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Sir David Tweedie
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir David:

The Corporate Accounting Study Group (CASG) of the Security Analysts Association of Japan (SAAJ) is pleased to comment on the Exposure Draft of Proposed Amendments to IAS 1 'Presentation of Financial Statements'. The SAAJ is a not-for-profit organization providing investment education and examination programs for security analysts. Its certified members exceed 20,000. The CASG is a standing committee of the SAAJ composed of twelve members, including analysts, portfolio managers, public accountants, and academics. The CASG expresses its views on important exposure drafts issued by ASBJ, the Japanese accounting standard setter. In the middle of May, the SAAJ sponsored a study session on IAS 1 ED, inviting three ASBJ staff as speakers. Some 98 certified members of the SAAJ participated in the session, 57 of whom (58%) replied to the ED questionnaire. This comment letter fully takes the views expressed in the questionnaire replies into consideration.

I General Comments

IASB, which originally preferred a single comprehensive income statement, permits two statements with net and comprehensive income in the ED, most likely taking into account the opposition shown by its constituents in various discussions. The CASG highly appreciates the flexible and practical approach of IASB and expects the same flexibility and practicality will be exercised in setting accounting standards in the future.

II Replies to Questions

Questions 1 and 2 – A complete set of financial statements

The Exposure Draft proposes that the titles of the financial statements should be as follows:

(a) statement of financial position (previously 'balance sheet');

(b) statement of recognised income and expense;

(c) statement of changes in equity; and
(d) statement of cash flows (previously 'cash flow statement').

Question 1 – Do you agree with the proposed titles of the financial statements (bearing in mind that an entity is not required to use those titles in its financial statements)? If not, why?

Disagree. First, income statement and balance sheet are titles which have been widely used and generally accepted for a long time. A change in titles will not enhance understanding of financial reporting, rather it incorporates risk in that it could induce unnecessary confusion and misunderstanding on the part of users.

Second, we believe permitting a choice of titles for preparers will confuse users. Therefore, uniform titles should be specified.

The term 'recognised income and expense' is unfamiliar and it is hard to imagine exactly what it means.

Question 2 – Do you agree that a statement of financial position as at the beginning of the period should be part of a complete set of financial statements, and that an entity presenting comparative information should therefore be required to present three statements of financial position in its financial statements? If not, why?

Agree. The presentation of a balance sheet at the beginning of the period incurs no additional cost for preparers, and it makes it easy for users to calculate financial ratios and numbers using the balance sheet numbers of the beginning and ending of the period.

Questions 3-5 – Reporting owner changes in equity and recognised income and expenses
The Exposure Draft proposes to require entities to present all changes in equity arising from transactions with owners in their capacity as owners (ie 'owner changes in equity') separately from other changes in equity (ie 'non-owner changes in equity' or 'recognised income and expense'). Non-owner changes in equity would be presented in either (a) a single statement of recognised income and expense, or (b) two statements: a statement displaying components of profit or loss and a second statement beginning with profit or loss and displaying components of other recognised income and expense

Question 3 – Do you agree that non-owner changes in equity should be referred to as 'recognised income and expense' (bearing in mind that an entity is not required to use the term in its financial statements)? If not, why?

Disagree. As the term 'comprehensive income' is widely used and understood, it is not rational to want to change it. As mentioned in our answer to question 1 above, we are against the idea of permitting optional terms. The reasons we consider the term 'recognised income and expense' inappropriate are also shown in our answer to question 1.

Question 4 – Do you agree that all non-owner changes in equity (ie components of recognised income and expense) should be presented separately from owner changes in equity? If not, why?

Agree. It is rational to strictly separate owner changes in equity from all non-owner changes in equity.

Question 5 – Do you agree that entities should be permitted to present components of recognised income and expense either in a single statement or in two statements? If so, why is it important to present two statements rather than a single statement? If you do not agree, why? What presentation would you propose for components of recognized income and expense that are not included in profit or loss?

Disagree. It is not desirable to allow entities the option of presenting important information differently. A two statement presentation should be made mandatory. We are afraid that a single statement might give the preconception that the bottom line of it is the most important number. In evaluating entities, net income is more important for some and comprehensive income more important for others. Two statements give investors freedom of choice, according to what they really need without giving such a preconception as just mentioned. Additionally, we consider that making a separate statement to present comprehensive income contributes to the understanding and acceptance of the concept of comprehensive income.

As a result, we propose that the titles of financial statements should be as follows:

(a) balance sheet

(b) profit and loss statement

(c) comprehensive income statement

(d) statement of changes in net assets

(e) cash flow statement

The reason we use 'net assets' instead of 'equity' in (d) is because we consider that the former more clearly presents the meaning of the residual of assets minus liabilities.

Questions 6 and 7 – Other recognised income and expense — reclassification adjustments and related tax effects

The Exposure Draft requires the disclosure of reclassification adjustments relating to each component of other recognised income and expense (see paragraphs 92–96 of the draft Standard and paragraphs BC21–BC23 of the Basis for Conclusions).

Question 6 – Do you agree with this proposal? If not, why?

Agree. However, the term 'reclassification adjustments' is not well-known and accepted, so we propose using the term 'recyclings'. We support recyclings as it is essential to calculate net income which is regarded as the most useful number for forecasting recurring cash flows in the future. Further, as we support a two statement presentation, recyclings is essential to guarantee its continuation. In replies to the questionnaire from the participants in the study session mentioned earlier, 79% agreed with question 6, evidencing strong support for the continuous disclosure of net income as it is reported today.

The Exposure Draft requires the disclosure of income tax relating to each component of other recognised income and expense (see paragraph 90 of the draft Standard and paragraphs BC24 and BC25 of the Basis for Conclusions).

Question 7 – Do you agree with this proposal? If not, why?

Agree. As the tax rates applied to components of other recognised income and expense could be different from those applied to net income, the proposed disclosure of income tax would be very useful information for analyzing tax effects.

Question 8 – Presentation of per-share measures

Question 8 – Do you agree that earnings per share should be the only per-share *measure that is required or permitted to be presented on the face of the statement of recognised income and expense? If not, which other per-share measures should be required or permitted to be presented on the face of a statement and why?*

Disagree. Comprehensive income per share should also be presented on the face of the statement. We propose including 'profit and loss statement' and 'comprehensive income statement' in financial statements. As these two statements have equal importance, it is logical, rational, and very useful to present per share numbers in both statements. Generally speaking, net income is more important than comprehensive income in forecasting the future recurring cash flows of entities. However, in some cases, comprehensive income may become more important because of the particular nature of entities and the external environment. We consider that accounting standards should not regulate which is more important in advance but disclose both with equal prominence and leave judgment as to importance to users.

Ⅲ Concluding Remarks

The Exposure Draft proposes the format of disclosure as Segment A of the performance presentation project and the content of disclosure to be considered as Segment B. Ideally speaking, the content of disclosure should be decided before considering the format. However, it is understandable for Segment A to be considered earlier in the situation where the convergence of accounting standards is an imminent issue. We hope that fundamental issues will be deliberated deeply and from diversified viewpoints in Segment B. The CASG of the Security Analysts Association of Japan is committed to following progress of the performance presentation project and will express its views every time there is an opportunity.

If you have any questions or seek further elaboration of our views, please contact Mr. Sei-Ichi Kaneko (s-kaneko@saa.or.jp) of the SAAJ.

Yours sincerely,

Keiko Kitamura

Keiko Kitamura
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