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Hans Hoogervorst
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Mr. Hoogervorst:

re: Comments on Exposure Draft
"Disclosure Initiative,
Proposed Amendments to IAS 1"

The Corporate Accounting Committee (CAC) of the Securities Analysts Association of Japan (SAAJ) is pleased to comment on Exposure Draft "Disclosure Initiative, Proposed Amendments to IAS 1" (hereinafter referred to as the ED) put out by the International Accounting Standards Board (IASB). The SAAJ is a not-for-profit organization providing investment education and examination programs for securities analysts. Its certified members number 25,000. The CAC is a standing committee of the SAAJ composed of 15 members, most of whom are users including equity and credit analysts, and portfolio managers, while a few others are academicians and public accountants. The CAC writes comment letters to global standard setters, including the IASB and Accounting Standards Board of Japan (ASBJ), and exchanges opinions with organizations including the ASBJ and Financial Services Agency.

General Comments

1. The CAC highly evaluates the ED which proposes narrow-focus amendments to IAS 1 in order to respond to several concerns expressed with regard to the current presentation and disclosure requirements. The CAC regards the ED as a first step in further improving IAS 1 which will be achieved by other endeavors of the IASB including a joint project with IOSCO and IAASB concerning materiality.

2. It seems that the ED assumes disclosure materials are too voluminous because "the concept of materiality is not being applied in practice as well as it could be" (BC1). The CAC agrees that some measures should be taken in order to prevent materials

becoming unnecessarily voluminous. The CAC is, however, very concerned that the ED may result in some necessary information being omitted from disclosure materials. The ED should rather assume that professional financial analysts can find appropriate information no matter how voluminous the materials. Following are the CAC's views on selected questions.

Question 1—Disclosure Initiative amendments

The amendments to IAS 1 arising from the Disclosure Initiative aim to make narrow-focus amendments that will clarify some of its presentation and disclosure requirements to ensure entities are able to use judgement when applying that Standard.

The amendments respond to concerns that the wording of some of the requirements in IAS 1 may have prevented the use of such judgement.

The proposed amendments relate to:

(a) materiality and aggregation (see paragraphs 29–31 and BC1–8 of this Exposure Draft);

(b) statement of financial position and statement of profit or loss and other comprehensive income (see paragraphs 54, 55A, 82, 85A and 85B and BC9–BC15 of this Exposure Draft);

(c) notes structure (see paragraphs 113–117 and BC16–BC19 of this Exposure Draft); and

(d) disclosure of accounting policies (see paragraphs 120 and BC20–BC22 of this Exposure Draft).

Do you agree with each of the amendments? Do you have any concerns about, or alternative suggestions for, any of the proposed amendments?

Question 1 (a) Materiality and Aggregation

3. The CAC agrees, in principle, to the proposed changes in paragraphs 29 to 31 which clarify presentation and disclosure requirements. The CAC, however, proposes the following additions to paragraphs 29 and 31 in order to clearly show the objective of presentation and disclosure of material information.

> 29. An entity shall present or disclose separately each material class of similar items <u>in consideration of the broad needs of financial statement users which are significantly different between equity investors and bond investors.</u> ....
> 31. (Second line from the bottom)

> ... to meet the broad needs of financial statement users which are significantly different between equity and bond investors,

(Note) CAC additions are underlined.

4. Further, the CAC thinks paragraph 38 of IAS 1 should be reviewed from the perspective of presentation and disclosure requirements. According to the paragraph, when an item is judged material and newly reported in the current period's financial statement, comparative information for the prior period shall be disclosed. On the other hand, when an item reported in the previous period is judged not material, the item will not be disclosed at all in the current period. Financial analysts continuously monitor entities using performance forecast models and focus on changes in materiality rather than on materiality at a specific point. In this regard, disclosure and presentation of the current period's amount for an item which had been material until the previous period enables financial analysts judge the diminution in materiality quantitatively and helps them better understand the financial statement for the current period. The CAC proposes adding the underlined sentence to paragraph 38 of IAS.

> Except when IFRSs permit or require otherwise, an entity shall present comparative information in respect of the preceding period for all amounts reported in the current period's financial statements. When an item that satisfied presentation and disclosure requirements and was shown in the previous period does not satisfy such requirements in the current period, the amount shall be disclosed only in the current period for comparability. An entity shall include comparative information for narrative and descriptive information if it is relevant to understanding the current period's financial statements.

