Financial Accounting Standards Board  
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File Reference No. 2012-200  

Dear Sirs or Madams,

Comment on the Exposure Draft “Proposed Accounting Standards Update  
Financial Instruments (Topic 825)-Disclosures about Liquidity Risk and Interest Rate Risk”

We are a group of Japanese companies¹ that is mainly comprised of companies that prepare consolidated financial statements under the accounting principles generally accepted in the United States. The group consists of both financial institutions and nonfinancial institutions. We appreciate the opportunity to provide comments to the Financial Accounting Standards Board (FASB) on this Exposure Draft, “Proposed Accounting Standards Update  
Financial Instruments (Topic 825)” (hereinafter, “ED”) regarding enhanced disclosure requirements for liquidity and interest rate risks. The following comments are those on the ED.

【Executive Summary】  
The ED requires new disclosures about liquidity risk and interest rate risk, many of which overlap information provided in existing notes to financial statements and disclosures required of public companies by the SEC. The new disclosures will provide users with incremental information which does not necessarily reflect a reporting entity’s liquidity risk and interest rate risk exposure in an appropriate manner. We are concerned that reporting entities do not currently make use of that sort of information in their own risk management and would suffer a huge cost of burden because of new and costly system developments to calculate their financial data just for disclosure purpose, especially for global and large-scale financial institutions. We are also concerned that quantitative information not properly reflecting reporting entities’ liquidity risk and interest rate risk would mislead and confuse users. In the Discussion Paper for the Disclosure Framework for which the FASB is now inviting comments, it is described that the objective of this project is to improve the effectiveness of disclosure in notes to financial statements by focusing on important information. We are concerned that contrary to the objective of the disclosure framework project, the ED would lead to the increase in the volume of notes to financial statements by adding the disclosure which may mislead or confuse users, resulting in impediment to clearly communicating the information that is most important to users. The SEC requirement of similar disclosures for public companies allows flexibility and selectivity, enabling the reporting entities to disclose information consistent with their risk management. We believe that the standardized formats proposed in this ED would make it difficult to achieve effectively communicating to users the reporting entities’ liquidity risk and interest rate risk exposure. Therefore, we think that disclosures about liquidity risk and interest rate risk should be less prescriptive requirement and allow the reporting entities’ flexibility and selectivity, as considered in the disclosure framework project.

¹ The names of companies represented are noted at the bottom of this letter.
Questions for Preparers and Auditors—Liquidity Risk

[Question 1]

For a financial institution, the proposed amendments would require a liquidity gap table that includes the expected maturities of an entity’s financial assets and financial liabilities. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

The liquidity gap table proposed in the ED would provide information that mostly overlaps with the contractual maturity information under the current disclosure requirement regarding the majority of financial assets and financial liabilities. However these two disclosure requirements are quite different because the liquidity gap table requires expected maturity basis and further disaggregation of time intervals, both of which would be preparers’ significant operational concerns. In order to comply with this requirement, preparers need to request all the consolidated subsidiaries to report the majority of their financial assets and liabilities in quarterly time intervals on expected maturity basis and put them together on a consolidated basis, which would impose a huge cost of burden. Within classes of financial assets, we do not foresee the usefulness of maturity information regarding cash and due from banks and high-quality liquid assets, as there is no assurance the reporting entities would hold to maturity. We also question the usefulness of combination of derivative and nonderivative instruments in the table. The carrying amounts of derivative instruments are fair values, generally discounted future cash flows, which are distinctly different from other financial assets and financial liabilities whose carrying amounts are amortized costs. Since the cash flows of interest rate swaps occur at each interest payment date, the liquidity gap table will mislead users unless the interest rate swaps are excluded from the table. We think that the liquidity gap table proposed in the ED will impose the increase in both an excessive work burden and a huge cost burden associated with system developments on preparers, and possibly induce confusion to users because of quantitative information which does not necessarily represent the reporting entities’ liquidity risk in an appropriate manner. In our opinion, the benefits of the liquidity table do not outweigh the costs involved.

[Question 2]

For an entity that is not a financial institution, the proposed amendments would require a cash flow obligations table that includes the expected maturities of an entity’s obligations. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

