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ASBJ
FASF

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Technical Director
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Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Re: Comment on Conceptual Framework for Financial Reporting (*Chapter 8: Notes to Financial Statements*)

1. The Accounting Standards Board of Japan ("ASBJ" or "we") welcomes the opportunity to provide comments on the Financial Accounting Standards Board's ("FASB") Proposed Statement of Financial Accounting Concepts ("ED"), *Conceptual Framework for Financial Reporting (Chapter 8: Notes to Financial Statements)*. Based on the strong feedback from our financial reporting constituents that disclosure should be improved and streamlined, the ASBJ supports the FASB's initiative to make financial statement disclosures more effective, coordinated and less redundant. This comment letter is to supplement our views communicated in our previous comment letter to the FASB's Invitation to Comment, *Disclosure Framework*.

2. The ASBJ appreciates the FASB's work to date, and believes that the ED provides a good starting point to consider what the Conceptual Framework regarding notes to financial statements should contain. However, the ASBJ recommends that the FASB consider the following matters before finalizing the project:

   (a) What presumptions the FASB should have in determining disclosure requirements (see our comments in paragraphs 3 to 7 of this letter);

   (b) Whether the proposed Conceptual Framework could be improved by creating a clearer link with other parts of the Conceptual Framework (see our comments in paragraphs 8 to 11 of this letter);

   (c) Whether part of the proposed document would be better placed as a protocol (or guideline) of standard-setting, and if so, how it should be separated (see our comments in paragraphs 12 and 13 of this letter); and

   (d) Whether, and if so, how the proposed decision questions (as shown in Appendix A in the ED) can be made more meaningful for the FASB decisions on which disclosure requirements would be appropriate (see our comments in paragraphs 14 to 21 of this letter).

(a) *Presumption of Establishing Disclosure Requirements*

3. Firstly, the ASBJ thinks that it would be worthwhile for the FASB to clarify what the appropriate presumptions would be in deciding the level of detail of the disclosure requirements. There has been differing views on the appropriate extent of disclosure requirements that standard-setters should prescribe in accounting standards and to what extent they can rely on voluntary disclosures by management. In this regard, there is a view that management is inherently incentivised to disclose whatever information necessary, because insufficient disclosures would in the end result in discounts of share prices (in other words, an increase of funding costs). At the same time, there is a view that management are by nature reluctant to provide disclosures or are even has an incentive to delay disclosing unfavourable developments, due to incremental costs necessary to prepare information or external pressure.

4. If we stress the former view stated in the previous paragraph, we may conclude that accounting standard setters should establish disclosure requirements as minimum as possible, and provide greater leeway to management for voluntary disclosures. On the other hand, if we stress the latter view stated in the previous paragraph, we may conclude that accounting standard setters should establish quite extensive disclosure requirements.

5. Having regard to the argument, the ASBJ thinks that it is unlikely that all necessary information would be disclosed, if we simply rely on a market discipline. At the same time, the ASBJ recognizes the expectation that accounting standard setters should be sufficiently accountable especially regarding whether additional costs are sufficiently justifiable both for users and preparers, when establishing additional disclosure requirements. Accordingly, in standard-setting practice, it would be necessary to consider how to strike the appropriate extent of disclosure requirements based on facts and circumstances of individual cases.

6. The ASBJ also thinks that the extent of the appropriate level of disclosure requirements would vary depending on the objectives of the accounting standards. For example, if the development of accounting standards is requested by the Securities Acts which has a stronger focus on investor protection, we may conclude that the latter view stated in paragraph 3 should be emphasized. On the other hand, a different conclusion might be drawn where the investor protection is less emphasized.

7. Although this discussion may not necessarily form part of the Conceptual Framework, it would have a pervasive effect on every aspect of a standard-setters' decision-making as to

whether and how disclosure requirements should be designed. Accordingly, the ASBJ recommends that the FASB explain this effect either in the Preface or the Basis for Conclusions.

(b) Linkage with Other Part of the Conceptual Framework

8. Secondly, the ASBJ has the impression that the proposed Conceptual Framework is written with a focus on justifying the existing disclosure requirements rather than in light of the objectives of financial reports and qualitative characteristics of useful financial information. The ASBJ believes that it is important for the FASB to consider the existing disclosure requirements when it considers a framework to follow in future standard-setting activities. In addition, paragraphs D3 to D6 of the ED explain other relevant part of the Conceptual Framework (including objectives of financial reporting), but the discussion in these paragraphs and the remainder of the ED seems disconnected.

