Document No. 282 December 28, 2011

Accounting & Tax Committee
Japan Foreign Trade Council, Inc.

To the Financial Accounting Standards Board

Comments on "Financial Services—Investment Companies"

The following are the comments of the Accounting & Tax Committee of the Japan Foreign Trade Council, Inc. (JFTC) made in response to the solicitation of comments regarding the exposure draft of the Financial Accounting Standards Board of the United States entitled, "Financial Services—Investment Companies". The JFTC is a trade-industry association with trading companies and trading organizations as its core members, while the principal function of its Accounting & Tax Committee is to respond to changes in accounting standards. It should be noted that members of the JFTC include companies currently using U.S. GAAP. (Member companies of the JFTC's Accounting & Tax Committee are listed at the end of this document.)

I. General Comments

We are not opposed to investment companies measuring their investments in controlled entities at fair value through profit or loss (FVTPL) instead of by consolidation. However, in the interest of convergence between US GAAP and IFRS, we request that due efforts be made to maintain consistency with the IASB Exposure Draft *Investment Entities*.

II. Specific Issues (Comments on Questions)

Question 1

We agree with all of the criteria of an investment company, with the exception of the pooling of funds criterion.

> The pooling-of-funds criterion would require an entity to have investors that are not related to the entity's parent and those investors, in aggregate, must hold a significant ownership interest in the entity. Under this criterion, a wholly owned investment vehicle would not be deemed an investment company. However, given that there is no

difference in the intent of the investment, which is to realize capital appreciation and/or dividend income, we do not believe that it is necessary to include a criterion requiring the participation of two or more investors that are unrelated to the parent.

Question 2

We do not agree that entities specified under the Investment Company Act of 1940 should be subject to the provisions of this Topic.

➤ The six criteria listed under paragraph 946-10-15-2 are essentially the same as those proposed in the IASB Exposure Draft, and we appreciate that efforts have been made to achieve convergence between the issues of this Topic and IFRS. However, the inclusion, above and beyond the six criteria, of entities specified under the Investment Company Act of 1940 would result in a significant disparity with IFRS.

Specifically, Sec. 3 (a)(1)(C) of the Investment Company Act of 1940 deems any entity with holdings of investment securities exceeding 40 percent of its total assets to be an investment company. Consequently, an entity that has come to hold investment securities exceeding 40 percent of its total assets as a result of activities whose objectives are other than the realization of capital appreciation or investment income (such as for the purpose of relationships or activities listed under paragraph 946-10-55-7) would also come under the scope of this Topic.

In the interest of convergence with IFRS, the definition of an investment company should be limited to the scope of the six criteria listed under paragraph 946-10-15-2, and entities stipulated under the Investment Company Act of 1940 should be excluded.

Question 3

We agree. We think that the proposed amendments can appropriately identify the population.

Regardless of whether an entity comes under the scope of Topic 946, the proposed amendments of Topic 973 require an examination of whether an entity comes under the scope of Topic 973. Therefore, a real estate investment trust, whose attributes place it somewhere between real estate property and equity interest, would be first examined to determine whether it comes under the scope of Topic 973. In case that it does not, it would then be examined to determine whether it comes under the scope of Topic 946. There is no conflict between the two proposed amendments because Topic 973 takes an exclusive position. Therefore, it can be said that the proposed amendments will be able to appropriately differentiate between

populations of investment companies and investment property entities.

Question 4

The proposed amendments are appropriate and operational.

Five Given that investment company accounting allows for special accounting treatments on the premise that strict criteria have been met, it is reasonable to require reassessment when the entity's purpose and design have changed. Moreover, because it can be assumed that it would be relatively easy to gain an objective understanding of the changes in the purpose and design of an entity, we believe that the proposed amendments are appropriate and operational.

Question 5

The proposed amendments are operational and can be consistently applied.

The criteria of an investment company are clearly set forth under "Nature of the Investment Activities." According to these criteria, an entity is deemed an investment company when its sole significant activity consists of investment undertaken for the purpose of capital appreciation and/or dividend income, and when the services the entity provides relate solely to the investment activities of the entity itself. Thus, an entity does not meet the criteria of "Nature of the Investment Activities" if its other activities (for instance, construction) are considered to be more than supporting its investment activities. While this criterion must be examined whenever assessing or reassessing whether or not an entity is an investment company, it can be assumed that the type of activities can be readily identified in practice. We therefore believe that the proposed amendments are operational and can be consistently applied.

Question 7

The criterion is not appropriate.

➤ The pooling-of-funds criterion would require an entity to have investors that are not related to the entity's parent and those investors, in aggregate, must hold a significant ownership interest in the entity. Under this criterion, a wholly owned investment vehicle could not be deemed an investment company. However, given that there is no difference in the intent of the investment, which is to realize capital appreciation and/or dividend income, we do not believe that it is

necessary to include a criterion requiring the participation of two or more investors that are unrelated to the parent.

