



9 March 2011

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

Dear Sir David:

re: Comments on Exposure Draft
“Hedge Accounting”

The Corporate Accounting Committee (CAC) of the Securities Analysts Association of Japan (SAAJ) is pleased to comment on Exposure Draft “Hedge Accounting” put out by the International Accounting Standards Board (IASB). The SAAJ is a not-for-profit organization providing investment education and examination programs for securities analysts. Its certified members number 24,000. 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. The CAC writes comment letters to global standard setters including the International Accounting Standards Board (IASB) and Accounting Standards Board of Japan (ASBJ), and exchanges opinions with organizations including the ASBJ and the Financial Services Agency.

General Comments

Accounting standards should be designed to reflect the risk management of corporations that utilize hedging in such a way that investors can make appropriate investment decisions. In this regard, the CAC welcomes the exposure draft as an improvement over IFRS39. The introduction of the ‘rebalancing’ concept and changes in fair value hedges will make it easier to understand corporate risk management activities. However, the CAC thinks the scope of the exposure draft is limited and some technical improvements are needed. Following are our answers to specific questions.

Question 1 Objective

The CAC opposes limiting the objective to ‘risks that could affect profit or loss’ (paragraph 1). Hedging owner’s equity is a rational corporate behavior which should be

accommodated in accounting standards. For Japanese companies to hedge FVOCI equities is an issue. The CAC recommends valuing the hedge instruments in OCI and to account for ineffectiveness in profit or loss (over hedge) or OCI (under hedge). An alternative is to permit the recycling of FVOCI equities upon sale, which the CAC has been asserting for quite for a while.

One member opined that as FVOCI equities are often held for the cross-holding of shares, which is not an effective use of corporate assets, he is against the above recommendation which may encourage such cross-holding.

Question 13 Disclosures

The CAC proposes adding the following to paragraph 44 as arbitrary changes in hedging strategies will make corporate analysis difficult:

- (d) rationale and details of hedging strategy changes, when applicable.

Question 15 Credit Derivatives

Credit risk is a significant risk, especially for financial institutions, therefore hedging utilizing credit derivatives should be developed further. As IFRS9 recognizes credit risks even in financial liabilities, it is inconsistent if hedge accounting does not permit the use of credit derivatives. Some members, however, think credit derivatives' unique pricing mechanism would not make them appropriate hedging instruments.

Open Portfolio Hedges

As open portfolio hedges are widely used, new standards to accommodate the practice should be drafted as soon as possible. In this regard, one member opined that the bottom layer approach should be permitted for hedged items with prepayment options in the current exposure draft in order to allow flexible hedging for open portfolios.

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