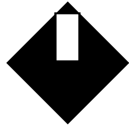

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January 13, 2022

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

Comments on the Request for Information *Post-implementation Review (IFRS 9 Financial Instruments Classification and Measurement)*

To the IASB 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 Request for Information *Post-implementation Review (IFRS 9 Financial Instruments Classification and Measurement)* ("RFI").

Please find our comments to the questions raised in the RFI, in the following pages.

Question 1— Classification and measurement
Do the classification and measurement requirements in IFRS 9: **(a) enable an entity to align the measurement of financial assets with the cash flow characteristics of the assets and how the entity expects to manage them? Why or why not?** **(b) result in an entity providing useful information to the users of the financial statements about the amount, timing and uncertainty of future cash flows? Why or why not?** Please provide information about the effects of the classification and measurement changes introduced by IFRS 9, including the ongoing costs and benefits in preparing, auditing, enforcing or using information about financial instruments. This question aims to help the Board understand respondents' overall views and experiences relating to the IFRS 9 classification and measurement requirements. Sections 2–8 seek more detailed information on the specific requirements.

Comment:

(a) We do not think the classification and measurement requirements in IFRS 9 work as the Board intended. Based on our consideration for each of the following questions from Question 2, for which our comment is individually provided, we conclude that we cannot support the IFRS 9 approach in general.

'Cash flow characteristics of the assets' represent 'cash flows based on contractual terms and conditions.' Contractual terms and conditions are determined based on agreements between individual parties but could also be affected by calls from society, as seen in many cases these days. Under such circumstances, there is a possibility that the application of the current IFRS 9 requirements may incur unintended consequences. This is particularly the case for financial instruments with sustainability-linked features, as commented in Question 3. We recommend the Board address the issue in a swift manner.

(b) We do not think the classification and measurement requirements in IFRS 9 work as the Board intended. Based on our consideration for each of the following questions from Question 2, for which our comment is individually provided, we conclude that we cannot support the IFRS 9 approach in general.

We do not think any conclusions can be made on the effects of the classification and measurement changes introduced by IFRS 9 until insurance companies complete the

adoption of IFRS 9. Given the considerations made at the time of adoption, we believe there should be certain effects of the classification and measurement changes. For example, adjustments need to be made upon sales to address the impact of the classification and measurement changes, for which the current IFRS 9 is not able to account appropriately. We understand that is the reason why IFRS 17 had to be amended in relation to comparative year information.

Question 2— Business model for managing financial assets
(a) Is the business model assessment working as the Board intended? Why or why not? Please explain whether requiring entities to classify and measure financial assets based on the business model assessment achieves the Board's objective of entities providing users of financial statements with useful information about how an entity manages its financial assets to generate cash flows. **(b) Can the business model assessment be applied consistently? Why or why not?** Please explain whether the distinction between the different business models in IFRS 9 is clear and whether the application guidance on the evidence an entity considers in determining the business model is sufficient. If diversity in practice exists, please explain how pervasive the diversity is and its effect on entities' financial statements. **(c) Are there any unexpected effects arising from the business model assessment? How significant are these effects?** Please explain the costs and benefits of the business model assessment, considering any financial reporting or operational effects for preparers of financial statements, users of financial statements, auditors or regulators. In responding to (a)–(c), please include information about **reclassification** of financial assets (see Spotlight 2).

Comment:

(a) We do not think so. We are aware of certain cases where the business model assessment is not working as the Board intended.

An entity is required to determine a business model on a portfolio basis. A business model represents how an entity manages financial assets to generate cash flows. However, entities (or portfolios) usually manage a number of assets for various reasons, such as to manage profit or loss to mitigate the effect of changes in fair value, to manage the liquidity of assets to ensure liability payments, to manage equity to keep it at a

certain level to prepare for any unexpected events, and to manage capital costs to maintain the required amount of equity. As entities have to handle a number of financial assets subject to management at the same time, management methods are tailored depending on the type of financial assets subject to management. When there are a number of financial assets subject to management and a number of methods supposed to be effective in managing the assets, entities generally have a hard time putting priority in determining a business model, which could prevent entities from providing a consistent narrative for their judgement.

