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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 of IFRS 9 Financial Instruments-Impairment*

To the IASB Board Members:

The Japanese Institute of Certified Public Accountants (JICPA) appreciates the continued efforts of the International Accounting Standards Board (IASB) to develop high quality accounting standards and welcomes the opportunity to comment on the Request for Information *Post-implementation Review of IFRS 9 Financial Instruments-Impairment.*

JICPA believes the expected credit loss model in IFRS 9 successfully addresses various challenges emerged from IAS 39, including the timeliness of recognising credit losses, the complexity of impairment models, and the sufficiency of disclosures. We have not recognised fatal flaws in accounting treatments and disclosures with regard to the expected credit loss model to date. That said, as the application of the expected credit loss model increases, different types of complexity issues are emerging, and diversity in practices or difficulty in applications for certain transactions or events are arising for the measurement of expected credit losses and credit risk disclosures. Against this backdrop, we highly recommend the IASB to clarify requirements and provide accompanying guidance in order to maintain comparability at a sufficient level through high-quality accounting treatments and disclosures.

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

Question 1—Impairment
Do the impairment requirements in IFRS 9 result in: **(a) more timely recognition of credit losses compared to IAS 39 and address the complexity caused by having multiple impairment models for financial instruments? Why or why not?** **(b) an entity providing useful information to users of financial statements about the effect of credit risk on the amount, timing and uncertainty of future cash flows? Why or why not?** Please provide information about the effects of the changes to the impairment requirements introduced by IFRS 9, including the ongoing costs and benefits of preparing, auditing, enforcing or using information about financial instruments. This question aims to help the IASB understand respondents' overall views and experiences relating to the IFRS 9 impairment requirements. Sections 2–9 seek more detailed information on specific requirements.

Comment:

In general, JICPA believes that the impairment requirements in IFRS 9 result in more timely recognition of credit losses compared to IAS 39 and address the complexity caused by having multiple impairment models for financial instruments. Also, broadly speaking, we consider that IFRS 9 leads to some improvements to provide useful information to users of financial statements about the effect of credit risk on the amount, timing, and uncertainty of future cash flows. That being said, we are afraid some other complex issues have newly arisen in practice by applying the impairment model under IFRS 9 because entities are now required to recognise 12-month expected credit losses up until there has been 'a significant increase in credit risk,' when lifetime expected credit losses should be recognised, and also must follow the concept of 'a significant increase in credit risk.'

Question 2—The general approach to recognising expected credit losses
(a) Are there fundamental questions (fatal flaws) about the general approach? If yes, what are those fundamental questions? Please explain whether requiring entities to recognise at least 12-month expected credit losses throughout the life of the instrument and lifetime expected credit

losses if there has been a significant increase in credit risk achieves the IASB's objective of entities providing useful information about changes in credit risk and resulting economic losses. If not, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles of the general approach.

(b) Are the costs of applying the general approach and auditing and enforcing its application significantly greater than expected? Are the benefits to users significantly lower than expected?

If, in your view, the ongoing costs of applying the general approach to particular financial instruments are significantly greater than expected or the benefits of the resulting information to users of financial statements are significantly lower than expected, please explain your cost–benefit assessment for those instruments.

Comment:
We have not recognised fundamental questions (fatal flaws) about the general approach to date. Further, the costs of applying the general approach and auditing and enforcing its application are not significantly greater than expected. Also, the benefits to users are not significantly lower than expected.

Question 3—Determining significant increases in credit risk

(a) Are there fundamental questions (fatal flaws) about the assessment of significant increases in credit risk? If yes, what are those fundamental questions?

Please explain whether the principle-based approach of assessing significant increases in credit risk achieves the IASB's objective of recognising lifetime expected credit losses on all financial instruments for which there has been a significant increase in credit risk since initial recognition.

If not, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles of the assessment of significant increases in credit risk.

(b) Can the assessment of significant increases in credit risk be applied consistently? Why or why not?

Please explain whether the requirements provide an adequate basis for entities to apply the assessment consistently to all financial instruments within the scope of

impairment requirements in IFRS 9.

If diversity in application exists for particular financial instruments or fact patterns, please explain and provide supporting evidence about how pervasive that diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements.

If you have identified diversity in application of the assessment, please provide your suggestions for resolving that diversity.

