Corporate Finance and Treasury Association of Japan
《企業の資金調達の円滑化に関する協議会》
5-16, TORANOMON 1-CHOME, MINATO-KU, TOKYO 105-0001, JAPAN

September14, 2009

International Accounting Standards Board (IASB)
30 Cannon Street
London EC4M 6XH, United Kingdom
Dear Sir/Madam

Comments on IASB Exposure Draft
Financial Instruments: Classification and Measurement

The Corporate Finance and Treasury Association of Japan (CFTAJ) appreciates this opportunity to comment on the Exposure Draft (ED) "*Financial Instruments: Classification and Measurement*".

We shall first describe the CFTAJ to facilitate your understanding of our position on this comment. The association is founded on 1992 and has the function of lobbying for policies through various institutions so that corporations can be smoothly financed. For example, our association played an important role in introducing electronic commercial paper in Japan. The association is currently composed of 55 corporations including manufacturing corporations, energy corporations, trading corporations, and leasing corporations.

We observe the development of accounting standards in terms of whether they can be used to make accurate reports to users of financial statements including investors, lenders, and so on. We think that the global convergence of pursuing simplicity for understanding of financial statements and comparability among corporations through financial statements contributes to users of financial statements, and agree with the basic concept of the convergence.

On the other hand, we are concerned about the change in accounting standards which may cause loss or confusion to users of financial statements. When the members of our association are financed, the members place particular emphasis on the priorities of investors. A lot of investors evaluate corporations on the basis of a Discounted Cash Flow Method in addition to an Adjusted Book Value Method and Multiple Method. Our suggestions for changing standards are set out as follows:

1. The range of "Net Income" should be defined on the basis of realized profit or loss leading to cash flow.
2. Re-Classification is necessary.
3. Fair Value Measurement at Non-Listed Stocks would not cause decision-useful information.
4. Gains and losses arising from equity instruments should be included in "Net Income" (for example, dividend income and profit or loss on sale).
5. Fair value information of financial liabilities is not decision-useful for investors.

The items 1 and 5 above do not necessarily respond directly to your questions, but we consider that they are important to let you understand other comments and we request your understanding in this regard.

CFTAJ's detailed comments are set out in the appendices to this comment and in reference to the above-mentioned 1.-5.

If you wish to ask our comments, please do not hesitate to contact Kiyotoshi Fukuda, cfta@bpf-f.or.jp.

Sincerely,

Corporate Finance and Treasury Association of Japan
General Bureau

<Reference> List of the member companies

[Textile Industry]

Asahi Kasei Corporation

Teijin Limited

Toray Industries, Inc.

[Paper Industry]

Oji Paper Co., Ltd.

Nippon Paper Industries Co., Ltd.

[Petrochemical industry]

Sumitomo Chemical Co., Ltd.

Mitsubishi Chemical Corporation

Mitsui Chemicals, Inc

[Oil Refining Industry]

Nippon Oil Corporation

Nippon Mining Holdings

TonenGeneral Sekiyu K.K.

Showa Shell Sekiyu K.K.

[Steel Industry]

Nippon Steel Corporation

JFE Holdings, Inc.

Sumitomo Metal Industries, Ltd

Kobe Steel, Ltd.

[Industrial Machinery Industry]

IHI Corporation

Kawasaki Heavy Industries, Ltd.

Komatsu Ltd

Mitsubishi Heavy Industries, Ltd.

[Electronic • Electrical Machine Industry]

Hitachi, Ltd.

Fujitsu Limited

NEC Corporation

TOSHIBA Corporation

Mitsubishi Electric Corporation

Oki Electric Industry Co., Ltd

Panasonic Corporation

Sony Corporation

Fuji Xerox Co., Ltd.

IBM Japan, Ltd.

[Automobile Industry]

TOYOTA Motor Corporation

Nissan Motor Co., Ltd.

Honda Motor Co., Ltd.

[Electricity Supply Industry]

Hokkaido Electric Power Co., Inc

Tohoku Electric Power Co., Inc.

Tokyo Electric Power Co., Inc.

Chubu Electric Power Co., Inc.

Hokuriku Electric Power Company

Kansai Electric Power Co., Inc

The Chugoku Electric Power Co.,Inc.

Shikoku Electric Power Co., Inc

Kyusyu Electric Power Co, Inc.

[City Gas Industry]

Tokyo Gas Co., Ltd.

TOHO GAS Co., Ltd.

