November 25, 2015

To the International Accounting Standards Board

Comments on IASB Exposure Draft
"Conceptual Framework for Financial Reporting"

Keidanren endorses the IASB's initiative to revise the Conceptual Framework for Financial Reporting and appreciates its relentless efforts.

In Japan, as IFRS voluntary adoption becomes widespread, more than 100 companies have already announced adopting IFRS. The aggregate market capitalization of these companies is nearly one-fourth that of all companies listed on the nation' stock exchanges. To encourage more Japanese companies to adopt IFRS, the quality of Standards must be raised. Given that the Conceptual Framework for Financial Reporting forms the basis for Standards development, the direction the IASB will take on this revision will determine whether or not Japanese companies adopting IFRS continue to increase. We call on the Board to listen carefully to the opinions of market participants in Japan and around the world in order to complete this project successfully.

I. Issues of Greatest Concern to Us regarding Exposure Draft

Upon publication of the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting* that preceded this Exposure Draft, we also submitted a comment letter. Some of the points we proposed therein are reflected in the Exposure Draft, most notably the adoption of a cost-benefit approach in such areas as recognition, measurement, presentation, and disclosure. We also have noted some improvements from the Discussion Paper, and are grateful for the sincere efforts the Board has made. Still, there remains a significant gap between the Exposure Draft and a robust, high-quality Conceptual Framework for Financial Reporting that we require as the basis for Standards development. We strongly request that the Board take sufficient time to reconsider the following issues:

First of all, it is extremely unfortunate that the Exposure Draft was published without drawing a proper conclusion on the concept of profit or loss. While we support the statement in paragraph 7.21 that "income and expenses included in the statement of profit or loss are the primary source of information about an entity's financial performance," this stipulation makes it all the more necessary to define profit or loss as an element of financial statements. Below we propose defining profit or loss as "a realized gain or loss that has been released from investment risk during a particular period" (see our response to Question 12) and other comprehensive income (hereinafter, "OCI") as "an unrealized gain or loss that has not been released from investment risk" (see our response to Question 13), and explain the necessity of recycling OCI to profit or loss and the reasons therefore (see our response to Question 14). The Board is strongly urged to reconsider the concept of profit or loss, the most important earnings indicator, in light of these proposals. It is our belief that, without the definition of profit or loss, a robust and high-quality Conceptual Framework will never be developed.

Secondly, it is highly regrettable that “probability” and “reliability of measurement” are removed from the recognition criteria for assets and liabilities. The criteria proposed in the Exposure Draft may result in demanding the recognition of assets and liabilities even when the prospects for future cash inflows or outflows are low or reliable estimates cannot be made. This signifies in essence that the recognition criteria will become meaningless. We strongly request that probability and reliability of measurement be retained as the recognition criteria for assets and liabilities (see our response to Question 6).

II. Our Responses to Specific Questions

Question 1: Proposed changes to Chapters 1 and 2

(a) We <u>support</u> making an explicit reference to stewardship.

- As it is corporate executives’ responsibility to explain to stakeholders how efficiently and effectively they used management resources, we agree that stewardship needs to be clearly referred to in the objective of financial reporting.
- Stewardship is a useful concept from the perspective of not only investors but also corporate management. Therefore, we request that the revised Conceptual Framework explicitly mention the following: The provision of information needed to assess stewardship will help the entity to grow sustainably and to increase its enterprise value over the long term by imposing discipline on corporate management.

(b) We <u>support</u> making an explicit reference to prudence.

- Explicit reference to prudence will help preparers have a better understanding of the explanation on faithful representation, making the Conceptual Framework more effective.
- However, we are concerned that the Exposure Draft makes no mention of asymmetric prudence (meaning that losses are recognized earlier than gains) in the main text, although this notion is described in the Basis for Conclusions (e.g., in the latter part of paragraph BC2.11 and in the first part of paragraph BC2.14). Given its importance, asymmetric prudence needs to be explicitly mentioned in the main text of the revised Conceptual Framework.

