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

Comments on the Request for Views on *Effective Dates and Transition Methods*

To the Board Members:

The Japanese Institute of Certified Public Accountants ("we" and "our") appreciates the continued efforts of the International Accounting Standard Board (IASB) on this project, and welcomes the opportunity to comment on the Request for Views (RV) on *Effective Dates and Transition Methods*.

New IFRSs scheduled to be issued in June 2011 are all important and inter-related standards. Assuming that the standards currently under the exposure draft period will be finalized by the end of June or the end of 2011, we support for these standards to be collectively adopted from a single effective date. Furthermore, since almost all of the entities applying the IFRSs in Japan would be first-time adopters, we believe that it would be appropriate to permit the early adoption of the new pronouncements from a single date (first IFRS reporting date), in order to facilitate a smooth transition to the IFRSs.

The followings are our comments.

Background Information

Q1

Please describe the entity (or the individual) responding to this Request for Views. For example: (a) Please state whether you are primarily a preparer of financial statements, an auditor, or an investor, creditor or other user of financial statements (including regulators and standard-setters). Please also say whether you primarily prepare, use or audit financial information prepared in accordance with IFRSs, US GAAP or both. (b) If you are a preparer of financial statements, please describe your primary business or businesses, their size (in terms of the number of employees or other relevant measure), and whether you have securities registered on a securities exchange. (c) If you are an auditor, please indicate the size of your firm and whether your practice focuses primarily on public entities, private entities or both. (d) If you are an investor, creditor or other user of financial statements, please describe your job function (buy side/sell side/regulator/credit analyst/lending officer/standard-setter), your investment perspective (long, long/short, equity, or fixed income), and the industries or sectors you specialise in, if any. (e) Please describe the degree to which each of the proposed new IFRSs is likely to affect you and the factors driving that effect (for example, preparers of financial statements might explain the frequency or materiality of the transactions to their business and investors and creditors might explain the significance of the transactions to the particular industries or sectors they follow).

Comment:

(a) The Japanese Institute of Certified Public Accountants (JICPA) is the sole organization for certified public accountants in Japan. We operate in a transparent and independent manner as a self-disciplinary association for the accounting profession. Our members consist of Japanese CPAs, foreign CPAs, and auditing corporations, and the members conduct audits of financial statements prepared by listed and non-listed companies under the Japanese GAAP, IFRSs, and US GAAP.

(c) and (e): Please see our response above.

Preparing for transition to the new requirements

Q2.

> Focusing only on those projects included in the table in paragraph 18 above:
> (a) Which of the proposals are likely to require more time to learn about the proposal, train personnel, plan for, and implement or otherwise adapt?
> (b) What are the types of costs you expect to incur in planning for and adapting to the new requirements and what are the primary drivers of those costs? What is the relative significance of each cost component?

Comment:

(a) The actual impacts that the preparers of financial statements may differ, depending on the size of business, type of industries and their current closing procedures.
However, as all projects included in paragraph 18 may have significant effects on the financial statements, a great deal of time may clearly be required for many of the entities with a certain size of business, given that they will all have to modify their systems and train their personnel.

(b) The preparers of financial statements will have to bear significant costs not only for system adoption and personnel training, but also for communication with auditors and investors.

Q3.

> Do you foresee other effects on the broader financial reporting system arising from these new IFRSs? For example, will the new financial reporting requirements conflict with other regulatory or tax reporting requirements? Will they give rise to a need for changes in auditing standards?

Comment:

Since the proposals call for more extensive use of managerial estimates of expected values and probabilities, in relation to many of the projects described in the paragraph 18, it may become necessary to revise the auditing standards. In Japan, for example, these new financial reporting requirements would affect, and may create the necessity to revise, regulations relating to financial reporting, such as those in the Companies Act, tax laws, and other regulatory requirements for individual industries.

Q4.

Do you agree with the transition method as proposed for each project, when considered in the context of a broad implementation plan covering all the new requirements? If not, what changes would you recommend, and why? In particular, please explain the primary advantages of your recommended changes and their effect on the cost of adapting to the new reporting requirements.

Comment:

Followings are the summaries of our comments submitted for each exposure draft.

- Revenue from Contracts with Customers

We agree with the proposal, provided that no disclosure will be required if the costs exceed the benefits and the verifiability of the audit is ensured. In addition, the adequate time to prepare for the adoption would also need to be allowed after finalization of the standard until the effective date, allowing some time to adopt necessary systems.

- Post-employment Benefits

We do not agree with the proposal. The retrospective application proposed in the exposure draft will require intense and complicated work in practice, such as amending income statements and reworking the cost accounting, without offering any significant benefit. Further, there may be a case when the retrospective application do not necessarily produce the financial statements for prior years that faithfully represent the actual state of the pension plan.

