APPENDIX

Submissions for the Public Roundtables in Tokyo

Some submissions reflect the views of the organisation. Other submissions reflect the views of the individual participant.

1	The Securities Analysts Association of Japan
2	ENPRIS Financial and Business Consulting
3	Markit
4	Hong Kong Institute of Certified Public Accountants (HKICPA)

SUBMISSION 1

Date: 21 November, 2008

TO: Alan Teixeira, IASB

FROM: Sei-Ichi Kaneko, Executive Vice President,
The Securities Analysts Association of Japan

RE: Tokyo Financial Crisis Roundtable

Dear Alan,

Followings are matters I wish to raise at the roundtable. Please note the following discussion reflects my current thoughts. We are conducting a survey of our member analysts regarding the credit crisis and accounting standards and I will speak out at the roundtable based upon the survey findings which might be significantly different from my own thoughts described below.

1. Credit crisis and accounting standards, particularly fair value accounting

Theoretically, accounting standards, once stipulated, should not be modified according to changes in market conditions. However, fair value accounting assumes that the markets are efficient and rational prices are readily available. When this condition is not met for a prolonged period and in massive degree, certain modifications of accounting standards are acceptable.

2. Re-classification of securities

IASB and ASBJ initiatives of re-classification of securities are justified in terms of keeping a level playing ground with US GAPP. However, due process should have been observed, especially by IASB.

3. EC demands on the 27 Oct 2008 letter to Sir David

All demands seem to intend solely to hide losses. Separation of embedded options in synthetic CDOs has an excuse to align to US GAPP, but other three demands have no grounds. Accepting these demands will jeopardize the reliability of accounting standards and standard setters.

4. Pro-cyclicality of accounting

Principally, this is a matter regulators should consider. However, accounting standards too should pay certain attention to this matter.

5. Valuation of financial instruments----long term implications

Recent developments endorsed the necessity of prudent approach for the future deliberations of presentation of financial instruments. Maybe the mixed bag approach should be preserved as it is today.

Best regards,

Sei-Ichi

SUBMISSION 2

ENPRIS
FINANCIAL AND BUSINESS CONSULTING

25 November 2008

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Ms Alicia Posta
Executive Director
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By email

Dear Ms Blackburn and Ms Posta,

Thank you for the invitation to participate in the joint IASB/FASB Asian round-table to be held in Tokyo on 3 December 2008 to discuss the global financial crisis.

ENPRIS would like to raise a number of issues around fair value, disclosure and taxation including:[1]

Fair Value / Disclosure

Para 1. In this author's view, the optimal basis for financial reporting, reflecting both actuality and risk, is to report a figure that most demonstrably represents the value of an object (in this case, financial instrument, arrangement or derivative) that would most likely be transacted between market participants (paraphrased) *at a specific time*. Accordingly, any movement in financial reporting should move *closer* to this standard of value/classification in order to provide the best possible level of transparency and economic reality. This may be particularly relevant in times of systemic stress.

Para 2. However, there are a number of areas in relation to the derivation of fair value that require further development, particularly in relation to the relative flexibility provided to preparers of financial reports. This may necessitate a move towards a more prescriptive framework, in particular where no active market exists. For instance, such a framework (thinking broadly) could include published variables for inputs such as volatilities and correlations (utilising a contributors' panel?). Users would then be in a greater position to make their own assessment of both value and risk. This may result in greater administration requirements, however if the current global financial crisis *is* linked with current accounting standards and practice, significant changes must be considered and made.

Para 3. Furthermore, users of financial reports may wish to see a standardised set of disclosure requirements in the area of risk. The recent IASB Expert Advisory Panel document on 'measuring and disclosing the fair value of financial instruments in markets that are no longer active', dated October 2008 (Part 2: Disclosure) illustrates both abstract and inconsistent measures of valuation techniques across a number of financial institutions which a) provide little comparative basis to the user, and b) little transparency in the valuation process.

Para 4. A move towards a standardised framework should be considered for assessing risk, particularly where fair value measurement is more subjective and compromises an entity's

[1] Please note that these comments do not preclude issues that may have been previously raised or discussed.

ability to reliably report on value. For instance, PV01/Modified Duration measures (albeit with their limitations) could be utilised to provide a standardised snapshot of the (market) risk across preparers (particularly financial institutions) for certain yield-based financial products (or portfolios of financial products).