9. If the FASB intends to include the proposed document as part of the Conceptual Framework, the ASBJ believes that the link with other part of the Conceptual Framework should be more clearly articulated. Specifically, the ASBJ suggests the following:

   (a) Explaining the objective of the notes to the financial statements, having regard to the objectives of financial reports and financial statements;

   (b) Explaining the unique qualitative characteristics of information presented in the notes to financial statements, considering the anticipated usage of the financial statements; and

   (c) Explaining various aspects of the costs associated with the notes to the financial statements in more detail.

10. With regard to the matter stated in paragraph 9 (a) of this letter, the ED does not outline a proposed objective of the notes to financial statements. Despite the difficulty of establishing a precise wording for the objective, the ASBJ suggests that the FASB provide a high-level objective, which might read for example 'to provide information that amplifies or explains information recognized in the financial statements so as to help users assess the prospects for future net cash inflows to an entity.'

11. Additionally, with regard to the matters stated in paragraph 9 (b) and (c) of this letter, the ED explains that it is appropriate to include some future-oriented information in the notes to the financial statements, while it is inappropriate to include some others, in part, by explaining the effect of litigation (see paragraph D24 of the ED). Although the ASBJ generally agrees with the conclusion that only some future-oriented information qualifies for inclusion in the notes to the financial statements, the ASBJ thinks that this can be better explained by referring to the concept of "verifiability" (see paragraphs 40 -41 of

this letter for more detail.) In addition, "cost-constraint" can be explained better by considering additional factors (see paragraph 28 of this letter for more detail.)

(c) <u>Separating a Standard-Setting Protocol with regard to Disclosures</u>

12. Thirdly, the ASBJ believes that the proposed Conceptual Framework includes descriptions that would be better placed as a protocol (or guideline) of standard-setting rather than as part of the Conceptual Framework. The ASBJ believes that descriptions relating to the objectives and qualitative characteristics of the notes to the financial statements should form part of the Conceptual Framework. On the other hand, descriptions which directly relate to the FASB's decision-making process (including decision questions presented in Appendix A in the ED) should be included in the FASB's standard-setting protocol. Specifically, the protocol may include the following:

    (a) A decision framework for standard-setters to assist in deciding what could be included in the notes to the financial statements (see paragraphs 14 to 21 of this letter for more detail.);

    (b) A structure of disclosure requirements, to promote the sound judgment of financial statement preparers and auditors, for example through clarifying disclosure objectives and refraining from the use of potentially misleading words (such as the use of the words "as a minimum"); and

    (c) Explanations about the tools available to reduce the complexity of disclosures, including possible criteria for the use of cross-references (see paragraphs 30 and 31 of this letter for more detail.)

13. The ASBJ recommends that the FASB consider separating the part of the document that would be better included as part of the protocol from the proposed Conceptual Framework and preparing or enhancing the protocol (or guideline) that would then operate as a standalone document for internal use.

(d) <u>Clarification of the Decision Process</u>

14. Fourthly, the ASBJ thinks that the proposed decision questions could be improved, such that a set of questions would better assist the FASB in deciding whether, and if so, what types of disclosure would be required.

15. Paragraph D39 of the ED explains that a "yes" answer to a decision question does not automatically mean that the FASB would require disclosures, and judgment will be necessary in each circumstance. The ASBJ agrees with this explanation. However, the ASBJ is unsure as to whether a set of the proposed decision questions would be sufficiently helpful for the FASB in determining the disclosure requirements in individual standard-setting, because the ABSJ thinks that the set of decision questions stated in the

ED is not structured with sufficient rigor, and the linkage between the explanations (including types of information as explained in paragraphs D38, D52 and D57 of the ED) and decision questions in the ED seems disconnected.

