

July 16, 2010

To the International Accounting Standards Board;

The Japanese Bankers Association

Comments on the IASB Exposure Draft "Fair Value Option for Financial Liabilities"

The Japanese Bankers Association is an organization that represents the banking industry in Japan; its members comprise banks and bank holding companies operating in Japan. The Association submits the following comments on the Exposure Draft ("ED"), "Fair Value Option for Financial Liabilities."

We hope that the comments below will assist the Board in its further deliberation.

- Presenting changes in the credit risk of liabilities designated under the fair value option in profit or loss

We do not agree with the proposal to prohibit recycling from other comprehensive income to profit or loss.
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(Reasons)

We believe that net income should represent enterprise's operating result and that realized gain or loss on derecognition of assets and liabilities, such as sale and redemption, should be presented in profit or loss in order to provide useful information. Therefore, we do not agree with the proposal to prohibit the recycling.

Furthermore, we believe that a prohibition on recycling would lead to cases such as the following:

<Scenarios>

It is assumed that in practice the fair value option is often used as an alternative to the hedge accounting. However, the following two scenarios generate inconsistencies under the proposal in ED.

We believe that the hedge accounting and the fair value option should have the similar profit and loss impact and therefore the differences in accounting treatment between them should be avoided. The recycling must be allowed to alleviate this problem.

(1) Application of hedge accounting

If an enterprise redeems its bonds prior to maturity, its own credit risk would be presented in profit or loss as gain or loss on redemption.

(2) Application of fair value option

Under the current proposal, changes in the credit risk of liabilities would be presented in other comprehensive income (OCI) and there would be no recycling to profit or loss. In the case of early redemption of the issuing enterprise's bonds as in the scenario (1) above, the prohibition against the recycling would mean that it stays in OCI and is never recognized to profit or loss.

The same transactions with the same intention to avoid accounting inconsistency result in different profit and loss impact under scenarios (1) and (2). We, therefore, believe that the recycling must be allowed.