In responding to (a) and (b), please include information about **applying judgement** in determining significant increases in credit risk (see Spotlight 3).

Comment:

We have not recognised fundamental questions (fatal flaws) about the assessment of significant increases in credit risk to date. Further, generally speaking, we do believe the assessment of significant increases in credit risk can be applied consistently.

Question 4—Measuring expected credit losses

(a) Are there fundamental questions (fatal flaws) about requirements for measuring expected credit losses? If yes, what are those fundamental questions?

Please explain whether the requirements for measuring expected credit losses achieve the IASB's objective of providing users of financial statements with useful information about the amount, timing and uncertainty of an entity's future cash flows. If not, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles of the measurement requirements.

(b) Can the measurement requirements be applied consistently? Why or why not?

Please explain whether the requirements provide an adequate basis for entities to measure expected credit losses consistently for all financial instruments within the scope of impairment requirements in IFRS 9.

If diversity in application exists for particular financial instruments or fact patterns, please explain and provide supporting evidence about how pervasive

that diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements.

If you have identified diversity in application of the requirements, please provide your suggestions for resolving that diversity.

In responding to (a) and (b), please include information about **forward-looking scenarios** (see Spotlight 4.1), **post-model adjustments or management overlays** (see Spotlight 4.2) and **off-balance-sheet exposures** (see Spotlight 4.3), as relevant.

Comment:

We have not recognised fundamental questions (fatal flaws) about requirements for measuring expected credit losses to date. Also, we generally believe the measurement requirements can be applied consistently. However, we recommend the IASB to improve accounting treatments and disclosure requirements and to provide guidance as needed for the following transactions or events.

(1) Revolving payment type of credit

As credit generated in revolving credit transactions, such as shopping revolving card loans, does not individually tie to its payments, it causes difficulties in estimating a period that an entity is exposed to credit risk. Accordingly, it is likely that diversity in practice is arising when estimating the period over which expected credit losses are measured for such revolving loans and other similar instruments. Moreover, there are no specific disclosure requirements in IFRS 9 for these types of credit transactions. Given that the usefulness of financial information on such revolving loans could be reduced in terms of comparability, we highly recommend additional guidance be provided on the method of estimating the period and information to be disclosed.

(2) Practice of rolling over loans for short-term contractual periods

Paragraph B5.5.38 of IFRS 9 stipulates that 'the maximum period over which expected credit losses shall be measured is the maximum contractual period over which the entity is exposed to credit risk.' The only exception allowed is the financial instruments referred to as revolving credit facilities in paragraph B5.5.39 of IFRS 9, such as credit cards and overdraft facilities. According to paragraph BC5.261 of IFRS 9, the IASB decided to add the exception because when 'financial instruments that include both a loan and an

undrawn commitment component and the entity's contractual ability to demand repayment and cancel the undrawn commitment does not limit the entity's exposure to credit losses to the contractual notice period, expected credit losses would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period.' Further, the IASB insists that 'the measurement of expected credit losses should take into account credit risk management actions that are taken once an exposure has increased in credit risk, such as the reduction or withdrawal of undrawn limits' for those type of credits (paragraph BC5.261 of IFRS 9).

In some countries or jurisdictions, including Japan, there are loans that are long-term loans in substance, but whose contractual periods are set in short terms, such as one month or three months, with a practice of rolling them over. Such loans are extended on the basis that they will continue to be rolled over unless credit risk increases. In other words, such loans are expected to be collected over a long term instead of foreseeing cash collections within the contractual period. In practice, these loans are extended in short terms only for protective reasons by creating an opportunity to amend contractual terms for credit risk management purposes, which is more like a covenant in nature. To put it differently, the end of a formal contractual period for such loan is merely the timing of reassessing a covenant for the loan, meaning that cash collection on the contractually determined maturity date is not expected in the first place at the time when such loan is extended.

As the IASB is indicating in paragraph BC5.258 of IFRS 9, restricting the recognition of a loss allowance for these revolving credit facilities to expected credit losses in the contractual notice period, without expecting any rollovers, would arguably be inconsistent with the concept of expected credit losses (i.e., not reflecting actual loss expectation) and would not reflect the underlying economics or the way in which those facilities are managed for credit risk purposes. If the above-mentioned exception is not applicable for these type of credit facilities and the exposure is restricted to the contractual period, the amount of expected credit losses for the facilities might not be able to reflect the true impact under the practical loan period. As this would be inconsistent with the economic assessment of that exposure, we recommend the IASB to allow entities to apply the exception and estimate expected credit losses beyond the contractual notice period.

