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To the Financial Accounting Standards Board:
(cc: The International Accounting Standards Board)

Japanese Bankers Association

Comments on the FASB's Exposure Draft "Financial Instruments–Credit Losses"

We, the Japanese Bankers Association are an organization that represents the banking industry in Japan, and our members comprise banks and bank holding companies operating in Japan.

We would like to express our gratitude for this opportunity to comment on the Exposure Draft "Financial Instruments-Credit Losses" published by the Financial Accounting Standards Board ("FASB").

We respectfully expect that the following comments will contribute to your further discussion to develop the accounting standards for this issue.

1. Overall Comment

We highly appreciate the FASB's continuous and focused efforts on the credit loss model.

Nonetheless, it is difficult to accept the FASB's proposed credit loss model under the Exposure Draft (the "FASB model") on the grounds that it may result in overstatement of the allowance for credit losses, there is no established methodology that complies with the proposed model for estimating credit losses, and it is difficult to ensure the objectivity and reliability of the financial figures.

In particular, in cases of assets with longer maturity such as mortgage loans, expected credit losses need to be estimated over a long period and thus such estimates may vary significantly depending on the measurement methods used. Further, recognizing the entire estimated credit losses on such assets in the period, which is considerably different from the period in which interest income is recognized, is considered inconsistent with the business model of those financial institutions whose core activity is lending, pursuing earnings from interest income.

While our general view is that the proposed FASB model is difficult to accept, some of our comments below indicate issues that may additionally arise if assuming that the FASB model is implemented.

Please note that we are responding to those questions for preparers of financial statements in the capacity of an organization representing the banking industry in Japan, but would like to express our view on Question 4 as well, although it is posed to users, because this question relates to the

fundamental element of the FASB model.

2. Convergence

We respectfully expect that the FASB and the International Accounting Standards Board collaborate and develop a common credit loss model. Different disclosures by financial institutions across the jurisdictions may undermine the purpose of financial statements to provide users with useful financial information for their economic decision-making, failing to contribute to the users' benefits.

In addition, a common credit loss model is recommended from a cost-benefit perspective because it should reduce the burden on preparers in practice which would be significant. Therefore, both Boards are expected to reconsider developing an operable common credit loss model.

3. Our Comments on Specific Questions of Exposure Draft

Question1: Do you agree with the scope of financial assets that are included in this proposed Update? If not, which other financial assets do you believe should be included or excluded? Why?

(Our Position)

We do not agree with the proposed scope.

(Rationale)

Similar to financial assets within the proposed scope, financial guarantees provided by financial institutions is a type of businesses to earn fee income to cover expected credit losses, and thus should be included in the scope.

Question 4: The Board has twice considered credit loss models that would permit an entity not to recognize certain expected credit losses. In the January 2011 Supplementary Document, the Board considered a model that would permit an entity not to recognize some credit losses expected to occur beyond the foreseeable future. In the recent discussions on the three-bucket impairment model, the Board considered a model that would permit an entity only to recognize lifetime credit losses for loss events expected to occur within a 12-month horizon. Instead, the proposed amendments would require that at each reporting date an entity recognize an allowance

for *all* expected credit losses. Do you believe that recognizing *all* expected credit losses provides more decision-useful information than recognizing only *some* of the expected credit losses? If not, how would you determine which expected credit losses should not be recognized (for example, 12 months or similar foreseeable future horizon, initial recognition threshold, and so forth)?

(Our Position)

We do not believe that recognizing all expected credit losses provides decision-useful information.

(Rationale)

Unlike financial assets for which impairment has been recognized, financial assets with lower credit risk consist of credits for which payment is made pursuant to the initial contractual terms, and financial institutions can expect to earn interest income over the remaining period. Therefore, it is more reasonable to recognize expected credit losses allocated over the remaining period (e.g. that of 12 months) rather than recognizing all expected credit losses. This approach is more consistent with the business model of those financial institutions whose core activity is lending, which sets the interest rate to cover expected credit losses and pursues earnings from interest income.

In other words, at the time of origination of loans, credit losses expected to occur during the entire term are reflected in the pricing. It is therefore obviously an overstatement to recognize all credit losses expected to occur over the life of the loans in the period, which is considerably different from the period in which interest income is recognized, if the credit quality of such loans has not deteriorated.

Further, expected credit losses on financial assets over the remaining period may vary significantly depending on the assumptions used for estimation. As a result, for those assets with a considerably long maturity, such as mortgage loans, it is difficult to ensure the accuracy and appropriateness of an estimate of expected credit losses which needs to reflect prepayments and other factors, and thus fails to provide users of financial statements with useful financial information for their economic decision-making.

Question 9: The proposed amendments would require that an estimate of expected credit losses be based on relevant information about past events, including historical loss experience with similar assets, current conditions, and reasonable and supportable forecasts that affect the expected collectibility of the financial assets' remaining contractual cash flows. Do you foresee

any significant operability or auditing concerns or constraints in basing the estimate of expected credit losses on such information?

(Our Comment)

As the proposed amendments require the reporting entity to take into account a variety of factors in estimating expected credit losses, some operability concerns are foreseen such as management's judgment, ensuring of objectivity, and the high uncertainty inherent in long-term estimations. We are particularly concerned about those cases where sufficient data for estimating expected credit losses is unavailable, and respectfully expect the FASB to further discuss this issue.

