

NIPPON KEIDANREN

《Japan Business Federation》

9-4, OTEMACHI 1-CHOME, CHIYODA-KU, TOKYO 100-8188, JAPAN

April 14, 2009

International Accounting Standards Boards
30 Cannon Street
London EC4M 6XH, United Kingdom
Dear Sir or Madam,



LETTER OF COMMENT NO. 100

Comments on the Discussion Paper “Preliminary Views on Financial Statement Presentation”

Nippon Keidanren appreciates this opportunity to comment on the Discussion Paper (the DP) “Preliminary Views on Financial Statements Presentation.”

The Japanese government is currently holding discussions on the application of IFRS in Japan. Nippon Keidanren assumes an important role providing views of preparers in the process of the discussion. Nippon Keidanren basically approves the application of IFRS in Japan. However, in order to apply IFRS in Japan, it is important for IFRS to be feasible for practical use and acceptable for the management and the users. Financial statement presentation is one of the important accounting standards for Japan in considering the application of IFRS. Therefore, Nippon Keidanren is carefully watching the direction of the discussion.

We have considered the proposals in the DP in light of practicability and cost benefit feature. Opinions from the participants in the joint FASB/IASB field test program are also reflected in this comment. We believe our comment which reflects the voices through the actual experience of preparing financial statements using the method suggested by the DP would be useful and well worth for the Board's future discussion.

Our comments are as follows.

1. General Remarks

Paragraph 1.6 of the DP states that the "board's goal is to improve the usefulness of the information provided in an entity's financial statements to help users make decisions in their capacity as capital providers." "Useful" information for users, first of all, has to be the information which is considered useful by the management. Because one of the objectives of disclosing information is to reduce the information disparity between the users and the preparers, we believe that financial statements should be presented in a manner which is prepared with importance of the information and criteria for judgment that the manager actually uses for business management and decision making. If the

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information to be disclosed is not based on such view, managers can not achieve its accountability towards the users. Of course, the preparers should continuously make efforts to improve disclosure. However, it is impossible to disclose all information requested by the users with audit procedure. In that sense, this project should be conducted with cost and benefit analysis at the center of consideration.

The DP states information as 'useful' even for its needs are unclear. From the preparer's point of view, who bear the cost to prepare financial statements, we would like to ask the IASB for clear explanation on the need for the information. To make these points clear, the users and the preparers may discuss and communicate with each other more frequently to understand each other's view. The IASB should listen to their opinions and, most importantly, reflect them on accounting standards. This, of course, is not limited to the discussion of presentation of financial statements.

The reality of business transaction should be reflected in setting accounting standards. We ask the IASB to understand that it is impossible for the preparer meet the needs proposed by 'some' investors or users and to respond to the demands deriving from the purpose of pursuing consistency of a certain accounting theory.

2. [Question 1] Cohesiveness Objective

Each financial statement, statement of financial position, cash flows and comprehensive income, has different objectives. This means, it is most important that each financial statement conveys the most required information in an easily understandable way. We are concerned that if cohesiveness among the three financial statements is strictly pursued, and that the financial statements are prepared to meet the requirement, as suggested in the DP, it will not only make the financial statements difficult to understand for the users and detract usefulness, but will also convey the users incorrect information which is far different from the actual business of the company.

The DP seems to assume a company with single-unit business and not global companies with diverse and complex operations. Many global company groups are composed of segments that run totally different businesses. In such cases, usefulness of presenting information by segments and cohesiveness of three financial statements might be incompatible. Therefore, it is not appropriate to restrict to align subtotals to the detailed level.

3. [Question 5] Management Approach

We agree with the adoption of management approach. Because of the diverse

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business models which exist today, it is most appropriate to classify the sections and categories in a way that the company administrates on a daily basis through various analysis methods. We oppose to mandate excessive additional disclosure and/or explanation to cover the comparability which would be said to be lost by adopting the management approach. If companies are to be forced to classify sections and categories in a way which no management has in mind, financial statements, as a result, will mislead the users.

4. [Question 9] Definition of Operating and Investment Categories

First of all, the categories suggested by the DP are unclear. It is also unclear whether the DP defines classification considering each segment.

5. [Question 14] Single Statement of Comprehensive Income

We are confident that net income is the most important financial information which the preparer presents to market participants as business performance. It is not appropriate to present net income in the same statement which includes gain/loss of valuation of assets and liabilities. Therefore, choice between the single statement of comprehensive income and two statements should be permitted.

6. [Question 16] Disaggregating Income and Expense Items by Nature

It is difficult from the preparer's perspective to set a criterion to judge whether disaggregating income and expense items by function and by nature will enhance the usefulness in predicting future cash flows. In addition, because business differs from company to company, figures compiled by function and by nature on a consolidated basis will not be meaningful, and also such classification is not important to the management. In other words, there will be no meaning in disaggregating income and expenses in such way regardless of the intent of the management.

Requiring expenses by nature means that companies have to accumulate information of cost of goods by nature in consolidated bases. This will impose on preparers additional cost and we do not believe that sufficient benefit will be gained compared to the cost.

Disaggregating income and expenses by nature might be useful information for companies which conducts small or simple business. But for large companies and companies which conducts complex and various businesses, there will be no meaning in disclosing information accumulated as a whole group, because the meaning and the role of income and expenses will differ in every segment. Therefore, disaggregating income

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and expense items by nature and its disclosure should not be required in the accounting standard. Companies who consider on its own that disaggregating incomes and expenses by nature is meaningful, should be allowed to do so on a voluntary basis.

7. [Question 19] Direct Method of Presenting Cash Flows

We strongly oppose to mandate direct method of presenting cash flows. The DP states that there are certain advantages of direct method of presenting cash flows. However, we strongly believe that indirect method of presenting cash flows, which most of the companies report today, offers both users and management useful information. For example, in order to see payment and receipt of money needed for analysis, it will be sufficient by looking at the sales and expenses with information about the reconciliation between profit and cash flows using indirect method.

Direct method of presenting cash flows will not only require initial cost to revise the IT system fundamentally, but will also impose on a company the cost of internal control and auditing to secure accuracy as well as its annual running cost. Considering the size, international spread of branches and segments, complexity of inter-group transaction of the company, the cost which the global companies assume will be enormous. In addition, in light of the necessity of information, cost will far exceed the benefit.

8. [Question 23] Reconciliation of Cash Flows to Comprehensive Income

We do not agree with the DP which requires the reconciliation of direct method cash flows to comprehensive income. A large part of the needs for the information provided by the proposed reconciliation would be satisfied by the statement of cash flows using the indirect method. Major items of the reconciliation are already disclosed in notes. Compared to the enormous burden to be imposed to prepare the reconciliation, only limited new information will be provided. Moreover, it is unclear in what way the information provided by the reconciliation is useful and what the information in the reconciliation intends to explain. The indirect method cash flow statement already meets the needs of users.

9. (4.11) Information about the Maturities of its Contractual Long-term Assets and Liabilities

We disagree with the proposal of the DP which requires disclosure of information about the maturities of its contractual long-term assets and liabilities. Some information cannot be disclosed due to contracts. Not only the volume of disclosure will increase, but it will impose additional burden to prepare the disclosure. We do not see any merits

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by disclosing such information.

If you have any comments or questions regarding our comments, please do not hesitate to contact Takashi INOUE, kigyo-kaikei@keidanren.or.jp.

Sincerely,

Nippon Keidanren
Economic Policy Bureau II

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