

March 9, 2011

To the International Accounting Standards Board

Shinkin Central Bank

Re : Comments on Exposure Draft “Hedge Accounting”

Dear Sirs/Madams,

We appreciate the efforts of the International Accounting Standards Board (IASB) on the financial instruments project and welcome the opportunity to comment on the Exposure Draft “Hedge Accounting”.

We support IASB that attempts to simplify the accounting of financial instruments on international accounting standards, and we generally agree with the proposed significant changes to the hedge accounting requirements in IAS 39 excessively rule-based in order to reflect an entity's risk management activities.

However, we have comments with respect to some of the proposals, which do not reflect an entity's risk management activities. Therefore useful hedge accounting information is not provided for users of financial statements.

We wish that attached our comments would be considered in the following deliberation of these subjects.

We note that the Board decided not to address open portfolios hedging as part of this exposure draft this time. However, in practice, risk management often assesses risk exposures at a portfolio level at financial institutions. We believe that IASB should not finalise a standard on hedge accounting before ED for hedge accounting for open portfolios is published.

Sincerely yours,

Comments

Question 1

Do you agree with the proposed objective of hedge accounting? Why or why not? If not, what changes do you recommend and why?

We agree with the proposed objective of hedge accounting except following:

We do not agree with paragraph 4: Hedge accounting shall not be applied to investments in equity instruments designated as at fair value through other comprehensive income.

Equity investments designated as at fair value through other comprehensive income make changes in other comprehensive income and the net worth fluctuates. For entities, to manage changes in other comprehensive income is a very important as well as managing changes in profit and loss.

If hedge accounting shall not be applied to investments in equity instruments designated as at fair value through other comprehensive income, accounting mismatch occurs: the gain or loss from remeasuring the hedging instrument should be recognised in profit and loss and the gain or loss from remeasuring the hedged items should be recognised in other comprehensive income. It does not properly reflect the economic effect of hedges and useful hedge accounting information is not provided for users of financial statements. We think it appropriate to allow the application of hedge accounting.

Question 5

(b) Do you agree that a layer component of a contract that includes a prepayment option should not be eligible as a hedged item in a fair value hedge if the option's fair value is affected by changes in the hedged risk? Why or why not? If not, what changes do you recommend and why?

We do not agree.

Loan contracts entered into by financial institutions is generally contain provisions of prepayments. Financial institutions generally manage exposures arising from risks for a layer component of such loans.

Therefore, in order to represent in the financial statements the effect of entity's risk management activities properly, and to provide useful information in the financial statements, a layer component of the contract also includes a prepayment option should be eligible as a hedged item in a fair value hedges.

In addition, a layer component of an overall group of items should be eligible for hedge accounting if the items in the group contain prepayment options.

Question 6

Do you agree with the hedge effectiveness requirements as a qualifying criterion for hedge accounting? Why or why not? If not, what do you think the requirements should be?

We agree in principle.

An entity may assume little ineffectiveness in a hedge relationship of interest rate risk involving the hedged item and an interest rate swap if all the applicable conditions in the principal, the conditions of the contract period and the interest payments are met.

To measure ineffective portion strictly from remeasuring the hedging instrument and the hedged item would be increased burdens on preparers, while the information provided to users would be less useful. Therefore, only in such case, profit and loss should be no need to recognize the ineffective portion by checking the conditions that closely matched the future.

Question 15

(a) Do you agree that all of the three alternative accounting treatments (other than hedge accounting) to account for hedges of credit risk using credit derivatives would add unnecessary complexity to accounting for financial instruments? Why or why not?

We do not agree.

In this draft, hedge accounting shall not be applied to credit risk because it is difficult to isolate and measure the change in fair value that is attributable solely to credit risk.

Many financial institutions frequently use credit derivatives to manage their credit risk exposures arising from their lending activities. Therefore, to represent in the financial statements the effect of an entity's risk management activities that use financial instruments to manage exposures arising from risks, hedge accounting should be applied for hedge of credit risk using CDS or an alternative accounting should be considered.

Question 16

Do you agree with the proposed transition requirements? Why or why not? If not, what changes do you recommend and why?

We agree with the proposed requirements for hedge accounting be applied prospectively.

However, we do not agree with the date of adoption: annual periods beginning on or after 1 January 2013.

The Board decided not to address open portfolios hedging as part of this exposure draft. The financial institutions have generally operated in open portfolios. We need appropriate preparation period after the final standard including hedge accounting for a portfolio hedge is issued. Therefore effective date should be reviewed.