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International Accounting Standards Board
F.a.o. Sir David Tweedie - Chairman
30 Cannon Street
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Letter of Comment No: 8
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Re. Joint Project on Performance Reporting/Reporting
Comprehensive income

Dear Sirs,

We take this opportunity to write to you on the joint project of the FASB and the IASB that is intended to establish standards for the presentation of information in the financial statements of companies in order to enhance the usefulness of that information in assessing the financial performance and financial position of these companies. We support the decision of both Boards to combine their separate projects into one joint project for the sake of convergence. This project is subject to public consultation within the context of the International Working Group on Performance Reporting.

We welcome that both Boards have sought the opportunity to obtain input from various stakeholders in relation to this project. However we question whether the direction that the project is taking is appropriate and whether the resources that are being devoted to the project by both Boards are well spent. We recognize that there are concerns about certain financial reporting practices that may be obscuring the importance of net income and may lead to questions about the appropriate definition of net income.

With respect to net income we have to stress that this is a key measure of performance and an essential part of our communication with users of financial statements. It is obviously not the only relevant number but from regular contacts with investors and other users of our financial statements, we know that net income is used as a key metric to understand operating performance of a company. It is not perfect and can therefore be supplemented with additional information, however it cannot be missed. It must be stressed that financial information reported to outside investors should be, and remain, closely aligned with performance measures that are used internally in companies. This is not only efficient; it also allows alignment of the goals of management to the goals of outside stakeholders. If net income were lost, then that alignment between internal and external goals would be lost as well. Companies would be forced to have two sets of figures, one for managing their operations and another one for officially publishing their results. This would create a gap between

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management information used for business decisions and outside information, the latter being based on theoretical concepts far from the business reality. There is a body of academic research that demonstrates that net income information contains a high level of predictive value for future profitability and cash flows, an additional argument why net income needs to be retained.

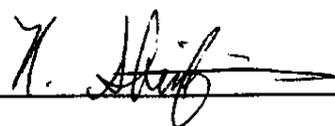
Net income has an important role because of its frequent use as a benchmark for incentive compensation. Net income is also used as one of the benchmarks for the distribution of profit to the shareholders. Such a distribution cannot be assessed on the basis of a comprehensive income that includes all fair value changes that represent paper gains or losses that can vanish after the balance sheet date.

In relation to the discussions in the International Working Group on Performance Reporting we express our concern with respect to the fact that certain important issues are not addressed in sufficient depth and that there appears to be too much focus on technical issues. The prime question is what do companies need to communicate to financial markets. This is not a technical question but a policy issue that would benefit from wide consultation with acting CEOs and CFOs. With respect to the question whether 4 or 5 statements are required, the view of preparers is that comprehensive income (or other changes in equity) provides valuable information that should be presented. However this is only one component of performance. It can be presented as prominently as net income but should remain clearly distinguished. Net income needs to be presented with meaningful subtotals, including operating income defined in accordance with the definitions internally used by companies (the management view).

This is particularly relevant with respect to the reporting of pro-forma earnings numbers. These numbers are currently not defined in accounting standards and the avoidance of misuse of such numbers is in the domain of enforcement agencies in our view. We note that the Securities and Exchange Commission has taken effective steps in recent years to remedy misuse of pro-forma earnings numbers.

In our view there is only limited need for new accounting standards to deal with performance reporting. To enhance the usefulness of the financial statements some further clarification of existing standards would be appropriate and the IASB should consider adoption of a standard that addresses reporting comprehensive income. We have developed some further thoughts on these issues that are outlined in the attached paper.

Sincerely,



Noriaki Shimazaki
Member of the Board
Executive Vice President
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