September 3, 2008

Opinion on "Financial Instruments with Characteristics of Equity"

Japanese Bankers Association

o Response to question B-5 in Appendix B (Additional questions for respondents)

B5. Please provide comments on any other matters raised by the discussion paper.

Changes in the treatment of equity related accounts (in particular, changes that result in a reduction in the amount posted to "Equity (net assets)," or an increase in the amount posted to "Liabilities") have a vast impact on other systems, and in Japan it would be necessary to coordinate corresponding legal, commercial, financial, and other related structures (dividend restrictions, financial ratio analysis, supervisory regulations such as capital adequacy rules (on financial institutions), terms of transactions/covenants etc. between contracting parties in commercial and financial dealings). Undoubtedly, Japan is not the only country that will require these kinds of adjustments.

We are in favor of identifying desirable ways to treat equity within the process of convergence and we are committed to making the necessary adjustments in conjunction with this, but these adjustments go beyond accounting and legal professionals and will require broad-ranging coordination from people in all aspects of society. We therefore believe that it is crucial to be fully cognizant of the potential spillover effects when studying and implementing significant changes that impinge upon accounting for equity related items and that sufficient opportunity and time be provided to enable adjustments, including study procedures, study periods, and grace periods prior to application.

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