April 27, 2011

To the International Accounting Standards Board;

The Japanese Bankers Association

Comments on the IASB Exposure Draft

"Offsetting Financial Assets and 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, "Offsetting Financial Assets and Financial Liabilities".

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

1 General comments

Our understanding is that this exposure draft is the result of deliberations by the IASB and Financial Accounting Standards Board (FASB) aimed at addressing the inadequacies in the presentation and disclosure of derivatives and repo transactions in financial statements which were observed at the time of the financial crisis.

However, while its primary purpose was to improve the presentation of derivatives and repo transactions, the proposal actually expands the scope of presentation and disclosures on financial statements and imposes significant practical burdens.

In light of this, we request that this exposure draft be revised so as to simplify the required disclosure and allow for the choice of presenting net amounts while adhering to the principle of presenting gross amounts.

2 Comments on individual questions in the exposure draft

Question 1—Offsetting criteria: unconditional right and intention to settle net or simultaneously

The proposals would require an entity to offset a recognised financial asset and a recognised financial liability when the entity has an unconditional and legally enforceable right to set off the financial asset and financial liability and intends either:

(a) to settle the financial asset and financial liability on a net basis or

(b) to realise the financial asset and settle the financial liability simultaneously.

Do you agree with this proposed requirement? If not, why? What criteria would you propose instead, and why?

Question 2—Unconditional right of set-off must be enforceable in all circumstances

It is proposed that financial assets and financial liabilities must be offset if, and only if, they are subject to an unconditional and legally enforceable right of set-off. The proposals specify that an unconditional and legally enforceable right of set-off is enforceable in all circumstances (ie it is enforceable in the normal course of business and on the default, insolvency or bankruptcy of a counterparty) and its exercisability is not contingent on a future event. Do you agree with this proposed requirement? If not, why? What would you propose instead, and why?

(Response outline)

We do not agree with the proposals in Questions 1 and 2. If offsetting is mandatory when certain requirements are met, then the entity must investigate whether offsetting requirements are met by each and every transaction, which imposes large practical burdens. We therefore think the approach should be to disclose gross amounts of financial assets and financial liabilities on the financial statements and to allow for voluntary offsetting for certain items, which is in line with the underlying principles[1] of the exposure draft. More specifically, we believe offsetting should be elective for receivables or payables arising from unsettled securities transactions and from agency transactions.

(Reasons)

The proposal in the the exposure draft would require a comprehensive investigation of individual transactions for both financial assets and financial liabilities to reconfirm their legal relationships and payment and settlement procedures and determine whether

[1] BC16: The boards therefore concluded that offsetting financial assets and financial liabilities does not, generally, meet the objective of financial reporting, as set out in the Conceptual Framework, and that financial assets and financial liabilities should therefore, generally, be presented gross in the statement of financial position.

they satisfy the conditions for offsetting and have the potential for conditional offsetting. It would further require the identification of legal relationships and transaction amounts by financial instrument and by customer for the calculation of amounts to be presented or disclosed in the footnotes. To take one example from an ordinary "banking transaction contract" in Japan, "if [for any of a variety of reasons] the borrower fails to fulfill its obligations to the bank, the bank may at any time offset the obligation against the deposits of borrower and any other credits held by borrower against bank regardless of the term of said credits." This would presumably be subject to disclosure because it constitutes conditional offsetting of bank loans and deposits with respect to the same customer. However, this applies to virtually all bank customers. Japanese banks engage in deposit and loan transactions with large numbers of customers, and many of these customers also trade foreign exchange transactions, etc., which is often subject to separate contracts. The burdens would be enormous if they were required to investigate the applicability of offsetting conditions, determine presentation on financial statements and make disclosure for each of these contracts. From the perspective of costs versus benefits as well, it is hard to conceive that such disclosure would have utility commensurate with the burdens for system development, etc. As another example, the current proposal would also make it necessary to investigate individual payment and settlement conditions, etc. with clearing organisations. Significant burdens would be entailed in reconfirming these transactional relationships, and systems would need to be built and developed to comply with the disclosure requirements. This would represent an excessive imposition on Japanese banks, most of which do not apply IFRS or U.S.GAAP.

