

October 14, 2002

**Comments on the Exposure Draft of Proposed Amendments to IAS39,  
Financial Instruments: Recognition and Measurement**

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**Question 2 -- Derecognition: continuing involvement approach (paragraphs 35-57)**

**Do you agree that the proposed continuing involvement approach should be established as the principle for derecognition of financial assets under IAS 39? If not, what approach would you propose?**

We do not agree. In the proposed continuing involvement approach there is a possibility that the case where an asset is recognized in spite of dissociating legally and not having economical benefits, and the case where a liability is recognized although it is the conditional duty may arise. For example, there is a case that an entity has to continue recognition of an asset when a credit enhancement such as a retroactive right remains after an asset sale. On the other hand, an entity will not recognise an asset when it provides a financial guarantee. It is inconsistent.

Therefore we believe that the financial component approach reflects economical substance more appropriately than continuing involvement approach.

**Question 3 -- Derecognition: pass-through arrangements (paragraph 41)**

**Do you agree that assets transferred under pass-through arrangements where the cash flows are passed through from one entity to another (such as from a special purpose entity to an investor) should qualify for derecognition based on the conditions set out in paragraph 41 of the Exposure Draft?**

We do not agree. As the reply to Question 2 we believe that the financial component approach is also appropriate for pass-through arrangements.

**Question 4 -- Measurement: fair value designation (paragraph 10)**

**Do you agree that an entity should be permitted to designate any financial instrument irrevocably at initial recognition as an instrument that is measured at fair value with changes in fair value recognised in profit or loss?**

We do not agree. The basic principle of current IAS39 that properly classifies financial instruments and applies measurement methods based on the possession purpose should not be changed. According to the proposal, there is a possibility that an arbitrary specification which is obviously different from the actual possession purpose may occur.

**Question 10 -- Prior derecognition transactions (paragraph 171B)**

**Do you agree that a financial asset that was derecognised under the previous derecognition requirements in IAS 39 should be recognised as a financial asset on transition to the revised Standard if the asset would not have been derecognised under the revised derecognition requirements (ie that prior derecognition transactions should not be grandfathered)? Alternatively, should prior derecognition transactions be grandfathered and disclosure be required of the balances that would have been recognised had the new requirements been applied?**

We do not agree. As the reply to Question 2 we do not agree about the adoption of continuing involvement approach. We object the retroactively application on the assumption of this approach.

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