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

Dear Sir David:

re: Comments on Exposure Draft
"Measurement of Liabilities in IAS 37"

The Corporate Accounting Committee (CAC) of the Securities Analysts Association of Japan (SAAJ) is pleased to comment on the exposure draft, "Measurement of Liabilities in IAS 37", put out by the International Accounting Standards Board (the Board). The 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 the SAAJ composed of 14 members, most of whom are users including equity and credit analysts, and portfolio managers, while a few others are academicians and public accountants.

Expected Value Model

In the first place, the CAC wishes to comment on the use of expected value in the measurement of liabilities. Although comments are not invited on this point, the CAC dares to express its opinion on this important subject. In particular, the CAC believes expressing views on the matter is necessary so that it can responsibly contribute to the formation of an international consensus, especially since it missed commenting on the 2005 Exposure Draft.

Opinions are divided, but a majority of members are against the sole use of the expected value model. While the model would be effective for those liabilities that often occur such as loan losses of a diversified portfolio, usefulness of the model is questioned for a liability that doesn't often occur and with huge differences in loss amounts, such as a litigation liability. For example, consider a litigation liability comprising a 10CU loss with 95% probability and a 100CU loss with 5% probability. The CAC thinks recognizing a 10CU provision with a note disclosing a potential maximum loss of 100CU much more useful information than the expected loss of 14.5CU.

Minority members think the expected value model better reflects economic realities, but they echo the majority that detailed disclosure, including assumptions of expected

value calculation and the mode, is necessary.

Following are the CAC's opinions on specific issues.

Question 1 – Overall requirements

The proposed measurement requirements are set out in paragraphs 36A–36F. Paragraphs BC2–BC11 of the Basis for Conclusions explain the Board's reasons for these proposals.

Do you support the requirements proposed in paragraphs 36A–36F? If not, with which paragraphs do you disagree, and why?

The CAC's opinions on paragraphs 36A-36F are divided. Most members who do not support 36A-36F cited the same problems as mentioned regarding the sole use of expected value. Some are concerned that the definition of "the amount it would rationally pay" is not detailed enough for practical application. One member opined that although Question 1 is titled "Overall requirements", re-exposing a portion of the 2005 Exposure Draft is not appropriate from the viewpoint of due process, considering the economic changes and widespread use of IFRS after initial exposure, and that therefore the "overall" Exposure Draft should have been re-exposed.

Members who support 36A-36F think these paragraphs are clear enough as to what liabilities to measure and how to measure them.

Question 2 – Obligations fulfilled by undertaking a service

Some obligations within the scope of IAS 37 will be fulfilled by undertaking a service at a future date. Paragraph B8 of Appendix B specifies how entities should measure the future outflows required to fulfil such obligations. It proposes that the relevant outflows are the amounts that the entity would rationally pay a contractor at the future date to undertake the service on its behalf.

Paragraphs BC19–BC22 of the Basis for Conclusions explain the Board's rationale for this proposal.

Do you support the proposal in paragraph B8? If not, why not?

The CAC does not support the proposal in paragraph B8(b). The margin for the service the entity undertakes would never generate cash. When a market doesn't exist, proper calculation of margin is difficult. Without a market, entities may arbitrarily manipulate the margin. The model proposes recognizing profit when the obligation is performed, which is misleading rather than providing additional information for

financial statement users. The proposal may be intended as fair value measurement of the obligation on the balance sheet, but the information value of the balance sheet will not be enhanced by the proposal. Corporate accounting should not allow the entity to recognize internally generated profit just as recognition of internally generated goodwill is not being allowed.

Risk Adjustments (B15-B17)

The majority of the CAC think risk adjustment necessary when expected value is used. For example, assume an obligation comprising a 99CU loss with 50% probability and a 101CU loss with 50% probability and another obligation of a 1CU loss and 199CU loss each with 50% probability. Applying the expected value of 100CU to both obligations may mislead investors. When the latter obligation is isolated and therefore cannot be treated under the law of large numbers, certain adjustment is inevitable. Detailed guidance should be provided so that adjustment will not be arbitrary.

Some members who are against adjustment do not believe a rational method of adjustment is possible.

If you have any questions or need further elaboration, please do not hesitate to contact Sei-Ichi Kaneko, Executive Vice President, SAAJ (s-kaneko@saa.or.jp).

Sincerely yours,

Keiko Kitamura
Chair
Corporate Accounting Committee