We also see the potential for financial statements to fail to accurately represent the status of the enterprise because of the mixture of net and gross presentations within a single title of account. Equity transactions in Japan are generally settled through the Japan Securities Clearing Corporation (JSCC) or by other means. The former would presumably be subject to offsetting. Even though they are within the scope of the same business model, the latter are not subject to offsetting and are presented gross. This can hardly be characterized as an accurate reflection of the status of the enterprise, and it would require modifications to the management systems that banks use for equities, etc. It would thus impose additional system investment burdens while failing to provide useful information.

In light of the circumstances described above, we think the more operational accounting standard would be to require gross presentation in principle and to allow elective offsetting of the following items.

(Individual issues: Unsettled trade receivables/payables on securities transactions)

Japanese accounting standards require the presentation of net amounts for receivables and payables arising from unsettled securities transactions, but this exposure draft would require that they be presented gross or that the potential for gross presentation be investigated. We think there should be allowance for elective presentation of net amounts for these items without the need to confirm offsetting requirements.

Our first reason is that receivables or payables arising from unsettled securities transactions[2] occur only because of the timing of settlement. Recognition of them could be avoided if recognition of securities transaction were changed from the contract date basis to the settlement date basis. In addition, these receivables and payables are settled without particular problem, even during the financial crisis.

The intent of these revisions is the convergence of the treatment of derivatives and repo transactions, which were the sources of problems during the financial crisis. Receivables and payables arising from unsettled securities transactions are unrelated to this and, in light of the circumstances described above, we believe there should be allowance for elective offsetting without the need for confirming individual right and obligation relationships.

(Individual issues: Agency transactions)

Japanese accounting standards do not require any particular accounting for agency transactions performed on behalf of customers other than posting the fees on the trade date. But while the exchange is the counterparty, the the exposure draft takes the view that it is ultimately the securities company that must perform the obligation and would require recognition of receivables or payables of the same amounts for the exchange and the customer on the trade date. Were this followed, the same amounts would be posted to the receivables and the payables, and the institution would be required to investigate the potential for offsetting for each counterparty. The discussion on principal versus agent in revenue recognition[3] can be applied here. Agency transactions are performed by the securities company as the agent of the customer, and the agent concept should therefore be applied. Based on this, there is an obvious need for offsetting. Confirming individual right and obligation relationships imposes extremely large practical burdens, and in light of the discussion on revenue recognition, there should be allowance for elective offsetting of agency transactions that are performed as the agent of the customer.

Question 3—Multilateral set-off arrangements

The proposals would require offsetting for both bilateral and multilateral set-off arrangements that meet the offsetting criteria. Do you agree that the offsetting criteria should be applied to both bilateral and multilateral set-off arrangements? If not, why? What would you propose instead, and why? What are some of the common situations in which a multilateral right of set-off may be present?

(Response outline)

We agree.

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[2] See P6.

[3] Revenue generated as a result of contracts with customers (ED/2010/6).

Question 4—Disclosures

Do you agree with the proposed disclosure requirements in paragraphs 11–15? If not, why? How would you propose to amend those requirements, and why?

(Response outline)

We do not agree. We think it is sufficient to disclose the gross amount in the footnote for items that are presented net on the financial statements because they have satisfied the offsetting requirements.

(Reasons)

The exposure draft bases its conditions for offsetting in financial-statement presentations on existing IFRS, but it integrates the disclosure requirements of both existing IFRS and U.S.GAAP. As a result, European enterprises that currently use IFRS will be required to provide disclosures under U.S.GAAP that they have not traditionally disclosed. This can be expected to impose significant disclosure burdens. The burdens are even larger for Japanese banks that do not apply IFRS and are not required to make any specific disclosure of offsetting.

Offsetting is elective under Japanese accounting standards, and while there are no specific disclosure requirements for offsetting, there have also been no questions to this point from investors and other financial statement users regarding the offsetting of financial assets and financial liabilities. It would therefore not appear that users have any strong desire for the disclosure of offsetting information. As noted in our response to Questions 1 and 2, were customer transactions subject to disclosure, Japanese banks would be required to disclose the amounts for loans and deposits, which reach into the tens of trillions of yen, and such disclosure would not provide preparers with any useful information.

In addition, the preparation of these disclosures would impose a number of practical burdens on preparers, and in light of this, we believe it fully satisfies the principle of the gross presentation on the financial statements, which is the underlying principle of the exposure draft, merely to require that disclosure are made for items presented net because they satisfy the offsetting conditions (or have been voluntarily offset). Disclosure of offsetting and gross amounts for items presented net would fully ensure comparability among enterprises.

