



2 October 2017

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

Re: Comments on Discussion Paper
“Disclosure Initiative—Principles of Disclosure”

Dear Mr. Hoogervorst:

The Corporate Accounting Committee (CAC) of the Securities Analysts Association of Japan (SAAJ) is pleased to comment on Discussion Paper “Disclosure Initiative—Principles of Disclosure” (hereinafter referred to as the DP) published on 30 March 2017. The SAAJ is a not-for-profit organization providing investment education and examination programs for securities analysts. Its certified members number 26,500. The CAC is a standing committee of the SAAJ composed of 14 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 accounting standard setters, including the International Accounting Standards Board (IASB) and Accounting Standards Board of Japan (ASBJ), and exchanges opinions with organizations including the ASBJ and Financial Services Agency.

Before drafting this comment letter, on 9 August 2017 the SAAJ sponsored a study session on the DP, inviting an ASBJ member and a senior staff as lecturers. 35 of our certified members participated. A questionnaire was subsequently sent to each and 24 responded, making for a 69% response rate. This comment letter fully takes into account the views expressed in the questionnaire replies as well as discussion among CAC members. The survey results are attached as an Appendix.

General Comments

1. Disclosure in the notes as well as the presentation in the primary financial statements are the main areas of interest for users of financial statements and we were looking forward to the DP to be published by the IASB. It is our regret, however, to say that the proposals of the DP appears to be far from satisfactory, besides the fact that it came out greatly behind the schedule. First, the most of the proposals are too abstract and generic to assess their effectiveness when they are implemented. As a result, many of associated questions are too difficult to answer. For example, the DP proposes the seven principles of communication in the Section Two, but we find it difficult to understand the relationship between these principles and what the IASB intends as the roles of the primary financial statements and the notes to be, which are explained later. In addition, we also think that the structure of the DP is very confusing and we find it difficult again to understand the relationship among each section. We believe the DP should have mainly included the notes and related the IASB staff proposals, while the Section Five of the DP actually includes the topics which should be covered by the primary financial statements project, and the staff paper by New Zealand Accounting Standards Board (NZASB) in the Section Eight which we do not think appropriate to be included in the DP.
2. We believe the objective of the DP set by the IASB should be to improve communication in financial reporting. Despite that goal, the DP is not easy enough for the readers to understand the messages, due to its confusing structure and order of sections as well as sentences difficult to understand. It appears that the IASB has failed to communicate the stake holders effectively, probably due to the lack of consideration to readability of the report. If the Board intends to develop a general disclosure standard by amending IAS 1 or as a new standard which would replace IAS 1, we encourage the IASB to deliberate it carefully, by reviewing comments to the DP and discussing actively with each stakeholders about effectiveness and understandability of disclosures.
3. Particularly, users of financial statements consider comparability among entities more important than the IASB and preparers expect. It is not enough for investors to analyze a single company in order to make a good investment decision; they always analyze two or more companies and compare them at the same time. We believe it should be discussed mainly in the context of the disclosure of non-financial information how to enhance entity-specific information. We encourage IASB to place higher priority on the improvement of comparability of financial statements

among companies and faithful representation of entities' economic substance, in order to provide relevant information when it develops its disclosure standard. We believe the new disclosure standard should include the definition of operating income and net income as the IFRS based performance measures, to name a few.

4. We would like to express our opinion to some selected questions below.

Question 1

Paragraphs 1.5–1.8 describe the disclosure problem and provide an explanation of its causes.

(a) (Omitted)

(b) Do you agree that the development of disclosure principles in a general disclosure standard (i.e. either in amendments to IAS 1 or in a new general disclosure standard) would address the disclosure problem? Why or why not?

5. We do not agree with the disclosure principles as proposed by the DP. We are concerned that the proposed principles of effective communication are too abstract and generic for companies to prepare the financial statements and for users to refer to when they look into disclosures. It may have some value as a comprehensive set of indicators, which would work as reference when the IASB develops individual IFRSs, but we do not believe that it is not specific enough to address users' concern that "sufficient relevant information is not provided" in the financial statements. To meet that goal, we encourage the IASB to consider making those principles include more specific and effective descriptions.

6. In our survey, 50% of the respondents did not agree with the view, while 38% agreed (see Q1 in the Appendix).

Question 3

The Board's preliminary view is that a set of principles of effective communication that entities should apply when preparing the financial statements as described in paragraph 2.6 should be developed. The Board has not reached a view on whether the principles of effective communication should be prescribed in a general disclosure standard or described in non-mandatory guidance.