(b) We do not think the business model assessment can always be applied consistently, given that the life of a financial asset can be interpreted differently under the business model assessment.

Under the current business model approach, we think the assessment works when the collection period of financial assets exceeds the payment period of financial liabilities. Conversely, when the collection period of financial assets is shorter than the payment period of financial liabilities, conclusions might come out differently.

(Example) When the collection period of financial assets is shorter than the payment period of financial liabilities

- Given the nature of the financial liabilities with a long payment period, the entity plans to hold the financial assets until maturity and make a reinvestment after the contractual maturity.
- After the reinvestment, payment will be made for the financial liabilities by either selling the financial assets or holding them until maturity.

Under such a business model, the initial investment in financial assets, which satisfies the cash flow characteristics (i.e. SPPI), can be measured at either amortised cost or fair value through other comprehensive income depending on the interpretation of the life of financial assets. When the initial investment is to hold financial assets only to collect cash flows (i.e. 'hold to collect'), the financial assets will be measured at amortised cost. When the life of financial assets includes both the initial investment period and the reinvestment period in order to hold the financial assets to collect and sell contractual cash flows (i.e. 'hold to collect and sell'), the financial assets will be measured at fair value through other comprehensive income.

This represents a case where a portfolio of financial assets is managed to achieve two purposes at the same time, which is to mitigate the effect of changes in fair value and to ensure liability payments. In such cases, it is unclear under the current IFRS 9

whether a business model should be determined on the basis of 'the changes in fair value' or 'the payment of liabilities.' Accordingly, it is uncertain as to whether the business model assessment can be applied consistently.

(c) We are aware of the following unexpected effects arising from the business model assessment, which could be quite significant in both cases.

(i) Many entities already provide a lot of information outside the financial statements. For example, an entity may provide financial information on financial assets, all of which are measured at fair value with changes disclosed as an increase in the enterprise value. At the same time, this entity could insist on classifying financial assets as 'hold to collect and sell' in accordance with IFRS 9. Likewise, if the same entity is required by a regulatory authority to provide financial reporting based on certain regulatory standards, the entity could also classify financial assets for the purpose of mitigating capital costs and maximising equity factors under IFRS 9. As entities usually choose business models to align with the needs of general investors, information disclosed could be different among reporting.

(ii) We do not support the Board's assumption stating that 'in accordance with IFRS 9, a change in business model is a significant event and is expected to be rare.' This is because it sounds quite unrealistic under the current management environment that is challenging and uncertain. In particular, given that sales of debt financial instruments are increasing these days, the rigid assumption may no longer be applicable. We recommend that changes in classification and measurement under IFRS 9 should be required not only through initial assessments but also through subsequent assessments and analyses in order to apply the Standard appropriately.

Question 3— Contractual cash flow characteristics
(a) Is the cash flow characteristics assessment working as the Board intended? Why or why not? Please explain whether requiring entities to classify and measure a financial asset considering the asset's cash flow characteristics achieves the Board's objective of entities providing users of financial statements with useful information about the amount, timing and uncertainty of future cash flows. If, in your view, useful information could be provided about a financial asset with cash flows that are not SPPI applying IFRS 9 (that is, an asset that is required to be measured at fair value through profit or loss applying IFRS 9) by applying a

different measurement approach (that is, using amortised cost or fair value through OCI) please explain:

(i) why the asset is required to be measured at fair value through profit or loss (that is, why, applying IFRS 9, the entity concludes that the asset has cash flows that are not SPPI).

(ii) which measurement approach you think could provide useful information about the asset and why, including an explanation of how that approach would apply. For example, please explain how you would apply the amortised cost measurement requirements to the asset (in particular, if cash flows are subject to variability other than credit risk). (See Section 7 for more questions about applying the effective interest method.)

(b) Can the cash flow characteristics assessment be applied consistently? Why or why not?

Please explain whether the requirements are clear and comprehensive enough to enable the assessment to be applied in a consistent manner to all financial assets within the scope of IFRS 9 (including financial assets with new product features such as sustainability-linked features).

If diversity in practice exists, please explain how pervasive the diversity is and its effect on entities' financial statements.

