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20 April 2009

Sir David Tweedie
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir David:

re: Comments on "Request for Views"

The Corporate Accounting Committee (CAC) of the Securities Analysts Association of Japan (SAAJ) is pleased to comment on the International Accounting Standards Board (IASB or the Board)'s "Request for Views on Proposed FASB Amendments". SAAJ is a not-for-profit organization providing investment education and examination programs for securities analysts. Its certified members exceed 23,000. The CAC is a standing committee of SAAJ composed of 13 members, most of whom are users including equity and credit analysts, and portfolio managers, while a few are academicians and certified public accountants.

General Comments

The request concerns staff position papers (FSPs) of the Financial Accounting Standards Board (FASB)—and it should be noted that it is quite unusual for the IASB to request opinions on FSPs from its constituents. However, as the IASB and the FASB agreed last October to cooperate in the face of the financial crisis, it is anticipated that the IASB will soon be pressed by some of its stakeholders to adopt similar measures taken by the FASB. In this regard, the CAC thinks it considerate and appropriate for the IASB to request its constituents' opinions in advance. The request has a one-month comment period, which should be applauded, at least compared to only a two-week period for FSPs. It is practically impossible for an organization whose members' mother tongue is not English to issue a comment in a fortnight.

During deliberations at the CAC, many members supported the FSP on fair value measurement but very few the FSP on impairment.

The CAC agreed that the IASB should develop, in consultation with the FASB, a common and consistent standard on the valuation of financial instruments. However, as such development will take some time, about half of the members suggested the IASB should take necessary measures immediately in order to secure the comparability of financial statements. Below are our comments on major issues.

Fair Value Measurement

The CAC thinks FSP 157-4 will lead to the expanded usage of Level 3 ‘mark-to-model’ valuations. In analyzing the liquidity/marketability of assets, exit value is the key. In this respect, it is ideal to use transaction prices or quoted prices no matter whether the market is inactive and/or trading is distressed. However, in terms of the risk resilience of financial institutions, recognizing unrealistic losses will result in the excessive depletion of the capital of such institutions, which might mislead many investors. Financial institutions are most significantly influenced by the valuation of financial instruments, and risk resilience is one of the most important keys in financial analysis of said institutions. Considering recent developments in financial markets, the CAC agrees to expand the use of Level 3 ‘mark-to-model’ valuations with elaborated guidelines.

Several members pointed out that some related points need to be disclosed if the proposed FSP were actually adopted. In this regard, the CAC welcomes the final FAS released on 9 April in that it incorporates the disclosure of valuation models, inputs, and, in the period of adoption, the quantification of the total effect, as being a response to user demands.

During deliberations, one member expressed a view that the FSP offers reasonable expansion of Level 3 valuation for instruments traded in temporarily inactive markets due to recession, etc. The member, however, raised concern that the FSP also paves the way for easy and lenient application of mark-to-model valuation to instruments which are always traded inactively because of structural problems such as limited number of participants or underdeveloped trading system, etc.

Another member asserted that Level 3 valuation should be separated from fair value measurement and should be restructured as a rule for impairment. Use of Level 3 valuation is practically limited to downward revision of book value, where not fully recoverable book value is reduced to a self-estimated recoverable amount, which is similar to impairment. Therefore, when instruments fall to Level 3, then those instruments should be transferred to another category where assets are not marked to market, but are subject to impairment tests.

Impairment

The vast majority of CAC members are against FSP 115-2 because of the following three reasons. First, we could not identify sufficient advantage in an attempt to try to protect and preserve net income by moving non-credit impairments to OCI (other comprehensive income) rather we feel such a measure would damage investor confidence. Second, distinction between credit and other risks is practically difficult. Third, the redefinition of intention and ability to hold is rather vague. Some members agreed to the opinions of Messrs. Linsmeier and Siegel as shown in the FSP.

A few members who supported the FSP cited that under current financial market conditions, prices are far below those suggested by theory, thus the proposed changes could be understood as necessary to avoid possible excessive market reaction.

One member mentioned that the new rule separates bond impairment from fair value measurements, resulting in inconsistency with loan assets which are not subject to fair value measurements, and the resolution of this discrepancy should have priority.

IASB's Response

In response to the FSPs, the following are possible options for the IASB:

A. *Make necessary changes quickly to secure a level playing field.*

B. *Make new comprehensive and common standards as manifested by the IASB-FASB joint statement in mid-March and endorsed by the IASCF trustees in early April.*

C. *Do both A and B above.*

Opinions are divided, but C gets the most support. Many feel obliged to support C as B takes some time while A is also necessary as an interim measure in order to secure comparability of financial statements.

The IASB must be under substantial pressure from various stakeholders to take quick action, but the CAC expects the Board will make every effort to provide it with enough time to ponder any forthcoming new proposals.

Should you have questions or need further clarification, please contact Mr. Sei-Ichi Kaneko, Executive Vice President, SAAJ (s-kaneko@saa.or.jp).

Sincerely yours,

Keiko Kitamura

Keiko Kitamura
Chair
Corporate Accounting Committee