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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 *Third edition of the IFRS for SMEs Accounting Standard*

To the IASB Board Members:

The Japanese Institute of Certified Public Accountants (JICPA) appreciates the continued efforts of the International Accounting Standards Board to conduct comprehensive review of the *IFRS for SMEs* Accounting Standard and welcomes the opportunity to comment on the Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard* (the ED).

It is essential for the IASB to consider whether and, if so, how the *IFRS for SMEs* Accounting Standard (the Standard) should be aligned with full IFRS Accounting Standards in order to allow small and medium-sized entities (SMEs) to better serve users of financial statements without causing undue cost or effort. From that perspective, JICPA supports the IASB's effort to conduct comprehensive review of the *IFRS for SMEs* Accounting Standard.

Further, JICPA generally supports the idea of aligning the *IFRS for SMEs* Accounting Standard with full IFRS Accounting Standards. In terms of relevance to SMEs and simplicity, though, we suggest the *IFRS for SMEs* Accounting Standard consider allowing simplifications to be applied to certain recognition and measurement requirements for

practical reasons and replacing complex requirements to make them more straightforward. The following is the summary of our suggestions:

Section 2 *Concepts and Pervasive Principles* is aligned with the 2018 *Conceptual Framework for Financial Reporting* (the 2018 *Conceptual Framework*) in the ED, bringing inconsistencies which exist between the 2018 *Conceptual Framework* and full IFRS Accounting Standards to the *IFRS for SMEs* Accounting Standard. Accordingly, certain footnotes or exceptions need to be provided in associated Sections of the *IFRS for SMEs* Accounting Standard, namely Section 18 *Intangible Assets other than Goodwill*, Section 19 *Business Combinations and Goodwill*, and Section 21 *Provisions and Contingencies*. Alternatively, if we keep the definitions of an asset and of a liability from the previous version of Section 2 based on the 1989 *Framework for the Preparation and Presentation of Financial Statements* (1989 *Framework*) and retain probability and reliability as for the recognition criteria, we should be able to avoid such complexities thanks to the easier-to-understand feature of the alternative suggestion. From the perspective of simplifying the *IFRS for SMEs* Accounting Standard, deliberation should be made as to whether it is reasonable enough to align Section 2 with the 2018 *Conceptual Framework*. We highly recommend the Board carefully consider pros and cons that come with the alignment. (See our comment to Question 2.)

The ED also proposes revising Section 23 *Revenue* to introduce simplified requirements of IFRS 15 *Revenue from Contracts with Customers*. JICPA is able to propose further simplifications by introducing the application guidance for revenue recognition issued by the Accounting Standards Board of Japan, which sets forth alternative treatments for materiality. (See our comment to Question 8.)

Please see our comments to each Question in the following pages.

Questions for respondents—Scope of the Standard

Question 1—Definition of public accountability
Respondents to the Exposure Draft *Subsidiaries without Public Accountability: Disclosures*, published in July 2021, expressed some concerns about applying the definition of public accountability. The description of 'public accountability' in the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* comprises the definition and supporting guidance in paragraphs 1.3–1.4 of the *IFRS for SMEs* Accounting Standard (Standard). In response to this feedback, the IASB is proposing to amend paragraph 1.3(b) to list banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks as examples of entities that often meet the second criterion of public accountability in paragraph 1.3(b). To assist an understanding of the basis for the definition of public accountability, the IASB is also proposing to clarify that an entity with these characteristics would usually have public accountability: (a) there is both a high degree of outside interest in the entity and a broad group of users of the entity's financial statements (existing and potential investors, lenders and other creditors) who have a direct financial interest in or substantial claim against the entity. (b) the users in (a) depend primarily on external financial reporting as their means of obtaining financial information about the entity. These users need financial information about the entity but lack the power to demand the information for themselves. Paragraphs BC11–BC19 of the Basis for Conclusions on the Exposure Draft explain the IASB's rationale for clarifying the definition of public accountability in Section 1. The IASB expects that the amendments to paragraphs 1.3 and 1.3A of Section 1 will add clarity, without changing the intended scope of the Standard. 1(i) Do you agree that the amendments will add clarity without changing the intended scope of the Standard? If you do not agree, which types of entities do you believe would be newly scoped in or scoped out? 1(ii) Do you agree with the proposal to clarify the definition of public accountability? If you do not agree with the proposal, please explain what you suggest instead and why.

Comment:

(i) JICPA agrees with the proposal.

(ii) We agree only if the following are met:

- The characteristics of an entity with public accountability described in paragraph 1.3A of the ED should be able to give a clear picture about an entity holding assets in a fiduciary capacity as provided in paragraph 1.3(b) of the ED.
- The relationship between the two paragraphs, 1.3A(a) and (b) of the ED, should be clarified.

(Reason)

- According to paragraph BC17 of the ED, the IASB proposes to clarify the characteristics of an entity with public accountability in order to explain why an entity that meets the second criterion of 'public accountability,' namely an entity that holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses, would be considered to have public accountability. However, the characteristic described in paragraph 1.3A(a) of the ED, which says there is both a high degree of outside interest in the entity and a broad group of users of the entity's financial statements who have a direct financial interest in or substantial claim against the entity, does not seem to fully articulate an entity that holds assets in a fiduciary capacity.
- The wording 'the users in (a)' provided in paragraph 1.3A(b) of the ED does not explicitly tell whether or not it is required to meet the characteristics of both 1.3A(a) and 1.3A(b). We do not think the relationship between the two paragraphs is clear enough.