Question 5—Effective date and transition

(a) Do you agree with the proposed transition requirements in Appendix A? If not, why? How would you propose to amend those requirements, and why?

(b) Please provide an estimate of how long an entity would reasonably require to implement the proposed requirements.

(Response outline)

We do not agree with the transition requirements. Our views regarding effective date and methods of transition will be found in the opinion paper entitled "Effective Dates and Transition Methods" submitted to the IASB on January 31 (attached), and our position is that, in light of the burdens, etc. on enterprises, the effective date should be 5 years after the publication of IFRS and the method of transition should be non-retrospective.

3 Additional points

(Additional points) Consistency with Basel II disclosure

Basel II already requires financial institutions to disclose types and amounts, etc. of qualified financial asset collateral in relation to credit risk reduction methods. Basel II also allows broader netting (offsetting) than IFRS, and our understanding is that it is substantially different from the offsetting requirements found in the exposure draft (the rationale for this conclusion is found in BC64 and 65). The disclosure of offsetting on both a Basel II basis and an IFRS basis may also lead to confusion among users and will impose practical burdens on the financial institution as the preparer.

In light of this, we ask for special consideration, such as making the disclosure requirements to be as consistent as possible with Basel II or allowing reference to Basel II disclosures in lieu of disclosure in the financial statements.

(Appendix)

Treatment of receivables or payables arising from unsettled securities transactions

＜Example＞

Entered into agreement to purchase securities of JPY 120M on 12/30/X1

Entered into agreement to sell securities of JPY 100M on 12/30/X1

Settlement takes place on 1/2/X2 (4th business day) based on market convention.

・12/30/X1(Trade date)

(Trade date basis)

Securities	120M	Payable arising from unsettled securities transactions	120M
Receivable arising from unsettled securities transactions	100M	Securities	100M

Securities	120M	Payable arising from unsettled securities transactions	20M
		Securities	100M

(Settlement Date Basis)

No entry			

・1/2/X2(Settlement date)

(Trade date basis)

Payable arising from unsettled securities transactions	120M	Cash	120M
Cash	100M	Receivable arising from unsettled securities transactions	100M

Payable arising from unsettled securities transactions	20M	Cash	120M
Cash	100M		

(Settlement Date Basis)

Securities	120M	Cash	120M
Cash	100M	Securities	100M

（Attached）

January 31, 2011

To the International Accounting Standards Board;

The Japanese Bankers Association

Comments on the IASB Request for Views

"Effective Dates and Transition Methods"

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 Request for Views, "Effective Dates and Transition Methods"

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

1. General comments

The introduction of all of the International Financial Reporting Standards (IFRS) covered in this request for views would require a great deal of time to readjust financial statement closing process, earnings management system and business models, both at head offices and at subsidiaries. There would also be time needed for employee education. In light of this, we request the following:

(1) With respect to transition methods, we request the non-retrospective approach (response to Question 4)

(2) With respect to adoption dates, we request early adoption be allowed, with mandatory adoption approximately after 5 years from publication (response to Questions 5 and 6)

We believe it would be preferable to group together several of the standards discussed in this request for views for sequential introduction and to make individual group of standards be effective on a gradual basis, but also think that it will be difficult to define proper groupings due to the differing circumstances in individual sectors. We therefore favor blanket introduction, provided that there is a sufficient preparatory period prior to the effective date and that there are allowances for early adoption. We also propose that early adoption be limited to 2 years in order to ensure comparability among enterprises.

In addition, we think that first-time adopters should be allowed adoption dates that differ from the proposed standards as well as the option of early adoption in order to mitigate the many burdens incurred in first-time adoption and also in light of Japan's allowance of voluntary adoption of IFRS and its plan to move to mandatory adoption in the future. (Response to Question 8)

2. Comments on individual "Questions" in the exposure draft

Q1. Please describe the entity (or the individual) responding to this Request for Views. For example:

(a) Please state whether you are primarily a preparer of financial statements, an auditor, or an investor, creditor or other user of financial statements (including regulators and standard-setters). Please also say whether you primarily prepare, use or audit financial information prepared in accordance with IFRSs, US GAAP or both.