16. In the ASBJ's view, the set of decision questions could become more useful for the FASB in determining specific disclosures if it is structured in the following manner:

    (a) Questions to consider what information would be useful, having considered related recognition and measurement requirements of items (The ASBJ thinks that most of the decision questions proposed in the ED could be usefully incorporated into this level of questions.);

    (b) Questions to consider whether information identified in the previous question should be presented within the boundary of the financial report, as opposed to other reports (for example, sustainability reports);

    (c) Questions to consider whether information identified in the previous question should be presented within the notes to the financial statements, as opposed to other part of financial reports (for example, MD&A), having regard to the concept of "verifiability";

    (d) Questions to consider whether the benefit of providing the information identified in the previous question would outweigh the cost of doing so;

    (e) Questions to consider whether information identified in the previous question should be presented on the face of financial statements (such as the information presented using a parenthesis and EPS information), as opposed to in the notes to the financial statements; and

    (f) Questions to consider whether the use of cross-referencing is appropriate when the same information is presented outside financial statements.

17. This decision process is illustrated in Appendix-II of this letter. The ASBJ believes that such questions are more in line with the discussion stated in paragraphs 5 to 12 of the FASB's Statement of Financial Accounting Concepts No.5, *Recognition and Measurement in Financial Statements of Business Enterprises*. In Appendix-III of this letter, the ASBJ also provides its preliminary analysis about the scope of the notes to financial statements categorized based on the type of information excluding those relating to a reporting entity.

18. With respect to the question regarding how to delineate a boundary of information between those that should be contained in financial reports and the rest of information (corresponding to the discussion in (b) of paragraph 16 of this letter), the ASBJ

understands that there is not a universal agreement as to what distinguishes information in financial reports from other information. The ASBJ thinks that this question should be considered further as part of review of the Conceptual Framework in the future.

19. Yet, the FASB Statement of Financial Accounting Concepts No.5 *Recognition and Measurement in Financial Statements of Business Enterprises* already explains that information such as discussion of competition and order backlog in the SEC Form 10-K, analysts' reports, economic statistics and news articles about company would not be included in information to be presented in financial reports.

20. Drawing on the explanation as well as the description given in the IFRS Practice Statement *Management Commentary*, published in 2010, the ASBJ has the preliminary view that 'information presented in financial reports should encompass that of financial statements, as well as information presented by a reporting entity that supplements or complements information presented in the financial statements, which include both historical and future-oriented information.'

21. Our suggested description stated in the previous paragraph has the following features:

    (a) Information contained in financial reports should be limited to information prepared by a reporting entity. This would mean that reports prepared other than by a reporting entity (such as, economic statistics and news articles about an entity) are not within the scope of financial reports.

    (b) Information presented as part of a financial report is either that of financial statements themselves or the information that supplements or complements information presented in the financial statements. This would mean that the scope of financial reports can be determined, stating from that of financial statements.

    (c) Financial reports can contain both historical and future-oriented information. Unlike financial statements, information presented in financial reports but outside financial statements is not usually subject to audit requirements, and the concept of "verifiability" would not be of significant importance for such information.

(e) <u>Other Comments</u>

22. Lastly, the ASBJ thinks that consideration of the matters explained in paragraph 10 of this letter may have knock-on effects to the following part of the Conceptual Framework:

    (a) Qualitative characteristics of useful financial information (see more detail in paragraphs 40 and 41 of this letter.); and

    (b) The cost constraint on useful financial reporting (see more detail in paragraph 28 of this letter.)

23. Having recognized that the FASB has initiated a project to review the Conceptual Framework, the ASBJ suggests that these matters be considered as part of the project.

24. For our comments on specific questions in the ED, please refer to the Appendix-I of this letter.

25. The ASBJ hopes that our comments will be helpful for the FASB's future deliberations. If you have any questions, please feel free to contact us.

Yours sincerely

Yukio Ono

Chairman of the Accounting Standards Board of Japan

Appendix-I

Comments on Specific Questions in the ED

Question 4: Are there additional concepts needed to identify information that is unsuitable for requirement by the Board in notes to financial statements even though that information would be consistent with the purpose of the notes?

26. Paragraph D17 of the ED explains that requirements to provide information in the notes to the financial statements are limited in at least three ways [emphasis added by the ASBJ]:

    (a) First, the FASB should only require the information that is *relevant* to the providers of resources to a significant number of the entities to which it applies;

    (b) Second, the *cost constraint* applies; and

    (c) Third, including some types of *future-oriented information* in the notes may have negative effects on the cash flow prospects of the reporting entity and its investors and creditors.