Questions for respondents—Proposal to amend the Standard

Question 2—Revised Section 2 *Concepts and Pervasive Principles*
The IASB in its Request for Information asked for views on aligning Section 2 *Concepts and Pervasive Principles* with the *Conceptual Framework for Financial Reporting*, issued in 2018. In the Request for Information, the IASB noted that the 1989 *Framework for the Preparation and Presentation of Financial Statements* (1989 *Framework*) had provided the foundations of the Standard. Based on feedback on the Request for Information, the IASB is proposing to revise

Section 2 to align it with the 2018 *Conceptual Framework for Financial Reporting*.

The IASB is proposing that Section 18 *Intangible Assets other than Goodwill* and Section 21 *Provisions and Contingencies* continue to use the definitions of an asset and of a liability from the previous version of Section 2, which was based on the 1989 *Framework*, to avoid unintended consequences arising from revising the definitions of an asset and of a liability.

Paragraphs BC38–BC51 of the Basis for Conclusions on the Exposure Draft explain the IASB's rationale for the revisions proposed for Section 2.

2(i) Do you have comments or suggestions on the revised Section 2? Please explain the reasons for your suggestions.

2(ii) Do you agree that Section 18 and Section 21 should continue to use the definition of an asset and of a liability from the previous version of Section 2 (based on the 1989 Framework)?

Comment:

(i) (a) Recognition criteria

We suggest the recognition criteria be clearly provided based on paragraph 5.7 of the 2018 *Conceptual Framework*. For example, it should be stated that 'an asset or liability is recognised only if recognition of that asset or liability and of any resulting income, expenses or changes in equity provides users of financial statements with information that is useful (i.e. relevant information and faithful representation).'

(Reason)

As explained below, it is hard to understand the recognition criteria in the ED in detail, as they do not seem to be as clear as those provided in the 2018 *Conceptual Framework*.

- After stating that only items that meet the definition of an asset, a liability, equity, income or expenses are recognised in the financial statements (see paragraph 2.69 of the ED), the ED simply explains about relevance and faithful representation under separate headings (see paragraphs 2.71 and 2.73 of the ED for the headings). We do not think the relationship between qualitative characteristics and the recognition criteria is explicitly stated in the ED.
- The ED uses the wording 'those criteria' in paragraph 2.70 of the ED without specifically providing the recognition criteria. Accordingly, it is unclear what the recognition criteria are referring to in the ED. While the same description

as in paragraph 2.70 of the ED can be found in paragraph 2.28 of the current *IFRS for SMEs* Accounting Standard, it is clear that the recognition criteria are referring to probability and reliability (see paragraph 2.27 of the *IFRS for SMEs* Accounting Standard).

(b) Measurement

Based on paragraph 6.55 of the 2018 *Conceptual Framework*, we suggest illustrating property, plant and equipment as well as inventories as resources that produce future cash flows indirectly and thus measuring such resources at historical cost are likely to provide relevant information.

(Reason)

According to paragraph 2.105 of the ED, for assets and liabilities that produce cash flows directly, the measurement basis that provides the most relevant information is likely to be a current value. Also, facts and circumstances should be considered if assets and liabilities do not produce cash flows directly. However, the requirement is hard to digest without specific examples. We suggest providing property, plant and equipment as well as inventories as typical examples of assets and stating that measuring such assets at historical cost is likely to provide relevant information to users of financial statements. In that way, we should be able to better understand the principle for measurement bases.

(ii) Should our discussion be based on the IASB's proposal, we can agree only if the following are met:

- Instead of putting in footnotes, we recommend the definition of an asset and of a liability, which comes from the previous version of Section 2 based on the 1989 *Framework*, should be stated in the requirements of Section 18 and Section 21, respectively, to highlight the importance.
- It should be clearly stated as a requirement in Section 2 that there are inconsistencies regarding the definition of an asset and of a liability between Section 2 and Sections 18 and 21. It should also be stated in Section 2 that Section 18 and Section 21 are prioritised over Section 2 in such cases.

(Reason)

Footnote is not enough. In other words, information could be easily overlooked if only provided in a footnote format in Section 18 and Section 21. We also believe

the IASB can further enhance the understandability of the *IFRS for SMEs* Accounting Standard by specifically describing in Section 2 that there are inconsistencies regarding the definition of an asset and of a liability between Section 2 and Sections 18 and 21.

Our comment above is based on an assumption that we follow the IASB's proposal to align Section 2 with the 2018 *Conceptual Framework*. We may suggest the following alternative plan:

<Alternative Plan>

For simplification purposes, we suggest the definitions of an asset and of a liability from the previous version of Section 2 should not be replaced with those per the 2018 *Conceptual Framework*. Further, we recommend retaining probability and reliability as for the recognition criteria in Section 2. From the perspective of simplifying the *IFRS for SMEs* Accounting Standard, deliberation should be made as to whether it is reasonable enough to align Section 2 with the 2018 *Conceptual Framework*. We highly recommend the Board carefully consider pros and cons that come with the alignment.