Para 5. Further on the disclosure element, without compromising the integrity of the current reporting requirements, it would be worthwhile discussing the feasibility of moving towards real-time reporting for certain entities/situations where entity-specific and systemic risks are high. Admittedly this would result in an increased compliance burden, however this may be one of the costs of the current financial crisis. One solution may be to utilise certain information provided to regulators and agencies (for instance, banking regulators) for broader reporting purposes (allowing for the protection of proprietary knowledge).

Taxation

Para 6. Standard setters must ensure that any potentially unintended consequences are analysed/examined to ensure regulatory alignment (in this case from the taxation perspective) where a significant body of legislation and policy relies on accounting standards and principles (including the valuation of financial instruments and arrangements for taxation purposes). Where taxation administrators rely on financial reporting for the calculation and derivation of taxation revenue, standard setters need to be careful that distortions are not created as to allow manipulation or accounting/taxation arbitrage.

Para 7. In Australia, for example, legislation is anticipated to be shortly introduced into Parliament on the taxation of financial arrangements. The draft legislation is intended to provide a closer alignment between tax and accounting and is built around a number of accounting approaches including accruals, fair value calculations and financial reporting more generally. Any significant (but possibly minor) changes in accounting standards and practices could result in a material effect on tax revenue (positive or negative). As an example, the reclassification of an investment, where fair value has been utilised for tax cost purposes, could result in a taxation distortion if taken out of fair value and subsequently accounted for on a reclassified basis. Another (Australian-based) example is tax consolidation legislation which relies on accounting standards and principles for the calculation and (theoretical) alignment of the economic value and tax value of an entity's assets. Any change in accounting practice may have an impact on this alignment.

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Please feel free to contact me if you require clarification on any of the issues raised above.

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IASB Roundtable: Summary of Markit's views

Fair value, the only long term solution

- Only the consistent use of fair value accounting across institutions and products globally has the potential to maximise transparency and comparability. A common definition of fair value will be the cornerstone of the convergence of separate sets of standards, and we welcome the joint work of the IASB and the FASB in this respect.

Sources of data

- Even if trading activity is limited a wealth of observable data will often be available which will be an accurate reflection of fair value in many cases.
- The argument that in the current crisis market prices do not reflect the "fundamental value" of an asset is mostly not backed by empirical evidence.
- Allowing the use of internal assumptions to determine the "fundamental" value of an asset encourages institutions to muddle through, allowing them to publish "surprise profits" on the back of hidden losses. The option to re-classify products has to be seen in a similar light. Both changes are likely to prolong the period needed to sort out the problems, while reducing transparency and confidence in the market place, the opposite of what is needed.

The role of fair value in the crisis and the need for changes

- Fair value accounting was certainly not the cause of the market crisis, and it actually had the beneficial impact of revealing losses in a timely and transparent fashion. It should hence be maintained in its original form while regulatory or financial stability concerns should be addressed separately.
- Recent pressure exercised by politicians and special interest groups has blurred the concept of fair value to a significant degree already. We do not think that amendments to the definition or application of fair value, let alone an outright suspension, can have any lasting beneficial impact.
- The potential pro-cyclical effects of fair value accounting require investigation, and potentially the implementation of some remedial measures. The analysis should take into account periods of falling as well as of rising prices. Also, potential measures should be devised and implemented by regulatory bodies, and should not impact the actual definition of fair value.

The role of the accounting standard setters

- Both the IASB and the FASB have played a key role in providing additional guidance in a timely fashion where needed. Statements by the *IASB Expert Advisory panel* were particularly helpful and we share most of its views.
- Political pressure and special interests have recently influenced not only on the direction but also the speed with which amendments to accounting standards were implemented. For some changes, too little time was given to collect and consider feedback, or to investigate potential unintended consequences. Undue political influence needs to be restricted, and the independence of the standard setting process must be maintained.

Exit price

- The use of two different prices, i.e. bid and offer, depending on your position, in accounting for the same instrument will result in a loss of comparability.
- The use of a "mid" price as a practical expedient to determine a price within the bid/offer range should hence be accepted.