(c) We <u>agree</u> with the point that a faithful representation represents the substance of an economic phenomenon, not its legal form.

(d) To facilitate preparers’ understanding, measurement uncertainty should be treated as a factor that affects faithful representation, not relevance. <u>We request that the revised Conceptual Framework explicitly mention the following: An estimate that is subject to more than a certain level of measurement uncertainty does not constitute a faithful representation nor can it provide relevant information</u>.

(e) We <u>support</u> identifying relevance and faithful representation as the two characteristics of useful financial information.

Question 2: Description and boundary of a reporting entity

Although we agree with (a), we disagree with (b), more specifically with paragraph 3.25 in that it requires entities to disclose in the unconsolidated financial statements how users may obtain the consolidated financial statements. That is not the kind of requirements to be stipulated in the Conceptual Framework, but a matter to be governed by the financial statement disclosure regulations of individual countries and jurisdictions.

Another problem lies in paragraph 3.9 that states, "Financial statements are prepared from the perspective of the entity as a whole, instead of from the perspective of any particular group of investors, lenders or other creditors." This statement is ambiguous in its intention and is misleading. Meanwhile, paragraph BC3.3 comments that paragraph 3.9 explains financial reports should account for the entity and does not imply no distinction should be drawn between liabilities and equity. These points should be added to the main text of the revised Conceptual Framework.

Question 3: Definitions of elements

(1) We strongly request that profit or loss, OCI, and comprehensive income be defined as the elements of financial statements. For more details, see our response to Question 12 below.

(2) We agree with the definitions of an asset in (a) and of a liability in (b) on the condition that probability be referred to as a recognition criterion in the revised Conceptual Framework. As the notion of an expected inflow or outflow of resources, which refers to probability, has been removed from the definitions of an asset and a liability in the Exposure Draft, we request that probability be explicitly mentioned as a recognition criterion. For more details, see our response to Question 6 below.

Question 4: Present obligation

As to an entity having "no practical ability to avoid a transfer" referred to in paragraph 4.32, the paragraph explains that "it is not sufficient that the management of the entity intends to make the transfer or that the transfer is probable." This sentence is not so appropriate that it should be removed because it may be construed as disallowing the recognition of liabilities or provisions even if the entity intends to recognize them.

Question 5: Other guidance on the elements

We agree with the proposed descriptions of executory contracts in paragraphs 4.40 to 4.42. Still, to ensure consistency in Standards development, we propose that the revised Conceptual Framework explicitly mention the following: It can be very costly for reporting entities to meet the requirement to provide explanatory disclosure of an executory contract itself or of the assets or liabilities that may arise from it (i.e., those that have not arisen as of the reporting date but may arise subsequently) in the notes to the financial statements or elsewhere, as a result of which the costs incurred by preparers may not be commensurate with the benefits gained by financial statement users.

Question 6: Recognition criteria

We are strongly opposed to removing probability from the criteria for recognizing assets and liabilities. Also, whereas the Exposure Draft proposes to remove the reliability of measurement criterion and to introduce the notion of measurement uncertainty, we do not agree with this proposal as it has deformed the reliability of measurement concept. We strongly urge the Board to reconsider this matter, as the removal of probability and reliability of measurement from the asset and liability recognition criteria is virtually synonymous with the total absence of recognition criteria in the revised Conceptual Framework. With respect to paragraph 5.9(c), we completely agree with it in that it incorporates a cost-benefit balance approach into the asset and liability recognition criteria.

Probability

- The removal of probability from the recognition criteria means that, even if outcomes for assets or liabilities are uncertain at the time of recognition, entities are required to account for the assets or liabilities as if they contributed to future cash flows. This will result in frequent reversals of recognition in subsequent periods, undermining the relevance and faithful representation of financial statements. Such information will not be useful to corporate management either.

- The more uncertain the outcomes, the more difficult it is to make measurement and the more costly it is to prepare and audit financial statements. Therefore, in addition to undermining the relevance and faithful representation of financial statements, the removal of the probability recognition criterion is not appropriate from a cost-constraint perspective (paragraph 5.24) as well.