(Reason)

Revising Section 2 to align it with the 2018 *Conceptual Framework* has brought inconsistencies, which exist between the 2018 *Conceptual Framework* and IFRS Accounting Standards, to the *IFRS for SMEs* Accounting Standard. Accordingly, certain footnotes or exceptions need to be provided in associated Sections of the *IFRS for SMEs* Accounting Standard, as seen in Sections 18, 19 and 21. If the alternative plan is introduced instead, which we believe has an advantage of easier-to-understand feature, we should be able to avoid such complexities. The following are some advantages of adopting the alternative plan.

- There would be no need to place footnotes in Section 18 and Section 21, explaining that definitions of an asset and of a liability from the previous version of Section 2, based on the 1989 *Framework*, are used instead of those in the revised Section 2.
- There would be no need to add exceptions to the recognition and measurement principles to avoid the problem of day 2 gains or losses under Section 19 *Business Combinations and Goodwill*.
- Inconsistencies will remain unsolved between the 2018 *Conceptual Framework* and the two IFRS Accounting Standards, namely IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IFRIC 21 *Levies*, until the IAS 37 project is

completed. This means inconsistencies will be around for the next few years. The *IFRS for SMEs* Standard would not have to go through any of these issues.

Question 3—Proposed amendments to the definition of control in Section 9 *Consolidated and Separate Financial Statements*
The IASB in its Request for Information asked for views on aligning the definition of control in Section 9 *Consolidated and Separate Financial Statements* with the definition in IFRS 10 *Consolidated Financial Statements* and using that definition as the single basis for consolidation (control model) to facilitate greater consistency between financial statements prepared applying the Standard. Respondents to the Request for Information were in favour of the alignment, and the IASB is proposing amendments to align Section 9 with IFRS 10, introducing control as the single basis for consolidation that applies to all entities. The IASB is proposing to retain the rebuttable presumption that control exists when an investor owns more than a majority of the voting rights of an investee. The rebuttable presumption is a simplification of the control model. Paragraphs BC52–BC62 of the Basis for Conclusions on the Exposure Draft explain the IASB's rationale for aligning the definition of 'control' in Section 9 with IFRS 10 and introducing a control model as the single basis for consolidation. Do you agree with the IASB's proposal to retain the rebuttable presumption as a simplification of the definition of control? If not, please explain why you do not agree with this simplification.

Comment:

We agree with the proposal.

(Reason)

- We understand Section 9 would not significantly contradict with the concept of control in IFRS 10 and should be able to simplify the application without unreasonably undermining the benefit of application.
- According to paragraph BC58 of the ED, the rebuttable presumption is a simplification to the control model. We support the Board's view in terms of simplification, as entities do not need to perform a complex review of other elements of the definition of control under the rebuttable presumption, which shall ease their application of the Standard.

Question 4—Proposed amendments to impairment of financial assets in Section 11 *Basic Financial Instruments* (renamed *Financial Instruments*)
The IASB in its Request for Information asked for views on replacing the incurred loss model for the impairment of financial assets in Section 11 *Basic Financial Instruments* with an expected credit loss model aligned with the simplified approach in IFRS 9 *Financial Instruments*. Feedback suggested that the simplified approach in IFRS 9 would be complex for SMEs to apply and would not result in substantial changes in the amount of impairment for the types of financial assets held by typical SMEs, namely short-term trade receivables. The IASB anticipates that an expected credit loss model would provide relevant information for users of financial statements when SMEs hold longer-term financial assets. Consequently, the IASB is proposing to: (a) retain the incurred loss model for trade receivables and contract assets in the scope of the revised Section 23 *Revenue from Contracts with Customers*; (b) require an expected credit loss model for all other financial assets measured at amortised cost, aligned with the simplified approach in IFRS 9; and (c) retain the requirements in Section 11 for impairment of equity instruments measured at cost. Paragraphs BC72–BC80 of the Basis for Conclusions on the Exposure Draft explain the IASB's rationale for introducing an expected credit loss model for only some financial assets. 4(i) Do you agree with the proposal to introduce an expected credit loss model for only some financial assets? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why. 4(ii) Do you agree that the proposal strikes the right balance in deciding which financial assets should be in the scope of the expected credit loss model, considering the costs for SMEs and benefits for users of SMEs' financial statements?

Comment:

(i) We do not agree with the proposal. Entities should be able to choose to apply either the incurred loss model or an expected credit loss model for all financial

assets.

(Reason)

- The proposal to retain the incurred loss model for trade receivables and contract assets and to require an expected credit loss model for all other financial assets measured at amortised cost is taking a different approach from the current IFRS 9. We are afraid the proposal would increase the complexity of the *IFRS for SMEs* Accounting Standard. To enhance simplicity, it should be easier to provide entities with an option to apply either the incurred loss model or an expected credit loss model for all financial assets.
- Entities could also be provided with an option to comply with IFRS 9 as a whole, given that the option to apply the fallback to IAS 39 *Financial Instruments: Recognition and Measurement* is removed.

(ii) As we suggest the above-mentioned alternative plan, we do not agree with the Board's view.