(b) If you are a preparer of financial statements, please describe your primary business or businesses, their size (in terms of the number of employees or other relevant measure), and whether you have securities registered on a securities exchange.

(e) Please describe the degree to which each of the proposed new IFRSs is likely to affect you and the factors driving that effect (for example, preparers of financial statements might explain the frequency or materiality of the transactions to their business and investors and creditors might explain the significance of the transactions to the particular industries or sectors they follow).

(Response)

The Japanese Bankers Association is an organization that represents the banking industry in Japan; its members consist of banks and bank holding companies doing business in Japan. It has approximately 120 member banks[i] most of which are listed on the Tokyo Stock Exchange.

Member banks are financial statement preparers, and most of them prepare financial statements based on Japanese generally accepted accounting principle ("GAAP").[ii] Japan plans to make a decision on whether to mandatorily adopt IFRS for the consolidated financial statements of all listed companies during 2012, and if it decides to adopt IFRS, mandatory adoption will begin in 2015.

Some of the accounting standards covered in this request for views have a significant impact on bank operations, particularly those for financial instruments,

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[i] Member banks have approximately 1,700 executive officers and 300,000 employees.

[ii] Some member banks prepare consolidated financial statements under US standards or IFRS in addition to Japanese GAAP so as to be able to create 20-F documentation for NYSE listing.

insurance contracts and leases. Among them, the largest impact is expected from the application of IFRS 9 to financial instruments, which account for the bulk of bank financial statements.

Table 1 contains the balance sheet titles for which the accounting standards in this request for views are expected to have the greatest impact on Japanese banks and estimations of the amount of impact. As one example, the loans covered by "amortized cost and impairment" in IFRS 9 are valued at 449 trillion yen (or at 5 trillion US dollars, converted at 85 yen to 1 US dollar), which is an enormous amount.

Table 1: Major balance sheet titles for Japanese banks (all banks in Japan, as at the end of March 2010)

Assets (Unit: trillions of yen)		Standards with major impact
Securities	232	IFRS 9: "Classification and measurement"
Of which, equities	21	Same
Loans	449	IFRS 9: "Classification and measurement," "amortized cost and impairment"
Allowance for loan losses	-6	
Financial derivatives assets	14	IFRS 9: "Hedge accounting"
Financial guarantees (Acceptances and guarantees)	17	IFRS 4: "Insurance contracts"

Liabilities		Standards with major impact
Deposits	588	IFRS 9: "Classification and measurement" (accounting treatment for hybrid financial instruments)
Bonds	14	IFRS 9: "Classification and measurement" (accounting treatment for hybrid financial instruments)
Financial derivatives liabilities	13	IFRS 9: "Hedge accounting"

(See Attachment for an overview of financial statements at Japanese banks.)

Q2. Focusing only on those projects included in the table in paragraph 18 above:

(a) Which of the proposals are likely to require more time to learn about the proposal, train personnel, plan for, and implement or otherwise adapt?

(Response)

Japanese banks are investigating how to adapt to mandatory adoption of IFRS, but the switchover from Japanese GAAP to IFRS is an enormous undertaking in and of itself, and revisions to IFRS 9, etc., which are likely to have significant impact on bank operations, will pose further burdens. In our estimation, the cost and time required for preparation will be extremely large.

Below are some of the impacts and factors for which Japanese banks will require the most time to adapt to the accounting standard covered in this request for views, and particularly to IFRS 9, which will have the greatest impact on them.

(1) Impact on financial statement closing operations

- Review of measurement categories of all financial instruments based on IFRS 9 "classification and measurement" for the entire group, including subsidiary holdings
- Adaptation of computer systems and other preparations, including enhancements to data required for the calculation of allowance because IFRS 9 "amortized cost and impairment" differs from Japanese GAAP even though the details of the standard have yet to be finalized
- With respect to IFRS 9 "hedge accounting," investigation of the calculation logic for the non-effective portion for which calculation is not required under current Japanese GAAP, creation of hedge relationships, documentation and other preparations for the adoption of hedge accounting
- Adaptation of computer systems for the retrospective application to past years currently required under IFRS 9 "classification and measurement" and "amortized cost and impairment"
- With respect to IFRS 9 and other standards, fundamental reviews of consolidated financial statement closing operations and related computer systems, including those at subsidiaries
- IFRS is principles-based and has few interpretive guidelines; it will therefore require more time for consultation with auditors, and also more staff and time for financial statement closing operations

