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October 22, 2004

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

Dear Sirs,

Comments on the Exposure Draft 7 “Financial Instruments: Disclosures”.

Accounting Standards Board of Japan (ASBJ) is pleased to comment on the Exposure Draft 7 “Financial Instruments: Disclosures”. The views expressed in this letter are those of International Issues Standing Committee of ASBJ.

Disclosure of a sensitivity analysis (Question 3 and 6)

We disagree with the proposal that disclosure of a sensitivity analysis should be part of the financial statements at this moment.

Practice of how to disclose a sensitivity analysis has not been established yet. Even in some jurisdictions that require disclosure of a sensitivity analysis, it is disclosed as part of the information provided by the management outside financial statements (MD&A). When considering whether a sensitivity analysis disclosure should be included in financial statements, it is necessary to identify the reasons why its inclusion in financial statements is not required in major markets of the world. We suppose one of the reasons is that it is not appropriate to uniformly specify the method of a sensitivity analysis and determination of the method is left to the entity’s discretion. Considering such factors, we do not believe there is a sufficient ground for inclusion of a sensitivity analysis in financial statements.

Capital disclosures (Question 4 and 6)

We disagree with the proposal that capital disclosures should be part of financial statements for the reasons mentioned below. We would like to add that information about capital would be disclosed under the existing IAS 1 “Presentation of Financial Statements” when there are events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern, such as non-compliance with external capital requirements due to deterioration in capital.

- Since information about capital is largely associated with the financial policy of the management, it is appropriate to disclose it as part of the information provided by the management outside the financial statements (MD&A) rather than include it in financial statements.

- Capital disclosures including external capital requirements (e.g., regulatory capital requirements established by laws or other regulations) are disclosures of buffers rather than risks themselves and, therefore, are in the nature quite different from disclosures of risks arising from financial instruments. Since IAS 1 requires disclosures in cases where there are events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity's inability to comply with external capital requirements due to deterioration in capital would be disclosed as information related with this requirement.

We hope that our comments will contribute to the work of the IASB in arriving at its final decision.

Best Regards,

Ikuro Nishikawa
Chairman, International Issues Standing Committee
Vice-Chairman, Accounting Standards Board of Japan