Question 5—Proposal for a new Section 12 *Fair Value Measurement*
The IASB in its Request for Information asked for views on aligning the Standard with IFRS 13 *Fair Value Measurement* and introducing illustrative examples into the Standard. This alignment would not amend the requirements for when to use fair value measurement. Respondents to the Request for Information favoured aligning the Standard with the definition of fair value in IFRS 13 to provide clarity and enhance comparability between financial statements prepared applying the Standard. The IASB is proposing that the requirements on measuring fair value and related disclosure requirements be consolidated in a new Section 12 *Fair Value Measurement*. Paragraphs BC108–BC118 of the Basis for Conclusions on the Exposure Draft explain the IASB's rationale for this proposal. Do you have comments or suggestions on the new Section 12? Please explain the reasons for your suggestions.

Comment:

(a) We recommend the Board to delete the following requirements in Section 12: paragraphs 12.28–12.32 regarding disclosures by hierarchy level; and paragraphs

12.22–12.27, explaining the fair value hierarchy.

(Reason)

By assessing costs and benefits, the IASB should carefully consider whether it is necessary or not for SMEs to disclose information by hierarchy level.

(b) We suggest the definition of fair value be appropriately reflected in paragraph 12.3 of the ED as follows:

The price at which an orderly transaction **that would be received** to sell an asset**,** or **paid** to transfer a liability would take place

Question 6—Proposed amendments to Section 15 *Investments in Joint Ventures* (renamed *Joint Arrangements*)

The IASB in its Request for Information asked for views on aligning the definition of joint control with IFRS 11 *Joint Arrangements*, while retaining the three classifications of joint arrangements in Section 15 *Investments in Joint Ventures* (jointly controlled operations, jointly controlled assets and jointly controlled entities).

Respondents to the Request for Information favoured aligning the definition of joint control. However, respondents expressed mixed views on whether to align the classification and measurement requirements with IFRS 11 or to retain the Section 15 classification and measurement requirements.

The IASB is proposing to align the definition of joint control and retain the Section 15 classification and measurement requirements as set out in the Request for Information.

Paragraphs BC119–BC127 of the Basis for Conclusions on the Exposure Draft explain the IASB's rationale for these proposals.

6(i) Do you agree with the IASB's proposal to align the definition of joint control and retain the classification of a joint arrangement as jointly controlled assets, a jointly controlled operation, or a jointly controlled entity, and the measurement requirements for these classifications? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

The IASB is also proposing amendments to align Section 15 with the requirements of paragraph 23 of IFRS 11, so that a party to a jointly controlled operation or a jointly controlled asset that does not have joint control of those arrangements would account for its interest according to the classification of that jointly controlled operation or the jointly controlled asset.

Paragraphs BC128–BC129 of the Basis for Conclusions on the Exposure Draft explain the IASB's rationale for this proposal.

6(ii) Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

Comment:

(i) We agree with the proposal.

(Reason)

- Given that the concept of joint control is significant, retaining the former definition in Section 15 would only increase the complexity of the *IFRS for SMEs* Accounting Standard, causing confusion in practice.
- In applying IFRS 11, we have noticed the classification of arrangements as either joint operations or joint ventures is sometimes difficult in practice. On the other hand, the accounting treatment ends up quite similar to that based on the previous classifications. Accordingly, we agree with the Board to retain the three classifications of joint arrangements for the purpose of simplifying the *IFRS for SMEs* Accounting Standard.

(ii) We agree with the proposal.

(Reason)

- We believe aligning Section 15 with paragraph 23 of IFRS 11 would result in an accounting outcome that faithfully represents the party's rights and obligations arising from the joint arrangement (see paragraph BC129 of the ED).

Question 7—Proposed amendments to Section 19 *Business Combinations and Goodwill*

Based on the feedback to the Request for Information, the IASB is proposing to align Section 19 *Business Combinations and Goodwill* with the acquisition method of

accounting in IFRS 3 *Business Combinations** by:

(a) adding requirements and guidance for a new entity formed in a business combination;

(b) updating the references when recognising the identifiable assets acquired and liabilities assumed in a business combination to refer to the definitions of an asset and a liability in the revised Section 2 *Concepts and Pervasive Principles*;

(c) clarifying that an acquirer cannot recognise a contingency that is not a liability;

(d) requiring recognition of acquisition-related costs as an expense;

(e) requiring measurement of contingent consideration at fair value if the fair value can be measured reliably without undue cost or effort; and

(f) adding requirements for an acquisition achieved in stages (step acquisitions).

For other aspects of the acquisition method of accounting, the IASB is proposing to retain the requirements in Section 19. The IASB is of the view that:

(a) the guidance in IFRS 3 on reacquired rights is unlikely to be relevant to entities applying the Standard;

(b) restricting the measurement of non-controlling interest in the acquiree to the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets (and not introducing the fair value option) is an appropriate simplification; and

(c) retaining recognition criteria for intangible assets acquired in a business combination balances the costs and benefits of separate recognition of these items because goodwill recognised in a business combination is amortised.

Paragraphs BC130–BC183 of the Basis for Conclusions on the Exposure Draft further explain the IASB's rationale for these proposals.

Paragraph BC177 of the Basis for Conclusions on the Exposure Draft explains that there were mixed views on whether step acquisitions are relevant to SMEs. The IASB is asking for views on adding requirements for step acquisitions and on the proposed requirements themselves. Asking for views on whether to add requirements allows stakeholders to evaluate the proposals when responding to the Invitation to Comment.