(c) Are there any unexpected effects arising from the cash flow characteristics assessment? How significant are these effects?

Please explain the costs and benefits of the contractual cash flow assessment, considering any financial reporting effects or operational effects for preparers of financial statements, users of financial statements, auditors or regulators.

In responding to (a)–(c), please include information about **financial instruments with sustainability-linked features** (see Spotlight 3.1) and **contractually linked instruments** (see Spotlight 3.2).

Comment:

(a) We do not think the SPPI assessment is working as the Board intended. We would like the Board to consider the following regarding the accounting treatment for cash flows that are not eligible for SPPI.

Paragraph B4.1.13 of IFRS 9 illustrates Instrument E to explain the accounting treatment for a particular instrument for its SPPI eligibility. Instrument E is illustrated as follows:

The issuer is subject to legislation that permits or requires a national resolving

authority to impose losses on holders of particular instruments, including Instrument E, in particular circumstances. The SPPI analysis would not consider payments that arise only as a result of the national resolving authority's power to impose losses on the holders of Instrument E. That is because that power, and the resulting payments, are not contractual terms of the financial instrument. In contrast, the contractual cash flows would not be solely payments of principal and interest on the principal amount outstanding if the contractual terms of the financial instrument permit or require the issuer or another entity to impose losses on the holder as long as those contractual terms are genuine. In other words, if it is stated in a contract that 'a national resolving authority is permitted or required to impose losses on holders of particular instruments in particular circumstances,' the contractual cash flows would not be solely payments of principal and interest on the principal amount outstanding.

This means the SPPI analysis would end up with different conclusions even when the same instrument is issued, depending on whether the issuer of the instrument is subject to legislation or the same requirement is stipulated as contractual terms of the financial instrument. We ask the Board to clarify whether this was the original intention of the Board or not.

Further, it seems the current example of Instrument E in paragraph B4.1.13 of IFRS 9 is quite unclear about whether or not contractual cash flows meet the SPPI eligibility when both of the following are met: it is stated in a contract that 'a national resolving authority is permitted or required to impose losses on holders of particular instruments in particular circumstances;' and it is stated in the contract that the contractual terms are subject to legislation.

(b) We do not believe the cash flow characteristics assessment can be applied consistently under the following circumstances:

(i) Non-recourse loans

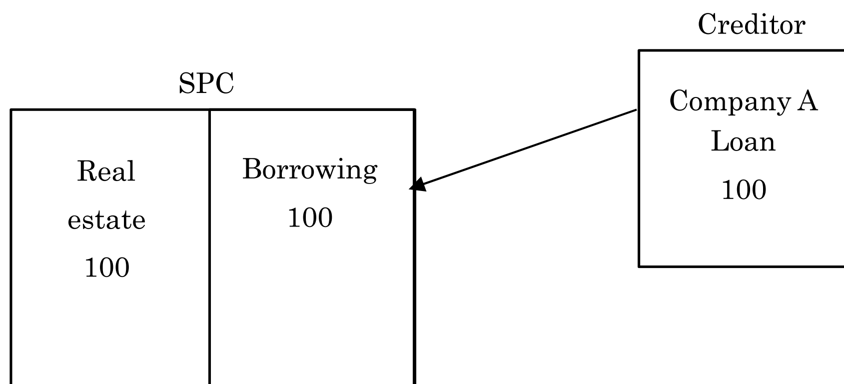
Paragraph B4.1.17 of IFRS 9 provides limited guidance on how non-recourse factors may affect the SPPI assessment. Other than the requirement to assess ('look through to') the particular underlying assets or cash flows, no further guidance is provided in the paragraph. Accordingly, judgement is required to assess transaction relationships for such type of finance.

(Example 1)

- This is an investment scheme using an SPC.
- The SPC is established in accordance with applicable laws and regulations, which require a small amount of equity for the establishment. Thus, no further

consideration on equity will be given in this example.

- The SPC holds real estate as an underlying asset.
- The contractual term of the borrowing is ten years.
- The loan provided to the SPC by Company A is non-recourse.



