

April 14, 2009

Financial Accounting Standards Boards 401 Merritt 7 PO Box 5116 Dear Sir/Madame.

Comments on Discussion Paper "Preliminary Views on Financial Statement Presentation"

We are a group of Japanese companies that prepare consolidated financial statements in conformity with US generally accepted accounting principles. We appreciate many years of efforts by the FASB and the IASB on the project on Financial Statement Presentation. The followings are our comments on the Discussion Paper "Preliminary Views on Financial Statement Presentation" (hereinafter referred to as "the DP").

I. OVERALL COMMENTS

We welcome the retention of the presentation of "net income" and the recycling mechanism in the DP. It is evident that the presentation of net income as an overall measure of performance in combination with recycling of other comprehensive income is meaningful to many users and also demanded by management. It should be maintained for the future.

The proposals by the DP should be considered from the viewpoint of feasibility and of costs and benefits. Results of field tests performed during the comment period should be adequately analyzed and reflected in the development of the standard. The fact should be considered that some companies of our group could not participate in the field tests since the work load of the field tests including the preparation of the statement of cash flows by direct method. In addition, with regard to the increase of the costs for preparers, the effects of other MOU projects which are likely to be implemented around the same time should be taken into consideration.

We disagree with the proposal to mandate the use of the direct method in preparing statement of cash flows and require the reconciliation between the statement of cash flows and the statement of comprehensive income, from the viewpoint of the roles of the statement of cash flows and cost and benefits and timely disclosures. The reconciliation between profit or loss (or net income) and operating cash flows, which the statement of cash flows using the indirect method provides, is considered to be useful by many users.

The issue of how net income and comprehensive income attributable to non-controlling interests should be presented in the consolidated statement of comprehensive income is, in our understanding, out of the scope of the DP. However, this issue should be clearly prescribed in the final standard, since the requirement of the existing IAS 1 (i.e., net income and comprehensive income for the period attributable to non-controlling interests and owners of the parent should be separately disclosed) is not explicitly reflected in the DP. Presentation of net income attributable to owners of the parent is necessary because it would correspond to the shares of the parent traded in the market and earnings per share is determined based on net income attributable to owners of the parent.

II. RESPONCES TO SPECIFIED QUESTIONS IN THE DP

Question 1 Objective of presentation of financial statements

(Doubts about positioning the cohesiveness as an objective)

Regarding the cohesiveness, which is positioned as one of the basic objectives in the DP, we do not deny it as far as it helps achieving the objectives of financial reporting. However, each statement has different contents of information to convey (i.e., financial position, performance and cash flows) and accordingly has different roles. What is essential is whether the objectives of financial reporting are best achieved by financial statements. Excessive emphasis on cohesiveness for its purpose might prevent each statement from best fulfillment of its functions.

Question 2 Separation of business activities from financing activities

We regard the idea of separating business activities and financing activities in the three statements as a reasonable clue to designing the basic structure of financial statements. However, the DP does not clearly explain what use of the separated financial data is expected by separation of financing activities (e.g., which key financial ratios are supposed for financial activities). In addition, in the case of financial institutions, the distinction of business and financing activities is difficult and this distinction will not provide useful information.

In our view, separation of business activities and financing activities is consistent with the basic concept of corporate valuation models that the value created by business activities is distributed to claimholders comprising financing and equity. And it reflects the difference between business activities directly associated with value-creating activities and financing activities as capital-raising for business.

Question 3 Equity

We believe that equity should be presented separately from the financing section so as to distinguish capital raising activities with owners and financing activities resulted from non-owner transactions.

Separation of equity from the financing section in the statement of cash flows would be also adequate because it would make clear the repayment of debts and facilitate the calculation of the ratios representing the entity's ability of repayment for debts, such as the debt service coverage ratio (DSCR).

Question 4 Discontinued operations

We agree that discontinued operations should be presented in a separate section because it is useful to separate discontinued operations from continuing operations.

Question 5 Management approach

We basically agree with the adoption of a management approach to classification in the sections and categories of the adoption of the method emphasizing the views of management. This would be also useful from the viewpoint of enhancing the communications between management and users. However, classification in the statement of financial position essentially involves difficulty and there may be a concern about comparability.

Question 6 Would the proposed change in presentation make it easier to calculate some key financial ratios?

Depending on how sections are actually separated, ratios based on inaccurate correspondence could be derived.

Question 7 Classification at the reportable segment level

To classify assets and liabilities (and related changes) at the reportable segment level is consistent with the management approach and better than a uniform classification at the entity level.

Question 8 Consequential amendments to existing segment disclosure requirements

To require too detailed disclosure of assets by segment should be avoided from the viewpoint of costs and benefits. We believe that disclosure of total assets by segment, as prescribed in the existing rule, is sufficient.