(3) 'Integral' credit enhancements

For the purpose of measuring expected credit losses, IFRS 9 requires entities to estimate all the cash flows that the entity expects to receive, including cash flows expected from credit enhancements that are 'integral' to associated financial assets. We see a wide range of diversity in practice when it comes to the extent of being 'integral' to credit

enhancements. As diversified practice could be deteriorating the usefulness of financial information for comparability purposes, we highly recommend additional guidance be provided for this matter.

Question 5—Simplified approach for trade receivables, contract assets and lease receivables
(a) Are there fundamental questions (fatal flaws) about the simplified approach? If yes, what are those fundamental questions? Does applying the simplified approach achieve the IASB's objective of reducing the costs and complexities of applying IFRS 9 impairment requirements to trade receivables, contract assets and lease receivables? If not, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles of the simplified approach. **(b) Are the costs of applying the simplified approach and auditing and enforcing its application significantly greater than expected? Are the benefits to users significantly lower than expected?** If, in your view, the ongoing costs of applying the simplified approach are significantly greater than expected, or the benefits of the resulting information to users of financial statements are significantly lower than expected, please explain your cost–benefit assessment.

Comment:
We have not recognised fundamental questions (fatal flaws) about the simplified approach to date. Also, we do not think the costs of applying the simplified approach and auditing and enforcing its application are significantly greater than expected. The benefits to users also do not seem to be significantly lower than expected.

However, we recognise some cases where determining significant increases in credit risk becomes difficult for receivables to which the simplified approach is not applicable. This is because the credit risk is not considered to be significant enough, and thus credit risk management is reduced to align with the level of credit risk. Consequently, timely recognition of expected credit losses may not be achieved in such cases. That said, we recommend the IASB to consider expanding the scope of financial assets to which the

simplified approach shall be applied, provided that information on credit risk is disclosed appropriately.

Question 6—Purchased or originated credit-impaired financial assets
Can the requirements in IFRS 9 for purchased or originated credit-impaired financial assets be applied consistently? Why or why not? Please explain whether the requirements can be applied consistently to these types of financial assets and lead to accounting outcomes that faithfully reflect the underlying economic substance of these transactions. If there are specific application questions about these requirements, please describe the fact pattern and: (a) explain how the IFRS 9 requirements are applied; (b) explain the effects of applying the requirements (for example, the quantitative effect on an entity's financial statements or an operational effect); (c) explain how pervasive the fact pattern is; and (d) support your feedback with evidence.

Comment:
We generally believe that the requirements in IFRS 9 for purchased or originated credit-impaired financial assets (collectively as 'POCI financial assets') can be applied consistently.

However, when expected cash flows see a favorable change from an initial estimate after acquiring a POCI financial asset, we have noticed accounting treatments are not always consistent on the debit side, although no one disagrees with recognising gain on the credit side. In practice, some entities increase the carrying amount of financial assets on top of the initial cost, and others recognise allowance on the debit side. As these diversified practices could be deteriorating the usefulness of financial information for comparability purposes, we highly recommend the IASB to clarify the requirements or to provide additional guidance.

Question 7—Application of the impairment requirements in IFRS 9 with other requirements
Is it clear how to apply the impairment requirements in IFRS 9 with other requirements in IFRS 9 or with the requirements in other IFRS Accounting Standards? If not, why not? If there are specific questions about how to apply the impairment requirements alongside other requirements, please explain what causes the ambiguity and how that ambiguity affects entities' financial statements and the usefulness of the resulting information to users of financial statements. Please describe the fact pattern and: (a) indicate the requirements in IFRS 9 or in other IFRS Accounting Standards to which your comments relate; (b) explain the effects of applying the requirements (for example, the quantitative effect on an entity's financial statements or an operational effect); (c) explain how pervasive the fact pattern is; and (d) support your feedback with evidence. In responding to this question, please include information about matters described in this section of the document.