Question 1 (b)-1 Statement of financial position

5. The CAC agrees to the proposal to add paragraph 55A in order to clarify the intention of paragraph 55 which stipulates presentation of additional line items, headings, and subtotals in the statement of financial position.

6. The ED proposes to add disaggregation of 'property, plant and equipment' as an example in paragraph 54. The CAC proposes adding another example, 'intangible assets'. This would encourage disaggregation of intangible assets and be an improvement over the current situation where significant amount is shown under a single line item of intangible assets. In fact, for many entities, intangible assets and

property, plant and equipment should be disaggregated as “such presentation is relevant to an understanding of the entity’s financial position” (paragraph 54).

7. Some entities do not present all of (a) to (r) line items although IAS 1 currently requires these “as a minimum”. In deleting “as a minimum”, therefore, detailed guidance should be published in order to prevent excessive and abusive aggregation. For example, if line items (k) to (m) are aggregated as a result of deletion of “as a minimum”, then the amount of interest-bearing debt cannot be identified to cause a serious problem for credit analysis. In return for the deletion of “as a minimum”, the CAC proposes mandatory disclosure of interest-bearing debt.

Question 1 (b)-2 Statement of profit or loss and other comprehensive income

8. The CAC agrees to the proposal to add paragraphs 85A and 85B in order to clarify the intention of paragraph 85 which stipulates presentation of additional line items, headings, and subtotals in the statement of comprehensive income.

9. Through the addition of paragraphs 85A and 85B, entities will be encouraged to present operating income that is desired by a wide range of financial statement users. The CAC asks the IASB to develop a definition of operating income on this occasion and add it as a required line item in paragraph 82.

Question 1 (c) Notes structure

10. The CAC opposes the proposal to add paragraph 113A aimed at enhancing flexibility in the systematic ordering of notes. The CAC disagrees with the IASB’s view that “the increased use of electronic versions of financial statements means that it is increasingly easy to search for, locate and compare information within the financial statements and between entities and there are fewer benefits now from having a prescriptive order for the notes” (BC19). The increased use of electronic files is irrelevant to the benefit of prescriptive order which makes notes easy to use for many financial analysts. The CAC thinks amendments to paragraphs 113 and 114 will suffice for applying flexibility to the prescriptive order without the addition of paragraph 113A.

11. In the first place, there is a way to make notes easy to understand without changing the order. The CAC highly regards the proposal to eliminate the cross-reference clause from paragraph 113 and make a new paragraph, paragraph 115. In this spirit, the CAC

proposes adding the underlined part to paragraph 115 in order to enhance the understandability of notes.

> 115. An entity shall cross-reference each item presented in the statement of financial position and in the statement(s) of profit or loss and other comprehensive income, and in the statements of changes in equity and of cash flows, to any related information in the notes. <u>An entity shall cross reference each note to any related notes in order to enhance the understandability of note information.</u>

Question 1 (d) Disclosure of accounting policies

12. The CAC opposes the proposal to delete "in the summary of significant accounting policies" from paragraph 117 and to insert "notes in" and "or as part of other notes" in paragraph 116. The CAC thinks significant accounting policies are most easy to understand when disclosed in one place with appropriate cross-references to other notes.

13. The CAC supports the proposal to delete paragraph 120.

> ***<u>Question 2—Presentation of items of other comprehensive income arising from equity-accounted investments</u>***
> **Do you agree with the IASB's proposal to amend IAS 1 for the presentation of items of other comprehensive income arising from equity-accounted investments amendments (see paragraphs 82A, BC1–BC6 and the Guidance on implementing IAS 1)? If not, why and what alternative do you propose?**

14. The CAC basically supports the proposal to amend paragraph 82A. As the amendment does not provide a breakdown of the share of the other comprehensive income of associates and joint ventures, the CAC proposes adding the following sentence to 82A(b). "When the share of the other comprehensive income of associates and joint ventures accounted for using the equity method is significant, a breakdown by nature of said share shall be disclosed in the notes". The addition would enhance the understandability of financial statements as some entities, including many Japanese ones, may have significant securities valuation differences and foreign exchange translation differences arising from equity-accounting investments.

If you have any questions or need further elaboration, please do not hesitate to contact Sei-Ichi Kaneko, Executive Vice President, SAAJ (s-kaneko@saa.or.jp).

Sincerely yours,

Keiko Kitamura

Keiko Kitamura
Chair
Corporate Accounting Committee