February 28, 2014

To the International Accounting Standards Board

Japanese Bankers Association

Comments on the International Accounting Standards Board (IASB)'s Exposure Draft
Annual Improvements to IFRSs 2012-2014 Cycle

We, the Japanese Bankers Association, are an organization that represents the banking industry in Japan, and our members comprise banks and bank holding companies operating in Japan.
We would like to express our gratitude for this opportunity to comment on the Exposure Draft *Annual Improvements to IFRSs 2012-2014 Cycle* published by the International Accounting Standards Board ("IASB").
We respectfully expect that the following comments will contribute to your further discussion on this issue.

Comment on the question in the Exposure Draft

Question 1 Do you agree with the IASB's proposal to amend the Standards as described in the Exposure Draft? If not, why and what alternative do you propose?

(Summary of comment)

- We do not support the proposed annual amendments to IFRS 7 *Financial Instruments: Disclosure* which requires an entity to provide disclosures for a continuing involvement in a transferred asset under <u>all</u> servicing contracts. <u>Servicing contracts that are offered at a prevailing fee level[1] should be excluded from the scope of application of the transfer disclosure requirements.</u>

[1] The "prevailing fee level" shall mean the following:
- A fee which is set based on principal outstanding at the beginning of the calculation period or on an expected collection amount, and is not dependent on the actual amount of the cash flows collected from the transferred asset. The fee represents the amount derived by multiplying the principal outstanding at the beginning of the calculation period by prevailing rates (assuming the arm's length price (ALP)), and is not reduced in the event of credit losses arising on such assets during the calculation period.
- The amount of a fee is fixed (assuming the ALP), and such a fixed amount is not reduced in the event of credit losses arising on the transferred asset during the contract period.

(Rationale, etc.)

- The proposed amendments explicitly specify that any servicing offered by financial institutions (i.e. transferors) in connection with transferred financial assets constitutes continuing involvement in such assets. Accordingly, to our understanding, financial institutions need to also disclose a continuing involvement in those servicing contracts rendered at a prevailing fee level in accordance with paragraphs 42E-42H.
- As indicated in paragraph BC65J[2], the purpose of requiring the disclosure of a continuing involvement in financial assets is to disclose information about the risks to which the financial institutions remain exposed for such assets after derecognising them. However, no risk arises from those servicing contracts offered at a prevailing fee level. Consequently, the application of the disclosure requirements to such servicing contracts may contradict the disclosure purpose.

  Further, servicing companies would be additionally subject to a burden of classifying their servicing contracts offered at a prevailing fee level into those contracts associated with transferred financial assets and other contracts, and then aggregating them. It is considered that the benefits arising from such disclosure requirements do not outweigh such an additional burden which is inconsistent with the disclosure purpose.
- Therefore, the IASB is requested to specify that a continuing involvement in the transferred financial assets does not need to be disclosed provided that financial institutions are exposed to the risks which are not significant related to the transferred assets, such as in the case of servicing contracts offered at a prevailing fee level.

  Further, to address the concern that the interpretation of the term "prevailing fee level" may vary across reporting entities, it is recommended that examples of "prevailing fee level"[3] should be provided in the "Basis for Conclusion" or elsewhere.

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[2] BC65J: "The Board concluded that when an entity retains continuing involvement in financial assets that it has derecognised, users of financial statements would benefit from information about the risks to which the entity remains exposed."

[3] Example: Under syndications, the financial institution, acting as an arranger, transfers their rights that meets the derecognition requirements related to loans structured and extended to borrowers to other financial institutions within the syndication group. Subsequently, the arranger, as an agent, provides servicing and other services in accordance with individual contracts entered into with other financial institution of the syndication group. The amount of servicing fees arising from such services is fixed, and does not fluctuate according to, among other things, the actual amount of the cash flows collected from such transferred assets. In this case, the financial institution is not exposed to any risk related to a continuing involvement in the transferred assets, and therefore, disclosing such a continuing involvement is not consistent with the purpose of the disclosure requirements.