May 19, 2010

To the International Accounting Standards Board,

Japanese Bankers Association

Comments on a Revised Exposure Draft (ED) of International Accounting Standard (IAS) No. 37 Provisions, Contingent Liabilities and Contingent Assets

The Japanese Bankers Association is an organization for banks and bank holding companies operating in Japan. It represents the Japanese banking industry.

The Association is pleased to provide its comments on the proposed amendments to the treatment for non-financial liabilities currently under deliberation by the Board.

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

○ Expected value approach

We do not agree with the proposal that an expected value approach should be the only measurement approach.
We believe approaches other than the expected value approach, such as a most likely outcome approach, should also be acceptable.

(Rationale)

When estimating the expected outflows in many cases it will be impossible to measure reliably the expected value, while it may be possible to estimate multiple scenarios. In such cases, the most likely outcome approach may be useful from the perspective of providing useful information regarding future expected cash flows.

In addition, even when it is possible to estimate multiple scenarios, there are cases as described below in which it is more useful to use the most likely outcome approach than the expected value approach.

	Main scenario	Sub scenario	Expected value	Most likely outcome
Case 1	90%: 1,000	10%: 10	901	1,000
Case 2	90%: 10	10%: 1,000	109	10

If an event were to occur 10 times in Case 1 as expected, under the most likely outcome approach no additional gain or loss would be recognized 9 times out of 10 when the event occurs, and a gain of 990 on reversal of a liability would be recognized once. Under the

expected value approach, the ultimate “actual” loss would never be equal to the amount of a liability originally recognised; there would be 9 instances of an additional loss of 99 and 1 instance of a gain on reversal of 891.

Case 2 is similar. Were an event to occur 10 times in Case 2 as expected, under the most likely outcome approach no additional gain or loss would be recognized 9 times out of 10 and additional loss of 990 would be recognized once. Under the expected value approach, an ultimate “actual” loss would never be equal to the amount of a liability originally recognised; there would be 9 instances of an additional gain on reversal of 99 and 1 instance of an additional loss of 891.

When distribution of probabilities is biased as described above, which may be the case for most litigation, measuring a liability at the most likely outcome would provide more useful information to investors than the expected value. The reason is that when the expected value approach is used, there is always a deviation between the expected value and the actual amount of a loss and that the posting of the most likely outcome will result in 9 liability recognitions that match the most likely outcome, which we believe is more useful information for investors.

On the other hand, there are also circumstances in which the expected value approach is more useful in such cases as asset retirement obligations. We therefore believe that both the expected value approach and the most likely outcome approach should be accepted for measurement and that the most useful information for investors can be provided when management select the appropriate method for arriving at its best estimate with disclosure in the footnote of the measurement method selected.

In the example above, disclosure in the footnote of the risk associated with the 10% probability level would presumably provide useful information to investors.

○ Removal of the probability recognition criterion

Although this is not a proposal for the current exposure draft, we oppose the removal of the probability recognition criterion.

(Rationale)

We understand it is the view of the Board that the probability recognition criterion and the liability recognition criterion overlap and that even without the probability recognition criterion, a liability would be recognized only when the probability is 50% or higher and therefore, for example, the existence of litigation would not always result in recognition of a liability.

However, determination of whether a liability should be recognized is the substantially same as determination of whether the probability recognition criterion is met. We, therefore, are concerned that the removal of the probability recognition criterion would result in greater

ambiguity in the liability recognition criterion and is highly likely to lead to the unintended result, such as, recognizing all litigation obligations as liabilities.

If this is the view of the Board, we believe that the Board should clarify it by an explicit statement in the standard that the probability recognition criterion is incorporated in the liability recognition criterion itself.

In addition, it is our understanding that there were considerable objections expressed against this point when the exposure draft was first published, and we therefore are concerned about its due process.