27. With regard to the description regarding limitations on information in the notes to the financial statements as explained in the previous paragraph, the ASBJ does not agree that "relevance" should be discussed as part of these limitations. Paragraph D18 of the ED provides a detailed description about what is meant, but the ASBJ thinks that this discussion is better placed in the protocol rather than as part of the Conceptual Framework.

28. The ASBJ agrees that the cost-constraints should be regarded as limitations on information in the notes to the financial statements. However, the ASBJ suggests that the FASB consider including the following points as part of the discussion about cost constraint in the Conceptual Framework (either as part of Chapter 3 of the Conceptual Framework or the proposed Conceptual Framework of notes to financial statements.)

    (a) The fact that financial statement users may have to spend more time to understand and analyze the information, if the information presented is too complicated due to the inclusion of too much immaterial information or poor structuring of the information. The ASBJ believes that this collective time spent is also a cost, but it has not been made explicit in the Conceptual Framework. This discussion would provide a useful basis for the explanation given in paragraphs D19 to D21 of the ED, because that explanation seems to be based on this presumption. For example, paragraph QC36 of the Conceptual Framework could be amended as the following:

> QC36 [...] Users of financial information also incur costs of analysing and interpreting the information provided. If the needed information is not provided, users incur additional costs to obtain that information elsewhere or to estimate it. <u>In addition, if information provided to users is excessively complicated due to inclusion of too much immaterial disclosures or poor structure, users may find it difficult to understand and analyze the information; thereby additional costs would be needed.</u> [Additions are underlined.]

(b) The fact that an entity may find it difficult to achieve high quality financial reporting within an aggressive financial reporting deadline, if disclosure requirements are expected to be too short having regard to the length of preparation time available. The ASBJ believes that this might be a factor for the FASB to consider in developing its disclosure requirements, especially in relation to interim financial reporting which prioritizes the timeliness of information over completeness.

(c) The fact that the disclosure of some information may have significant adverse effects on an enterprise or its shareholders. For example, comments about a pending lawsuit may jeopardize a successful defence, or comments about future plans may jeopardize a competitive advantage. In standard-setting practice, careful consideration of these matters is warranted, because management might have incentives and disincentives for disclosing the information (as explained in paragraph 3 of this letter). The ASBJ thinks that this decision should be made on a case-by-case basis, however it might be helpful for the FASB to illustrate factors to be taken into consideration, including the following:

(i) Relative degree of magnitude (for example, whether disclosure of an entity's plan may prevent an entity from entering into a material business combination.); and

(ii) Relative degree of disadvantage to specific entities (for example, whether a disclosure requirement would be disadvantageous to all entities applying the accounting standards or if it would only affect entities within a particular industry.).

29. As part of the cost constraint, paragraph D21 of the ED explains that there might be situations where the FASB still finds that particular disclosures are necessary, where similar or identical information is required to be communicated by other requirements (such as SEC filing requirements). Although providing similar or identical information would be undesirable in light of the cost-benefit balance, the ASBJ agrees that there are some situations where disclosure requirements would be considered necessary, for example, due to the differing objectives (of focus) given to the disclosure requirements or differing scope to which disclosure requirements apply.

30. However, in situations where similar or identical information is presented outside the

financial statements, the ASBJ believes that the use of cross-references has the potential to simplify or streamline the overall disclosures made by an entity. Yet, the ASBJ believes that whether to allow the use of cross-referencing should be determined on a case-by-case basis as part of the standard-setting process (rather than giving a blanket option to entities).

