

July 13, 2004

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

Japanese Bankers Association

The Japanese Bankers Association is an industry-based association with 144 Japanese and 38 foreign bank members. We are grateful for this opportunity to comment on the April 21, 2004 exposure draft of proposed amendments to the "fair value option" in IAS 39 Financial Instruments: Recognition and Measurement.

We have two points we would like to raise concerning proposed amendments to the fair value option. Our desire is that these comments be sufficiently taken into consideration in the final revisions to the standard.

Question 6: Do you have any other comments on the proposals?
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1. Measuring financial liabilities at fair value

Measuring financial liabilities at fair value is a problem for an entity recognizing gains or losses, which result from the entity's own creditworthiness evaluation (so-called "liability paradox" and "internally generated goodwill").

The exposure draft describes problems concerning this (BC9(c)) and discusses solutions in the forms of "disclosure" (BC13) and "verifiability" (BC14).

However, we do not see these as fundamental solutions to the problem described above, and a fundamental solution, including a review of the IASB Framework, is essential for true resolution of this issue.

2. Verifiability

The exposure draft calls for methods used to measure the fair value of financial instruments within the fair value option to be verifiable.

However, this leads to the potential for dual standards. This problem is raised in Paragraph AV4 of the section on alternative views of the exposure draft. This requirement for verifiability is stricter than the measurement methods required in the current IAS 39. Therefore, if this method is required for available-for-sale assets and items that are held for trading, it would constitute introduction of a "dual standard" for measuring fair value.

We are concerned that the dual standard would impose an excessive burden on the parties preparing financial statements, including excessive costs incurred in measuring the fair value of financial instruments within the fair value option.