Comment:

In general, it is clear how to apply the impairment requirements in IFRS 9 with other requirements in IFRS 9 or with the requirements in other IFRS Accounting Standards. However, we believe the following transactions or events need further improvement or clarification in requirements for accounting treatments and disclosures.

(1) September 2022 IFRS Interpretations Committee's Agenda Decision *Lessor Forgiveness of Lease Payme*nts *(IFRS 9 Financial Instruments and IFRS 16 Leases)*

According to the Committee's agenda decision, it was concluded that 'the lessor estimates expected credit losses on the operating lease receivables by measuring any credit loss to reflect "all cash shortfalls" in accordance with the impairment requirements in IFRS 9.' It was also decided that when the lessor expects to forgive payments due from the lessee under the lease contract and measures expected credit losses on the operating lease receivable, the measurement shall include the lessor's expectation of forgiveness of lease payments that is recognised as part of the receivable. However, the agenda decision does not explicitly state whether the forgiveness is extended due to the lessee's credit

impairment. If the agenda decision is trying to indicate that the forgiveness of operating lease payments can be extended for reasons other than credit impairment, the measurement of expected credit losses under IFRS 9 should take into account a reduction in future cash flows not attributable to credit risk deterioration, which seems hard to be justified as an accounting treatment.

The agenda decision is also referring to the definition of credit loss in IFRS 9 as a basis for the conclusion. If entities are required to consider expectations on forgiveness unattributed to credit risk upon the measurement of expected credit losses for financial assets other than operating lease receivables, we believe inconsistency would arise in practice, which currently follows the IFRS 9 accounting requirement for modifications of financial assets. In other words, the current practice accounts for forgiveness unattributed to credit risk as modification with a loss recorded upon derecognition, instead of accounting for the transaction as a credit loss.

The objective of developing the IFRS 9 impairment model is to reflect the effect of credit risk fluctuations into the measurement of financial assets measured at amortised cost and debt instruments measured at fair value through other comprehensive income. Based on the objective of the IFRS 9 impairment model, we do not think 'cash shortfalls' unattributed to credit risk should be included the measurement of a loss allowance for expected credit losses for all financial assets, including operating lease receivables. Accordingly, we recommend that 'all cash shortfalls' stipulated in the definition of credit loss should be clarified by explicitly stating that they represent 'all cash shortfalls attributable to credit risk.' Further, if it is still considered appropriate to include expectations of forgiving lease payments for reasons other than credit impairment into the measurement of operating lease receivables, we believe the accounting treatment should be set forth as an IFRS 16 requirement.

(2) Calculation of interest revenue on financial assets that have subsequently become credit-impaired

An entity modifies the calculation of interest revenue for financial assets that have subsequently become credit-impaired by applying the effective interest rate to the net amortised cost, which is adjusted for expected credit losses, from the start of subsequent reporting periods (see paragraph 5.4.1(b) of IFRS 9). It is our understanding that the term 'subsequent reporting period' is interpretated differently among practioners: some refer to the IAS 34 definition of 'annual financial report' or 'interim financial report;' and others go for a broader interpretation by taking 'internal management accounts' into account. As such inconsistency in practice could be deteriorating the usefulness of

financial information for comparability purposes, we highly recommend the IASB to clarify the accounting requirement in terms of 'subsequent reporting period.'

(3) The write-off of financial assets

IFRS 9 does not provide a clear-cut requirement regarding the accounting for write-offs. In practice, some derecognise impaired financial assets by reversing the same amount of loss allowance once the amount of expected credit losses is measured, so they do not recognise any gains and losses. Others recognise gain by reversing the previously-recognised loss allowance and, at the same time, write off financial assets to record a loss. As such inconsistency in practice could be deteriorating the usefulness of financial information for comparability purposes, we highly recommend the IASB to clarify the accounting requirement for the write-off of financial assets.

(4) Modification related to credit impairment

The measurement of expected credit losses on financial assets intersects with the accounting treatment for modification in IFRS 9. Accordingly, we recommend the IASB to clarify how the requirement for expected credit losses and that for modification within IFRS 9 relate to each other.