31. Considering potential negative effects with the use of cross-references (including the possibility that users' understandability may be lowered), it would be at least helpful if the FASB clarify the conditions for the use of cross-references generally. The ASBJ believes that the use of cross-references is considered to be often appropriate, when the following conditions are met:

    (a) Information presented outside financial statements is required for similar or identical objectives relative to those required by accounting standards (for example, disclosures required by the SEC regulation and accounting standards may be considered to have the same objectives.);

    (b) Publication of information outside financial statements is made at the same time (or the same date) relative to those required by accounting standards, regardless of whether the information is presented in the same document, including financial statements;

    (c) Information presented outside financial statements is protected from unlimited alteration, and tracking is required when changes are made. In addition, tracking history is readily made available to users of financial statements (this would include the case, for example, submission of a correction report is required whenever corrections are made, and that correction report is made available on the web-site together with the original document.);

    (d) Information which is cross-referenced is easily identifiable from the rest of the information, and such information has the same level of reliability relative to the information presented in the financial statements; and

    (e) The use of cross-references would not significantly undermine the usefulness of information to users of the financial statements. The usefulness of information would be impaired, when:

        (i) The information is highly interrelated with the other information, and it is likely that users would benefit from reading the information from a single location. Sometimes, users would be disadvantaged from reading information presented in multiple locations;

(ii) Referencing is made to a number of documents, such that it is likely that users would need to spend unreasonable amount of time to search for the referenced information;

(iii) The referenced information includes further references to information in other documents, such that tracing the information would be overly burdensome; or

(iv) The referenced information is not easily made available, for example through web-access. Even if there is a reasonable expectation that the referenced information will be easily made available on an entity's web-site on a reporting period end, there is a risk that the referenced information would be lost due to unusual and significant events (for example, when significant business combinations occur). On the other hand, there would be a high expectation that the referenced information will continue to be made available, if such information is contained in a report published at the domain of public authority (such as, the SEC's EDGAR system).

Question 5: Do the decision questions in Appendix A identify the information appropriate for the Board to consider requiring for disclosure when setting standards related to line items and other past events and current circumstances and conditions that can assist resource providers in their decision making?

32. As stated in paragraph 12 of this letter, the ASBJ believes that the decision questions should be included as part of a standard-setter's protocol rather than as part of the Conceptual Framework. In addition, as stated in paragraph 16 of this letter, the ASBJ believes that decision questions proposed in the ED can be tailored to fit within the complete decision making process.

33. Nevertheless, the ASBJ provides the following comments so as to improve each of decision questions.

Decision Questions regarding Line Items

34. Paragraph D38 of the ED provides examples of additional types of information that would be useful for some line items in some circumstances. The ASBJ finds that these examples could be useful for the FASB in considering what should be disclosed. However, the relationship between these examples and the disclosure examples shown in Appendix-A is unclear. The ASBJ recommends that the FASB clarify the relationship possibly by incorporating these examples into the decision questions.

35. The ASBJ also believes that each of the decision questions can be improved by the following:

(a) Providing reasons for each question in more detail; and

(b) Providing an explanation about the expectation (or likelihood) of responses to the questions resulting in or requiring specific disclosures. While the ED provides the likelihood for some questions (for example, footnotes 14 and 15 of the ED), these descriptions are not complete. For example, the ASBJ thinks that requiring the disclosures explained in L10 is likely to be infrequent, because the ASBJ believes that the notes to the financial statements should not be designed to remedy the shortcomings of the information presented on the face of financial statements.

Decision Questions regarding Information about Unrecognized Items

36. Consistent with the comment stated in paragraph 34 of this letter, paragraph D57 of the ED and disclosure examples contained in Appendix-A of the ED are unclear. The ASBJ recommends that the FASB consider clarifying the relationship between these paragraphs and examples. In addition, considering the similarity in nature of Questions O1 to O3, the ASBJ thinks that these questions could be usefully combined into a single question.

37. In addition, the ASBJ thinks that paragraph D57 includes information that would be better placed outside the financial reports (for example, uncertainty about an entity's ability to maintain a qualified work force and suitable physical facilities). The ASBJ recommends that the FASB further consider the appropriateness of examples in light of this viewpoint.

Question 6: Does the discussion in paragraphs D43–D50 identify the information appropriate for the Board to consider when setting standards related to information about the reporting entity?

38. The ASBJ generally agrees with the discussion in paragraphs D43 to D50, which explains which information about the reporting entity should be disclosed in the notes to the financial statements. However, the ASBJ suggests that the following matters could be improved.

(a) Information about the entity and its activities: The ASBJ thinks that information about the entity and its activities is often disclosed extensively in other parts of the annual reports (for example, MD&A section), and thus wonders what types of information is envisaged in this category. The ASBJ assumes that the information included in this category is intended to help users to understand financial statements (including significant accounting policies), and suggests that the FASB give more explanation to clarify the effect of these disclosures.

