fair value through other compresive income in IFRS 9 (2013) in the following manner (new text is underlined and deleted text is struck	[Added]

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through): J-6.5.8A <u>The gain or loss on the hedging instrument shall be recognised in other comprehensive income, if the hedging instrument hedges an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income in accordance with paragraph 5.7.5. When profit or loss is recognised for that hedged item in accordance with either paragraph J-5.7.6A, J-5.7.6B or 5.7.6, the cumulative gain or loss for the hedging instrument previously recognised in other comprehensive income corresponding to the profit or loss for the hedged item shall be reclassified to profit or loss as a reclassification adjustment, regardless of the requirements in paragraphs 6.5.3 and 6.5.8.</u>	
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 (2013) in the following manner (new text is underlined and deleted text is struck through): …	**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): …
Basis adjustments in cash flow hedges 6-2. 'Deletions or modifications' shall be made to the requirements regarding basis adjustments in cash flow hedges in IFRS 9 (2013) in the following manner (new text is underlined and deleted text is struck through): 6.5.11 As long as a cash flow hedge meets the qualifying criteria in paragraph 6.4.1, the hedging relationship shall be accounted for as follows: … (d) the amount that has been accumulated in the cash flow hedge reserve in accordance with (a) shall be accounted for as follows:	[Added]

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(i) if a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or a hedged forecast transaction for a non-financial asset or a non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the entity shall remove that amount from the cash flow hedge reserve and include it ~~directly~~ in other comprehensive income as well as the initial cost or other carrying amount of the asset or the liability. ~~This is not a reclassification adjustment (see IAS 1 *Presentation of Financial Statements*) and hence it does not affect other comprehensive income.~~ …	
Effective Date 12. An entity shall apply this Standard as issued in June 2015 (the ‘2015 Standard’) to consolidated financial statements for annual periods ending on or after 31 March 2016. Regarding quarterly financial reporting, an entity shall apply this Standard to consolidated interim financial statements for quarters within annual periods beginning on or after 1 April 2016.	**Effective Date** 12. An entity shall apply this Standard to consolidated financial statements for annual periods ending on or after 31 March 2016. Regarding quarterly financial reporting, an entity shall apply this Standard to consolidated interim financial statements for quarters within annual periods beginning on or after 1 April 2016.
12-2. This Standard as amended in xx 20xx (the ‘20xx Amendments’) is effective from the beginning of annual periods for consolidated financial statements in which IFRS 9 (2013) listed in Appendix 1 of *Application of “Japan’s Modified International Standards”* as amended in xx 20xx is first applied. For quarterly consolidated financial statements, the 20xx Amendments is effective from the first quarter of that annual period.	[Added]
Basis for Conclusions **History of the project** 15. In the initial endorsement process, 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 so-called ‘non-recycling’, where reclassification adjustments (recycling) will not be made for items previously recognised in 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 (see paragraphs 16-39).	**Basis for Conclusions** **History of the project** 15. 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 so-called ‘non-recycling’, where reclassification adjustments (recycling) will not be made for items previously recognised in 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.

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15-2. After the initial endorsement process, the ASBJ undertook an endorsement process covering the Standards issued during 2013 by the IASB. Having identified some items for which 'deletions or modifications' regarding non-recycling should be made during that process, the ASBJ issued the 20xx Amendments (see paragraphs 40-49).	[Added]
Basis for Conclusions of the 2015 Standard **Necessity of recycling of other comprehensive income** ...	**Necessity of recycling of other comprehensive income** ...
20. The sections below describe the considerations in deciding on the specific 'deletions or modifications' regarding the items considered in the 2015 Standard, that is, 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).	20. 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 (paragraph 4) ...	**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 (paragraph 5) ...	**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** ...
Remeasurements of the net defined benefit liability (asset) (paragraph 6) ...	**Remeasurements of the net defined benefit liability (asset)** ...
Basis for Conclusions of the 20xx Amendments to the Standard **Additional items of 'deletions or modifications'** 40. In the 20xx Amendments, 'deletions or modifications' regarding the non-recycling of the hedging gain or loss on fair value hedges of investments in equity instruments measured at fair value through other comprehensive	[Added]

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income and the basis adjustments in cash flow hedges were added. Considerations of these items are discussed in paragraphs 41-43 and paragraphs 44-49, respectively.	
Non-recycling of the hedging gain or loss on fair value hedges of investments in equity instruments measured at fair value through other comprehensive income (paragraph 4-2) 41. IFRS 9 (2013) requires that, if a hedged item in a fair value hedge is an investment in an equity instrument measured at fair value through other comprehensive income, the gain or loss on the hedging instrument remain in other comprehensive income, i.e., subsequent recycling of that gain or loss is prohibited (paragraphs 6.5.8 and BC6.115 of IFRS 9 (2013)). 42. As a result, IFRS 9 (2013) added another non-recycling item. However, in the initial endorsement process, ‘deletions or modifications’ were made for investments in equity instruments, which are the hedged items in the above case, so that gain or loss accumulated in other comprehensive income would be reclassified to profit or loss on the derecognition of the investment, instead of non-recycling (see paragraphs 4 and 24). Accordingly, the 20xx Amendments made ‘deletions or modifications’ corresponding to the above ‘deletions or modifications’ so that the gain or loss on the hedging instruments would also be reclassified to profit or loss, consistently with the gain and loss on the hedged items that are accumulated in other comprehensive income (see paragraph 4-2). 43. In deciding how to make the ‘deletions or modifications’, the ASBJ considered an alternative that would permit a method similar to accounting for fair value hedge in which an entity recognises gains or losses on both the hedging instrument and the hedged item in profit or loss, from the viewpoint of ensuring consistency with the treatment in Japanese GAAP. However, this alternative was not adopted because changes in the fair value of the investments in equity instruments would be recognised in profit or loss rather than in other comprehensive income, which may result in the accounting that does not reflect the intent of the entity’s holding of such investments. The ASBJ also considered another alternative that would require the recognition of the ineffective portion of those hedges in profit or	[Added]