In this example, SPC's payment to Company A will be generated from rent income from the real estate and sales amount of the real estate. Judgement is required to determine the type of circumstances that would meet the SPPI eligibility.

(ii) Contractually linked instruments

There are certain contracts under which payments to the holders of financial assets are contractually linked to amounts received from a pool of financial instruments. Such financial assets are called 'contractually linked instruments.' In many cases, SPCs issue such contractually linked instruments by dividing them into multiple tranches, which have subordinated ranking orders where higher-ranking tranches have priority on payments over lower-ranking tranches.

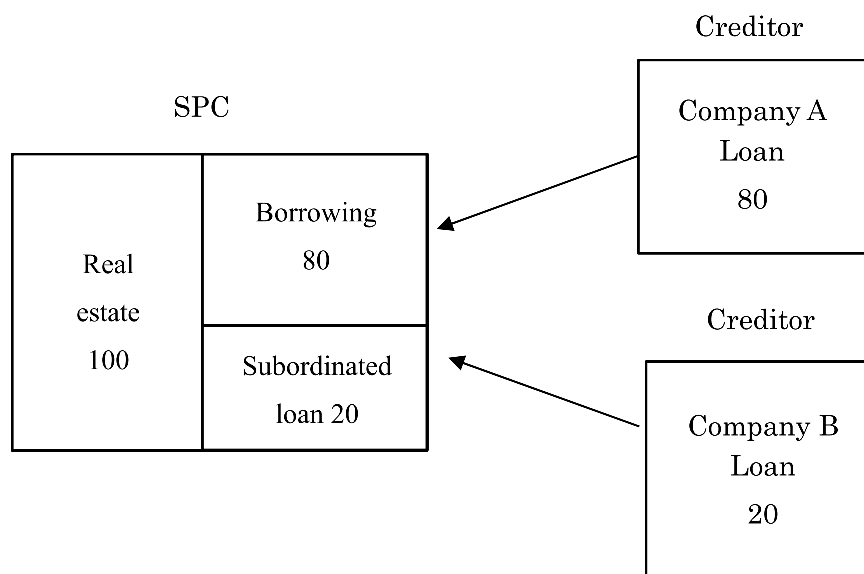
Requirements in paragraphs B4.1.20–B4.1.26 of IFRS 9 assume that underlying assets are represented by a pool of financial instruments. However, in practice, we understand there are certain contracts using tranche schemes under which underlying assets are represented by real estate instead of a pool of financial instruments. In such cases, the underlying real estate is not categorised to align with tranches on the liability side.

(Example 2)

- This is an investment scheme using an SPC.
- The SPC is established in accordance with applicable laws and regulations, which require a small amount of equity for the establishment. Thus, no further

consideration on equity will be given in this example.

- SPC invests in real estate.
- SPC's liability consists of borrowings and subordinated loans.
- The contractual term of the borrowings from Company A and Company B is ten years.
- Repayment of borrowings to Company A and Company B is made solely through real estate.



Criteria are not explicitly provided in IFRS 9 to determine whether the requirement for contractually linked instruments should be applied or the requirement for non-recourse financial assets should be applied. Depending on the requirement applied, the accounting results would be quite different.

(c) Unexpected effects arising from the cash flow characteristics assessment include the accounting for financial instruments with sustainability-linked features.

(i) Financial instruments with sustainability-linked features–Investor (the creditor)

When assessing the SPPI eligibility, it should be considered whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding and whether they are consistent with the basic lending arrangement (see paragraphs 4.1.2(b) and B4.1.7A of IFRS 9). Further, credit risk and time value of money are typically the most significant elements of 'interest on the principal amount outstanding' (see paragraph B4.1.7A of IFRS 9).

Sustainability-linked loans, a type of environmental, social and governance (ESG) investment, include features where the interest rate on loan may vary depending on

whether the debtor meets ESG targets specified under contractual terms as of a certain date. When assessing the SPPI eligibility, an issue arises whether or not such sustainability-linked features should be included in the elements of interest. It is not clear under the current SPPI guidance in IFRS 9 how sustainability-linked features should be accounted for. Particularly, when applying the SPPI assessment to financial instruments with sustainability-linked features, the issue would be whether or not such sustainability-linked features should be included in elements of interest. However, the current SPPI guidance in IFRS 9 does not provide any requirement for the accounting of sustainability-linked features.

