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July 16, 2004

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

Dear Sirs,

Comments on the Exposure Draft of Proposed Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* “Fair Value Option”

Accounting Standards Board of Japan (ASBJ) is pleased to comment on the Exposure Draft of Proposed Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* “Fair Value Option”. The views expressed in this letter are those of International Issues Standing Committee of ASBJ.

First of all, as we expressed concerns on our comment letter as of October 9, 2002, we do not agree with the fair value option itself, because it is inconsistent with the basic approach of IAS 39 that requires an entity to account for financial instruments in line with holding purposes. However, we would like to comment within the extent of the proposals in this Exposure Draft.

Question 1

In light of the above view, we agree with the limitation of scope to use the fair value option.

Question 4

We believe that the problem of difficulty in measuring a financial asset or financial liability that contains one or more embedded derivatives should be properly solved by adding the following sentence to the paragraph 11 of IAS 39, “an entity may measure a financial asset or financial liability that contains embedded derivatives to be separated in accordance with this paragraph as a whole, only if it cannot be measured easily as each individual item.” Therefore, we suggest making such amendment in paragraph 11 and removing the proposed requirement of paragraph 9 (b)(i).

We have a concern that the proposed amendment in paragraph 9 (b)(i), which allows any financial assets and liabilities that contain embedded derivatives to be measured at fair value using the fair value option, whether or not paragraph 11 requires the embedded derivative(s) to be separated, because it might unexpectedly broaden the scope of application and lead to the abuses beyond the purpose of easing the application of IAS 39.

Question 6

1. We believe that the proposed amendment described in paragraph 9(b)() should be removed, as well as the proposed paragraph 9(b)(i), regarding the Question 4.

We doubt the necessity of the proposed paragraph 9(b)(), because inclusion of the condition of “verifiable” makes it difficult to apply the fair value option for loan and receivables, and the proposed paragraph 9(b)() allows to apply to the fair value option to all financial assets other than loan and receivables as long as their fair values are verifiable. Moreover, we are afraid that the ambiguity of the condition of “substantially offset” may cause practical problems.

2. We believe that the proposed requirement regarding to the prudential supervision should be removed.

We believe that the proposed requirement in the end of paragraph 9, regarding to the prudential supervision, should be removed because such wording is inappropriate for the Accounting Standard. The proposed paragraph BC 11 states that this sentence merely notes powers that supervisors may already have and does not confer any additional powers on them. If so, we still more strongly believe such sentence should be removed. We agree with the alternative view described in the paragraph AV 7.

We hope that our comments will contribute to the work of the IASB in arriving at its final decision.

Best Regards,

Ikuo Nishikawa
Chairman, International Issues Standing Committee
Vice-Chairman, Accounting Standards Board of Japan