

July 2, 2004

## Opinion Paper on the Proposed Amendments to the IASC Foundation

Japanese Bankers Association

The Japanese Bankers Association is the largest banking industry association in Japan with 144 Japanese and 38 foreign member banks. We are grateful for the opportunity to participate in public hearings sponsored by the IASC Foundation Trustees' Constitution Committee.

The following comments address the ten discussion points and proposed approaches identified by the IASC Foundation.

1. "2. Number of Trustees"

We support increasing the number of Trustees appointed from Asia/Oceania from "four" to "six."

2. "3. Oversight Role of the Trustees"

We support the approach of the IASC Foundation proposal, which clearly indicates a drive to improve due process oversight at the IASB etc.

We are aware of comments on the need for IASB independence, and we have great expectations for the role of the Trustees in ensuring that there are appropriate checks and balances, and in formulating quality accounting standards that are practical and convincing. In light of the need for truly global accounting standards, the Trustees have a crucial role to play in forming comprehensive positions in contrast to the exclusive focus on accounting theory taken by IASB.

Since oversight of due process is necessary to ensure objectivity and fairness of the standards-setting process, we support the approach of strengthening the Trustees' role of overseeing whether IASB and IFRIC are fulfilling their duties in accordance with the Constitution.

3. "4. Funding of the IASC Foundation"

The approach of seeking large donations from a limited number of interested organizations will be inadequate for providing a stable, long-term financial base for the IASC Foundation. The Foundation should instead establish a structure that spreads the burden more broadly. One recommended benchmark is the Japan Financial Accounting Standards Foundation, which accepts market participants and others as members.

4. "5. Composition of the IASB"

We consider the present number of IASB members to be appropriate and would propose maintaining it at fourteen members. We appreciate the inclusion of "practical experience" among the most important qualifications for membership. This will contribute to the development of practical standards that match real business operations.

Each member needs a professional background and expertise. It must also be realistic for financial statements to be prepared in a manner that satisfies the new standards. Therefore, steps are needed to prevent the proportion of people preparing statements from decreasing.

5. "6. Appropriateness of IASB's Existing Formal Liaison Relationships"

We agree with the view that existing liaison relationships remain important.

We also recognize the importance of giving due consideration to the circumstances of individual countries in promoting the convergence of accounting standards from a global perspective. We therefore support the proposal to strengthen liaison relationships with the parties formulating standards to enable achievement of this goal.

6. "7. Consultative Arrangements of IASB"

(Cost benefit analysis/impact analysis)

As previously stressed, costs and benefits is essential when setting international accounting standards. More emphasis should be placed on setting practicable standards ("practicable" being defined in terms of costs and other factors) rather than just following accounting theory. Therefore, we would like to see the publication of "expected impact statements" based on appropriate field testing so that accounting standards are feasible.

7. "9. Resources and Effectiveness of the International Financial Reporting Interpretations Committee (IFRIC)"

We understand that IASB's policy is not to prepare guidance documents that extend to specifics on IAS interpretation guidance. This potentially will lead to excessive leeway in interpreting the standards. Consequently, IAS should publish the background and rationale behind the guidance to promote understanding of interpretations.

The drafts of interpretation guidance with a broad market impact (parties preparing financial statements) should be opened to the public. A roundtable discussions for exchanging views should also be held for areas requiring active discussion.

8. "10. Composition, Role, and Effectiveness of the SAC"

(1) Independence of SAC from IASB

We support the proposal that the posts of SAC chairman and IASB chairman be held by different people to enhance SAC's independence from IASB.

(2) Sunset reviews

We understand that so-called sunset reviews have been introduced to prevent the wasting of resources that may result from studying the same projects on a long-term basis. These reviews are used to check the appropriateness of projects two years after their inception. We believe that sunset reviews should be expressly mentioned in the Constitution and other official documentation.

As to who should carry out sunset reviews, remit of authority should be given to a body (such as a committee of Trustees), which is independent of IASB, to ensure that decisions are objective and neutral.

We understand that IASB has been accelerating the drafting of standards for Europe's introduction of IAS standards in 2005 and convergence with U.S. standards, and that its goal for completion was March 2004. However, since the development of IAS standards was virtually completed by March 2004, rich discussions will be possible in the review process. Therefore, the focus should not be on accelerating the process but on the formulation of worthy checking functions to ensure that inadequate discussions do not result in the establishment of standards that are impossible to implement practically.

Accounting standards to be set by IASB will have an enormous impact on national accounting standards. We strongly request that due consideration be given to our comments concerning the review of the Constitution, which comprises the basic policies for setting international accounting standards.