The cash flow obligations table proposed in the ED would provide information that mostly overlaps with the contractual maturity information under the current disclosure requirement regarding the majority of financial liabilities. However these two disclosure requirements are quite different because the cash flow obligations table requires expected maturity basis and further disaggregation of time intervals, both of which would be preparers’ significant operational concerns. In order to comply with this requirement, preparers need to request all the consolidated subsidiaries to report the majority of their financial liabilities in quarterly time intervals on expected maturity basis and put them together on a consolidated basis, which would impose a huge cost of burden. Within classes of financial liabilities, we do not foresee the usefulness of cash flow obligation regarding contributions to defined pension plans, as it has nothing to do with the objective of the ED. Regarding the cash flow for derivative instruments such as interest rate swaps and currency swaps, the reporting entities have both obligations for cash
payments and claims for cash receipt, and present the net amounts on the statement of financial position. Therefore, the quantitative information only for cash flow obligation lacking any right of setoff does not properly represent the reporting entities' true picture of liquidity position. As stated in our answer to Question 1, we also question the usefulness of combination of derivative and nonderivative instruments in the table. The carrying amounts of derivative instruments are fair values, generally discounted future cash flows, which are distinctly different from other financial assets and financial liabilities whose carrying amounts are amortized costs. We think that the cash flow obligations table proposed in the ED will impose the increase in both an excessive work burden and a huge cost burden associated with system developments on preparers, and possibly induce confusion to users because of quantitative information which does not necessarily represent the reporting entities' liquidity risk in an appropriate manner. In our opinion, the benefits of the cash flow obligations table do not outweigh the costs involved.

**Question 3**

The proposed amendments would require information about expected maturities for financial assets and financial liabilities to highlight liquidity risk. *Expected maturity* is the expected settlement of the instrument resulting from contractual terms (for example, call dates, put dates, maturity dates, and prepayment expectations) rather than an entity's expected timing of the sale or transfer of the instrument. Do you agree that the term *expected maturity* is more meaningful than the term *contractual maturity* in the context of the proposed liquidity risk disclosures? If not, please explain the reasons and suggest an alternative approach.

We are concerned that the reporting entities would need to prepare a near duplicate of maturity information, one for expected maturity under new disclosure requirement and the other for contractual maturity under existing disclosure requirement, which would result in double workload and increase of system development cost. Since the expected maturity allows preparers' judgment and estimation, it lacks objectivity in contrast to the contractual maturity and possibly compromises the comparability among the reporting entities, which would not necessarily result in benefits of users. We therefore disagree that the term *expected maturity* is more meaningful than the term *contractual maturity*. Please also note that in the maturity analysis under IFRS 7, if there is a range of possible maturities, the cash flows are included on the basis of the earlier of the date on which the reporting entities can be required or is permitted to pay, which differs from the requirement in the ED. We believe that the term *expected maturity* is unfavorable in the sense that it goes against convergence between USGAAP and IFRS.

**Question 4**

The proposed amendments would require a quantitative disclosure of an entity's available liquid funds, as discussed in paragraphs 825-10-50-23S through 50-23V. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

Since the majority of quantitative disclosure of available liquid funds is already provided, it would provide almost no incremental information to users of financial statements. Cash and cash equivalents are generally presented in a separate line item on the statement of financial position. Users also obtain the balances of high-quality liquid assets including debt securities issued by governments and public institutions which generally shown in the current disclosures of fair value measurement segregated by the major security type in notes to financial statements. We do not foresee any usefulness of showing separately the consolidated group (Parent company, Subsidiaries, Broker/Dealers) as in Example 7 to users of parent company's financial statements. As the amounts available under
credit facilities are decided with various factors taken into consideration, not all the reporting entities enter into the contracts with the maximum available amounts. However, users may misinterpret that the disclosed amounts in the table represent the credit limits in any case. We are concerned that requiring the disclosures that mostly overlap the existing disclosures will give excessive information to users and only make it more difficult for users to find the important information among notes to financial statements.

【Question 5】

For depository institutions, the proposed Update would require a time deposit table that includes the issuances and acquisitions of brokered deposits during the previous four fiscal quarters. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

The information on the time deposit table proposed in the ED which includes the issuances and the acquisitions of time deposits during the previous four fiscal quarters is only a partial extraction from the entire portfolio under depository institutions’ assets and liabilities management. Therefore, it does not fully represent depository institutions’ exposure to liquidity risk. We think that the information about the remaining time deposits outstanding at the term end is more meaningful for users than the information about newly issued and acquired time deposits during the term, because newly issued and acquired time deposits may be early terminated or cancelled and not necessarily outstanding on the statement of financial position at the term end. Public depository institutions currently provide sufficient and detailed information regarding time deposits such as the average amounts and the average rates in accordance with the SEC Industry Guide. Moreover generally speaking, if a depository institution faces serious liquidity problems, it will have difficulty in raising funds from the interbank market before it experiences a run on its deposits. The information on short-term borrowing disclosed in accordance with the SEC Industry Guide is also more useful information to understand depository institutions’ liquidity risk than the time deposit table proposed in the ED. The time deposit table will impose an additional cost burden for preparers, while scarcely bringing any meaningful benefit to users. In our opinion, the benefits do not outweigh the costs involved.