(2) Impacts on operations and management

- Review of contracts with customers (review of covenants, etc.), review of product designs
- Modification of risk management techniques in conjunction with the adoption of IFRS for customer financial statements

- Review of internal earnings management and risk management in conjunction with modifications to financial accounting approaches under IFRS 9 "classification and measurement" and "amortized cost and impairment"

(3) Other impacts

- Potential for a wide variety of impact on internal earnings management, risk management and other aspects of management, operational flows and systems, product design and other areas; increase in educational and training burdens because of lack of staff familiar with IFRS
- Increase in auditing time compared to traditional Japanese GAAP because of a lack of auditing firm staff familiar with IFRS (numbers are increasing but still small)
- Need for precise translation into native languages of the intent behind English documents and the guidance provided by auditing firms so that enterprises from countries where English is not the native language are able to adopt IFRS; this requires considerable time

> Q2. Focusing only on those projects included in the table in paragraph 18 above:
>
> (b) What are the types of costs you expect to incur in planning for and adapting to the new requirements and what are the primary drivers of those costs? What is the relative significance of each cost component?

(Response)

Below are the costs and major contributing factors for preparation and adaption of new requirements.

- Human resources development costs

  (Contributing factors: Companywide IFRS training [education], etc.)

- System development costs

  (Contributing factors: Adaptation to disclosure of "fair value measurement" (particularly disclosure by level); development of calculation logic for non-effective portion, including hypothetical derivative approaches, in adapting to "hedge accounting;" development of mechanisms to calculate expected losses in adapting to "amortized cost and impairment;" adaptation to retrospective application to past years for "classification and measurement" and "amortized cost and impairment," etc.)

- Auditing costs

  (Contributing factors: Lack of staff able to perform audit of IFRS financial statements; increase in auditing time because of longer consultation times required by principles-based approach)

- Consulting costs

  (Contributing factors: Inability of existing staff to cope with the sheer size of the burdens imposed; need to make effective use of outside expertise, etc.)

- Internal control restructuring costs

  (Contributing factors: Fundamental review of documentation as a result of review of financial statement closing processes in conjunction with the adoption of IFRS, etc.)

- Operations restructuring costs

  (Contributing factors: Review of product designs, etc. in conjunction with adoption of IFRS; related measures for customers, etc.)

Among the impacts detailed above, the system development costs will be extremely large, particularly the cost of adapting existing accounting systems to new accounting standards. If Japanese banks adopt IFRS, they will be required to create IFRS based financial statements in 30 days (for auditing purposes under the Japanese Companies Act) to 45 days (for the publication of results). These time constraints make it difficult to prepare IFRS financial statements by making journal entries that convert the differences between IFRS and Japanese GAAP while Japanese GAAP financial statements are currently only completed just prior to deadlines. The preparation of IFRS financial statements is highly likely to require financial statement closing operations that employ a separate framework from existing Japanese GAAP financial statements, and may even force banks to make fundamental revisions to their systems, including system wide modifications of existing accounting systems. The burdens for doing so will be extremely large.

Q3. Do you foresee other effects on the broader financial reporting system arising from these new IFRSs? For example, will the new financial reporting requirements conflict with other regulatory or tax reporting requirements? Will they give rise to a need for changes in auditing standards?

(Response)

The impact will depend upon how IFRS is applied and regulated in adopting jurisdictions. Japan is currently considering mandatory adoption of IFRS only for securities reports prepared under the Financial Instruments and Exchange Act. In all other cases, Japanese banks are required to prepare financial reports based on both the Japanese Companies Act and Japanese Banking Act. They are also subject to regulations regarding tax compliance, regulatory reports and Basel rules, etc., and all of these are closely related to financial reporting, which will mean broad impact from adoption.

Q4. Do you agree with the transition method as proposed for each project, when considered in the context of a broad implementation plan covering all the new requirements? If not, what changes would you recommend, and why? In particular, please explain the primary advantages of your recommended changes and their effect on the cost of adapting to the new reporting requirements.

(Response)

We cannot agree to the requirement for retrospective application to past years in light of the costs etc. that would be incurred. We urge that new projects in principle be applied prospectively.