- The Exposure Draft refers, as the recognition criteria, only to the fulfillment of the fundamental qualitative characteristics of financial statements: namely, relevance, faithful representation, and cost-benefit balance (paragraph 5.9). It then simply states that "recognition may not provide relevant information" in the cases of uncertainty about the existence of an asset or a liability, of a low probability of an inflow and outflow of economic benefits, or of a very high level of measurement uncertainty (paragraph 5.13). Such complex and ambiguous provisions will never be useful in developing or applying Standards. Rather, they may even be harmful by allowing arbitrary interpretation and application.

- Paragraph 5.13(b) states that, in the event of low probabilities of inflows and outflows of economic benefits, relevant information may not be provided. To supplement this, paragraph 5.17 sets out that "an asset or a liability can exist even if there is a low probability that there will be an inflow or outflow of economic benefits." Moreover, paragraph 5.19 lays down that "users of financial statements may, in some cases, not find it useful for an entity to recognize assets and liabilities with very low probabilities of inflows and outflows of economic benefits." While the existing Conceptual Framework stipulates that recognition be made in the case of a high probability of future economic benefits, these three paragraphs take the opposite perspective, specifying that recognition (may) not be made if that probability is low. This results in a lower probability threshold and a substantially broader scope of recognition. For that reason, we cannot agree with the wording of these Exposure Draft provisions.

- IASB staff argue that certain Standard provisions require some derivatives and other assets and liabilities to be recognized in spite of low probabilities, and thus that the probability criterion should be removed to ensure consistency between these provisions and the Conceptual Framework. However, the removal of the probability criterion, a change that would have a significant impact on IFRS as a whole, should not be implemented merely because an inconsistency with particular accounting treatment needs to be rectified. We consider it possible to ensure the robustness of the recognition criteria by treating these provisions as exceptions to the probability criterion (and specifying the scope of exceptions in the revised Conceptual Framework).

Reliability of measurement

- We strongly request that reliability of measurement be retained as a recognition criterion, because faithful representation in financial reporting cannot be achieved without ensuring the reliability of measurement. In lieu of the reliability of measurement concept, the Exposure Draft introduces measurement uncertainty. We do not agree with this notion as it has significantly deformed the reliability of measurement concept of the existing Conceptual Framework. Paragraph BC5.43 contains the arguments for retaining the reliability of measurement criterion, which we find far more persuasive than the reasons for not retaining the criterion presented in paragraph BC5.44.

- Paragraph 5.13(c) states that recognition may not provide relevant information "if a measurement of an asset or a liability is available (or can be obtained), but the level of measurement uncertainty is so high." Supplementing this sentence, paragraph 5.21(a) describes that a measurement may not provide relevant information if "the range of possible outcomes is extremely wide and the likelihood of each outcome is exceptionally difficult to estimate." Furthermore, it is stated in paragraph 5.21(b) that, if measurement "requires unusually difficult or exceptionally subjective allocations of cash flows," measurement uncertainty may contribute to the resulting information having little relevance. These provisions lead preparers to believe that there are very little items that do not require recognition on account of low reliability of measurement. In other words, these provisions are deemed to have significantly deformed the reliability of measurement concept of the existing Conceptual Framework, and we cannot accept them for that reason. We request that the Board reexamine these Exposure Draft provisions in accordance with the reliability of measurement concept of the existing Conceptual Framework.

Question 7: Derecognition

We request that the following points be clarified:

- Approaches to derecognition are considered twofold: a control approach and a risks-and-rewards approach, both of which were discussed in the Discussion Paper. We request that consideration be given to which of these should be adopted and guidance be provided in the revised Conceptual Framework.

- While this also relates to the above, the Exposure Draft recommends that, if the appropriateness of derecognition is not entirely clear, explanatory disclosure be made in the notes to the financial statements (paragraph 5.31) or recognition be continued (paragraph 5.32). Given ambiguity as to which should be selected in what circumstances, we asks for clear guidance.