7(i)	Do you agree with the proposal to introduce requirements for the accounting for step acquisitions? If your answer is yes, do you agree with the proposed requirements in the Exposure Draft? If you disagree with the proposal, please explain why and give your alternative suggestion.
7(ii)	Do you agree that the IASB's proposals appropriately simplify the measurement of non-controlling interests by excluding the option to measure them at fair value? If your answer is no, please explain your reasons.
7(iii)	Do you have any further comments or suggestions on the proposed amendments to Section 19? Please explain the reasons for your suggestions.
* IFRS 3 refers to the IFRS 3 (2008) version, including subsequent amendments to IFRS 3.	

Comment:

(i) We agree with the proposal.

(Reason)

Introducing requirements for step acquisitions will enhance comparability and provide better-quality information to users. At the same time, any gain arising from the accounting treatment does not involve cash flows. That being said, we recommend a thorough research be conducted by the Board to determine whether or not such information truly fulfills the needs of users of SMEs' financial statements before introducing the requirements.

(ii) We agree with the proposal.

(Reason)

As stated in paragraph BC163(b) of the ED, we believe that not introducing the option is a simplification and the cost of measuring non-controlling interests at fair value may outweigh the benefit for SMEs.

(iii) Based on the alternative plan we provided in response to Question 2, we propose the definitions of an asset and of a liability from the previous version of Section 2 should not be replaced with those per the 2018 *Conceptual Framework* for simplification purposes. We also propose the recognition principle in Section 19 in paragraph 19.10C(a) of the ED should explicitly state that identifiable assets acquired and liabilities assumed must meet the definitions of an asset and of a

liability from the previous version of Section 2, based on the 1989 *Framework*.

(Reason)

If the alternative plan were introduced, there would be no need to add exceptions to the recognition and measurement principles to avoid the problem of day 2 gains or losses under Section 19 *Business Combinations and Goodwill*, which shall contribute to the simplification of the *IFRS for SMEs* Accounting Standard.

Question 8—Revised Section 23 *Revenue* (renamed *Revenue from Contracts with Customers*)
The IASB in its Request for Information asked for views on possible approaches to aligning Section 23 *Revenue* with IFRS 15 *Revenue from Contracts with Customers*. Respondents favoured this alignment without identifying a preferred approach. Consequently, the IASB is proposing to revise Section 23 to align it with the principles and language used in IFRS 15. The revised requirements are based on the five-step model in IFRS 15, with simplifications that retain the basic principles in IFRS 15 for recognising revenue. Paragraphs BC184–BC193 of the Basis for Conclusions on the Exposure Draft further explain the IASB's rationale for this proposal and the proposed simplifications of the IFRS 15 requirements. 8(i) Do you agree that the revised Section 23 would be appropriate for SMEs and users of their financial statements? If not, what modifications—for example, further simplifications or additional guidance—do you suggest and why? Determining whether a good or service promised to a customer is distinct can involve judgement. To assist entities in making this assessment, the IASB is proposing to simplify the requirements in paragraphs 27–29 of IFRS 15 by: (a) specifying that a good or service that an SME regularly sells separately is capable of being distinct (see paragraph 23.21 of the Exposure Draft); (b) expressing the criterion in paragraph 27(b) of IFRS 15 in simpler language and reflecting the objective of the criterion by focusing on whether a good or service is an input used to produce a combined item or items transferred to the customer (see paragraphs 23.20(b) and 23.23 of the Exposure Draft); and (c) including examples that illustrate the factors supporting that criterion (see paragraph 23.23(a)–(c) of the Exposure Draft). 8(ii) Do you believe the guidance is appropriate and adequate for entities to make the assessment of whether a good or service is distinct? If not, is there any guidance that could be removed or additional guidance that is needed

Comment:

(i) JICPA agrees with the proposal to revise Section 23, in principle, as the revision aims to simplify requirements, while retaining the basic principles in IFRS 15. However, we do not agree with the following:

(a) We do not agree with the proposal using 'promise' instead of 'performance obligation,' the IFRS 15 term.

(Reason)

- The term 'performance obligation' is a significant concept for the revenue recognition standard. The term should be aligned between IFRS 15 and the *IFRS for SMEs* Accounting Standard if it is used for the same meaning. We are afraid switching it to a general term 'promise' will only cause confusion among stakeholders.
- For the purpose of simplifying the definition of 'promise' in the *IFRS for SMEs* Accounting Standard, the IASB is proposing to remove the following IFRS 15 criterion regarding the definition of performance obligation: 'a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.' However, given that the phrase is already reflected as part of the requirement in Section 23 (see paragraph 23.17 of the ED), we do not think the IASB's proposal to remove the criterion from the definition is convincing enough.

(b) JICPA does not support the IASB's proposal regarding constraining estimates of variable consideration. In detail, the Board is proposing to use the phrase, 'only to the extent that it is highly probable that this amount will become due' in paragraph 23.46 of the ED, instead of referring to the phrase in paragraph 56 of IFRS 15, which says 'only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.'

(Reason)

Although the phrase seems to be simplified in the ED, we are not sure whether it is appropriately rephrasing the context in paragraph 56 of IFRS 15.

(c) JICPA believes the simplified requirements proposed by the IASB are insufficient. Thus, we propose further simplified approaches, as presented below, to alleviate

the burden for SMEs.[1] Now that the post-implementation review (PIR) for IFRS 15 has started, any issues identified through the PIR should be considered whether or not to be incorporated in the *IFRS for SMEs* Accounting Standard as needed.