[General Trading Company]

Mitsubishi Corporation

ITOCHU Corporation

Sumitomo Corporation

Sojitz Corporation

Marubeni Corporation

MITSUI & Co., LTD

[Consumer Credit • Leasing Industry]

Mitsubishi UFJ NICOS Co., Ltd.

ORIX Corporation

Hitachi Capital Corporation

Tokyo Leasing CO., Ltd.

[Transport Industry]

East Japan Railway Company

55 companies in total

Appendix 1

The range of "Net Income" should be defined on the basis of realized profit or loss, leading to cash flow

The Profit or loss designating realized profit or loss must be decision-useful information for users of financial statements, leading finally to estimating cash flow.

"Realized profit and loss" results from the past cash flow while there are some gaps due to depreciation costs and so on. Therefore it must be beneficial to investors to disclose the numerical values underlying realized profit and loss in financial statements. The "Net income" which has been used in conventional financial statements is closer to "Realized Profit and Loss" than "Net Income" which might be changed in the global convergence and an entry for "Net income" should not be eliminated in financial statements.

We consider that the indication of "Comprehensive Income" free from arbitrariness will improve effectiveness of financial statements for users of financial statements. We agree with the existing accounting policy.

Appendix 2 (responding to Question 7)

Re-Classification is necessary

Re-classification of financial assets and liabilities between the amortized cost and fair value categories is necessary for leading users of financial statements to appropriate recognition of the value of corporations.

For example, the role of held equity instruments in terms of business strategy may be changed on a case by case basis. We consider that it is effective to disclose to users of financial statements results re-classified taking into account elimination of arbitrariness and continuity.

Re-classification of accounting into an amortized cost method and fair value method should not be completely prohibited.

Appendix 3 (responding to part of the Question 8-9)

Fair Value Measurement at Non-Listed Stocks would not cause decision-useful information

Fair Value Measurement upon Non-Listed Stocks on the Market may be decision-useless information. In estimating future cash flows or setting discount rates, there is a possibility that users of financial statements will be misled at fair values of unlisted stocks which may be measured in an arbitrary manner.

Some investors take into account net asset value as part of the evaluation of corporations in addition to the discounted cash flow method. Consequently, equity instruments possessed by those corporations should be evaluated at their acquisition costs so as to eliminate arbitrary corporate behavior, and this method is further beneficial to investors. We consider that it is appropriate to apply accounting to the impairment of assets, in consideration of reevaluation of values of the equity instruments based on impairment tests, when equity instruments possessed by the corporation may considerably undermine investors' interests due to changes in the earnings environment and other factors.

Fair value measurement in all such investment cannot be decision-useful information about investments in equity instruments and the benefits of fair value measurement do not always outweigh the costs of providing such information.

Appendix 4 (responding to part of the Question 10-11)

Gains and losses arising from equity instruments should be included in "Net Income" (for example, dividend income and profits or losses on sale)

Gains and losses arising from equity instruments should be included in "Net Income", in terms of resulting from cash flow.

As to your question 10-11, we doubt about the present designating accounting-policy that dividend income and profits and losses on sale of equity instruments are classified into other comprehensive income (OCI). Since selling-stocks or dividend income causes cash-in-flow, it is more appropriate to include "Profits and Losses on Sale of Equity Instruments" and "Dividend Income" in "Net Income" of which concept is closer to the one of "Realized Profit and Loss" as with Appendix 1.

Presenting fair value changes (and dividend) for any investments in equity instruments in other comprehensive income would not always improve financial reporting. "Gains and Losses Arising from Equity Instruments" should be in "Net Income" and the difference between "Fair Value Changes" and "Gains and Losses Arising from Equity Instruments" should be included in other comprehensive income.

Appendix 5

Fair value information of financial liabilities is not decision-useful for investors.

Which do investors prefer, an amount with fair value measurement of financial liabilities or just the amount to be repaid by the corporations? The latter would be chosen by a lot of users of financial statements.

We consider that users of financial statements demand information on not fair value of financial liabilities which may change depending on rating of corporations, etc., but the amount to be repaid by the corporations. The reason is that they must make sure of the possibility to repay financial liabilities in comparison to the corporation's earning-ability.

In addition, the embedded derivative requirements for a hybrid contract with a financial host require a financial liability with derivative features, such as convertible bonds, to be measured at fair value in the proposal in the ED. However, fair value of convertible bonds reflects the level and volatility of the stock price, which is not decision-useful for users of financial statements.

We are not in favor of measuring all financial liabilities at fair value and consider that financial liabilities should be counted just by the amount to be repaid.