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loss. However, the ASBJ decided not to include this alternative, from the viewpoint of emphasising the notion that all items included in other comprehensive income should be subsequently reclassified to profit or loss.	
Basis adjustments in cash flow hedges (paragraph 6-2) 44. Under IFRS 9 (2013), if a hedged forecast transaction in a cash flow hedge subsequently results in the recognition of a non-financial asset or a non-financial liability, the amount of the gain or loss on the hedging instrument that has been accumulated in other comprehensive income should be removed from the cash flow hedge reserve and included directly in the initial or other carrying amount of the asset or the liability. Such treatment is commonly referred to as a 'basis adjustment'. IFRS 9 (2013) states that this is not a reclassification adjustment and hence it does not affect other comprehensive income (paragraph 6.5.11(d) of IFRS 9 (2013)), which is a change from the treatment under IAS 39 *Financial Instruments: Recognition and Measurement*. 45. The IASB made such a change mainly for the following reasons (paragraphs BC6.380 and BC6.381 of IFRS 9 (2013)): (a) Accounting for the basis adjustment as a reclassification adjustment would distort comprehensive income because the amount would affect comprehensive income twice but in different periods: first (in other comprehensive income) in the period in which the non-financial item is recognised; and again in the later periods when the non-financial item affects profit or loss (for example, through depreciation expense or cost of sales). (b) Presenting a basis adjustment as a reclassification adjustment would create the misleading impression that the basis adjustment was a performance event. The IASB acknowledged that, as a result of such a change, total comprehensive income will not reflect the changes in net assets (other than those from transactions with owners in their capacity as owners) over all periods because the gain or loss on the hedging instrument is recognised in other comprehensive income whereas the cumulative hedging gain or loss is	[Added]

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included directly in the initial or other carrying amount of a non-financial asset or a non-financial liability without affecting comprehensive income. However, the IASB made the change because of concerns related to the effects on comprehensive income in the period in which the basis adjustment is made. 46. As described in paragraph 18, the 2015 Standard explained the ASBJ's rationale for requiring all items included in other comprehensive income to be subject to subsequent reclassification to profit or loss, stating '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 difference can be viewed as essentially being a timing difference', and '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' (see paragraph 18(c)). Thus the ASBJ's argument for the 'deletions or modifications' regarding non-recycling is based on the reasoning that the difference between profit or loss and comprehensive income is essentially a timing difference. 47. Under the treatment of basis adjustments under IFRS 9 (2013), certain changes in net assets (other than those changes resulting from transactions with owners in their capacity as owners) would not be reflected in comprehensive income and thus the difference between profit or loss and comprehensive income would include a difference other than a timing difference and total comprehensive income for all periods would not equal profit or loss for all periods. Therefore, in order to consistently assert its view regarding the relationship between comprehensive income and profit or loss as described in paragraph 46, the ASBJ decided to make 'deletions or modifications' regarding the treatment of basis adjustments in IFRS 9 (2013). 48. On this point the IASB changed the treatment for the two reasons described	

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in paragraph 45. However, the ASBJ does not believe that those reasons are sufficiently persuasive, because: (a) Regarding the IASB's concern that the comprehensive income would be affected twice, the ASBJ believes that the two effects have separate meanings and thus there is no particular problem. That is, the effect on comprehensive income in the period in which the non-financial item is recognised represents the deduction of other comprehensive income recognised for the hedging instruments before the recognition of the non-financial item and thereby would ensure that the total comprehensive income would reflect the changes in net assets (other than those changes resulting from transactions with owners in their capacity as owners) for all periods. The effect on comprehensive income in the later periods when the non-financial item affects profit or loss reflects the gain or loss on the hedging instrument included in the asset or the liability in comprehensive income through profit or loss. (b) Regarding the IASB's concern about the misleading impression that the basis adjustment was a performance event, the ASBJ believes that other comprehensive income arising from basis adjustments would cause no problem from the viewpoint of performance reporting. The ASBJ does not consider the other comprehensive income arising from basis adjustments as performance, because it considers comprehensive income as the change in net assets (other than those changes resulting from transaction with owners in their capacity as owners) during a period, measured by applying the measurement basis that is relevant from the viewpoint of reporting the entity's financial position to the recognised assets and liabilities that comprise such net assets. 49. During the deliberations, some argued that 'deletions or modifications' should not be made regarding the basis adjustments in IFRS 9 (2013) from the viewpoint of minimising 'deletions or modifications', because it is an issue of whether the change is recognised in other comprehensive income when the amount is removed from the cash flow hedge reserve and does not affect profit or loss. However, the ASBJ decided to make the 'deletions or modifications', considering that the notion described in paragraph 46 is	

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important to express its view regarding the necessity of recycling to profit or loss.	