(b) Information about related parties and related party transactions: The ASBJ thinks that descriptions of information about related parties and related party transactions could be improved by giving a clear anchor to the conceptual discussion. Specifically, information about related parties and related party transactions may not be helpful for users to assess the prospects for future net cash inflows to an entity, because related party transactions are not necessarily carried out as part of orderly transactions. Even if such information is not necessary for that purpose, the information may be helpful for other purposes such as to assess the stewardship of management of an entity (for example, remuneration to management).

(c) Segment information: The ASBJ believes that segment information is part of the information that represents disaggregaton of legal entities, and thus suggests that title of the section be changed from "disaggregation of legal entities and segments" to "disaggregation of legal entities including segments".

(d) Significant accounting policies: The ASBJ finds that there is no description regarding significant accounting policies in the ED. The ASBJ believes that significant accounting policies (such as scope of consolidation) are very important as they relate to a reporting entity, and thus recommends that the FASB include such description as an example of information relating to a reporting entity.

Question 7: Will the concepts related to future-oriented information (paragraphs D22–D31) result in disclosures that are appropriate for the notes? If not, what types of information should be included in or excluded from consideration for disclosure in the notes?

39. The ASBJ generally agrees with the analysis in the ED that it may be appropriate for the FASB to consider some disclosure requirements, while it is not always necessary to do so.

40. However, when discussing future-oriented information, the ASBJ believes that it would be appropriate to provide analysis with greater emphasis given to the qualitative characteristics of financial information. Specifically, the ASBJ thinks that a unique feature of financial statements (as compared with other financial information) is that financial statements are often audited by independent auditors for the purpose of enhancing confidence in their reliability[1], and that it would be very desirable if the information contained in financial statements was verifiable.

41. Accordingly, the ASBJ suggests that the FASB discuss "verifiability" as part of the limitations on information in the notes to the financial statements. This notion of

[1] This feature was explained in paragraph 8 of the Statement of Financial Accounting Concepts No.1, *Objectives of Financial Reporting by Business Enterprises*, which was superseded in 2010.

"verifiability" together with the discussion on the boundary of financial reports would help better explain what future-oriented information should be presented in financial statements. In the following paragraphs, the ASBJ provides our analysis on information explained in the ED that the FASB may find it relevant to consider in some cases.

Existing Plans and Strategies related to Matters within Management's Control

42. The ASBJ thinks that information about an entity's plans and strategies should normally be located outside of the financial statements, because the financial statement are generally prepared on the basis of past transactions and events. The ASBJ agrees that the explanation in paragraph D28 of the ED that some plans that exist as of the reporting date (for example, the sale of a long-lived asset) should be disclosed. However, the ASBJ does not agree that this is because such plans or strategies are within management's control. Rather, the ASBJ thinks such disclosures are expected to be necessary, because such plans would provide the basis for users to understand why a measurement basis consistent with the current usage was not selected for the measurement of items on the face of the financial statements.

43. In addition, the ASBJ thinks that the decision as to whether plans or strategies are within management's control is very ambiguous. Accordingly, the ASBJ does not suggest that the FASB use this notion as the basis for disclosing some plans or strategies in the notes to financial statements.

Effect of Specified Future Changes in Existing Conditions

44. Information about the effect of specified future changes in the existing conditions of specific line items or of the entity as a whole has the potential of making a difference in the users' decisions, while faithful representation is difficult to achieve. This is because specified future changes in existing conditions would normally give rise to knock-on effects on various items. However, it would be very difficult to satisfy the needs of verifiability, if such resulting effects are considered. Therefore, such information would normally be considered better placed outside of the financial statements.

45. However, if the FASB determines that information about the effect of specified changes in the existing conditions is essential for users to assess the prospects for future net cash inflows to an entity, the ASBJ thinks that the following conditions should be considered in determining the relevant disclosure requirements:

    (a) Even if in reality there are cyclical effects for changing one parameter of financial information to others (for example, changing a parameter may give rise to changes in another parameter, which has an effect of changing relevant other parameters), these cyclical effects should be ignored so as to ensure verifiability;

(b) The use of particular assumptions should be specified in the disclosure requirements in a greater detail, so as to enhance comparability of the resulting information, and

(c) The amount is described clearly and accurately as being an estimate, and the nature and limitations of the estimating process are explained so as not to mislead users.