Question 8: Measurement bases

<u>Instead of adopting a single measurement basis, the Exposure Draft makes analyses premised on multiple measurement bases that are categorized as (a) historical cost (cost) and (b) current value (market value) in paragraph 6.4. We support this approach</u>. We are, however, concerned that the Exposure Draft places too much focus on detailing the pros and cons of historical cost and current value as measurement bases. We believe that it is far more important to provide guidance as to which measurement basis should be used in what context (see our responses to Questions 9 and 10 below), and that describing such pros and cons would be meaningless without a clear explanation of how those descriptions pertain to the method of selecting a measurement basis.

Question 9: Factors to consider when selecting a measurement basis

<u>For the following reasons, we do not support the proposed factors to consider when selecting a measurement basis</u>, although we strongly support paragraph 6.50 in that it refers to cost-benefit consideration in the selection of a measurement basis:

- As factors to consider when selecting a measurement basis for an asset or a liability and the related income and expenses, paragraph 6.54 lists (a) the contribution of the asset or the liability to cash flows, and (b) the characteristics of the asset or the liability. <u>We believe, though, that a measurement basis should be selected based solely on the contribution of the asset or the liability to cash flows (i.e., the nature of the investment), and that the characteristics of the asset or the liability should not be factored in</u>. Take a highly volatile stock, for example. Under the criterion (b) above, some might argue that, from the perspective of financial performance, the stock should be measured solely at fair value and any valuation difference arising from subsequent measurement should be recognized in its entirety as profit or loss. A better approach, however, would be to select a measurement basis that is suited to the purpose of holding the stock (that is, the nature of the investment).

- In addition to not clarifying the level of probability required in measurement, the Exposure Draft states in paragraph 6.55 that “a high level of measurement uncertainty does not prevent the use of an estimate that provides the most relevant information,” as if to lower the probability threshold set in the existing Conceptual Framework. We firmly believe that the approach to probability taken in the existing Conceptual Framework is appropriate, and request that the aforementioned sentence in paragraph 6.55 be removed.

Question 10: More than one relevant measurement basis

Paragraph 6.74 implies that separate consideration should be given to a measurement basis providing relevant information about financial position and to one providing relevant information about financial performance. We agree with this approach, but the following three problems need to be addressed:

- The wording of paragraphs 6.75 and 6.76 needs to be amended, as it misleads readers into believing that understandability, one of the enhancing characteristics, takes precedence over relevance. These paragraphs should be rewritten to emphasize that the most important point is to select a measurement basis that is most relevant to, and enables faithful representation in, each of the statement of financial position and the statement of financial performance, which may result in the use of a single measurement basis or multiple ones.
- If an entity concludes as a result that the use of a single measurement basis is reasonable, that serves the purpose of measurement. Nonetheless, paragraph 6.75(b) requires additional information using the other measurement basis to be disclosed in the notes to the financial statements, which is an unnecessary provision and should be removed.
- The Exposure Draft does not provide sufficient guidance on which measurement basis should be used in which cases. We request that more specific guidance on measurement bases be given in light of the following parts of the Discussion Paper: paragraphs 6.73 to 6.96 describing subsequent measurement of assets, and paragraphs 6.97 to 6.109 dealing with subsequent measurement of liabilities.

Question 11: Objective and scope of financial statements and communication

(1) We consider that many of the disclosures currently required by IFRS do not provide sufficient benefits to justify the costs incurred by preparers. It is hoped that the Conceptual Framework project, coupled with the Disclosure Initiative, will result in curbing these excessive disclosure requirements. Below we enumerate the proposals in the Exposure Draft that we consider particularly useful in (2) and those that need to be amended in (3). As for the Conceptual Framework project and the Disclosure Initiative, it is hard to see how the responsibilities of these projects differ. We request that each project's area of responsibility be clarified to elucidate the big picture of the IASB's disclosure project.