Two-level hierarchy

- The use of just two levels in the fair value hierarchy would increase clarity and reduce administrative cost compared to the three-tiered approach in FAS 157.
- Level 1 valuations will be based on observable inputs and carry a sufficient degree of confidence, while Level 2 valuations will be based mostly on unobservable inputs using a model.

SUBMISSION 4

Global Financial Crisis Roundtable Meeting
3 December 2008
HKICPA Input

The Hong Kong Institute of Certified Public Accountants (HKICPA) believes that the following issues require attention of the IASB so as to improve financial reporting and help enhance investor confidence in financial markets.

(1) Strong support for independent standard setting and importance of appropriate due process

We would like to reiterate that the HKICPA continues to support the IASB and its efforts to achieve true global financial reporting standards. With this, it is very important that the IASB follows appropriate due process.

Further details of our support are set out in the Communique dated 14 November 2008 from Members of the National Standard Setters Group to the IASB and the Trustees of the IASC Foundation **(Annex I)**.

(2) Impairment of AFS debt securities

One of our members from the Banking sector has raised this.

Issue

IAS 39.67 & 39.68 requires the entire cumulative loss that has been recognized directly in equity to be transferred to profit or loss when there is objective evidence that the asset is impaired. For example, there has been a significant decline in the fair value of many high quality debt securities which in many cases is caused by large increase in credit spreads rather than fundamental deterioration in the underlying cash flows which support the valuations. As a consequence, there is considerable risk that financial institutions will be required to record impairment losses which overstate the losses that are likely to be realized where the financial institution has the intent and ability to hold the securities for the long term. Furthermore, as a consequence of overstating the initial impairment losses, the reversal of losses that occurs when assets recover is also overstated, leading to unwarranted volatility in reported income.

Solution/improvement in financial reporting:

A more appropriate basis of measurement of impairment of AFS debt securities is to record as the amount of the impairment only the amount that reflects the present value of the expected shortfall in future cash flows, with the balance of the fall in fair value recorded in equity.

Investor confidence in financial markets would be improved because reported impairment losses would be a more accurate reflection of the actual impairment losses in cash flow terms, and the associated unwarranted volatility in reported results would be removed.

3. Hedge accounting – removal of bright line hedge effectiveness test

One of our members from the Banking sector has raised this.

Issue:

Under IAS 39, one of the conditions required to qualify for hedge accounting relates to the hedge being highly effective throughout the financial reporting periods. Given that all hedge ineffectiveness is recorded in the income statement, the current model, in which hedge accounting could fail if “bright line” prospective and retrospective tests are not met, is unnecessary as well as being both costly to implement and maintain.

Solution/improvement in financial reporting:

Consistent with one of FASB’s proposals, the Board should consider the use of a qualitative approach to effectiveness testing, both at inception and on an ongoing basis, which could be supported by a quantitative test where deemed appropriate. For example the Board should consider changing the effectiveness testing criteria to “reasonably effective”.

Investor confidence in financial markets would be improved because the economic effect of the hedging strategies of financial institutions would be reflected in financial statements.

4. Impairment of AFS debt securities

One of our members from the larger accounting firms has raised this

The issue: The impairment models for debt at amortized cost and available for sale debt instruments are inconsistent with each other: both recognize losses only when there is a credit-related event but each measures the impairment loss differently. Impairment for debt held at amortized cost is solely related to the impact of credit loss events on the contractual cash flows in the instrument, which is consistent with the incurred loss measurement trigger. Impairment on AFS debt, however, reflects the entire change in fair value including the impact of market factors (eg changes in interest rate and liquidity) in addition to credit loss events. This is inconsistent with the IFRS requirement for a credit-related event to trigger initial recognition of impairment and creates application and interpretation difficulties, particularly in determining the extent to which recoverability of underlying cash flows has been impaired, and in deciding when subsequent impairment or reversals of impairment are recognized.

One possible solution: Calculate impairment for all debt instruments on the same basis. Thus, impairment losses on available-for-sale debt instruments would be measured based on the difference between the asset's carrying amount and the present value of estimated future cash flows using the original effective interest rate (the recoverable amount).