Based on the concept of 'consideration for credit risk and time value of money,' variability in cash flows would not represent 'interest on the principal amount' when the variability in cash flows due to the sustainability-linked features is genuine and when the variability is not related to changes in the credit risk of the debtor. In such cases, sustainability-linked loans would not meet the SPPI eligibility and thus should be classified as financial assets measured at fair value through profit or loss.

Going forward, we expect these types of sustainability-linked loans to increase. If loans with ESG-linked variabilities become the mainstream, such ESG-linked variabilities could be accounted for as part of basic lending arrangements. We suggest the Board consider how the SPPI eligibility should be applied to loans with ESG-linked variabilities and whether or not the current SPPI guidance under IFRS 9 needs to be amended.

(ii) Financial instruments with sustainability-linked features–Issuer (the debtor)

We also have to think about some accounting issues on the side of issuers (debtors) of financial instruments with sustainability-linked features. Consideration should be given on whether sustainability-linked features are subject to the requirement to be separated as embedded derivatives and be measured at fair value through profit or loss. If the sustainability-linked feature is entity-specific and a non-financial variable, then it will not be required to be separated as an embedded derivative. Changes in variables should apply the accounting requirement in accordance with either paragraph B5.4.5 or B5.4.6 of IFRS 9. We recommend the Board also revisit the accounting treatments for financial liabilities in line with the SPPI eligibility deliberation for financial assets.

Question 4— Equity instruments and other comprehensive income
(a) Is the option to present fair value changes on investments in equity

instruments in OCI working as the Board intended? Why or why not?

Please explain whether the information about investments in equity instruments prepared applying IFRS 9 is useful to users of financial statements (considering both (i) equity instruments measured at fair value through profit and loss; and (ii) equity instruments to which the OCI presentation option has been applied).

For equity instruments to which the OCI presentation option has been applied, please explain whether information about those investments is useful considering the types of investments for which the Board intended the option to apply, the prohibition from recycling gains and losses on disposal and the disclosures required by IFRS 7.

(b) For what equity instruments do entities elect to present fair value changes in OCI?

Please explain the characteristics of these equity instruments, an entity's reason for choosing to use the option for those instruments, and what proportion of the entity's equity investment portfolio comprises those instruments.

(c) Are there any unexpected effects arising from the option to present fair value changes on investments in equity instruments in OCI? How significant are these effects?

Please explain whether the requirements introduced by IFRS 9 had any effects on entities' investment decisions. If yes, why, how and to what extent? Please provide any available evidence supporting your response which will enable the Board to understand the context and significance of the effects.

In responding to (a)–(c), please include information about **recycling of gains and losses** (see Spotlight 4).

Comment:

(a) We do not think the option is working as the Board intended. As we commented in the Request for Information for the 'Third Agenda Consultation,' we recommend the Board should take the OCI recycling matter as a cross-cutting issue based on the Conceptual Framework.

Paragraph 11A of IFRS 7 requires that when an entity has elected to present fair value changes in OCI for investments in equity instruments, the fair value of each such investment shall be disclosed. On top of the cost-effectiveness issue, this requirement may not always be able to provide useful enough information, especially when a large amount is invested in a number of investments. We suggest the Board should delete the entire paragraph. Or if kept, we recommend the Board reconsider the disclosure

requirement to make it more relevant for the users of financial statements.

(b) Equity securities.

(c) As referred to in Question 4 (a), financial statements prepared in accordance with IFRS 9 are unable to recognise profit or loss even when equity instruments to which the OCI presentation option has been applied are derecognised. Consequently, a discrepancy arises between financial statements prepared under IFRS and Japanese GAAP. As shareholder dividends are calculated based on financial statements prepared under Japanese GAAP, the relationship between shareholder dividends (Japanese GAAP) and profit or loss (IFRS) cannot be explained under such circumstances.