According to paragraph 5.4.3 of IFRS 9, when there is a modification that does not result in the derecognition of the original financial asset, an entity shall adjust the gross carrying amount of the financial asset and recognise a modification gain or loss in profit or loss. This gain or loss due to modification is presented in a separate line item from expected credit losses in the statement of profit or loss. However, some argue that if the modification is related to a credit impairment resulting from the past (or is 'credit-related'), the modification gain or loss would represent the expected credit loss recognised in the past that is simply realised, insisting that, in practice, the loss should be presented as part of expected credit losses. If we were to follow the argument, modification should be separately identified for credit-related and non-credit-related. As we can see some diversity in practice, which could be deteriorating the usefulness of financial information for comparability purposes, we highly recommend the IASB to clarify the accounting requirement for modification.

Question 8—Transition
Were the costs of applying the transition requirements and auditing and enforcing their application significantly greater than expected? Were the benefits to users significantly lower than expected?

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 explain any unexpected effects or challenges preparers of financial statements faced applying the impairment requirements retrospectively. How were those challenges overcome?

Comment:

The costs of applying the transition requirements and auditing and enforcing their application do not seem to be significantly greater than expected. Also, we do not think the benefits to users are significantly lower than expected.

Question 9—Credit risk disclosures

(a) Are there fundamental questions (fatal flaws) about the disclosure requirements in IFRS 7 for credit risk? If yes, what are those fundamental questions?

(i) Please explain whether the combination of disclosure objectives and minimum disclosure requirements for credit risk achieves an appropriate balance between users of financial statements receiving:(i) comparable information—that is, the same requirements apply to all entities so that users receive comparable information about the risks to which entities are exposed; and

(ii) relevant information—that is, the disclosures provided depend on the extent of an entity's use of financial instruments and the extent to which it assumes associated risks.

If an appropriate balance is not achieved, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles of the disclosure requirements.

(b) Are the costs of applying these disclosure requirements and auditing and enforcing their application significantly greater than expected? Are the benefits to users significantly lower than expected?

If, in your view, the ongoing costs of providing specific credit risk disclosures are

significantly greater than expected or the benefits of the resulting information to users of financial statements are significantly lower than expected, please explain your cost–benefit assessment for those disclosures. Please provide your suggestions for resolving the matter you have identified.

If, in your view, the IASB should add specific disclosure requirements for credit risk, please describe those requirements and explain how they will provide useful information to users of financial statements.

Please also explain whether entities' credit risk disclosures are compatible with digital reporting, specifically whether users of financial statements can effectively extract, compare and analyse credit risk information digitally.

Comment:

In general, we have not recognised fundamental questions (fatal flaws) about the disclosure requirements in IFRS 7 for credit risk to date. Also, we do not think the costs of applying these disclosure requirements and auditing and enforcing their application are significantly greater than expected, and the benefits to users seem to be significantly lower than expected. That being said, we suggest the following specific events require improvement or clarification in their disclosure requirements with accompanying guidance.

(1) Disclosure on 'how an entity determined whether the credit risk of financial instruments has increased significantly since initial recognition' (paragraph 35F(a) of IFRS 7)

According to paragraph 35F(a) of IFRS 7, entities are required to disclose information on how they determined whether the credit risk of financial instruments has increased significantly since initial recognition.

When commercial banks determine whether there are significant increases in the credit risk of financial instruments, particularly their loans, they look into a wide range of factors from both quantitative and qualitative perspectives. As it is generally hard for those banks to assess whether the sufficiency of disclosures is in compliance with paragraph 35F(a) of IFRS 7, they are practically allowed to provide disclosure information with flexibility. In detail, banks can use different quantitative methods for the determination of significant increases in credit risk to better reflect their credit risk management practices. For example, a bank may use the level of increase in default ratios as a determinant for significant increases in credit risk. Although comparability

should have been maintained at a sufficient level through disclosures, that is not always the case for commercial banks, which seem to be enjoying some flexibility in providing disclosure information with an excuse of having difficulty in assessing the sufficiency level of disclosures. Likewise for qualitative information disclosures. Accordingly, we recommend the IASB provide additional guidance regarding the type of disclosures required at a minimum level, together with illustrative examples, for financial institutions that have to make complicated assessments in determining whether or not credit risk of financial instruments has increased significantly.

Without any guidance, it is also challenging for auditors to audit the reasonableness of sufficient level of disclosures and other matters.

