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Comments on ED 7, "Financial Instruments:Disclosures"

Dear Sirs:

We, the Japanese Institute of Certified Public Accountants, are pleased to provide comments on ED 7, "Financial Instruments: Disclosures" (the "Exposure Draft"). In general, we support the Exposure Draft's proposal for the new standards on the disclosure of financial instruments applicable to all entities. However, we have outlined below certain specific concerns and recommendations with respect to the Exposure Draft.

Sensitivity analysis:
The Exposure Draft proposes that an entity which has an exposure to market risk arising from financial instruments be required to disclose a sensitivity analysis. Although we agree that a sensitivity analysis is useful financial information, we propose that the regulatory body in each country require entities to disclose any such exposure separately rather than in a note to the financial statements. Since the scope and the nature of such a sensitivity analysis disclosure would vary depending upon the industry in which the entity conducts its business and the type of the analysis employed by management, it would be difficult for an accounting standard to determine the appropriate scope and nature of any required disclosure.

Capital disclosures:
The Exposure Draft proposes disclosure of information which would enable the users of an entity's financial statements to evaluate the nature and extent of its capital. It also proposes a requirement to disclose, among other things, whether during the period an entity complied with any capital targets set by management and any externally imposed capital requirements, and if it has not complied, the consequences of such non-compliance.

We believe that any such disclosure should be limited to externally imposed capital adequacy requirements because compliance or non-compliance may directly affect the entity's ability to manage its capital, future financial condition and the extent of its business. Furthermore, we propose that a regulator require regulated entities to disclose their capital requirements outside the financial statements in the same manner as that adopted in our country by the commercial banks and certain other regulated entities.

Although disclosure as to whether or not an entity complied with capital targets set by its own management and if it has not complied, the consequences of such non-compliance, is useful information about the entity's capital resources, its disclosure is not in the nature of notes to financial statements on the grounds that it can be expected that the level of such targets set by management will vary. The nature of these items is such that they should be disclosed outside the financial statements at the reporting entity's option.

By the way, the following paragraph as it appears in paragraph BC50 of the Exposure Draft is not consistent with the nature of capital requirements externally imposed as set forth in paragraph 47 of the Exposure Draft:

The Board concluded that there was no need for disclosure of industry-wide requirements because information about the existence and level of such requirements is widely available outside the financial statements. ……Thus, using industry-wide requirements would not lead to comparability across different entities or across similar entities in different countries.

We propose that the content of paragraph BC50 be reviewed.

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We would be pleased to discuss any aspect of this letter with the IASB or its staff at your convenience.

Very truly yours,

Michiyoshi Sakamoto
Chairman
Technical Committee for IASB