- Fair Value Measurement

We do not agree with the proposal. If *Fair Value Measurement* will not be applied retrospectively, there may be an issue of how fair values measured in conjunction with retrospectively applied *Financial Instruments* will be dealt with in practice.

- Insurance Contracts

We do not agree with the proposal. We support it for focusing on the difficulties experienced during the transition. However, we believe that the proposal is too simply concluded, as it seems inconsistent with the notion of avoiding any Day-one gain and the “future profit arising from a contract” that should not, in itself, constitute retained earnings will be included in retained earnings.

- Lease

We do not agree with the proposal. The application of the proposed approach alone may result in distorting the profit or loss. Therefore, we suggest that the fully retrospective approach should also be permitted.

Effective dates for the new requirements and early adoption

Q5.

In thinking about an overall implementation plan covering all of the standards that are the subject of this Request for Views:

(a) Do you prefer the single date approach or the sequential approach? Why? What are the advantages and disadvantages of your preferred approach? How would your preferred approach minimie the cost of implementation or bring other benefits? Please describe the sources of those benefits (for example, economies of scale, minimising disruption, or other synergistic benefits).

(b) Under a single date approach and assuming the projects noted in the introduction are completed by June 2011, what should the mandatory effective date be and why?

(c) Under the sequential approach, how should the new IFRSs be sequenced (or grouped) and what should the mandatory effective dates for each group be? Please explain the primary factors that drive your recommended adoption sequence, such as the impact of interdependencies among the new IFRSs.

(d) Do you think another approach would be viable and preferable? If so, please describe that approach and its advantages.

Comment:

(a) The single date approach is preferable.

Most of the new IFRSs referred to in paragraph 18 are interrelated and should be applied collectively. If, however, the sequential approach is adopted, we are very concerned that there may be income manipulations or obfuscate accounting outcomes due to the application of mutually inconsistent standards.

(b) We suggest that the mandatory effective date should be from periods beginning on or after January 1, 2015.

All of the new IFRSs will have significant impact on financial statements; and the preparers, auditors, and users of the financial statements will require sufficient time for education, adaptation, and training. In Japan, specifically, considering that the entities applying these new standards will mostly be the first-time IFRSs adopters, the Business Accounting Council of the Financial Services Agency concluded that approximately three years would be necessary to prepare for the transition to IFRSs. Given the above, and assuming that those new IFRSs will be issued in June 2011, we believe that it will be appropriate to set the mandatory effective date of those standards to be from the periods beginning on or after January 1, 2015 (or from the periods ending on March 31, 2016, for most of the Japanese entities with the year-end on March 31st).

(c) We do not agree with the application of the sequential approach, as the application of mutually inconsistent standards may cause income manipulation or obfuscate the accounting outcome.

Q6.

Should the IASB give entities the option of adopting some or all of the new IFRSs before their mandatory effective date? Why or why not? Which ones? What restrictions, if any, should there be on early adoption (for example, are there related requirements that should be adopted at the same time)?

Comment:

The IASB should permit early adoption. If the IASB permits early adoption, it should also require collective adoption from a single date (first IFRS reporting date).

Specifically in Japan, most of the entities will become the first-time adopters of IFRSs after June 2011, when the new IFRSs included in the paragraph 18 will be issued. These entities are already in the process of preparing to collectively adopt the new standards. If the early adoption would not be permitted to those entities, we are concerned that it would be extremely inefficient, as the entities may be required to make various material changes within a short period of time, such as adopting new IFRSs shortly after the first-time adoption of IFRSs.

In addition, if first-time adopters are required to apply all of the new IFRSs as presented in the paragraph 18 early, on a single date of their own choosing (i.e., first IFRS reporting date) based on the single-date approach, we can avoid the issue of possible income manipulations or obfuscation of accounting outcomes under the alternative of the sequential approach.

International convergence considerations

Q7.

Do you agree that the IASB and FASB should require the same effective dates and transition methods for their comparable standards? Why or why not?

Comment:

We agree.

Assuming that an entity using the US GAAP switches to IFRSs, it is clear that the same effective date and transition method should be required.

Considerations for first-tine adopters for IFRSs

Q8.

Should the IASB permit different adoption dates and early adoption requirements for first-time adopters of IFRSs? Why, or why not? If yes, what should those different adoption requirements be, and why?

Comment:

As noted in the comment to Q6, early adoption by the single date (first IFRS reporting date) should be permitted for the first-time adopters of IFRSs.

Yours faithfully,

Keiko Kishigami
Executive Board Member－Accounting Practice (IFRS)
The Japanese Institute of Certified Public Accountants