



16 July 2010

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

Dear Sir David:

re: Comments on Exposure Draft
“Fair Value Option for Financial Liabilities”

The Corporate Accounting Committee (CAC) of the Securities Analysts Association of Japan (SAAJ) is pleased to comment on the exposure draft, “*Fair Value Option for Financial Liabilities*” 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.

Question 7

Do you agree that gains or losses resulting from changes in a liability’s credit risk included in other comprehensive income (or included in equity if you responded ‘yes’ to Question 6) should not be reclassified to profit or loss? If not, why and in what circumstances should they be reclassified?

The CAC basically supports the proposals in the exposure draft, but opposes Question 7. The CAC thinks that when an entity repays an amount other than the contractual amount of the liability and gains or losses are recognized, then the amount should be reclassified.

The exposure draft puts forward the following two reasons as rationale to prohibit reclassification.

(1) If the entity repays the contractual amount, there would be no amounts to recycle because the cumulative effect over the life of the instrument of any changes in the liability’s credit will net to zero because its fair value will equal the contractual amount.

Therefore, *for many liabilities*, the issue of recycling is irrelevant. (BC39, emphasis by the CAC.)

(2) Gains or losses should be recognized only once. (BC37)

In regard to the first point, the CAC thinks that whether to recycle or not is an issue related to a fundamental principle of accounting and therefore the number of occurrences is irrelevant. It is inappropriate to create a non-recycling precedent based solely on probabilities, dispensing with a thorough conceptual debate on the matter as Jan Engström has pointed out (see below).

In regard to the second point, the CAC thinks there is a significant difference in terms of hardness of information between the amount that is recognized in OCI but continues to fluctuate, and the amount that is realized and settled. The profit or loss realized by sale will never change in value and it is a hard number backed by cash.

Both in Japanese GAPP and US GAPP, recognized gains or losses in the OCI are recycled when realized. The Board's philosophy of "Gains or losses should be recognized only once." is against this practice. In this regard, the CAC fully supports Jan Engström's alternative view in the exposure draft "Presentation of Items of Other Comprehensive Income" as quoted below:

A thorough conceptual debate should take place to determine what should be presented as other comprehensive income and when and which items presented as other comprehensive income should be reclassified to profit or loss. (AV3)

The IASB should pursue a thorough consideration of the definition of income or profit in the conceptual framework project as soon as is practical. Unless and until a conclusion is drawn, it should refrain from changing the nature of net income based on the rationale "Gains or losses should be recognized only once." which is not supported by its stakeholders.

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