(2) Disclosure of significant estimates in accordance with paragraph 125 of IAS 1

When disclosing information on significant estimates in accordance with paragraph 125 of IAS 1, it has become almost a practice for financial institutions to disclose a sensitivity analysis on expected credit losses for significant estimates. Entitles are supposed to disclose amounts after making adjustments for certain macroeconomic data and their probability of occurrence. Despite being quite costly for entities to prepare information for the analysis, there is no specific guidance at the moment. Thus, it is usually the prepares who are responsible for determining the reasonableness of the type and level of data and indexes to be incorporated into their analysis. Given that entities, particularly financial institutions, need to incorporate a number of data and indexes into their sensitivity analysis for the measurement of expected credit losses, which is quite different from a sensitivity analysis for Level 3 fair value measurements, and given that there is no specific guidance for such analysis in place, diverse practice is allowed to a certain extent when disclosing information on the sensitivity analysis. Due to lack of comparability, users often end up not being able to properly understand the true picture of credit risk through the disclosure of sensitivity analysis, indicating that users of financial statements may not be receiving benefits that are worth the cost of preparing disclosure information.

Although it is not explicitly required to provide sensitivity analysis under the current IFRS 7, as long as the practice is in place to disclose such information, we suggest the sensitivity analysis for expected credit losses should be added as a required disclosure item in paragraph 35G of IFRS 7, and also a guidance should be newly developed to show what kind of sensitivity analysis needs to be disclosed so as to make the disclosure information as useful as possible.

(3) Post-model adjustments or management overlays

According to paragraph 35G of IFRS 7, entities are required to disclose information on the expected credit loss model; however, there is no specific disclosure requirement for post-model adjustments or management overlays (collectively as 'PMAs').

PMAs represent adjustments made from outside of the model to bring the amount of expected credit losses to a level that an entity believes appropriate. Given that the scope of credit risk captured by the model is different among entities and also the type of credit risk that should be identified varies among entities, we expect adjustments made through PMAs are also different among entities.

In order to provide useful disclosure information to users of financial statements, we believe such information should not be limited to the measurement of expected credit losses using the model, but should include detailed information on PMAs. In particular, given that PMAs are adjustments made from outside of the model, information should be provided not only on the breakdown of PMAs, but also on the reason for making specific adjustments through PMAs, the decision-making process of calculating PMAs, and other details of PMAs.

We may argue that the lack of guidance is currently used as an excuse for not providing a detailed disclosure. This is also negatively affecting audits because auditors are having a hard time assessing the reasonableness and sufficiency of the information disclosed.

Accordingly, we highly recommend the IASB to set forth additional disclosure requirements focusing on PMAs so that information on the overall picture for the measurement of expected credit losses can be provided through the IFRS 7 disclosures.

Question 10—Other matters

(a) Are there any further matters that you think the IASB should examine as part of the post-implementation review of the impairment 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 this post-implementation review and the pervasiveness of any matter raised. Please provide examples and supporting evidence.

(b) Do you have any feedback on the understandability and accessibility of the impairment requirements in IFRS 9 that the IASB could consider in developing its future IFRS Accounting Standards?

Comment:

We suggest the IASB consider the following matters:

(1) Expected credit losses on debt instruments measured at fair value through other comprehensive income

Loss allowances for expected credit losses on debt instruments measured at fair value through other comprehensive income are required to be recognised in other comprehensive income, even in cases where the increase in fair value is due to reasons other than credit risk and when the fair value amount exceeds the carrying amount. When the business model's objective is to hold financial assets in order to collect contractual cash flows or to sell financial assets, we may argue that credit risk will not be realised through sales as long as the fair value increase due to reasons other than credit risk exceeds credit-risk based impairment and the fair value is exceeding the carrying amount. That being said, we suggest the IASB should consider the economic rationale for requiring entities to recognise expected credit losses in other comprehensive income.

(2) Expected credit losses on financial guarantee contracts

A financial guarantee contract is initially required to be recorded as a liability at fair value, which generally is likely to be the same amount for guarantee receivables. However, it appears diversity in practice exists when guarantee fees are received over the financial guarantee period: some may recognise guarantee fees to be received in the future as a receivable and record the same amount as a liability; others may choose to offset the receivable and the liability. We highly recommend the IASB to revisit the accounting practice and clarify requirements as appropriate.

Yours faithfully,

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