(2) We highly appreciate the explicit references made in the Exposure Draft to the need to balance the costs with the benefits in presentation and disclosure (paragraph 7.9) and to include specific presentation and disclosure objectives in a Standard (paragraph 7.16). To put these into practice, we calls on the Disclosure Initiative to develop disclosure principles that facilitate the effective implementation of these provisions. As financial statement preparers, we request that the following points be incorporated into the disclosure principles:

  - When requiring the disclosure of information, its necessity and usefulness should be considered through appropriate due process.
  - Consideration should be given, specifically, to how that information will be

used for what analysis and to what analytical inconvenience would arise if the disclosure of that information was not mandated.

(3) On the other hand, the Exposure Draft requires some disclosures that will not provide useful information to investors. We request that the following requirements be amended:

- Paragraph 7.3(a) states that the notes to the financial statements include "information about the nature of both recognised and unrecognised elements and about the risks arising from them." <u>This wording justifies requiring the disclosure of information about any risk in the notes to the financial statements, leading the scope of the notes to excessively broaden</u>. In view of the role of the notes, "unrecognised elements" should be removed. Additionally, while "information . . . about the risks" in the same paragraph is thought to include sensitivity analysis results, <u>we believe that sensitivity analysis results are nothing more than a piece of data based on a number of assumptions and in no way provide useful information to investors</u>. As such, sensitivity analysis results should not be included in the notes to the financial statements.

- Paragraph 7.4 proposes to include relevant forward-looking information in the notes to the financial statements. We oppose this proposal. Given the purpose of the notes that is to supplement the primary financial statements, the notes should not contain forward-looking information other than qualitative one that forms the basis for estimates used in the primary financial statements. <u>As for quantitative forward-looking information, the required level of disclosure greatly varies from one country to another, reflecting the basic principles according to which the security exchange rules and other laws and regulations are enacted in that country. Quantitative forward-looking information should therefore be treated, in principle, as nonfinancial information. Even in the event that paragraph 7.4 is decided to be retained as it is, the scope of forward-looking information in the notes should not unnecessarily be expanded to include unrecognized elements. We thus request that the clause "even if they are unrecognised" in parentheses be removed</u>.

- Paragraph 7.5 sets out, "Other types of forward-looking information are sometimes provided outside the financial statements, for example, in management commentary." This statement does not need to be included in the Conceptual Framework.

Question 12: Description of the statement of profit or loss

(1) <u>We oppose making a distinction between profit or loss and OCI based on the provisions of paragraphs 7.23 and 7.24</u>.

- Paragraph 7.23 provisionally presumes that "all income and all expenses will be included in the statement of profit or loss." This presumption is unacceptable as it unnecessarily restricts the use of OCI.

- The provisions of these two paragraphs, which attempt to make a distinction between profit or loss and OCI using such a high-level concept as relevance, can be construed in any number of ways at the discretion of the Standard-setter, undermining the robustness of the Conceptual Framework.

(2) We consider profit or loss to be the most important financial performance indicator, and highly value the inclusion in the Exposure Draft of the statement in paragraph 7.21 that reads, “Income and expenses included in the statement of profit or loss are the primary source of information about an entity’s financial performance for the period.” The logical consequence of this should be the definition of a profit or loss in Chapter 4 “The Elements of Financial Statements.” It is very disappointing to see that the Exposure Draft, instead of making that definition, proposes the provisions of paragraphs 7.23 and 7.24.

(3) The Exposure Draft states in paragraph 7.22 that many financial statement users incorporate profit or loss in their analysis of the entity’s financial performance and management’s stewardship for the period. This underlines the usefulness of profit or loss to those users. When Japan’s Modified International Standards were being developed, the process made Japanese market participants realize anew the importance of profit or loss as an overall performance indicator for entities, and confirmed its significance not only to financial statement users but also to disciplined corporate management. Therefore, we strongly urge the Board to define profit or loss, the most important indicator both to financial statement users and corporate management.

(4) As proposed in our comment letter on the Discussion Paper, we recommend that profit or loss be defined as follows:

Profit or loss is a realized gain or loss that has been released from investment risk during a particular period.