【Question 6】

As a preparer, do you feel that the proposed amendments would provide sufficient information for users of your financial statements to develop an understanding of your entity’s exposure to liquidity risk? If not, what other information would better achieve this objective?

As stated in our answers to Questions 1 to 5, we do not think that the proposed amendments in this ED would sufficiently provide proper information for users of financial statements to understand the reporting entities’ exposure to liquidity risk. It is another significant operational concern for public companies to comply with the disclosure requirement for interim reporting. The SEC requires public companies to disclose their liquidity and capital resources in their management’s discussion and analysis (MD & A) of financial condition and results of operation or operating and financial review and prospects, which currently disclose the analysis of the reporting entities’ exposure to liquidity risk in an appropriate manner. Please refer to our answer to Question 22 for further information.
Questions for Preparers and Auditors—Interest Rate Risk

[Question 13]

The interest rate risk disclosures in this proposed Update would require a repricing gap table. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

Since much of the quantitative information in the repricing gap table required in the ED is unique and no similar information is currently disclosed under the existing disclosure requirement, preparers would incur a huge expenditure in system development costs. As for available-for sale and held-to-maturity securities, the SEC Industry Guide requires bank holding companies to disclose maturity information generally based on contractual maturity, and weighted average yield for each range of maturities, which overlaps the repricing gap table as bonds generally have fixed rate coupon and no repricing date. As stated in our answer to Question 1, we question the usefulness of combination of derivative and nonderivative instruments in the table, because derivatives have a different nature to other financial assets and financial liabilities and inclusion of derivatives in the table will only confuse users. Generally, an interest rate swap is a contract to exchange fixed interest rate for floating interest rate and vice versa. We think that it is practically difficult to split discounted cash flows of an interest rate swap into the fixed rate portion and the floating rate portion and distribute the fixed rate portion based on maturity date and the floating rate portion based on the repricing date and that such a quantitative information shows only meaningless numbers. Even if the table is intended to indicate how well an entity is match-funded, as stated in Background Information and Basis for Conclusions, given the present situation where many financial institutions use interest rate swaps as a means of hedging the interest rate risk for loans and deposits and so on, the table will only show the principal, the carrying amounts of the hedged loan and deposit and so on, against the present value of the interest payment and receipt, the carrying amounts of the interest rate swap hedging these items, which will not provide match-funding information and, as a result, will not achieve the objective. Although the duration is, generally speaking, effectively used for risk management of investment in bonds with a fixed coupon, it is not applied to financial instruments with floating rates. We think that financial institutions handle various financial instruments with a mixture of fixed and floating rate and that the weighted average time of both fixed rate cash flows and floating rate cash flows provides no valuable information to users. Moreover, we would mention that IFRS7 does not require this disclosure and so there are no grounds for such disclosure requirement from the perspective of a convergence between USGAAP and IFRS.

[Question 14]

The interest rate risk disclosures in this proposed Update would include a sensitivity analysis of net income and shareholders’ equity. Do you foresee any significant operational concerns or constraints in determining the effect of changes in interest rates on net income and shareholders’ equity? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

We think the specific hypothetical change in interest rate under the sensitivity analysis proposed in the ED is unrealistic, given that financial institutions’ assets and liabilities are not necessarily consisted of a single currency and that all the currencies do not necessarily have the same yield curve moving uniformly in the same direction. We also note that the interest rates of major currencies in the advanced countries including Japan are extremely low under the current economic circumstances and there exist little room for decrease in interest rates. Therefore, the specific hypothetical change in interest rate lacks flexibility and does not reflect the interest rates in the actual financial
markets. Outcomes from sensitivity analysis based on the specific and unrealistic hypothetical change in interest rate would be useless and moreover possibly mislead users. The sensitivity analysis proposed in the ED reflects only financial instruments measured at fair values and overlooks financial instruments measured at amortized costs such as loans and deposits, even though they have interest rate risk, as the proposed sensitivity analysis only focuses on the effect on net income for 12 month period and shareholders’ equity. Such a sensitivity analysis does not fairly represent the reporting entities’ exposure to interest rate risk and align with their risk management. We think that the sensitivity analysis proposed in the ED will impose the increase in both an excessive work burden and a huge cost burden associated with system developments on preparers, and possibly induce confusion to users because of quantitative information which does not necessarily represent the reporting entities’ interest rate risk in an appropriate manner. In our opinion, the benefits do not outweigh the costs involved.