Potential impact on quality of financial reporting and investor confidence: From a financial reporting perspective, this achieves consistency with the incurred loss model of reporting which requires there to be objective evidence of the occurrence of a credit-related impairment event. It is also consistent with the requirement to measure interest income on an effective interest rate basis for all debt instruments. From an investor confidence perspective, at a time when active markets have disappeared for many debt instruments this would allow investors to distinguish between the ability for the entity to recover the underlying cash flows and the decline in fair value due to illiquidity in the market.

It also has implications for regulatory capital management for those territories where declines in fair value of AFS debt instruments are only recognized for regulatory capital purposes on the basis of the recognition of impairment in the income statement.

We recognize that US GAAP has a different trigger for the recognition of impairment on AFS debt securities (other than temporary impairment) and no ability to reverse impairment subsequently. We would encourage both boards to work together to achieve a consistent impairment model based on the above proposal.

5. Other issues

(a) The issue of fair value versus market value? Is fair value equivalent to market value in the current economic environment?

(b) The need to ensure consistencies between IFRS and US GAAP on key areas of financial reporting in the current crisis.

(c) Simplifying classification of financial assets and their different accounting treatments.

- END -

Annex I

Communiqué from Members of the National Standard Setters Group to the International Accounting Standards Board and the Trustees of the IASC Foundation

14th November 2008

We, the members of the National Standard Setters Group listed below, understand that the IASB has been put under considerable pressure by the current credit crisis being felt around the world. In particular we note that the IASB has been receiving requests to review standards with some urgency. It acceded to the first such request in October and suspended due process to do so. It has now been asked to carry out a further review of standards and to complete its considerations in time for 31 December year end financial reporting.

Against this background, we would like to make the following statements:

- We continue to support the IASB and its efforts to achieve true global financial reporting standards.
- We believe the governance arrangements of the IASB must continue to ensure that it is an independent setter of high quality global standards, with appropriate arrangements for consultation with and accountability to its stakeholders. The ongoing constitutional review of the IASB offers an opportunity to reinforce its accountability and its ability to deal with exceptional circumstances.
- It is important that the IASB follows appropriate due process.
- While appropriate due process should allow constituents ample time to consider and comment on any changes, it may be, in these extraordinary times, that due process will need to be shortened. Should this be the case we stand ready to assist the IASB to achieve the most effective due process possible. For instance we could stimulate debate among our national constituents, hold round tables on the technical issues involved and act as focal points for comments.
- We urge those adopting international financial reporting standards to accept the decisions of the IASB if they are made with adequate due process and deliberation, taking into account the impacts on markets and the economy.

It is important that we work together to solve the emerging problems. It is in this spirit that we have issued this communiqué.

Ian Mackintosh, Chairman, Accounting Standards Board, UK
Amarjit Chopra, Chairman, Accounting Standards Board, India
Chungwoo Suh, Chairman, Korean Accounting Standards Board
Conrad C. Chang, Chairman, Taiwan Financial Accounting Standards Committee
Paul F. Winklemann, Chairman, Financial Reporting Standards Committee, Hong Kong
Bruce Porter, Acting Chairman, Australian Accounting Standards Board
Jean-Francois LePetit, Chairman, French Accounting Standards Board
Alex Watson, Chairman, Accounting Practices Committee, South Africa
Paul Cherry, Chair, Canadian Accounting Standards Board
Anders Ullberg, Chairman, The Swedish Financial Reporting Board

Stig Enevoldsen, Chairman, European Financial Reporting Advisory Group
Massimo Tezzon, Secretary General, Organismo Italiano Contabilita
Hans de Munnick, Chair, Dutch Accounting Standards Board
C.P.C. Felipe Perez Cervantes, President, Mexican Accounting Standards Board
Joanna Perry, Chairman, Financial Reporting Standards Board, New Zealand
Asad Ali Shah, President, Institute of Chartered Accountants of Pakistan
Ikuo Nishkawa, Chairman, Accounting Standards Board of Japan
Liesel Knorr, President, German Accounting Standards Board
Erland Kvaal, Chairman, Norwegian Accounting Standards Board
Gerhard Prachner, Chairman, Austrian Accounting Standards Board