Question 8

Interests held by debt holders should be considered.

Essentially, the assessment of whether an entity is an investment company depends importantly on whether the purpose of the entity is solely for investment and whether its design is consistent with that purpose. As such, the assessment should not be based on whether or not ownership interests are in the form of equity. We believe that securitization vehicles, such as a collateralized debt obligation (CDO) or a collateralized loan obligation (CLO), essentially have the attributes of an investment company.

Question 9

The criteria should be amended.

The pooling-of-funds criterion would require an entity to have investors that are not related to the entity's parent and those investors, in aggregate, must hold a significant ownership interest in the entity. Under this criterion, a wholly owned investment vehicle could not be deemed an investment company. However, given that there is no difference in the intent of the investment, which is to realize capital appreciation and/or dividend income, we do not believe that it is necessary to include a criterion requiring the participation of another investors that are unrelated to the parent.

Question 10

We agree.

> The nature of the investors is an issue that pertains to risk tolerance and expected returns. As both types of investors are investing purely for the purpose of investment, we believe there is no need to differentiate the two.

Question 11

We agree. Moreover, we believe the proposed amendment is operational and can be consistently applied.

Question 12

We agree that controlling financial interests in another investment company in a fund-of-funds structure should be consolidated. On the other hand, consolidation is not necessary when a feeder fund has a controlling financial interest in the master fund.

➤ In the case of a fund-of-funds structure, as a result of consolidation, equity interests held by the investment company subsidiary are directly measured at fair value and subject to FVTPL treatment. As such, consolidation improves the transparency of information and provides more useful information to investors than if not consolidated. On the other hand, in the case of a master-feeder structure, current presentation and disclosure criteria require disclosure of the master fund's financial statements as part of the feeder fund's ones. Thus, even if not consolidated, we believe the transparency of information is ensured. Therefore, we conclude that consolidation is not necessary when a feeder fund has a controlling financial interest in the master fund.

Question 17

We agree with all proposed disclosures, with the exception of disclosure of implicit financial support.

Obtaining information on implicit financial support entails numerous practical difficulties. We request that disclosure be limited to explicit financial support.

Question 18

We agree with the requirement that a noninvestment company parent should retain the specialized accounting of an investment company subsidiary in consolidation.

Normally, the purpose for which an investment company subsidiary holds an investment is the same as the purpose for which the consolidated group, to which the investment company subsidiary belongs, holds an investment. (We believe the requirement should not be retained when a difference in purpose exists.) Therefore, we believe that the economic reality of an investment can be properly reflected by using the same method of measurement, and that this will lead to providing investors with accurate information.

Question 19

We do not agree with the proposal.

➤ The proposal pertains to an entity that no longer meets the criteria of an investment company due to, for example, changes in the purpose of investment. In such cases, it is not necessary to reject the accounting method that was applied while the entity still met the criteria. From the perspective of providing investors with useful financial information, it is more advisable for the entity to apply a different accounting method as of the period in which it has ceased to meet the criteria.

Question 20

Hearings should be held for individual entities that would be deemed to be investment companies under the proposed amendments. After examining and specifying the scope of such entities, it will be necessary to consider whether the information needed for disclosure and presentation in financial statements can be collected. For this reason, we think that a period of about 12 months would be needed.

Question 21

Early adoption should be permitted. We believe that entities endeavoring to achieve more appropriate disclosure should be permitted a certain degree of discretion in the choice of their accounting policies.

Question 22

The proposed amendments should apply to nonpublic entities.

In light of the characteristics and objectives of the activities of an investment company whose sole purpose is investment, we believe there is no need to differentiate between public and nonpublic entities.

Japan Foreign Trade Council, Inc

World Trade Center Bldg. 6th Floor, 4-1, Hamamatsu-cho 2-chome, Minato-ku, Tokyo 105-6106, Japan URL. http://www.jftc.or.jp/

Members of Accounting & Tax Committee

CBC Co., Ltd. Chori Co., Ltd. Hanwa Co., Ltd. Hitachi High-Technologies Corporation Inabata & Co., Ltd. ITOCHU Corporation Iwatani Corporation JFE Shoji Holdings, Inc. Kanematsu Corporation Kowa Company, Ltd. Marubeni Corporation Mitsubishi Corporation Mitsui & Co., Ltd. Nagase & Co., Ltd. Nomura Trading Co., Ltd. Shinyei Kaisha Sojitz Corporation Sumikin Bussan Corporation Sumitomo Corporation Toyota Tsusho Corporation Yuasa Trading Co., Ltd.