(Reasons)

Merely adapting to IFRS will impose significant burdens on enterprises. If retrospective application is also required, the cost of transitioning to IFRS will be extremely large and could result in delays.

The general perception is that retrospective application to past years would require the preparation of financial statements for the most recent 3 years. If there is a short period of time between the finalization of standards and the effective date, it will be extremely difficult to study the impact of the standards and then prepare financial statements for the past 3 years.

For example, were IFRS 9 "classification and measurement" and "amortized cost and impairment" to enter into effect from January 2013, as currently scheduled, Japanese banks would be required to retrospectively apply them to financial statements from the year ending March 2011. It is already the end of January 2011; there is little time for preparation and would be extremely difficult to comply.

It will also be difficult to prepare data, etc. for retrospective application to past years of "classification and measurement" based on the classification of the instruments outstanding at the transition of April 1, 2013. If, therefore, retrospective application to past years is required, as principle requires, we urge that the retrospective period and timing of adoption be rethought.

There is a proposal that "hedge accounting" be prospective, but "classification and measurement," which requires classification according to amortized cost and fair value, is subject to retrospective application to past years. "Classification and measurement" is closely related "to hedge accounting," and in terms of consistency with "hedge accounting," we think it is desirable for "classification and measurement" to also be prospective.

(Advantages of proposed modification and impact on cost)

Making application prospective will effectively ensure a longer preparatory period than if it is retrospective, and is likely to mitigate the burdens for system development and other transitional measures.

> Q5. In thinking about an overall implementation plan covering all of the standards that are the subject of this Request for Views:
>
> (a) Do you prefer the single date approach or the sequential approach? Why? What are the advantages and disadvantages of your preferred approach? How would your preferred approach minimise the cost of implementation or bring other benefits? Please describe the sources of those benefits (for example, economies of scale, minimising disruption, or other synergistic benefits).
>
> (b) Under a single date approach and assuming the projects noted in the introduction are completed by June 2011, what should the mandatory effective date be and why?

(Response)

(1) If the single date approach is adopted, enterprises will be required to adapt to multiple revisions of standards at the same time, and as already noted in Question 2 (a) and (b), this will result in simultaneous burdens for system development, reviews of auditing and operational practices and training of staff, etc. We think this will place excessive burdens on enterprises at a single point in time.

For example, enterprises have a limited number of staff who are involved in systems development, and given the lack of interpretive guidelines for IFRS, there will be considerable time required for defining details. There are practical difficulties involved with attempts to adapt to this kind of volume all at once. Similar difficulties are likely to be encountered in the reviews of auditing and operational practices too.

(2) We therefore believe that enterprises will find it easier to accept the sequential approach than the single date approach. However, if the sequential approach is used, it will be extremely difficult to define a single set of groupings that is most appropriate for the sequence, because conditions differ for individual sectors and enterprises, as do the impacts of new accounting standards, the correlations of changes to standards and the burdens in transitioning from old to new standards.

(3) In light of this, we believe that a revised single date approach that combines the strong points of both approaches would be the best solution. More specifically, the timing of adoption would be set after the elapse of approximately 5 years from the publication of the accounting standards

covered in this document and there would be allowances for early adoption. A single date approach that meets both of these conditions (revised single date approach) would in our view be appropriate. We also think that it would be desirable to limit early adoption to 2 years in order to ensure comparability among enterprises.

Under this approach, there would be no need for the accounting standard setter to create groupings; enterprises could define their own groupings and develop their own systems as warranted under individual circumstances. By allowing for a sufficient preparatory period and for early adoption, it is likely that more and more companies will opt for early adoption of standards as they are able to comply with them, which will have the same effect as the sequential approach.

(Mandatory effective date)

We think that the mandatory effective date should be roughly 5 years after publication of all relevant IFRS. Below is our rationale.

(1) For the banking industry, financial instruments account for the bulk of financial statements, and the introduction of IFRS 9 would mean changing substantially all of banks' accounting policy. Overarching changes to accounting standards will have broad, deep impact on both management accounting and risk management. As reference, we would point to the mandatory adoption of IAS by the EU in 2005. In May 1999, the European Commission proposed adoption of IAS in its Financial Services Action Plan, which was agreed to at the EU Lisbon Summit in March 2000. In June 2000, the European Commission announced that all listed companies in the EU would be obligated to prepare IAS based reporting by 2005. Listed companies in the EU therefore had a preparatory period of more than 4 years until mandatory adoption in 2005.[iii] Even still, that preparatory period was insufficient, in part because of ongoing revisions to standards thereafter. When the mandatory adoption date arrived, enterprises were reportedly forced to prepare financial statements manually and only later able to adapt their systems, etc. to achieve efficient financial statement closing and error prevention. What this example should indicate is that a minimum of 5 years is required for the preparatory period.