- (Contract modifications) Regardless of the requirements set out in paragraphs 23.14 and 23.15 of the ED, when the addition of goods or services due to a contract modification is immaterial in the context of the existing contract, entities should be able to apply any of the approaches set forth in paragraphs 23.14(a), 23.14(b) and 23.15 of the ED to account for the contract modification.

(Reason)

When the addition of goods or services due to a contract modification is immaterial in the context of the existing contract, it is unlikely comparability will be significantly reduced between financial statements, whichever approach stated in paragraph 23.14 or paragraph 23.15 of the ED is taken to account for the contract modification.

- (Identifying the promises) Regardless of the requirements set out in paragraphs 23.16 and 23.17 of the ED, when some goods or services in a contract are immaterial in terms of the contract with a customer, entities would not have to assess whether those goods or services are distinct promises or not. In determining whether goods or services are immaterial or not in terms of the contract with a customer, entities should take both quantitative and qualitative nature of those goods or services into consideration, and consider their relative importance to the overall contract.

(Reason)

When some goods or services in a contract are immaterial in terms of the contract with a customer, it is unlikely comparability will be significantly reduced between financial statements, even when those goods or services are not identified as promises.

- (Timing of revenue recognition, such as shipping point) Regardless of the requirements set out in paragraphs 23.75 and 23.83 of the ED, when

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[1] The proposal is referring to the revised ASBJ Guidance No. 30 *Implementation Guidance on Accounting Standard for Revenue Recognition*, issued by the Accounting Standards Board of Japan, which sets forth alternative treatments for materiality and other topics. (Refer to paragraphs 92–94, 100–101, 165–167, 171, and 173–174)

merchandise or products are sold domestically, entities would be able to recognise revenue at a specific point in time (e.g. shipping point, destination point) during a period from the shipping point to the point when the control of merchandise or products is transferred to a customer, only when the period is considered to be a typical length of time. The specific point in time would be determined in accordance with paragraphs 23.75–23.77 and paragraphs 23.83–23.87 of the ED, including the point of customer acceptance.

Such period (i.e. the period from the shipping point to the point when the control of those merchandise or products is transferred to a customer) is considered to be a typical length of time when the period for each transaction appears reasonable in comparison with the number of days generally required for domestic shipping and delivery under customary business practices in the country.

(Reason)

Assuming merchandise or products are sold domestically, immaterial differences in monetary amounts are expected to arise even when revenue is recognised at the shipping point, not when the control of merchandise or products is transferred to a customer, if the period from the shipping point to the point when the control of merchandise or products is transferred to the customer is a typical length of time. Accordingly, it is unlikely comparability will be significantly reduced between financial statements due to such timing difference of revenue recognition.

- (Shipping and delivery activities) Regardless of the requirements set out in paragraphs 23.16 and 23.17 of the ED, entities would be able to account for shipping and delivery activities that are conducted after a customer obtains control of merchandise or products as activities to fulfil a promise to transfer those merchandise or products, instead of identifying such activities as distinct promises.

(Reason)

The proposed accounting treatment appears reasonable, considering the costs and benefits of application in practice.

- (Allocating the transaction price to promises) Regardless of the requirement

set out in paragraph 23.65 of the ED, if a stand-alone selling price of the good or service underlying a promise is not directly observable and the good or service is incidental to other goods or services under the same contract and, as such, is considered to be immaterial, entities would be able to apply the residual approach stipulated in paragraph 23.66(c) of the ED as an estimation method for the determination of a stand-alone selling price of the good or service.

(Reason)

If a good or service underlying a promise is incidental to other goods or services under a contract and, as such, is considered to be immaterial, it is unlikely comparability will be significantly reduced between financial statements even when the residual approach is applied.

- (Revenue recognition and the allocation of transaction price based on individual contracts) Regardless of the requirements set out in paragraphs 23.12, 23.16, 23.17 and 23.61 of the ED, entities would be able to account for the transfer of goods or services promised in individual contracts as individual promises, instead of combining those contracts, and thus would be able to recognise revenue in accordance with the amount of goods or services stipulated in those individual contracts if both of the following requirements are met:
  - It is considered that individual contracts with customers represent substantive transaction units, giving a better picture of a transaction agreed between parties.
  - Provided the amount of goods or services stated in individual contracts with customers is reasonably determined, it is expected that the amount would not differ materially from the stand-alone selling price.

(Reason)

When we see an objective rationale in a contract agreed between parties and for the purpose of mitigating undue burden on entities, we believe entities should be able to recognise revenue and allocate the transaction price based on individual contracts. At the same time, if we give entities a free hand to choose this accounting treatment, it might cause a departure from the conclusions derived from the ED (IFRS 15). That is why we propose the accounting treatment be allowed only when the two above-mentioned requirements are met. If the

requirements are met, we do not expect material differences in monetary amounts to arise, whichever approach is chosen in paragraphs 23.12, 23.16, 23.17 and 23.61 of the ED.

(ii) We comment areas we think the guidance is not appropriate and adequate enough:

(a) In determining whether a good or service that is promised by an entity to a customer is distinct within the context of a contract according to paragraph 23.23 of the ED, we may propose an alternative method to emphasise that the determination should be based on whether risks associated with fulfilling an obligation to transfer the good or service can be separated from risks related to the fulfilment of other promises.