Question 9 Definitions of the business section and the operating and investing categories within that section

As mentioned in the response to Question 2, we agree with the proposal that the items relating to value-creating activities should be included in the business section and the items relating to capital-raising activities should be included in the financing section. We also agree with the proposal that items included in business section should be further divided into operating and investing categories based on management approach.

However, the definitions of business and financing sections and operating and investing categories of the DP are not always clear. To avoid confusion in practice, we believe that sufficient explanation and clear definition of sections and categories will be required. In some cases, it would be difficult to divide items of the statement of financial position into business (operating and investing categories) and financing sections. In addition, items included in operating income under the DP could be different from that under exiting accounting standards since the DP require that items of the statement of financial position are at first divided into operating and investing categories and then the statement of comprehensive income are prepared based on this classification of items.

According to the proposal of the DP, acquisitions and sales of plant, property and equipment and some of investments in associates would be included in the operating category in the statement of cash flows. Such presentation would cause a problem that it would not provide a clear comparison between expenditures on long-term operating assets (the investing cash flows under the existing rule) and recurring cash inflow as its source (the operating cash flows under the existing rule). Considering that many users regard the net operating cash flows before deducting expenditures on long-term operating assets as important, we suggest that a subtotal showing that amount should be presented within the operating category in the statement of cash flows.

Question 10 Definition of financing section

We agree that treasury assets should be presented in the financing section because they are evaluated alongside an entity's debt as a part of 'net debt' and could be used to retire its existing debt immediately. From the viewpoint of consistency with the management approach, there could be items other than financial instruments to be included in the financing section. However, it is actually considered to be infrequent that assets or liabilities other than financial instruments are managed as part of financing activities. We agree that management should be given flexibility in judgment of which items of financial assets and liabilities should be included in the financing section, provided that they are related to financing activities.

Question 11 Presenting Information about liquidity and financial flexibility of assets and liabilities

We believe that the rationale of the DP that proposes to eliminate the current or noncurrent distinction based on the length of an entity's operating cycle is not persuasive. The DP indicates that a one-year distinction is simpler and easier to understand than a distinction based on an entity's operating cycle. However, this rationale is not sufficient to propose to change the existing rule about liquidity. We think that an entity will be able to present information about liquidity based on the combination of business cycle, which is actually related the business section, and one-year rule. In addition, in the case of financial institution, we believe that a presentation of assets and liabilities based on order of liquidity is adequate.

Question 12 Presenting cash in the statement of financial position

We are not against that the proposal that cash equivalent should not be treated as part of cash. We think that the rationale shown by the DP why the treatment of cash equivalent is better than that under existing accounting standards is not clear.

Question 13 Assets and liabilities that are measured on different bases

We agree that presenting similar assets and liabilities that are measured on different bases separately would result in more decision-useful information. However, we are not convinced that it is essential that it should be done through disaggregation on the face of the financial position because too many line items would be disclosed. We think that providing this kind of information in the notes is sufficient.

Question 14 A single statement of comprehensive income

We believe that choice between the one-statement approach and the two-statement approach should be permitted. Given the recycling of items of other comprehensive income is maintained, the financial statements can be considered a "dual presentation system," which presents both net income and comprehensive income which have clean surplus relationship with equity. Because net income and total comprehensive income are separately determined in this system, the two-statement approach which clearly distinguishes them should be allowed as an alternative. The background paragraph of

IAS 1 (as revised in 2007) states that most respondents preferred the two-statement approach because it distinguishes net income and comprehensive income. We believe that this rationale for the two-statement approach is still valid, considering that net income has been maintained in the DP as a result of the deliberation in the Segment B of the project, and therefore the two-statement approach should not be eliminated.

Question 15 Other comprehensive income

We agree with the proposal that the category to which items of other comprehensive income (except some foreign currency translation adjustments) should be indicated.

Question 16 Disaggregation of income and expenses by their nature

Users' primary uses of the information about income and expenses by nature are considered to be added value analysis and break-even analysis. Those needs would be sufficiently satisfied by disclosing the total of major expense items including depreciation and amortization expense and employee benefit expense (as required in IAS 1) and the proposed disaggregation in the statement of comprehensive income would be unnecessary.

Disaggregation of cost of goods sold by nature on the consolidated basis would require adjustments of components of manufacturing costs for transactions within the group with regard to offset of transactions and elimination of unrealized profits. Since the existing accounting systems of entities are not generally designed taking the collection of such data into consideration, such requirement could impose significant burdens on preparers, including fundamental revision of accounting systems and increases of works of subsidiaries.

In addition, preparers would be given significant costs if requested to prepare statement of cash flows by direct method and the reconciliation between the statements of cash flows and comprehensive income in addition to disaggregating revenues and expenses by function and nature.

