



LETTER OF COMMENT NO. 87



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International Accounting Standards Board
30 Cannon Street
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Comments on the Discussion Paper of *Preliminary Views on Financial Statement Presentation*

To the Board Members:

The Japanese Institute of Certified Public Accountants appreciates the continued efforts of the International Accounting Standards Board (IASB) on the financial statement presentation project and welcomes the opportunity to comment on the discussion paper of *Preliminary Views on Financial Statement Presentation*.

In the Discussion Paper, it is explained that the objective is to improve the usefulness of the information provided in an entity's financial statements to help users of financial statements make decisions. However, we have concerns about whether the proposed presentation would provide truly necessary information for financial statement users, including analysts. Therefore, we believe that further sufficient consideration should be given with respect to the usefulness, considering various perspectives such as opinions of analysts and others.

Among all the questions indicated in the Discussion Paper, our comments and response to the items in 'invitation to comment' are provided only for those questions

with respect to which we do not agree with the proposal or have questions or concerns, mainly from the perspectives of verifiability and consistency in practice.

Question 8

The proposed presentation model introduces sections and categories in the statements of financial position, comprehensive income and cash flows. As discussed in paragraph 1.21(c), the boards will need to consider making **consequential amendments to existing segment disclosure requirements** as a result of the proposed classification scheme. For example, the boards may need to clarify which assets should be disclosed by segment: only total assets as required today or assets for each section or category within a section. What, if any, changes in segment disclosures should the boards consider to make segment information more useful in light of the proposed presentation model? Please explain.

Comment:

Although we agree with the amendment to the existing segment disclosure requirements, it does not support such requirements if additional information beyond the current scope to be disclosed becomes necessary.

In the Discussion Paper, given that the management is responsible for determining the presentation model of the financial statements, since the segment information disclosed based on the management approach would be more closely linked with the proposed financial statements as compared with the linkage between them under the current requirements, we agree with the need to amend current requirements in IFRS 8 *Operating Segments* for segment disclosure to make it more consistent with the proposed model.

However, we believe that in making such amendments, the provisions in paragraph 23 of IFRS 8 *Operating Segments* should be retained, which requires segment information should be disclosed based on information reviewed by the Chief Operating Decision Maker. In other words, if, regardless of whether the information is reviewed by the Chief Operating Decision Maker, the proposed standard sticks to rules with respect to disclosure of assets by section or category, we will not support such proposal as it is not consistent with the management approach and constitutes disclosure requirements for additional information beyond the current scope.

Question9

Are the **business section** and the **operating and investing categories** within that section defined appropriately (see paragraphs 2.31–2.33 and 2.63–2.67)? Why or why not?

Comment:

With respect to the investing category, since the description in paragraph 2.64 is not consistent with paragraph 2.33, we believe that they should be aligned based on the current description in paragraph 2.33.

Paragraph 2.33 states that the investing category within the business section should include business assets and business liabilities, if any, that management views as unrelated to the central purpose for which the entity is in business, whereas paragraph 2.64 defines investing assets and liabilities as those relating to non-core activities. If investing assets and liabilities are defined as those relating to non-core activities, a more detailed definition of non-core activities might be necessary. We believe that the description in paragraph 2.33 is more advantageous from the practical standpoint, since the investing category can be understood as items other than those included in the operating category.

Question 10

Are the **financing section** and the **financing assets and financing liabilities categories** within that section defined appropriately (see paragraphs 2.34 and 2.56–2.62)? Should the financing section be restricted to *financial assets* and *financial liabilities* as defined in IFRSs and US GAAP as proposed? Why or why not?

Comment:

We do not agree with the following two points:

(1) Classification of cash

With respect to the treatment of the cash account as indicated in paragraph 2.70, since it might be difficult to make such classification of cash and to ensure its verifiability in practice, we believe that the paragraph should explicitly state that cash should be classified as financing asset in principle.

(2) Classification of lease liability

Paragraph 2.58 states that entities use other types of liabilities to finance their activities, for example, lease financing, which should be classified as financing

activity. However, the model financial statements presented in the Discussion Paper includes an example of a lease liability classified in the operating category within the business section, which is inconsistent with the statement made in paragraph 2.58. Since it is explicitly stated that lease liability belongs to the financial liability category, the model financial statements should be amended accordingly.

