November 14, 2003

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

Dear Sirs,

RE: Exposure Draft of Proposed Amendments to IAS 39

Thank you for giving me the opportunity of commenting on the exposure draft of proposed amendments to IAS 39. I'm very pleased to have this chance. And I really appreciate your efforts to develop an approach that applies a fair value hedge accounting of IAS 39 as accounting purpose to a portfolio hedge of interest rate risk as risk management purpose by clarifying the principles that underlie requirements for derivatives and hedge accounting of IAS 39. I think those principles are useful for other very complex and difficult situations and circumstances.
Followings are my response to your invitation to comment about exposure draft of proposed amendments to IAS 39.

Question 1:
I support the proposals of the Board to designate the amount as percentage for the portion of portfolio (Approach D described in par. BC19). However I think there may be the possibility to give rise to the risk in the Board's calculation method of ineffectiveness in par. A36. Par. A36(b) proposes percentage at par. A36(a) is applied to its revised estimate of the amount in each maturity time period to calculate the amount of the hedged item based on its revised estimate. This may lead to change the estimate of the amount in that maturity time period to meet and offset the change in the fair value of hedged items described in par. A36(c). In other words, there is a risk to change the estimate so as not to arise ineffectiveness. Therefore I think the Board should more emphasize the documentation at inception, the actual result of hedge effectiveness and hedge accounting is different from normal accounting treatment and selectable only if criteria are met from considering the principles. In particular, I think hedge criteria are stricter for portfolio than individual. Accordingly, I would like to propose the estimate of the amount in each maturity time period at inception should

not be revised and hedge accounting should be terminated at the first coming reporting date of the entity after its portfolio is identified and hedge relation is qualified if actual hedge result at that date is not within the range of par. 146 of IAS 39. Consequently, if actual hedge result at first coming reporting date is within the range of par. 146 of IAS 39, a fair value hedge accounting concerning certain portfolio after first coming reporting date should be continued and applied (For example, estimate of the amount at inception should be applied in par. IE11) and if actual hedge result at that date is not within the range of par. 146 of IAS 39, the change in the fair value of the derivatives about its hedge relation should be recognized in the net profit or loss in accordance with the principles. This method is consistent with the frequency at minimum of effectiveness in IGC 121-2-f.

Question 2:

I agree with the Board's decision basically. The interest of demand deposits is usually variable rate or little rate. The reasons why depositor deposits to them are for settlement method of short term or preparation method for uncertainly of future payment risk for one's own self though the background of high credit worthiness of financial institutions. Therefore, as I think the fair value of demand deposits does not fluctuate according to the interest rate change, I interpret demand deposits are not qualified for a fair value hedge accounting as accounting purpose. If a fair value of demand deposits changed according to interest rate change, the depositor (For instance, general entities) also might have to measure its cash and cash equivalent at fair value in accordance with the change of interest rate. And if financial institutions measure demand deposits at fair value, I believe it as the consequence of evaluation for credit worthiness of financial institutions themselves. This may result in recognizing internally generated goodwill and will happen a big issue on accounting.

Other:

Hedge of foreign currency risk or credit risk of held-to-maturity investments as fair value hedge

Par. 127 of IAS 39 permits the designation of held-to-maturity investments as a hedged item in a hedge of exposure to changes in foreign currency exchange rate or credit risk. And Question other-5 of Implementation Guidance describes hedged item in a fair value hedge of the exposure to changes in foreign currency rate is remeasured using the closing rate. In this case, can entity apply by analogy par. 154 of proposed amendments to IAS 39 for clarifying to apply an amortized cost method and a fair value hedge accounting to held-to-maturity investments in the balance sheet?

I hope that my comment will be helpful for your discussion on the exposure draft of proposed amendments to IAS 39.

If you have any questions on this letter, please feel free to contact me.

Yours sincerely,

Mr. Masahiro Hoshino