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International Accounting Standards Board
Columbus Building, 7 Westferry Circus
Canary Wharf, London, E14 4HD
United Kingdom

Comments on the Exposure Draft *Annual Improvements to IFRS® Standards 2018–2020*

To the Board Members:

The Japanese Institute of Certified Public Accountants ("we" and "our") appreciates the continued efforts of the International Accounting Standards Board on this project, and welcomes the opportunity to comment on the Exposure Draft *Annual Improvements to IFRS® Standards 2018–2020* ("ED").

Please find below our comments to the questions raised in the ED.

Proposed amendments (please answer individually for each proposed amendment)
Do you agree with the Board's proposal to amend the Standards and accompanying documents in the manner described in the Exposure Draft? If not, why not, and what do you recommend instead?

Comment:

[Proposed amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*]

We support the Board's intention to extend additional exemption in IFRS 1.

However, even when a subsidiary elects to apply paragraph D16(a), we believe the option to use the exemption in paragraph D13 should still be available to the subsidiary so that its cumulative translation differences can be deemed to be zero at the subsidiary's date of transition to IFRS. See the following reasons behind our suggestion:
In Japan, quite a few subsidiaries become a first-time adopter of IFRS later than their parents. Given the burden on subsidiaries, who have to keep track of cumulative translation differences on their own over a long period of time, we believe the additional exemption will be able to ease their burden and provide cost relief, thereby encouraging a smooth IFRS transition on a group-wide basis.
In practice, though, there are cases where it is easier for a subsidiary as a first-time adopter to recognise cumulative translation differences as zero instead of using the amount of cumulative translation differences reported by the parent for the purpose of IFRS transition.
Let's say, for example, that a parent, its subsidiary and sub-subsidiary have different functional currencies. If the parent elects to consolidate the sub-subsidiary using the direct method, there is no need for the subsidiary to calculate any translation differences between the functional currency of the sub-subsidiary and the reporting currency of the subsidiary itself. Accordingly, if first-time adopters are required to follow the Board's proposal and measure cumulative translation differences using the amounts reported by the parent, the subsidiary would have to go through another consolidation procedure that requires additional cost and burden. Furthermore, note that the same process should be followed when a subsidiary established through divestitures or other demerger transactions has a different functional currency.
That being said, instead of the proposed amendments in paragraphs D1 and D16, we recommend adding the following to paragraph D13, offering first-time adopters an option to use another exemption.

> *"If a subsidiary elects to apply paragraph D16(a), the subsidiary is allowed to measure in its financial statements its cumulative translation differences at the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRSs, if no adjustments were made for consolidation procedures and the effects of the business combination in which the parent acquired the subsidiary."*

[Proposed amendment to IFRS 9 *Financial Instruments*]
We agree with the proposal.
In determining whether to derecognise a financial liability that has been modified or

exchanged, an entity assesses whether the terms are substantially different. We agree with the proposal to clarify the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

[Proposed amendment to Illustrative Examples accompanying IFRS 16 *Leases*]
We agree with the Board's proposal to amend Illustrative Example 13 accompanying IFRS 16 *Leases* to remove the illustration of payments from the lessor relating to leasehold improvements.
As suggested, we believe the proposed amendment would remove potential for confusion regarding the treatment of lease incentives applying IFRS 16.

[Proposed amendment to IAS 41 *Agriculture*]
We agree with the Board's proposal to remove the requirement in paragraph 22 of IAS 41 *Agriculture* for entities to exclude cash flows for taxation when measuring fair value applying IAS 41.

Yours faithfully,

Yoshio Yukawa
Executive Board Member－Accounting Standards and Practice/IFRS
The Japanese Institute of Certified Public Accountants