Notes:

- A gain or loss is deemed to have been realized at the time of a cash inflow with a certain level of certainty—in other words, when the investment outcome has been confirmed. This is similar to “the point where the outcomes are irreversible,” a notion that the Accounting Standards Board of Japan proposed at an Accounting Standards Advisory Forum meeting.
- Whether or not the entity made a critical decision constitutes an important indicator for the determination of realization.

Question 13: Reporting items of income or expenses in other comprehensive income

(1) As described in our response (1) to Question 12 above, we oppose making a distinction between profit or loss and OCI based on the provisions of paragraphs 7.23 and 7.24. Assuming that profit or loss is defined as “a realized gain or loss that has been released from investment risk” as proposed in our response (4) to the same question, OCI can be defined as “an unrealized gain or loss that has not been released from investment risk” because OCI is the difference between profit or loss and comprehensive income, the latter being an earnings concept that includes unrealized gains and losses.

(2) On the other hand, we agree with the approach proposed in paragraph 7.25, which suggests that OCI should be viewed as the difference occurring when the entity selects one measurement basis for an asset or a liability in the statement of financial position and another for the related income and expenses in the statement of profit or loss (hereinafter, "Dual-Measurement Difference"). This approach has the flowing important implication for recycling, an issue that is dealt with in Question 14: given OCI is viewed as the Dual-Measurement Difference, in the event of the asset or the liability being derecognized (i.e., becoming zero), OCI would also become zero and the cumulative amount previously included in OCI would have to be necessarily recycled to profit or loss. That way, the acceptance of "full recycling" is a necessary consequence of the approach in paragraph 7.25 that views OCI as the Dual-Measurement Difference. This is exactly as described in paragraph BC7.52.

(3) At the same time, we consider that use of OCI is limited to dual-measurement cases, and thus that the phrase "one example of" at the beginning of paragraph 7.25 should be removed. Similarly, while paragraph BC7.50(b) refers to actuarial gains and losses related to employee benefits as an example of OCI to which the Dual-Measurement Difference approach does not apply, this reference should be removed as well. Although it is true that actuarial gains and losses related to employee benefits reflect assumption-based calculations, this alone does not constitute a sufficient reason to justify the exclusion from dual-measurement cases. What really matters is that one measurement basis is used for an asset or a liability in the statement of financial position and another is for the related income and expenses in the statement of profit or loss—that is, dual measurement is conducted. Therefore, it follows that actuarial gains and losses related to employee benefits should also be recognized as OCI and then be recycled to profit or loss.

Question 14: Recycling

(1) We oppose the provisions of paragraph 7.27 that leaves room for non-recycling.

- Firstly, we consider the paragraph's first sentence to undermine the robustness of the Conceptual Framework by requiring whether or not recycling to be determined based on relevance, a qualitative characteristic that is highly abstract.

- The paragraph's second sentence states that, if no clear basis for recycling can be identified, the income or expenses should not be included in OCI (i.e., should be recognized as profit or loss) in the first place. This is a baseless statement and should be removed. If OCI and profit or loss were clearly defined and differentiated from each other, such an irresponsible statement would not be made.

(2) We believe that all items included in OCI should eventually be recycled to profit or loss, from the viewpoints of both corporate management and financial statement users.

- For an entity that is a going concern, performance recognition lies at the core of corporate management. If the level of performance perceived by the entity's executives deviates from the earnings reported in the financial statements, that will have an extremely negative impact on corporate management. Therefore, from the viewpoint of corporate management, all items included in OCI must eventually be recycled to profit or loss.

- By means of full recycling, aggregate profit or loss will match aggregate cash flows over the medium to long term, which guarantees the rationality of projecting future cash flows based on profit or loss information. In other words, full recycling ensures the relevance of profit or loss information over the medium to long term. If full recycling is not allowed, that will deform the all-inclusive nature of profit or loss, undermine the significance of confirming profit or loss, and adversely affect the investment decisions of investors.