(2) Many of the enterprises that will be obligated to adopt IFRS do not use English as a common internal language. These enterprises will require considerable time to translate accounting standards and to interpret them in

[iii] "Shaky Common Accounting Standard (Part 2): 'Moving Targets,' Difficulty of Setting Targets Leads Some Companies to Adopt International Standards, " *Nikkei Shimbun*, Morning Edition, December 25, 2010. This article cites Manfred Hannich of KPMG Berlin noting that even Europe required a preparatory period of 3-4 years for adoption of IFRS.

light of business practices that may differ from Europe and North America. Because of this, we believe that a longer preparatory period will be required than originally envisioned only for European and North American enterprises.

Q6. Should the IASB give entities the option of adopting some or all of the new IFRSs before their mandatory effective date? Why or why not? Which ones? What restrictions, if any, should there be on early adoption (for example, are there related requirements that should be adopted at the same time)?

(Response)

We think that there should be allowances for early adoption.

(Reasons)

In Japan, voluntary adoption of IFRS consolidated financial statements is already allowed. Using financial instrument accounting as an example, if early adoption is not allowed for enterprises in Japan that adopt IFRS early, they would be forced to first adopt IAS 39, and then within a few years again go through the process to adopt IFRS 9. This will impose significant system development burdens on financial statement preparers, and it is also likely to make it much more difficult for financial statement users to perform time series analyses, etc. on the financial statements.

It is also necessary to be able to adapt to revised accounting standards as adaptations become available in order to even out the burdens for system development, etc.

Therefore, from the perspective of practical feasibility and efficiency, we think that early adoption should be allowed, but we also recognize the need to ensure comparability among enterprises and therefore think it would be desirable to restrict early adoption to no more than 2 years.

Q7. Do you agree that the IASB and FASB should require the same effective dates and transition methods for their comparable standards? Why or why not?

(Response)

We think the same effective dates should be used for similar standards at IASB and FASB.

(Reasons)

Some Japanese enterprises use US GAAP as SEC registered enterprises. Many of these enterprises will use the mandatory adoption of IFRS scheduled for the United States as an opportunity to switch from US GAAP to IFRS.

As was the case with derecognition, the accounting standards covered in this request for views are likely to create variances between IFRS and US GAAP that are not completely resolved. If these US standards are adopted prior to IFRS, they will be reflected to US GAAP financial statements first and subsequently reflected to IFRS financial statements by adjusting US GAAP financial statements. For enterprises planning to move to IFRS, this will represent a two-stage preparation for IFRS, with duplicate burdens incurred.

In light of the points raised above, we think that the same effective dates should be used for similar IASB and FASB standards.

Q8. Should the IASB permit different adoption dates and early adoption requirements for first-time adopters of IFRSs? Why, or why not? If yes, what should those different adoption requirements be, and why?

(Response)

We think that different adoption dates and early adoption should be allowed for first-time adopters.

(Reasons)

Japan plans to mandate IFRS consolidated financial statements for some enterprises, and it is likely that some enterprises will be obligated to adopt IFRS in 2015 or 2016.

Even if only the accounting standards covered in this request for views are adopted, there will be significant impact on enterprises, as already discussed in Question 2 (a), and if all of the accounting standards are adopted, the scope of impact will be extraordinarily large.

In light of this, and in order to mitigate excessive impact from the adoption of IFRS, we believe that the partial or full adoption of new or revised IFRS should be deferred for a certain period of time for first-time adopters.

Conversely, Japan also allows voluntary adoption of IFRS consolidated financial statements. For enterprises that voluntarily adopt IFRS prior to mandatory adoption, failure to allow early adoption of all or a part of the proposed accounting standards would result in the impacts detailed in Question 6.

In light of this, we believe that first-time adopters should be provided with an adequate preparatory period and that enterprises should also have the option of early adoption according to their circumstances.