(b) Given that the intent of the phrase used in paragraph 23.23 of the ED is not clear, we suggest amending the paragraph to align with the phrase used in paragraph 29 of IFRS 15. Please see the table below.

(Reason)

We are not sure whether the phrase used in paragraph 23.23 of the ED is appropriately articulating the context in paragraph 29 of IFRS 15. At least, when we translate paragraph 23.23 into Japanese, we get a meaning different from paragraph 29 of IFRS 15, which stipulates 'the objective is to determine whether the promise is to transfer each of those goods or services individually, or, instead to transfer a combined item or items to which the promised goods or services are input.'

paragraph 23.23 of the ED	paragraph 29 of IFRS 15
The purpose of the criterion in paragraph 23.20(b) is to determine if the nature of the entity's obligation, within the context of the contract, is to transfer the good or service individually, <u>rather than</u> to transfer a combined item or items to which the good or service is an input.	…the objective is to determine whether the nature of the promise, within the context of the contract, is to transfer each of those goods or services individually, <u>or, instead</u> to transfer a combined item or items to which the promised goods or services are inputs.

Question 9–Proposed amendments to Section 28 *Employee Benefits*
The IASB in its Request for Information asked for views on applying paragraph 28.19 of the Standard, that is the measurement simplifications for defined benefit obligations. The feedback identified challenges when applying paragraph 28.19, resulting in diversity of application. However, the feedback also provided evidence that only a few entities apply paragraph 28.19. Therefore, the IASB is proposing to delete paragraph 28.19. Paragraphs BC197–BC203 of the Basis for Conclusions on the Exposure Draft explain the IASB's rationale for this proposal. 9(i) Do you agree that only a few entities apply the measurement simplifications for defined benefits? Therefore, do you agree with the IASB's proposal to delete paragraph 28.19? Alternatively, if you do not agree with deleting paragraph 28.19, should the IASB clarify the paragraph by: (a) stating that an entity may apply any, or all, of the simplifications permitted by paragraph 28.19 when measuring a defined benefit obligation; and (b) explaining that when an entity applies paragraph 28.19(b), examples of future service of current employees (assumes closure of the plan for existing and any new employees) that can be ignored include: (i) the probability of employees' not meeting the vesting conditions when the vesting conditions relate to future service (future turnover rate); and (ii) the effects of a benefit formula that gives employees greater benefits for later years of service. 9(ii) If you disagree with the proposal in 9(i), do you agree that this alternative approach clarifies paragraph 28.19?

Comment:

No comment in particular.

Question 10—Transition
The IASB, in paragraphs A2–A39 of the Exposure Draft, sets out limited relief from retrospective application for those proposed amendments for which the IASB thought the costs of retrospective application would exceed the benefits. Do you agree with the proposed transition requirements for the amendments to the *IFRS for SMEs* Accounting Standard? Why or why not? If not, please explain what you suggest instead and why.

Comment:

JICPA agrees with the proposal.

(Reason)

The ED sets out limited relief from retrospective application as needed, which we believe is reasonable, considering costs and benefits. For example, entities may choose to apply Section 23 *Revenue from Contracts with Customers* prospectively according to paragraph A22(b) of the ED.

Question 11—Other proposed amendments
Table A1, included in the Introduction to the Exposure Draft, summarises the proposals for amending sections of the Standard not included in questions 2–10. Do you have any comments on these other proposed amendments in the Exposure Draft?

Comment:

See our comments below:

(a) Paragraph 8.4 of Section 8 *Notes to the Financial Statements* says 'an entity normally presents the notes in the following order.' However, the word 'normally' is deleted from the Amendments to IAS 1 *Presentation of the Financial Statements* (or 'IAS 1') issued in December 2014, which states the orders in IAS 1 are presented just as examples. We suggest the Board to consider whether the wording in paragraph 8.4 of the ED should be aligned with that in IAS 1.

(b) Paragraph 5.5(h) of Section 5 *Statement of Comprehensive Income and Income Statement* requires entities to present share of the other comprehensive income of associates and jointly controlled entities accounted for using the equity method. However, it is not required to present separately into items that will not be reclassified subsequently to profit or loss and those that will be reclassified subsequently to profit or loss, as it is required in paragraph 82A of IAS 1. We suggest the Board to consider whether the requirement in Section 5 should be aligned with that in IAS 1.

Questions for respondents—Whether further action is required

Question 12—Section 20 *Leases* and IFRS 16 *Leases*
The IASB in its Request for Information asked for views on aligning Section 20 *Leases* with IFRS 16 *Leases* by simplifying some of the recognition and measurement requirements, the disclosure requirements and the language of IFRS 16. Feedback on the Request for Information was mixed. Stakeholders suggested the IASB assess the costs and benefits of aligning the Standard with IFRS 16, even with the simplifications, and obtain more information about the experience of entities that apply IFRS 16. The IASB decided not to propose amendments to Section 20 at this time and to consider amending the Standard to align it with IFRS 16 during a future review of the Standard. Therefore, the Exposure Draft does not propose amendments to Section 20. In making this decision the IASB placed greater emphasis on cost–benefit considerations and prioritised timing—that is, to obtain more information on entities' experience of applying IFRS 16. The IASB is asking for further information on cost–benefit considerations, particularly on whether: (a) aligning Section 20 with IFRS 16 at this time imposes a workload on SMEs disproportionate to the benefit to users of their financial statements—specifically, considering:

(i) the implementation costs that preparers of financial statements could incur;

(ii) the costs that users of financial statements could incur when information is unavailable; and

(iii) the improvement to financial reporting that would be realised from recognising the lessee's right to use an underlying asset (and the lessee's obligation to make lease payments) in the statement of financial position.