Question 5— Financial liabilities and own credit
(a) Are the requirements for presenting the effects of own credit in OCI working as the Board intended? Why or why not? Please explain whether the requirements, including the related disclosure requirements, achieved the Board's objective, in particular, whether the requirements capture the appropriate population of financial liabilities. **(b) Are there any other matters relating to financial liabilities that you think the Board should consider as part of this post-implementation review (apart from modifications, which are discussed in Section 6)?** Please explain the matter and why it relates to the assessments the Board makes in a post-implementation review.

Comment:

(a) No comment. We understand that few entities in Japan voluntarily designate financial liabilities at fair value through profit or loss.

(b) No comment. We understand that few entities in Japan voluntarily designate financial liabilities at fair value through profit or loss.

Question 6— Modifications to contractual cash flows
(a) Are the requirements for modifications to contractual cash flows working as the Board intended? Why or why not? Please explain what changes you consider to be modifications of a financial asset for the purpose of applying paragraph 5.4.3 of IFRS 9 and as a modification of a

financial liability for the purpose of applying paragraph 3.3.2 of IFRS 9. Does the application of those paragraphs, and the disclosure requirements related to modifications, result in useful information for users of financial statements?

(b) Can the requirements for modifications to contractual cash flows be applied consistently? Why or why not?

Please explain whether the requirements enable entities to assess in a consistent manner whether a financial asset or a financial liability is modified and whether a modification results in derecognition. Have the requirements been applied differently to financial assets and financial liabilities?

If diversity in practice exists, please explain how pervasive the diversity is and its effects on entities' financial statements.

Comment:

(a) We do not believe the requirements are working as the Board intended. There is no clear definition of 'modification' of a financial asset or financial liability in IFRS 9. Paragraph 5.4.3 of IFRS 9 uses the terminology 'renegotiated or modified contractual cash,' while paragraph 3.3.2 of IFRS 9 says 'modification of the terms.' As the use of different wordings could lead to diversity in practice, we recommend the Board clarify requirements for 'modification.'

For financial liabilities, it is regarded as a modification when the discounted present value of the cash flows under the new terms is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. On the other hand, although paragraph 5.4.3 of IFRS 9 sets forth a requirement for modifications of financial assets, there is no detailed guidance, like the '10 per cent test' for financial liabilities, to determine whether the modification of financial assets is substantial or not.

(b) We do not think the modification requirements can be applied consistently. As stated in (a) above, IFRS 9 does not clearly define a 'modification' of a financial asset or financial liability, which makes it difficult to determine what changes are considered to be a 'modification.' Therefore, it is unlikely that modifications are applied consistently between financial assets and financial liabilities. Thanks to the detailed guidance for financial liabilities, entities can find a way to assess whether a financial liability is modified in a relatively consistent manner. However, there are no such clarified requirements for the modification of financial assets. Some entities might be applying the same '10 per cent test' criteria for financial liabilities to financial assets,

but we think diversity in practice exists in many other cases.

Question 7— Amortised cost and the effective interest method
(a) Is the effective interest method working as the Board intended? Why or why not? Please explain whether applying the requirements results in useful information for users of financial statements about the amount, timing and uncertainty of future cash flows of the financial instruments that are measured applying the effective interest method. **(b) Can the effective interest method be applied consistently? Why or why not?** Please explain the types of changes in contractual cash flows for which entities apply paragraph B5.4.5 of IFRS 9 or paragraph B5.4.6 of IFRS 9 (the 'catch-up adjustment') and whether there is diversity in practice in determining when those paragraphs apply. Please also explain the line item in profit or loss in which the catch-up adjustments are presented and how significant these adjustments typically are. If diversity in practice exists, please explain how pervasive the diversity is and its effect on entities' financial statements. In responding to questions (a)–(b), please include information about **interest rates subject to conditions and estimating future cash flows** (see Spotlight 7).

Comment:

(a) We do not think the effective interest method is working as the Board intended. Interests are recognised in profit or loss when incurred, regardless of the timing of payments, by applying the effective interest method, which results in useful information for users of financial statements about the amount, timing and uncertainty of future cash flows.