Question 8: Do the concepts in this chapter appropriately distinguish the types of information that are appropriate for the notes from the analysis management provides in other communications?

46. As stated in paragraphs 8 to 10 of this letter, the ASBJ believes that the concepts in this chapter do not sufficiently distinguish between the types of information that are appropriate for disclosure in the notes and the analysis management provides in other communications.

Question 9: Are the concepts related to disclosure requirements for interim periods (paragraphs D60–D71) appropriate? If not, are there concepts that should be added or removed?

47. The ASBJ agrees with the descriptions of interim reporting in the ED, in particular the following respects:

    (a) That the interim periods for which financial statements are prepared should be viewed primarily as an integral part of annual periods (see paragraph D61 of the ED).

    (b) That the financial statements for interim periods generally are not designed to be a full set of general purpose financial statements as are annual financial statements (see paragraph D61 of the ED).

    (c) That notes of financial statements for interim periods are intended to convey new information or information about significant changes to matters discussed in the notes to the most recent annual financial statements (see paragraph D62 of the ED).

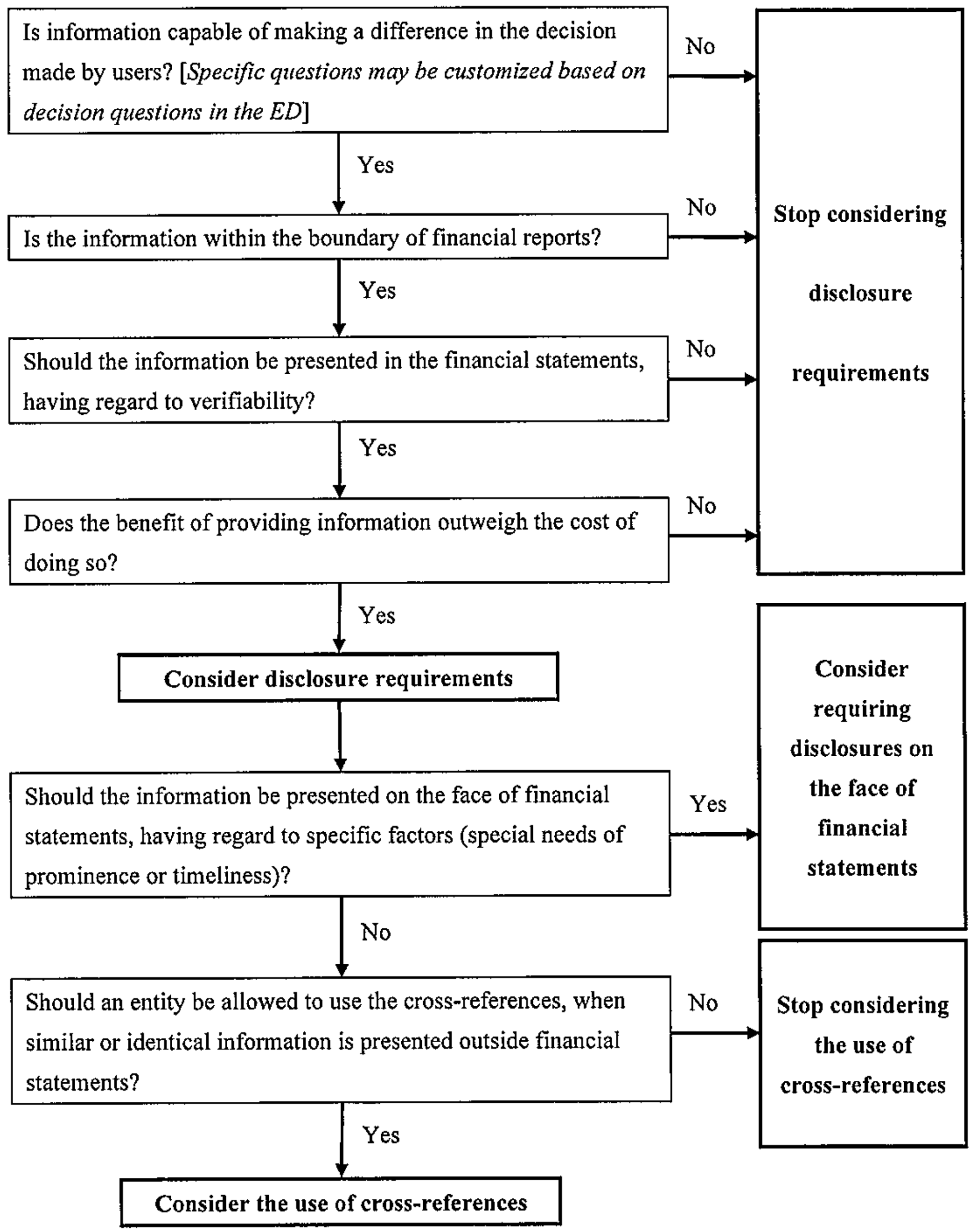
48. However, the ASBJ provides the following comments.