(b) introducing possible simplifications—for example, for determining the discount rate and the subsequent measurement of the lease liability (reassessment)—could help to simplify the requirements and reduce the cost of implementing an amended Section 20 (aligned with IFRS 16) without reducing the usefulness of the reported information.

Paragraphs BC230–BC246 of the Basis for Conclusions on the Exposure Draft further explain the IASB's rationale for not proposing amendments to Section 20 at this time and instead for considering amending the Standard to align it with IFRS 16 during a future review of the Standard.

Do you agree with the IASB's decision to consider amending the Standard to align it with IFRS 16 in a future review of the Standard? In responding to this question, please comment on the cost–benefit considerations in paragraphs (a) and (b) of Question 12.

Comment:

It seems too early to align Section 20 with IFRS 16. We strongly suggest the alignment should be considered only after the PIR of IFRS 16.

In addition to determining the discount rate and the subsequent measurement of the lease liability (reassessment), we believe other items should also be considered for their simplifications, including identifying a lease. The IASB should first identify IFRS 16 issues in a more comprehensive manner before pursuing simplifications in Section 20.

We also highly recommend the IASB to conduct further research and obtain information on listed companies that already went through the application of IFRS 16.

Question 13—Recognition and measurement requirements for development costs
The Standard requires all development costs to be recognised as expenses, whereas IAS 38 *Intangible Assets* requires the recognition of intangible assets arising from development costs that meet specified criteria. This simplification in the Standard was made for cost–benefit reasons. However, feedback on this comprehensive review questioned this cost–benefit decision. Therefore, the IASB is seeking views on whether it should amend the Standard to align it with IAS 38, including views on the costs and benefits of doing so. Paragraphs BC253–BC257 of the Basis for Conclusions on the Exposure Draft further explain the IASB's rationale. What are your views on the costs and benefits, and the effects on users, of introducing an accounting policy option that permits an SME to recognise intangible assets arising from development costs that meet the criteria in paragraphs 57(a)–(f) of IAS 38? The entity would be required to demonstrate all of these criteria: (a) the technical feasibility of completing the intangible asset so that it will be ready for use or sale; (b) its intention to complete the intangible asset and use or sell it; (c) its ability to use or sell the intangible asset; (d) how the intangible asset will generate probable future economic benefits; (e) the availability of adequate technical, financial and other financial resources to complete the development and to use or sell the intangible asset; and (f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Comment:

We agree with the IASB's proposal to introduce an accounting policy option that permits an SME to recognise intangible assets arising from development costs that meet certain criteria.

(Reason)

In certain industries, we believe even SMEs would encounter situations where it is appropriate to recognise intangible assets arising from development costs. Accordingly, we can say that it would be relevant for SMEs to recognise intangible assets if all of the strict requirements are met.

Questions for respondents—Full IFRS Accounting Standards in the scope of this review for which the IASB is not proposing to align the Standard

Question 14—Requirement to offset equity instruments
Paragraph 22.7(a) of the Standard states that if equity instruments are issued before an entity receives cash or other resources, the amount receivable is presented as an offset to equity in the statement of financial position, instead of being presented as an asset. Feedback from the first comprehensive review suggested that this requirement may conflict with local legislation. Stakeholders provided similar feedback during this second comprehensive review, suggesting that the IASB remove the requirement in paragraph 22.7(a) because it diverges from full IFRS Accounting Standards, which include no similar requirement for equity instruments. What are your views on removing paragraph 22.7(a)?

Comment:

No comment in particular.

Questions for respondents——Updating the paragraph numbers of the *IFRS for SMEs* Accounting Standard

Question 15—Updating the paragraph numbers of the *IFRS for SMEs* Accounting Standard
The proposed amendments to the requirements in the *IFRS for SMEs* Accounting Standard include the addition of new paragraphs and the deletion of existing paragraphs. A new paragraph is numbered in continuation from a previous paragraph. A deleted paragraph retains the paragraph number. Sometimes, the addition or deletion of paragraphs within a section may complicate the readability of the Standard (for example, Section 19 *Business Combinations and Goodwill*). As an alternative, a section may be revised, with paragraphs renumbered to show only requirements that would still be applicable, without a placeholder for deleted paragraphs (for example, Section 2 *Concepts and Pervasive Principles*).

What are your views on the approach taken to retain or amend paragraph numbers in each section of the Exposure Draft?

Comment:

We believe paragraphs can be renumbered for Section 2 *Concepts and Pervasive Principles*, because it requires a full-scale revision to align with the 2018 *Conceptual Framework*.

On the other hand, we agree with the IASB's proposal for Section 19 *Business Combinations and Goodwill* to retain the current paragraph numbers and add new paragraphs so that we can track the revised paragraphs.

Yours faithfully,

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