



30 September 2010

Mr. Russell G. Golden  
Technical Director  
Financial Accounting Standards Board  
402 Merritt 7  
Norwalk, CT 06856-5116  
USA

Dear Mr. Golden:

**re: Comments on Exposure Draft**  
**Accounting for Financial Instruments and Revisions to the**  
**Accounting for Derivative Instruments and Hedging Activities**

(File Reference No. 1810-100)

First of all, please accept our hearty congratulations on your appointment to the Board effective 1 October 2010. We anticipate that your appointment will further accelerate the convergence of US GAAP and IFRS.

The Corporate Accounting Committee (CAC) of the Securities Analysts Association of Japan (SAAJ) is pleased to comment on the exposure draft, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities* put out by the Financial Accounting Standards Board (FASB). The SAAJ is a not-for-profit organization providing investment education and examination programs for securities analysts. Its certified members exceed 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 Default Measurement Attribute for Financial Instruments (Question 13)**

The CAC does not believe that the default measurement attribute should be fair value. Instead, it supports the mixed measurement attribute model, as proposed by the International Accounting Standards Board (IASB), which takes into account holding purposes with respect to financial instruments. The CAC thinks recognizing periodic changes in the fair value of financial instruments, which are not held for trading purposes and which will most certainly be held until maturity or for a very long period, would result in undesirable volatility in net income or accumulated other

comprehensive income (AOCI). Fair value information is sometimes useful in corporate analysis, but in most cases it is sufficient to show the information in a note.

In June 2010, the SAAJ conducted a comprehensive survey of members' opinions regarding accounting issues for the first time in five years.\* Two questions specifically focused on financial instruments. As shown below, for both questions, the majority preferred the IASB model to the FASB one.

**Question Regarding Valuation of Financial Instruments**

The IASB permits using the amortization cost method for certain bonds and loans which are not held for trading purposes. The FASB proposes fair value measurement for these instruments (included in OCI and recycled when realized). Which method do you support, the IASB one or the FASB one?

A Support the IASB method which takes holding purposes into account.	63.5%
B Support the FASB method which applies fair value measurement to all financial instruments.	32.3%
C Other	4.2%

**Question Regarding Strategic Equities**

The IASB proposes measuring strategic equities at fair value (included in OCI, not recycled upon sales). The FASB proposes measuring all equities at fair value and recognizing gains and losses on the P/L statement. Which method do you support, the IASB one or the FASB one?

A Support the IASB method. Recognizing fair value changes in strategic equities on the P/L would make net income too volatile.	38.3%
B Basically support the IASB method but sales gains and losses should be recycled to net income.	37.2%
C Support the FASB method.	19.9%
D Other	4.6%

**Prohibition of Reclassification (Question 16)**

As mentioned above, the CAC thinks financial instruments should be measured, taking holding purposes into account. Hence, it thinks reclassification should be required when holding purposes are altered because of changes in the business model of an entity.

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\* A questionnaire was sent to 17,363 members by e-mail. 690 responded, making for a 4.0% response ratio.

### **Concluding Remarks**

Many financial statement users in Japan have serious concerns that despite the long and intensive efforts toward convergence based upon the MoU between the FASB and the IASB, such huge divergence as outlined above remains with respect to this important financial instruments project. The CAC understands that some financial statement users in the US advocate full fair value measurement but such views are not shared by all users around the world. The FASB is not only a domestic financial standards setter for the US, but is also a joint developer, with the IASB, of the single set of financial standards to be used globally. The CAC respectfully asks the FASB to listen to the voices of the global stakeholders and to come to a final decision that would achieve convergence of accounting standards for financial instruments.

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