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September 25, 2009

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

Dear Sir or Madame,

Comments on IASB Exposure Draft
"Fair Value Measurement"

We appreciate the IASB's efforts on the Fair Value Measurement project for many years, and welcome the opportunity to comment on the Exposure Draft (ED) "Fair Value Measurement". The views in the following paragraphs are those of the Technical Committee for Financial Instruments within the Accounting Standards Board of Japan (ASBJ).

General Comments

1. We support the objective of the Fair Value Measurement project that is to codify, clarify and simplify existing guidance that is dispersed widely across International Financial Reporting Standards (IFRSs) by establishing a single source of guidance for all fair value measurements required by IFRSs.

2. We generally agree with the concept of the fair value measurement in the ED. However, the treatment of day one gains or losses on fair value at initial recognition (see paragraph 8 of this comment letter as a response to Question 9) is an issue of accounting, therefore that is beyond the scope of this project that consider a definition of fair value, a framework for measuring fair value and disclosures about fair value measurements.

3. Also, we recognise that it is important to consider issues relating to disclosure of fair value measurement (see paragraph 9 of this comment letter as a response to Question 11) in this project. In considering disclosure issues, because it may give rise to substantial cost to preparers, we believe that it is important to consider costs and benefits of providing

useful information to users of financial statements.

4. Regarding the scope of liability that is measured at fair value (see paragraph 7 of this comment letter as a response to Question 8), it should be deliberated with reflecting the development of discussion on the Discussion Paper "Credit Risk in Liability Measurement".

Responses to specific questions

(Question 1)

The exposure draft proposes defining fair value as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date' (an exit price) (see paragraph 1 of the draft IFRS and paragraphs BC15.BC18 of the Basis for Conclusions). This definition is relevant only when fair value is used in IFRSs.

Is this definition appropriate? Why or why not? If not, what would be a better definition and why?'

5. The definition of fair value in Japan is "the value which would be expected to be used in a voluntary transaction between independent third parties who have sufficient knowledge of the business". We conclude that this definition of fair value is generally consistent with the proposed definition of that in the ED. Therefore, we generally agree with the proposed definition of fair value.

(Question 2)

In three contexts, IFRSs use the term 'fair value' in a way that does not reflect the Board's intended measurement objective in those contexts:

(a) In two of those contexts, the exposure draft proposes to replace the term 'fair value' (the measurement of share-based payment transactions in IFRS 2 Share-based Payment and reacquired rights in IFRS 3 Business Combinations) (see paragraph BC29 of the Basis for Conclusions).

(b) The third context is the requirement in paragraph 49 of IAS 39 Financial Instruments: Recognition and Measurement that the fair value of a financial liability with a demand feature is not less than the amount payable on demand, discounted from the first date that the amount could be required to

be paid (see paragraph 2 of the draft IFRS and paragraph BC29 of the Basis for Conclusions). The exposure draft proposes not to replace that use of the term 'fair value', but instead proposes to exclude that requirement from the scope of the IFRS.
Is the proposed approach to these three issues appropriate? Why or why not? Should the Board consider similar approaches in any other contexts? If so, in which context and why?

6. In addition to the above mentioned contexts, we are aware that there may be some cases that an entry price (transaction price) is appropriate depending on the measurement objective. Generally, an entry price in acquiring an asset should be used to measure performance of the entity's investment. For example, when an entity acquires assets such as Property, Plant and Equipment in a business combination, we believe that the entry price should be used in measuring the allocation of the cost.

(Question 8)
The exposure draft proposes that:
(a) the fair value of a liability reflects non-performance risk, ie the risk that an entity will not fulfil the obligation (see paragraphs 29 and 30 of the draft IFRS and paragraphs BC73 and BC74 of the Basis for Conclusions).
(b) the fair value of a liability is not affected by a restriction on an entity's ability to transfer the liability (see paragraph 31 of the draft IFRS and paragraph BC75 of the Basis for Conclusions).
Are these proposals appropriate? Why or why not?

7. We need to distinguish between (a) the issue of whether non-performance risk should be included in fair value measurement of liabilities and (b) the issue of to what extent measures including credit risk should be used for liabilities. Although we acknowledge that non-performance risk would be included in fair value measurement if a liability should be measured at fair value, in our view, it is in very limited situations such as measurement of derivatives that use of fair value for remeasurement of liabilities would be appropriate.

(Question 9)

The exposure draft lists four cases in which the fair value of an asset or liability at initial recognition might differ from the transaction price. An entity would recognise any resulting gain or loss unless the relevant IFRS for the asset or liability requires otherwise. For example, as already required by IAS 39, on initial recognition of a financial instrument, an entity would recognise the difference between the transaction price and the fair value as a gain or loss only if that fair value is evidenced by observable market prices or, when using a valuation technique, solely by observable market data (see paragraphs 36 and 37 of the draft IFRS, paragraphs D27 and D32 of Appendix D and paragraphs BC76.BC79 of the Basis for Conclusions).
Is this proposal appropriate? In which situation(s) would it not be appropriate and why?

8. The treatment of day one gains or losses on fair value at initial recognition is an issue of a specific accounting treatment, therefore, that is beyond the scope of this project which considers a definition of fair value, a framework for measuring fair value and disclosures about fair value measurements. As it is mentioned in the Basis for Conclusions on the ED, the treatment is different from the one in US GAAP. Therefore, we expect convergence to be achieved on this issue through full deliberation in future.

(Question 11)

The exposure draft proposes disclosure requirements to enable users of financial statements to assess the methods and inputs used to develop fair value measurements and, for fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period (see paragraphs 56.61 of the draft IFRS and paragraphs BC98.BC106 of the Basis for Conclusions).
Are these proposals appropriate? Why or why not?

9. In considering disclosure issues, because it may give rise to substantial cost to preparers, we believe that it is important to consider costs and benefits of providing useful information to users of financial statements. We recommend that it is necessary to reconsider the following issues

especially.

(a) Regarding the scope of disclosure, while SFAS 157 requires to disclose the fair value hierarchy for assets and liabilities that are measured at fair value only on a balance sheet, the ED, however, proposes to disclose the hierarchy for assets and liabilities, including those for which the fair value is disclosed. Although this difference hasn't been mentioned as an issue which needs to be converged with FASB (see paragraph BC110 of Basis for Conclusion), it may give rise to additional cost to preparers. Therefore, it would be necessary to reconsider the scope of disclosure or the way of disclosure.

(b) While it might be difficult for preparers to classify assets and liabilities into level 2 or level 3 and disclose a reconciliation for the level 3 assets and liabilities, those disclosures would not provide useful information to users when entities classify the same instrument differently. Therefore it would be necessary to consider more sufficient guidance and the way of disclosure.

(c) It might give rise to overdue cost to preparers to disclose not net amount but each amount of purchases, sales, issues and settlement within level 3 assets and liabilities. Therefore it would be necessary to reconsider its costs and benefits.

(d) The ED proposes the guidance on allocating fair value of asset group into each individual asset to use "the value of the assets assuming their current use" and requires to disclose the value. However, if "the value of the assets assuming their current use", which is neither highest and best use nor value in use in impairment, has only a function as a basis of calculation in allocating the fair value, it would be less useful to disclose that value.

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

Yours sincerely,

Atsu Kato
Chairman of the Technical Committee for Financial Instruments
Board member of the Accounting Standards Board of Japan