The Board is also of the preliminary view that it should develop non-mandatory guidance on the use of formatting in the financial statements that builds on the guidance outlined in paragraphs 2.20–2.22.

(a) Do you agree that the Board should develop principles of effective communication that entities should apply when preparing the financial statements? Why or why not?

(b) Do you agree with the principles listed in paragraph 2.6? Why or why not? If not, what alternative(s) do you suggest, and why?

7. We agree that the Board should develop principles of effective communication. In our survey, 58% of the respondents agreed (see Q2 in the Appendix).

8. That said, we think that the IASB should not ignore trade-off among some of seven principles in paragraph 2.6 (a)-(g) of the DP, given the fact that 42% of the respondents did not agree. In other words, we would raise a concern on the risk that the content or the method of disclosure chosen by entities to improve relevance of information might reduce comparability for users against its intention, just making communications between entities and investors get worse. We ask the IASB to reconsider the content of seven principles in order to allow entities to address this risk effectively.

Question 3

(c) Do you think that principles of effective communication that entities should apply when preparing the financial statements should be prescribed in a general disclosure standard or issued as non-mandatory guidance?

(d) (Omitted)

9. In our survey, 42% of the respondents thought that principles of effective communication should be prescribed in a general disclosure standard, while 29% thought that they should be issued as non-mandatory guidance. Neither answer gathered a majority. We note that 21% thought that they should be described in the *Conceptual Framework*, a choice which we set out independently in our questionnaires (see Q3 in the Appendix).

10. As mentioned in Question 1 and Question 2, "principles of effective communication" appears very abstractive, but we think they may be effective as comprehensive indicators which the IASB can refer, when the Board develops a specific standard. This is exactly the role of the *Conceptual Framework*. The IASB should consider the *Conceptual Framework* as one of the options for the vehicle to deliver "principles of effective communication", in addition to a general disclosure standard and non-mandatory guidance.

Question 4

The Board's preliminary views are that a general disclosure standard should:

- specify that the 'primary financial statements' are the statements of financial position, financial performance, changes in equity and cash flows;
- describe the role of primary financial statements and the implications of that role as set out in paragraphs 3.22 and 3.24;

(Omitted below)

11. We agree with the preliminary views that a general disclosure standard should specify that the 'primary financial statements' are the statements of financial position, financial performance, changes in equity and cash flows. In our survey, 79% of the respondents supported it (see Q4 in the Appendix).

Question 5

The Board's preliminary view is that a general disclosure standard should include a principle that an entity can provide information that is necessary to comply with IFRS Standards outside financial statements if the information meets the requirements in paragraphs 4.9(a)–(c).

(a) Do you agree with the Board's preliminary view? Why or why not? If you do not agree, what alternative(s) do you suggest, and why?

(b) (Omitted)

12. We do not agree with the preliminary view in the DP. In our survey, 67% of the respondents did not agree (see Q5 in the Appendix).
13. We strongly encourage entities to provide information that is necessary to comply with IFRS standards outside the financial statements as well, in such materials as the annual report, other reports and IR documents to achieve effective communication. Given that, we think that cross-referencing from the financial statements to another statement is obviously needed and would help users effectively to understand both the documents and the financial statements. In the meantime, as users of financial statements, we are strongly concerned that the usefulness of financial statements might be rather undermined if associated important information which should be disclosed in the financial statements in the first place are moved to outside the FSs along with the IFRS information.
14. The DP does not define "cross-reference" or "IFRS information" clearly enough. We, therefore, cannot think of what cases that IASB assumes in the preliminary view.

In addition, we doubt if the IFRS should regulate the disclosure outside financial statements and if the preparers can judge which information is material to users. It is difficult for us to assess effectiveness only with the requirements in the paragraph 4.9 (a) through (c). We ask the IASB to reconsider the proposed requirements, by assuming more specific cases when it develops a “general disclosure standard”.

Question 6

The Board’s preliminary view is that a general disclosure standard:

- **should not prohibit an entity from including information in its financial statements that it has identified as ‘non-IFRS information’, or by a similar labelling, to distinguish it from information necessary to comply with IFRS Standards; but**
- **should include requirements about how an entity provides such information as described in paragraphs 4.38(a)–(c).**

Do you agree with the Board’s preliminary view? Why or why not? If you do not agree, what alternative(s) do you suggest, and why?