(b) We do not think the effective interest method can be applied consistently. As there is no explicit definition of the term 'floating-rate financial instrument' stated in paragraph B5.4.5 of IFRS 9, it is not clear whether paragraph B5.4.5 or paragraph B5.4.6 of IFRS 9 should be applied when accounting for a type of financial liability whose interest rate is determined as 'fixed-rate plus a spread that changes according to the future credit condition.' See the different accounting treatments below:

- Provided that changes in the credit spread reflect market movements of the issuer's credit risk, representing a component of market rates, financial liabilities

would be accounted for as floating-rate financial instruments in accordance with paragraph B5.4.5 of IFRS 9.

- Provided that changes in the credit spread do not entirely reflect the movements in market rates against the credit risk component of interest, financial liabilities would not be considered as floating-rate financial instruments and instead would be accounted for in accordance with paragraph B5.4.6 of IFRS 9.

Question 8— Transition
(a) Did the transition requirements work as the Board intended? Why or why not? Please explain whether the combination of the relief from restating comparative information and the requirement for transition disclosures achieved an appropriate balance between reducing costs for preparers of financial statements and providing useful information to users of financial statements. Please also explain whether, and for what requirements, the Board could have provided additional transition reliefs without significantly reducing the usefulness of information for users of financial statements. **(b) Were there any unexpected effects of, or challenges with, applying the transition requirements? Why or why not?** Please explain any unexpected effects or challenges preparers of financial statements faced applying the classification and measurement requirements retrospectively. How were those challenges overcome?

Comment:

(a) We are of the view that the transition requirements are generally contributing to the cost reduction for preparers of financial statements. However, as the transition relief to waive the presentation of restated comparative information did not seem to be working well in conjunction with IFRS 17, we understand IFRS 17 had to be amended subsequently. We hope the same path will not be repeated in the Board's future standard-setting process. We appreciate the Board's consideration regarding this matter.

(b) No unexpected effects or challenges are identified.

Question 9— Other matters
(a) Are there any further matters that you think the Board should examine as part of the post-implementation review of the classification and measurement

requirements in IFRS 9? If yes, what are those matters and why should they be examined?

Please explain why those matters should be considered in the context of the purpose of the post-implementation review, and the pervasiveness of any matter raised. Please provide examples and supporting evidence when relevant.

(b) Considering the Board's approach to developing IFRS 9 in general, do you have any views on lessons learned that could provide helpful input to the Board's future standard-setting projects?

Comment:

(a) We request the Board to examine the following matters:

(i) Supplier finance arrangements

The IFRS Interpretations Committee published an agenda decision in December 2020 regarding this matter. The agenda decision discusses how disclosures of reverse factoring arrangements are reflected in a presentation in the statement of financial position, derecognition of a financial liability, presentation in the statement of cash flows, and notes in the financial statements.

In addition, the following discussion points have been identified:

- Whether additional guidance should be provided for principal/agent considerations.
- How the derecognition requirement for financial liabilities under IFRS 9 should be applied when liabilities become part of a reverse factoring arrangement.

We recommend the Board deliberations be made on these points in order to solve the accounting issue of supplier finance arrangements.

(ii) Financial guarantee contracts

As accounting requirements for financial guarantee contracts are not detailed and clear enough in IFRS 9, it may lead to diversity in practice for the accounting of holders of financial guarantee contracts in the area of recognition and measurement as well as the relationship between payments received from financial guarantee contracts and expected credit losses.

(b) Financial instruments with sustainability-linked features should be accounted for separately from general financial instruments.

IFRS 9 was developed and implemented to respond to various issues, including the

global financial crisis and criticisms of previous standards being too complex. Technically speaking, separating the accounting for financial instruments with sustainability-linked features from general financial instruments should be possible by utilising already-published classification systems, including the EU taxonomy.

Moreover, some of the financial instruments with sustainability-linked features may be issued in relation to long-term investments, such as infrastructure investments. Accordingly, we recommend the Board reconsider the approach for long-term investments, which had been excluded from the Conceptual Framework discussion, to account for infrastructure investments.

Yours faithfully,

Takako Fujimoto
Executive Board Member － Business Accounting Standards and Practice/Corporate Disclosure
The Japanese Institute of Certified Public Accountants