**Question 15**

| As a preparer, do you feel that the proposed amendments would provide sufficient information for users of your financial statements to understand your entity’s exposure to interest rate risk? If not, what other information would better achieve this objective? |

As stated in our answers to Questions 13 and 14, we do not think that the proposed amendments in this ED would sufficiently provide proper information for users of financial statements to understand the reporting entities’ exposure to interest rate risk. It is another significant operational concern for public companies to comply with the disclosure requirement for interim reporting. The SEC requires public companies to disclose quantitative and qualitative disclosures about market risk, which currently disclose the analysis of the reporting entities’ exposure to interest rate risk in an appropriate manner. The SEC allows alternative approaches to sensitivity analysis in the market risk disclosure requirement. For example, value at risk (VaR) would be an alternative to sensitivity analysis, because it is widely and generally used throughout the financial industry to measure interest rate risk and it is allowed under IFRS7 as well. In certain cases, VaR would better achieve the objective of understanding the reporting entities’ exposure to interest rate risk than sensitivity analysis. Please refer to our answer to Question 22 for further information.

**Questions for All Respondents**

**Question 20**

| The amendments in this proposed Update would apply to all entities. Are there any entities, such as nonpublic entities, that should not be within the scope of this proposed Update? If yes, please identify the entities and explain why. |

We think that non-financial institutions should be fully scoped out of the ED, because the proposed disclosures would bring little benefit to users and a great burden to preparers. We also think that the proposed disclosure requirement should be fully revised before applying to financial institutions, because the quantitative information disclosed pursuant to the ED does not properly indicate the reporting entity’s liquidity risk and interest rate risk exposure, as we stated in our answers to the previous questions.
[Question 21]

Although the proposed amendments do not have an effective date, the Board intends to address the needs of users of financial statements for more information about liquidity risk and interest rate risk. Therefore, the Board will strive to make these proposed amendments effective on a timely basis. How much time do you think stakeholders would require to prepare for and implement the amendments in this proposed Update? Should nonpublic entities be provided with a delayed effective date? If so, how long of a delay should be permitted and why? Are there specific amendments that would require more time to implement than others? If so, please identify which ones and explain why.

As stated in our answers to the previous questions, since the adoption of the amended disclosures would require a large scale of system development work, we think it would require at least 3 years to prepare for and implement the amendments in the ED. In particular, it would require a considerable amount of time bearing in mind that public companies must establish an internal controls in accordance with Sarbanes–Oxley Act Section 404 over financial reporting including new disclosure pursuant to the ED.

[Question 22]

Do you believe that any of the amendments in this proposed Update provide information that overlaps with the SEC’s current disclosure requirements for public companies without providing incremental information? If yes, please identify which proposed amendments you believe overlap and discuss whether you believe that the costs in implementing the potentially overlapping amendments outweigh their benefits? Please explain why.

A public company currently discloses sufficient and detailed information in MD&A, pursuant to Regulation S-K item 303 or Form 20 F rules and instructions item 5, for users to understand its exposure to liquidity risk. Also a public company currently discloses sufficient and detailed information, pursuant to Regulation S-K item 305 or Form 20 F rules and instructions item 11, for users to understand its exposure to market risk, including interest rate risk. The disclosure under the SEC’s requirements are generally based upon management’s prescriptive of analyses of the company’s exposure to those risks, which reflect the recent economic environment surrounding the company as well as future prospects and therefore provide a true picture of the company’s risk profile. In contrast, the ED requires the disclosure of liquidity risk and interest rate risk in standardized formats. While the standardized formats ensure a certain level of consistency and comparability, they do not necessarily ensure that the quantitative information in the format properly represents the company’s exposure to liquidity risk and interest rate risk. Since not all entities pursue the same business under the same economic conditions and the each entity’s exposure to liquidity risk and interest rate risk is unique, those risks are too complex to capture in a single set of standardized formats. In other words, it is difficult to represent those risks to which the various entities are exposed in operating the various types of business in various countries in a single set of standardized formats. Therefore we assert that management’s prescriptive of analyses of the company’s exposure to liquidity risk and interest rate risk are more useful. We have to say that rather than being beneficial, the incremental information provided as a result of the proposals in this ED has great potential for misleading and confusing users. In our opinion, the benefits do not outweigh the costs involved.
We hope that our comments contribute to your forthcoming deliberations in this project.

Sincerely yours,

A Group of Japanese Companies:
CANON INC.
Hitachi, Ltd.
Honda Motor Co., Ltd.
ITOCHU Corporation
KONAMI CORPORATION
KUBOTA CORPORATION
KYOCERA Corporation
MAKITA CORPORATION
Mitsubishi Corporation
Mitsubishi UFJ Financial Group, Inc.
Mizuho Financial Group, Inc.
Murata Manufacturing Co., Ltd.
NIDEC CORPORATION
Nippon Meat Packers, Inc.
ORIX CORPORATION
Panasonic Corporation
Ricoh Company, Ltd.
Sony Corporation
TDK CORPORATION
Toshiba Corporation