    (a) As stated in paragraph 28 of this letter, the ASBJ thinks that a limited period of preparation time imposed by a specified financial reporting deadline may constitute cost-constraint, and this is paramount in interim reporting where the reporting period is often shorter, with emphasis given to timeliness of the information. Although paragraph D61 of the ED touches on 'timeliness', the ASBJ thinks that a more comprehensive description in light of the cost-constraint would be helpful for the FASB when deciding disclosure requirements in its standard-setting activities.

(b) Paragraph D69 of the ED explains that information may need to be included in the notes to interim-period financial statements, even if it can be estimated or is discernible from other information, if it is especially important to the assessment of cash flow prospects (e.g., detailed information about revenues). The ASBJ is unsure why additional information is particularly helpful to the assessment of cash flow prospects, when that information can be estimated or is discernible from other sources. The ASBJ thinks that this presumption can be managed with better formatting and ordering of the notes as well as improved connectivity of information already provided.

Appendix-II

Decision process with regard to disclosure requirements



Appendix-III

Possible Scoping of Notes to Financial Statements (excluding notes regarding a reporting entity)[2]

	Event occurred before the period-end or conditions and circumstances existed as of the period-end			Event occurred after the period-end or conditions and circumstances did not exist as of the period-end	
	← Recognized on FS →		←	Unrecognized →	
	Items estimated using inputs	Other recognized items	Unrecognized items	Items relating to non-adjusting subsequent events	Others
Category	**A**	**B**	**C**	**D**	**E**
Numerical depiction of items *1	✔	✔	✔	✔	✘
Explanatory descriptions of items *2	✔	✔	✔	✔	✘
Descriptions of factors that may affect quality of items *3	✔	✔	✔	✘	✘
Descriptions of plans or strategies *4	✘	✘	✘	✘	✘
Measurements using an **alternative measurement basis** *5	✘	✔ (Limited situations)	✘	✘	✘
Measurements using an **alternative input** *6	✔ (Limited situations)	✘	✘	✘	✘
Measurements following an **alternative accounting policy** *7	✔ (Limited situations)	✔ (Limited situations)	✘	✘	✘

[Legend]

✔: Disclosures of relevant matters should be included in notes to financial statements.
✘: Disclosures of relevant matters should not be included in notes to financial statements.

*1: This may include disaggregation of line items, a reconciliation of the opening and closing balances for an account for the period and segment information.
*2: This may include the nature of line items or a process used to determine the numerical depiction of items (whether recognized or disclosed).
*3: This may include descriptions of risk exposures and measurement uncertainty of items (whether recognized or disclosed).
*4: Please see paragraphs 42 and 43 of this letter for reference.
*5: This may include situations where FV disclosure is deemed to be essential, even where an item is measured at cost.
*6: This may include sensitivity analysis of items (including VaR information).
*7: There would not be many disclosures that fall under this category. Exceptions may include, for example, when there are changes in accounting policies.

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[2] This table illustrates whether the subject information should be disclosed in notes to financial statements or outside, having regard solely to nature of items. As explained in Appendix-II, standard-setters will consider whether the benefits of disclosure would overweigh the cost of doing so in standard-setting process.