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12 December 2008

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

Dear Sir/Madam

Comment Letter

Re: Exposure Draft *Improving Disclosures about Financial Instruments* of Proposed Amendments to IFRS7 *Financial Instruments: Disclosures*

We appreciate the efforts of the International Accounting Standards Board (IASB) on the Improving Disclosures about Financial Instruments project and welcome the opportunity to comment on the Exposure Draft *Improving Disclosures about Financial Instruments (Proposed amendments to IFRS7)*. The views described below are those expressed by the Financial Instruments Technical Committee of the Accounting Standards Board of Japan (ASBJ). In the Technical Committee, as part of our convergence project, we are also deliberating on the replacement of existing standards on financial instruments and on the development of fair value measurement guidance.

1. General Comments

(1) We agree with the proposals of the Exposure Draft that are to enhance disclosures about fair value measurements and the liquidity risk of financial instruments in response to requests by users of financial statements and others.

(2) We believe that amending IFRS7 *Financial Instruments: Disclosures* to require disclosures similar to those included in Statement of Financial Accounting Standards No.157 *Fair Value Measurements* (SFAS157) issued by the US Financial Accounting Standards Board (FASB) would reduce differences between International Financial Reporting Standards (IFRS) and US GAAP, and thereby that might result in increasing convergence between IFRS and US GAAP.

2. Responses to the Invitation to comment

The following descriptions are our detailed comments on the specified questions set out in the Invitation to comment in the Exposure Draft. We hope that you find our comments helpful to your forthcoming deliberations in the project. The questions with the Exposure Draft that we did not provide any responses are not described below.

Fair Value Disclosures

Question 1 – Use of a fair value hierarchy:

Do you agree with the proposal in paragraph 27A to require entities to disclose the fair value of financial instruments using a fair value hierarchy? If not, why?

Response:

1. We agree with the proposal in paragraph 27A. We believe that requiring entities to disclose the fair value of financial instruments using a fair value hierarchy would not only improve consistency and comparability of fair value measurements by entities, but also provide users of financial statements with information about the effects of fair value measurements that use subjective inputs.

Question 2 – Proposed three-level fair value hierarchy:

Do you agree with the three-level fair value hierarchy as set out in paragraph 27A? If not, why? What would you propose instead, and why?

Responses:

2. We agree with the three-level fair value hierarchy as set out in paragraph 27A, because it would codify the fair value hierarchy as implied in existing IAS39. In addition, the proposal might contribute to convergence between IAS39 and SFAS157, since the fair value hierarchy (three-tiered approach) in SFAS157 seems to be broadly consistent with that in IAS39 though the exact wording in SFAS157 is not used in IAS39.
3. We would like to recommend that more detailed description of each hierarchy level (level 1 to level 3) should be added to the descriptions presented in paragraph 27A(a)-(c) for the purpose of promoting a better understanding as to the three-level fair value hierarchy. In this connection, as stated in paragraph 23 of SFAS157, it would also contribute to a better understanding of users as to the three-level fair value hierarchy to state explicitly as an attention in the Basis for Conclusions of the Exposure Draft that the fair value hierarchy does not prioritize the valuation techniques but prioritizes the inputs to valuation techniques that are significant to the measurement.
4. However, considering the fact that the level in the fair value hierarchy into which the fair value measurements of financial instruments are categorized would likely depend on the nature of the financial instruments or on the market conditions where the financial assets or liabilities are transacted, some of us expressed a concern about the fair value hierarchy such that each interpretation of three-level hierarchy as described in paragraph 27A might not always be beneficial to users under certain circumstances such as a situation that almost all the inputs are categorized in level 3 hierarchy in the market as a whole.

Question 3 – Expanded disclosures:

Do you agree with the proposals in:

(a) Paragraph 27B to require expanded disclosures about the fair value measurements recognized in the statement of financial position? If not, why? What would you propose instead, and why?

(b) Paragraph 27C to require entities to classify, by level of the fair value hierarchy, the disclosures about the fair value of the financial instruments that are not measured at fair value? If not, why? What would you propose instead, and why?

Responses:

5. We agree with the proposal in paragraph 27B. Because level 3 inputs might reflect the entity's subjective assumptions, we consider that, in particular, the proposals in paragraph 27B(b) that require an entity to disclose changes in fair value using level 3 inputs during the period attributable to each description would provide additional information to users. Likewise, paragraph 27B(d) that proposes disclosures as to how the significant inputs of level 3 would affect fair values of the financial instruments would also provide additional information to users.
6. We understand that paragraph 27B(c) requires the same information as paragraph 27B(b)(i) but only for unrealized gains or losses. Therefore, we propose to clarify the background of paragraph 27B(c) and provide editorial comment that the term 'change' should be left out from the sentence 'change in unrealized gains or losses for assets held at the end of the reporting period' in paragraph IG13B.
7. It seems that paragraph 27B(b), that requires a reconciliation from the beginning balances to the ending balances for financial instruments which fair values are measured using level 3 inputs, includes not only financial instruments that are measured at fair value on a recurring basis, but also financial instruments that are measured at fair value on a nonrecurring basis. Whereas, under paragraph 32(c) of SFAS157, assets and liabilities that are measured at fair value using level 3 inputs on a nonrecurring basis are not subject to the similar disclosure requirements, and in our view, disclosing reconciliations for such items might not be effective. Therefore, disclosure requirements in paragraph 27B(b) should be required only for financial instruments that are measured at fair value using level 3 inputs on a recurring basis.
8. We agree with the proposal in paragraph 27C. However, we think that, for clarity purposes, it should be explicitly stated that fair value measurements of (a) financial instruments that are not recognized in the statement of financial position (such as loan commitment or financial guarantee) as well as (b) financial instruments that are recognized in the statement of financial position but not measured at fair value are subject to the requirement in paragraph 27C.

Liquidity Risk Disclosures

Question 5 –Maturity analysis for non-derivative financial liabilities:

Do you agree with the proposal in paragraph 39(b) to require entities to disclose a maturity analysis for non-derivative financial liabilities based on remaining expected maturities if the entity manages the liquidity risk associated with such instruments on the basis of expected maturities? If not, why? What would you propose instead, and why?

Responses:

9. If the entity manages liquidity risk for non-derivative financial liabilities on the basis of remaining expected maturities in addition to their remaining contractual maturities, the proposal in paragraph 39(b) would provide users with information about any discrepancies between their remaining expected maturities and remaining contractual maturities, and we believe that might be useful.
10. Considering the objective of liquidity risk disclosures as required in the Exposure Draft that is to emphasize the relationship between qualitative and quantitative disclosures about liquidity risk to ensure that users of financial statements are able to evaluate the nature and extent of the liquidity risk of the entity, it would be appropriate to add any specific explanations about qualitative disclosures in paragraph 39(c).

Question 6 –Definition of liquidity risk:

Do you agree with the amended definition of liquidity risk in Appendix A? If not, how would you define liquidity risk, and why?

Responses:

11. We agree with the proposal of the amended definition of liquidity risk in the Exposure Draft, which is to apply only to financial liabilities that will result in the outflow of cash or another financial asset. However, we would like to suggest that the existing term 'liquidity risk' should be modified to the term 'liquidity risk involving fund raising' in paragraphs 39, BC57 and BC58 as well as Appendix A so as to clarify that the proposal to amend the definition of liquidity risk is for financial liabilities.

We expect that our comments contribute to your forthcoming deliberations in the project.

Yours sincerely,

Ikuo Nishikawa
Chairman of the Financial Instruments Technical Committee
Chairman of the Accounting Standards Board of Japan