Question 17 Allocation of income taxes

We agree with the DP's conclusion that income taxes should be allocated to discontinued operations and other comprehensive income in addition to the income tax section because it would ensure the retention of the presentation of net income as is today.

Question 18 Foreign currency transaction gains and losses

Strict application of the proposed approach could be significantly burdensome in some cases. We believe that the approach similar to that to basket transactions would be sufficient rather than pursuing cohesiveness strictly.

Question 19 A direct method of presenting operating cash flows

We disagree with the proposal of the ED to eliminate the indirect method and require a direct method of presenting cash flows. The principal advantage of an indirect method of presenting cash flows is that reconciles profit or loss (or net income) to operating cash flows, and many users have asked for that type of reconciling information. Users prefer an indirect method to a direct method since an indirect method provide useful reconciliation between net income and operating cash flows as well as linkage between the increase or decrease of line items of financial position and operating cash flow. Management of entities also makes use of the statement of cash flows prepared using the indirect method as information for management controls and find it useful.

On the other hand, it is not clear the presentation of what items in the direct method are considered to enhance the decision usefulness and provide benefits to users. Preparers would be required significant costs and efforts by demanding the direct method.

Question 20 Costs related to using the direct method

If the use of the direct method are mandated, the cost for meeting that requirement would be significant because:

- (a) Preparing the statement of cash flows by the direct method would be highly difficult under the existing systems of bookkeeping and accounting and require a fundamental restructuring of those systems.
- (b) In particular, when an entity having a number of subsidiaries attempts to directly prepare the consolidated statement of cash flows by the direct method, it needs to collect detailed data from subsidiaries and introduce an integrated accounting system or develop an accounting system ready for the preparation of the statement of cash flows using the direct method. Considering the need for offsetting cash flows within the group, initial costs for preparers would be significant and ongoing costs for preparing the information would largely increase.
- (c) Therefore, if the direct method would be mandated, most of entities are expected to use the indirect direct method (determining the amounts of the

items of the operating cash flows by adjusting the related revenues and expenses for the change during the period in the amounts of the related asset and liability). Nevertheless, it would require remarkable work load for preparers. In this case, it would be difficult for prepares to provide numbers acceptable by auditors.

(d) It should be also noted that the more line items are required, the larger the cost for preparation would be if the proposal to require disaggregation of expenses both by function and by nature is adopted. It would require remarkable work load for preparers even when it uses the indirect direct method.

It would not be appropriate to mandate the direct method since the users' specific needs are not persuasively demonstrated and an adequate guidance is not established on the method of preparation to reasonably resolve the preparers' concerns about its costs and practicability.

Question 21 Effects of basket transactions

In our view, allocation of profit or loss and cash flows relating to a business combination is unnecessary because a business combination is acquisition of an entity or a business as a whole. We believe that determination of a category in which a basket transaction should be included should be based on the nature of that transaction itself, rather than linking each asset and liability with a category it relates to.

Since we believe that it is appropriate to determine the category in which effects of a basket transaction should be included by looking to the nature of that transaction itself, we support the alternative B (present in the category that reflects the activity that was the predominant source of those effects) in principle. However, if the relevant category cannot be clearly identified, we suggest the presentation in the operating category.

Question 23 Reconciliation schedule

In our view, a large part of the needs for the information provided by the proposed reconciliation schedule would be satisfied by the statement of cash flows using the indirect method. As mentioned in the response to Question 19 and 20, we disagree with mandating the use of the direct method and believe that use of the indirect method should be permitted. We do not consider that the proposed reconciling schedule is necessary for companies using an indirect method.

The proposal of the ED is not clear about which of many numbers presented in the reconciling schedule are supposed to be primarily needed by users, compared with the significant costs for preparers if the preparation of the reconciling schedule is required.

Under the existing system of accounting and bookkeeping, it is extremely difficult and takes high costs to prepare the reconciliation schedule. If requested by users, it would be better to focus the schedule on the remeasurement numbers. Most of these numbers are currently disclosed in the footnotes of financial statements. We believe that numbers in "accruals, allocations and others" would not provide useful information for users. If numbers of accruals are not demanded, we do not need to prepare the statements of cash flows by the direct method.

Question 24 Disaggregation of changes in fair value

We do not agree with the disclosure of further disaggregation of changes in fair value in the reconciliation sheet as proposed by the DP since the reconciliation sheet would become more complicated. (Refer to Question 23).

Question 25 Alternative reconciling formats

We do not believe that consideration of alternative reconciling formats is necessary, because the statement of cash flows using the indirect method is sufficient for analysis of profit and operating cash flows.

We hope that our comments will contribute to the discussion of this project.

Sincerely yours,

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