(3) We believe that an item should be recycled when it has been released from investment risk during a particular period, as proposed in our response (4) to Question 12 above. If this expression is not clear enough, we alternatively propose that an item be recycled when OCI representing the Dual-Measurement Difference has ceased to exist, that is, when the related asset or liability has been derecognized, as described in our response (2) to Question 13 above as well as in paragraph BC7.52.

(4) The first sentence of paragraph 7.27 states that recycling will not occur "if there is no clear basis for identifying the period in which reclassification would enhance the relevance of the information in the statement of profit or loss." We do not agree with this provision. As proposed in our response (3) to this question above, an item should be recycled when OCI representing the Dual-Measurement Difference has ceased to exist—that is, when the related asset or liability has been derecognized. Accordingly, a case where "there is no clear basis for identifying the period in which reclassification would enhance the relevance of the information" does not exist in the first place, the logical conclusion of which is that there can be no non-recycling item.

(5) Paragraph BC7.50 states that "the treatment of a pension liability . . . is not a case of dual measurement" due the absence of a basis for recycling. More specifically, the paragraph continues to explain that cumulative actuarial gains and losses "correspond to a measure for the pension liability that has no independent meaning and can be described only as the accumulation of the amounts included in the statement of profit or loss." However, that cumulative amount included in OCI is, in essence, the total of actuarial gains and losses corresponding to the defined benefit obligations to or plan assets for individual employees. Upon payment of retirement benefits to an employee, the defined benefit obligation to or plan asset for that employee has decreased, eliminating the portion of OCI corresponding to that employee as well. We therefore believe that, according to this view, upon payment of retirement benefits to employees, the corresponding portion of OCI should be recycled to profit or loss. The amortization of OCI over the average remaining working lives of employees is a simplified accounting treatment to produce that effect.

(6) In our response (2) to this question above, we stated that full recycling ensures the relevance of profit or loss information over the medium to long term. In addition to

that, we argue for the appropriateness of full recycling from the standpoint of faithful representation as well. Take actuarial gains and losses, for example. They constitute part of employee benefits to be paid in exchange for service rendered by employees. If those gains and losses are never recycled and recognized as profit or loss, that will result in an over- or understatement of the performance of the entity over the medium to long term, making it impossible for the entity to faithfully represent its mid- to long-term economic activities and thereby distorting the principle of faithful representation. Therefore, <u>from the standpoint of faithful representation, too, OCI must be recycled to profit or loss over the medium to long term</u>.

Question 15: Effects of the proposed changes to the Conceptual Framework

(1) The IASB's analysis of the effects on existing Standards of the proposed changes to the Conceptual Framework is not comprehensive enough to be described in the Exposure Draft. Additionally, we have found many points in this Exposure Draft that need to be amended. We urge the IASB to listen to the opinions of market participants before finalizing the revision and to comprehensively examine its impact on existing Standards.

(2) As pointed out in paragraph BCE.14, the IASB notes in paragraph 7.16 the benefits of including specific presentation and disclosure objectives in a Standard. However, many of existing Standards do not contain specific presentation and disclosure objectives, which we believe is a critical inconsistency, rather than a minor one. In order to eliminate pointless presentation and disclosure requirements, due consideration should be given to the usefulness of presentations and disclosures that are mandated by Standards without mentioning their specific objectives.

Question 16: Business activities

We do not comment on this question.

Question 17: Long-term investment

We do not comment on this question.

Question 18: Other comments

(1) The cost constraint (cost-benefit balance) plays an important role in decisions concerning a unit of account, recognition, measurement, presentation, and disclosure. From that perspective, we strongly support the references to cost constraint that are added to the Exposure Draft with respect to these topics.

(2) As the distinction between liabilities and equity instruments proposed in Section 5 of the Discussion Paper greatly deviates from the current approach, we support the decision not to include the proposal in the Exposure Draft.

Regarding *Updating References to the Conceptual Framework*

We do not comment on Questions 1 to 3 thereof, as we have some strong objections to the Exposure Draft *Conceptual Framework for Financial Reporting*.

Sincerely,

Business Infrastructure Bureau
KEIDANREN