15. We agree with the preliminary view that a general disclosure standard should not prohibit an entity from including information in its financial statements that it has identified as ‘non-IFRS information.’ In our survey, 58% of the respondents agreed with the view (see the Q6 in Appendix).
16. Among non-IFRS information, there are financial performance measures that investors broadly use as de facto standards in some jurisdictions and industries, including net business profits of Japanese banks and basic profit in general trading companies in Japan. We believe non-IFRS information used widely as the de facto performance measure in practice, if included in financial statements, would contribute to improving understandability of them
17. On the other hand, some respondents are strongly concerned about a risk of misleading users by presenting too subjective non-IFRS information in the financial statements. We ask the IASB to consider further whether the requirements in the paragraph 4.38 (a) through (c) are enough to choose non-IFRS information to improve effectiveness of communication, or whether users are not misled by descriptions and explanations of non-IFRS information in accordance with these requirements when developing a general disclosure standard.

Question 8

The Board's preliminary views are that it should:

- **clarify that the following subtotals in the statement(s) of financial performance comply with IFRS Standards if such subtotals are presented in accordance with paragraphs 85–85B of IAS 1:**
 - **the presentation of an EBITDA subtotal if an entity uses the nature of expense method; and**
 - **the presentation of an EBIT subtotal under both a nature of expense method and a function of expense method.**
- **develop definitions of, and requirements for, the presentation of unusual or infrequently occurring items in the statement(s) of financial performance, as described in paragraphs 5.26–5.28.**

(a) Do you agree with the Board's preliminary views? Why or why not? If you do not agree, what alternative action do you suggest, and why?

(Omitted below)

18. In our survey, 50% in total did not agree, while 33% agreed (see Q7 in the Appendix). The breakdown of "Nay" is; 21% of respondents "did not agree with the preliminary views and did not agree that the IASB should define EBITDA or EBIT" and 29% "did not agree the preliminary views and thought that the IASB should give priority to defining operating profit."
19. We believe this question should be discussed in the financial statements project and is inappropriate to be included in the DP.
20. We find it difficult to define EBITDA without specifying a definition of operating income because EBITDA is generally defined as "operating income + depreciation expense (including amortization expense of intangible assets)". Furthermore, EBITDA and EBIT are so differently calculated depending on industries and entities. We therefore ask the IASB to introduce requirements in a general disclosure standard, when Board decide to develop it, that an entity should disclose how it calculate those performance measures to improve comparability and understandability.

Question 9

The Board's preliminary view is that a general disclosure standard should describe how performance measures can be fairly presented in financial statements, as described in paragraph 5.34.

Do you agree with the Board's preliminary view? Why or why not? If you do not

agree, what alternative action do you suggest, and why?

21. We agree with the preliminary view in the DP. In our survey, 58% of respondents agreed (see Q8 in the Appendix).
22. We think requirements such the paragraph 5.34 is necessary to prescribe. However, it is necessary to further assess the specific contents. For example, some concern the requirements in (i) – (iii) of (c) might lead to disclosure of too much information for users, while others are strongly concerned with a risk that they would discourage an entity's proactive efforts to provide more relevant information, in order to improve communication with users. In respect of (g), others are concerned with a risk that too much unaudited information would be provided in the financial statements. We ask the IASB to consider further the content of requirements when developing a general disclosure standard.

Question 10

The Board's preliminary views are that:

- a general disclosure standard should include requirements on determining which accounting policies to disclose as described in paragraph 6.16; and
- the following guidance on the location of accounting policy disclosures should be included either in a general disclosure standard or in non-mandatory guidance (or in a combination of both):
 - the alternatives for locating accounting policy disclosures, as described in paragraphs 6.22–6.24; and
 - the presumption that entities disclose information about significant judgements and assumptions adjacent to disclosures about related accounting policies, unless another organization is more appropriate.

(a) Do you agree with the Board's preliminary view that a general disclosure standard should include requirements on determining which accounting policies to disclose as described in paragraph 6.16? Why or why not? If you do not agree, what alternative proposal(s) do you suggest, and why?