Question 19

Paragraph 3.75 proposes that an entity should use a **direct method of presenting cash flows** in the statement of cash flows.

- (a) Would a direct method of presenting operating cash flows provide information that is decision-useful?
- (b) Is a direct method more consistent with the proposed cohesiveness and disaggregation objectives (see paragraphs 3.75–3.80) than an indirect method? Why or why not?
- (c) Would the information currently provided using an indirect method to present operating cash flows be provided in the proposed reconciliation schedule (see paragraphs 4.19 and 4.45)? Why or why not?

Comment:

With respect to (a) in the question above, we acknowledge that a direct method of presenting operating cash flows leads to a clear presentation with respect to information about payment and receipt of cash as compared with an indirect method. Therefore, as it enables the users of financial statements to understand the operating cash flow more easily, we believe such method provides users with decision usefulness. However, since it is expected that preparation of cash flow statements based on a direct method would be very costly due to systems development and other circumstances, in practice, entities would often be forced to use a simplified method in preparing their cash flow statements based on a direct method. In order to address such cases, we believe that the final standard should include an example that illustrates the use of a simplified method in the preparation of cash flow statements based on a direct method.

Question 20

What **costs** should the boards consider related to using a direct method to present operating cash flows (see paragraphs 3.81–3.83)? Please distinguish between one-off or one-time implementation costs and ongoing application costs. How might those costs be reduced without reducing the benefits of presenting operating cash receipts and payments?

Comment:

As one-time implementation costs, they should consider the cost of systems development to develop functions to support preparation of cash flow statements based on a direct method, training costs for the new system operation, and the cost for the preparation of manuals and other internal materials. As ongoing application costs, they should consider the system maintenance cost, as well as costs associated with additional workload for accounting data input and verification of the data accuracy. We believe that these costs should be verified through field tests.

In addition, as indicated in our answer to Question 19, it will be case that entities would be forced to use a simplified method for the preparation of cash flow statements based on a direct method, we believe that the final standard should include an example that illustrates the use of a simplified method in such cases, regardless of its relations with the objective of cost reduction.

Question 25

Should the boards consider other **alternative reconciliation formats** for disaggregating information in the financial statements, such as the statement of financial position reconciliation and the statement of comprehensive income matrix described in Appendix B, paragraphs B10–B22? For example, should entities that primarily manage assets and liabilities rather than cash flows (for example, entities in the financial services industries) be required to use the statement of financial position reconciliation format rather than the proposed format that reconciles cash flows to comprehensive income? Why or why not?

Comment:

We believe that such alternative should be considered. We also believe that sufficient field testing should be conducted to grasp its impact on the current practice.

Question 26

The FASB's preliminary view is that a memo column in the reconciliation schedule could provide a way for management to draw users' attention to **unusual or infrequent events or transactions** that are often presented as special items in earnings reports (see paragraphs 4.48–4.52). As noted in paragraph 4.53, the IASB is not supportive of including information in the reconciliation schedule about unusual or infrequent events or transactions.

(a) Would this information be decision-useful to users in their capacity as capital providers? Why or why not?

(b) APB Opinion No. 30 *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, contains definitions of *unusual* and *infrequent* (repeated in paragraph 4.51). Are those definitions too restrictive? If so, what type of restrictions, if any, should be placed on information presented in this column?

(c) Should an entity have the option of presenting the information in narrative format only?

Comment:

(a) We do not believe that such information would be decision-useful to users.

Since the definition of unusual or infrequent events or transactions is not necessarily clear, we believe that such information should be discussed outside the financial statements, such as in the Management's Discussion and Analysis of Financial Condition and Results of Operations, MD&A, as necessary.

(b) We believe that there is no need to grant such an option.

Given that the definition of such events or transactions is not necessarily clear, we believe that there is no need to grant such an option with respect to the presentation in the financial statements.

Yours faithfully,

Kiyoshi Ichimura

Executive Board Member—Accounting Standards

The Japanese Institute of Certified Public Accountants