Japanese Bankers Association (ZENGINKYO)

3-1, MARUNOUCHI 1-CHOME, CHIYODA-KU
TOKYO 100-8216 JAPAN
T E L :+81-3-3216-3761
F A X :+81-3-3201-5608

September 13, 2002

International Accounting Standards Board,
30 Cannon Street, London EC4M 6XM
United Kingdom

Dear Madam or Sir:

With regard to the Exposure Draft for Improvement to International Accounting Standards, we have sent our comments by email. I am sending our comments as attached.

Sincerely yours,

三澤正明

Masaaki Misawa
Manager
Planning & Coordination Dept.
Japanese Bankers Association

Ref: ZKEG/19/H14

September 13, 2002

International Accounting Standards Board

Japanese Bankers Association

Comments Concerning the IASB's Exposure Draft of "Improvements to International Accounting Standards"

The Japanese Bankers Association is an industry association whose membership consists of 152 Japanese banks and 34 foreign banks. We are very grateful to have been afforded this opportunity to state our views concerning the Exposure Draft of "Improvements to International Accounting Standards" published on May 15, 2002.

In respect of applying International Accounting Standards, we have no objections to making improvements that take their consistency into consideration, but we wish to make the following comments about problem points pertaining to the exposure draft. We hope our comments will be given due consideration at the time of the final revisions of the standards.

1. IAS 1. Presentation of Financial Statements

Question 2

Do you agree with prohibiting the presentation of items of income and expense as 'extraordinary items' in the income statement and the notes (see proposed paragraphs 78 and 79)?

While proposed paragraphs 78 and 79 prohibit the presentation of items of income and expense as extraordinary items, either on the face of the income statement or in the notes, we believe that from the viewpoint of the current operating concept, it is meaningful to present on the face of the income statement the impact on income of ordinary business activities and the occurrence of extraordinary and temporary events such as natural disasters. For this reason, we do not think the presentation of extraordinary items should be eliminated. We also propose that the item 'the results of operating activities,' which is an indicator of the results arising from ordinary business activities, should be left as is in paragraph 76.

2. IAS 8. Accounting Policies, Changes in Accounting Estimates and Errors

Question 1

Do you agree that the allowed alternative treatment should be eliminated for voluntary changes in accounting policies and corrections of errors meaning that those changes and corrections should be accounted for retrospectively as if the new accounting policy had always been in use or the error had never occurred (see paragraphs 20, 21, 32 and 33)?

Concerning retroactive adjustment, an alternative treatment that allows for non-retroactive adjustment should not be eliminated in terms of both cost and benefit analysis and sufficient consideration for the national statutory framework.

3. IAS 21. The Effects of Changes in Foreign Exchange Rates

Question 5

Do you agree that: (a) goodwill and (b) fair value adjustments to assets and liabilities that arise on the acquisition of a foreign operation should be treated as assets and liabilities of the foreign operation and translated at the closing rate (see paragraph 45)?

With regard to treating (a) goodwill and (b) fair value adjustments to assets and liabilities that arise on the acquisition of a foreign operation as assets and liabilities of the acquired operation and translating them at the closing rate (see paragraph 45), as the Basis for Conclusions (paragraphs A21-A27) remarks, whether the closing rate or the historical transaction rate is appropriate differs according to whether, in a business combination, goodwill is considered part of the acquiring company's investment, or part of the acquiring company's assets and liabilities.

Since there is sound justification for opinions expressed in paragraph A25, we believe there is no need to rush to a conclusion here but rather to seek consistency with the results in the Business Combination Project.

4. IAS 24. Related Party Disclosures

uestion 1

Do you agree that the Standard should not require disclosure of management compensation, expense allowances and similar items paid in the ordinary course of an entit 's o erations see ara ra h 2 ?

We agree that the Standard should not require disclosure of management compensation, expense allowances and similar items paid in the ordinary course of an entity's operation. Because such information is not necessarily useful from the point of view of judging a company's situation by the financial statements and taking into consideration the matter of personal privacy.

5. IAS 27. Consolidated and Separate Financial Statements

Question 2

Do you agree that minority interests should be presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity (see paragraph 26)?

The revised draft for IAS 27 proposes that minority interests should be presented in the consolidated balance sheet within equity (paragraph 26, Basis for Conclusions A7-A11). Since this issue basically concerns conceptual frameworks such as the nature of equity, or whether the "parent company concept" or the "economic unit concept" should be adopted as the fundamental concept of consolidation, it is not appropriate to simply treat it as a matter of presentation.

We understand that this proposal does not view minority interests as liabilities (IASB Framework, paragraph 91), and that it presents minority interests within equity on the basis of the economic unit concept. When we consider methods for evaluating the assets and liabilities of subsidiaries, there is consistency in the "partial fair value method" (paragraph 32 of IAS 22) in the case of the parent company concept, and the "full fair value method" (paragraph 34 of IAS 22) in the case of the economic unit concept.

However, in paragraphs 32 and 34 of the current IAS 22 (Business Combinations), partial fair value method under the parent company concept is regarded as benchmark treatment, which is inconsistent. Moreover, we are not aware that IASB Board has decided to adopt the economic unit concept, and believe that a conclusion on this issue should put forward following further debate under phase II of the Business Combinations Project.

Question 3

Do you agree that investments in subsidiaries, jointly controlled entities and associates that are consolidated, proportionately consolidated or accounted for under the equity method in the consolidated financial statements should be either carried at cost or accounted for in accordance with IAS 39, Financial Instruments: Recognition and Measurement, in the investor's separate financial statements (paragraph 29)?

Do you agree that if investments in subsidiaries, jointly controlled entities and associates are accounted for in accordance with IAS 39 in the consolidated financial statements, then such investments should be accounted for in the same way in the investor's separate financial statements (paragraph 30)?

Paragraph 29 of IAS 27 proposes that investments in subsidiaries and associates that are accounted for under the equity method should be either carried at cost or at fair value in accordance with IAS 39 in the investor's separate financial statements. However, since investments in subsidiaries and associates that are accounted for under the equity method are generally long-term business investments, it is not appropriate to measure them at fair value. We therefore believe that fair value measurement in accordance with IAS 39 should be deleted.

On the other hand, we are in agreement with paragraph 30.

(end)