23. We agree with the preliminary view that “a general disclosure standard should include requirements on determining which accounting policies to disclose.” In our survey, 78% of respondents agreed (see Q9 in the Appendix).
24. We believe that the IASB must develop the requirements for entities to determine which accounting policies to be included. However, we doubt whether three

categories in the paragraphs 6.12 through 6.17 can be clearly identified. We are concerned about a risk that an entity may not disclose its negative but material information to users because of differences between an entity's judgements on materiality and that of users. We ask the IASB to consider further the content of requirements to reduce such doubt and concern when developing a general disclosure standard.

Question 10

(b) Do you agree with the Board's preliminary view on developing guidance on the location of accounting policy disclosures? Why or why not? Do you think this guidance should be included in a general disclosure standard or non-mandatory guidance (or in a combination of both)? Why?

(Omitted below)

25. We agree with the preliminary view on "developing guidance on the location of accounting policy disclosures." In our survey, 79% of respondents agreed (see Q10 in the Appendix).
26. We believe that guidance on the location of accounting policy disclosures is necessary. However, we are concerned about a risk that the choices for the location of category 1 and category 2, if available, would significantly reduce comparability of financial statements among companies. We ask the IASB to consider further the content of requirements to reduce such concern when developing a "general disclosure standard".

Question 11

The Board's preliminary view is that it should develop a central set of disclosure objectives (centralized disclosure objectives) that consider the objective of financial statements and the role of the notes.

Centralized disclosure objectives could be used by the Board as a basis for developing disclosure objectives and requirements in Standards that are more unified and better linked to the overall objective of financial statements.

Do you agree that the Board should develop centralized disclosure objectives? Why or why not? If you do not agree, what alternative do you suggest, and why?

27. We do not strongly disagree with developing a central set of disclosure objectives. In our survey, 46 of the respondents agreed with developing it, while 21% did not agree. Neither answer gathered a majority (see Q11 in the Appendix).

28. While we think that a central set of disclosure objectives would reduce irrelevant information disclosed in financial statements, we are afraid that there is a risk that necessary information might not be disclosed if the scope of the objectives is too narrow. We ask the IASB to develop a central set of disclosure objectives, not forgetting to pay attention to this risk, when developing a general disclosure standard.
29. We could not decide which of two methods, Method A or Method B, was better. In our survey about question 12(a), 25% of respondents supported Method A, 21% supported Method B, and 54% could not judge at this moment (see Q12 in the Appendix).

Additional remarks

29. Besides our comments above to the questions set out in the DP, we suggest that the IASB should consider to develop the following disclosure requirements when developing a general disclosure standard:

An entity shall provide information beyond specific disclosure requirements in certain IFRS standards, if there is no necessary information disclosed for users of financial statements to understand the following items,

- Items that auditors determine as KAM (Key Audit Matters) set out in ISA (International Audit Standards) 701 to be included in the auditor's report.
- Items that require accounting estimates and appear to have a high risk of misstatement because of such factors as complexity, need of management judgements and estimation uncertainty.

Sincerely yours,



Satoshi Komiyama

Chair

Corporate Accounting Committee

APPENDIX

**Results of SAAJ Survey on
“Disclosure Initiative—Principles of Disclosure”**

Background and methodology

The Securities Analysts Association of Japan (SAAJ) sponsored a study session on IASB’s Discussion Paper (DP) “Disclosure Initiative—Principles of Disclosure”, inviting lecturers from the Accounting Standards Board of Japan (ASBJ). Some 35 of our certified members participated in the session held on 9 August. A questionnaire was subsequently sent to each participant and 24 responded, making for a 69% response rate. The respondents were also invited to make comments. The survey, although small in size, focused on a cohort with the same background (certified members of the SAAJ) and same knowledge level (participation in the study session). This focus and very high response rate gives credibility to the reliability of the survey.

Survey questions and answers

Q1 : The IASB suggests that the view in Section 1 of the DP that disclosure principles developed as described in the DP in a general disclosure standard (i.e. Either in amendments to IAS 1 or in a new general disclosure standard) would address the disclosure problem (mainly on the note). Do you agree with the view? ...**Question 1 (b) in the DP**

(a) Yes	9	37.5%
(b) No	12	50.0%
(c) Cannot judge at this moment	3	12.5%
Total	24	100.0%

Q2 : Section 2 of the DP suggests that 7 principles (including 6 transferred from the *Conceptual Framework*) as a set of principles of effective communication that entities should apply when preparing the financial statements should be developed. Do you agree with the content of the principles? ...**Question 3 (a)-(b) in the DP**

(a) Yes	14	58.3%
(b) Disagree with developing them. Principles of effective communication is unnecessary.	4	16.7%

(c) Disagree with the content of 7 principles	2	8.3%
(d) Cannot judge at this moment	4	16.7%
Total	24	100.0%

Q3 : If a set of principles of effective communication is developed, which one do you think the most appropriate output format is? …**Question 3 (c)-(d) in the DP**

(a) (Requirements in) a general disclosure standard	10	41.7%
(b) Non-mandatory guidance	7	29.2%
(c) The <i>Conceptual Framework</i>	5	20.8%
(d) Cannot judge at this moment	2	8.3%
Total	24	100.0%

Q4 : There are different opinions on which statements should be the primary financial statements. Section 3 of the DP suggests that a general disclosure standard should specify that the ‘primary financial statements’ are the statements of financial position, financial performance, changes in equity and cash flows (in order to clarify the role of the primary financial statements and the note). Do you agree with the IASB’s preliminary view? …**Question 4 in the DP**

(a) Yes	19	79.2%
(b) No	4	16.7%
(c) Cannot judge at this moment	1	4.2%
Total	24	100.0%

Q5 : Section 4 of the DP suggests that a general disclosure standard should include a principle that an entity can provide information that is necessary to comply with IFRS Standards (Category A and Category B) outside financial statements, if the information meets the following requirements: (a) it is provided within the entity’s annual report; (b) the financial statements remain understandable, and (c) it is clearly identified and incorporated in the financial statements by means of a cross-reference that is made in the financial statements. Do you agree with the IASB’s preliminary view? …**Question 5 (a) in the DP**

(a) Yes	5	20.8%
(b) No	16	66.7%
(c) Cannot judge at this moment	3	12.5%
Total	24	100.0%

Q6 : Section 4 of the DP suggests that general disclosure standard should not prohibit an entity from including information in its financial statements that it has identified as ‘non-IFRS information’ (Category C), and should require the entity (a) to identify clearly such information as not being prepared in accordance with IFRS Standards and, if applicable, as unaudited; (b) to provide a list of such information, and (c) to explain why the information has been included in the financial statements. Do you agree with the IASB’s preliminary view? …**Question 6 in the DP**

(a) Yes	14	58.3%
(b) No	7	29.2%
(c) Cannot judge at this moment	3	12.5%
Total	24	100.0%

Q7 : Section 5 of the DP suggests that in respect of APM, it should clarify that the presentation of an EBITDA subtotal (if an entity uses the nature of expense method) and the presentation of an EBIT subtotal (under both a nature of expense method and a function of expense method) in the statement(s) of financial performance comply with IFRS Standards if such subtotals are presented in accordance with paragraphs 85–85B of IAS 1. Do you agree with the IASB’s preliminary views?

In the meantime, the IASB decided not to define operating profit because of technical difficulties, although the IASB received comments to the DP of the Conceptual Framework published in May 2015 that the Board should define it. …

Question 8 in the DP

(a) Yes	8	33.3%
(b) No. The IASB need not define EBITDA or EBIT.	5	20.8%
(c) No. The IASB should give priority to defining operating profit.	7	29.2%
(d) Cannot judge at this moment	4	16.7%

Total	24	100.0%
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Q8 : Section 5 of the DP suggests that a general disclosure standard should describe how performance measures can be fairly presented in financial statements, as described in paragraph 5.34. Do you agree with the IASB’s preliminary view? …**Question 9 in the DP**

(a) Yes	14	58.3%
(b) No	5	20.8%
(c) Cannot judge at this moment	5	20.8%
Total	24	100.0%

Q9 : Section 6 of the DP suggests that a general disclosure standard should include requirements on identifying three categories of accounting policies and determining which accounting policies to disclose as described in paragraph 6.16. Do you agree with the IASB’s preliminary view? …**Question 10 (a) in the DP**

(a) Yes	18	75.0%
(b) No	1	4.2%
(c) Cannot judge at this moment	5	20.8%
Total	24	100.0%

Q10 : Section 6 of the DP suggests that the guidance on the location of accounting policy disclosures depending on 3 categories should be included either in a general disclosure standard or in non-mandatory guidance. Do you agree with the IASB’s preliminary view? …**Question 10 (b) in the DP**

(a) Yes	19	79.2%
(b) No	2	8.3%
(c) Cannot judge at this moment	3	12.5%
Total	24	100.0%