Question 10: The Board expects that many entities initially will base their estimates on historical loss data for particular types of assets and then will update that historical data to reflect current conditions and reasonable and supportable forecasts of the future. Do entities currently have access to historical loss data and to data to update that historical information to reflect current conditions and reasonable and supportable forecasts of the future? If so, how would this data be utilized in implementing the proposed amendments? If not, is another form of data currently available that may allow the entity to achieve the objective of the proposed amendments until it has access to historical loss data or to specific data that reflects current conditions and reasonable and supportable forecasts?

(Our Comment)

It is difficult to provide a general view regarding the data availability because it may depend on the methodology applied to or the required level for an estimate of expected credit losses. In our opinion, this issue, especially with regard to data collection over a long period, needs to be tackled when the proposed amendments are finalized.

Question 11: The proposed amendments would require that an estimate of expected credit losses always reflect both the possibility that a credit loss results and the possibility that no credit loss results. This proposal would prohibit an entity from estimating expected credit losses based solely on the most likely outcome (that is, the statistical mode). As described in the Implementation Guidance and Illustrations Section of Subtopic 825-15, the Board believes that many commonly used methods already implicitly satisfy this requirement. Do you foresee any significant operability or auditing concerns or constraints in having the estimate of expected

credit losses always reflect both the possibility that a credit loss results and the possibility that no credit loss results?

(Our Position)

We basically foresee no particular concerns on this issue.

It is however requested that the FASB make careful considerations on whether to apply the FASB model to debt securities.

(Rationale)

It is considered that there is no major concern because as described in the Exposure Draft, those measurement methods generally accepted in Japan such as historical loan loss ratios (loss-rate method) and the probability of default (probability-of-default method), already satisfy this proposed requirement.

However, from a cost-benefit perspective, it is requested that the FASB give careful consideration to the application of the FASB model to debt securities, because for example entities would need to consider how to reflect expected credit losses to highly-rated government bonds and may be forced to change current practice to more complicated manner.

Question 12: The proposed amendments would require that an estimate of expected credit losses reflect the time value of money either explicitly or implicitly. Methods implicitly reflect the time value of money by developing loss statistics on the basis of the ratio of the amortized cost amount written off because of credit loss and the amortized cost basis of the asset and by applying the loss statistic to the amortized cost balance as of the reporting date to estimate the portion of the recorded amortized cost basis that is not expected to be recovered because of credit loss. Such methods may include loss-rate methods, roll-rate methods, probability-of-default methods, and a provision matrix method using loss factors. Do you foresee any significant operability or auditing concerns or constraints with the proposal that an estimate of expected credit losses reflect the time value of money either explicitly or implicitly? If time value of money should not be contemplated, how would such an approach reconcile with the objective of the amortized cost framework?

(Our Position)

There are operability concerns where expected credit losses are estimated collectively.

(Rationale)

There is no particular concern if those measurement methods generally accepted in Japan such as historical loan loss ratios (loss-rate method) and the probability of default (probability-of-default method) could be construed as implicitly reflecting the time value of money. Rather, it would be difficult to apply a method which involves discounting using an effective interest rate where expected credit losses are estimated collectively.

Question 13: For purchased credit-impaired financial assets, the proposed amendments would require that the discount embedded in the purchase price that is attributable to expected credit losses at the date of acquisition not be recognized as interest income. Apart from this proposal, purchased credit-impaired assets would follow the same approach as non-purchased-credit-impaired assets. That is, the allowance for expected credit losses would always be based on management's current estimate of the contractual cash flows that the entity does not expect to collect. Changes in the allowance for expected credit losses (favorable or unfavorable) would be recognized immediately for both purchased credit-impaired assets and non-purchased-credit-impaired assets as bad-debt expense rather than yield. Do you foresee any significant operability or auditing concerns or constraints in determining the discount embedded in the purchase price that is attributable to credit at the date of acquisition?

(Our Comment)

We consider it reasonable from a practical perspective to measure expected credit losses for purchased credit-impaired assets by taking the same approach as other assets.

Question 14: As a practical expedient, the proposed amendments would allow an entity to not recognize expected credit losses for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income when both (a) the fair value of the individual financial asset is greater than (or equal to) the amortized cost basis of the financial asset and (b) the expected credit losses on the individual financial asset are insignificant. Do you foresee any significant operability or auditing concerns or constraints in determining whether an entity has met the criteria to apply the practical expedient or in applying it?

(Our Position)

Both the proposed criteria should be reconsidered.

(Rationale)

While the fair value of the individual financial assets reflects changes in factors other than the credit quality (e.g. interest rates), such factors are irrelevant to the recognition/non-recognition of credit losses. As such, criterion (a) should be eliminated.

Criterion (b), on the other hand, needs to be reconsidered. If expected credit losses are estimated collectively by using measurement methods such as historical loan loss ratios and the probability of default, requiring entities to assess the significance of the expected credit losses on the individual financial assets would create a considerable practical burden. Therefore, criterion (b) should be reconsidered so that it can be applied to cases where expected credit losses are estimated collectively.

Question 15: The proposed amendments would require that an entity place a financial asset on nonaccrual status when it is not probable that the entity will receive substantially all of the principal or substantially all of the interest. In such circumstances, the entity would be required to apply either the cost-recovery method or the cash-basis method, as described in paragraph 825-15-25-10. Do you believe that this proposal will change current practice? Do you foresee any significant operability or auditing concerns with this proposed amendment?

(Our Position)

We support the FASB's proposal to place nonaccrual status according to the quality of financial assets; however the application of either the cost-recovery method or the cash-basis method should be made optional.

A transitional provision is requested to be set for debt securities for which impairment was recognized.

(Rationale)

It is common practice in Japan for the accrual of interest income to be ceased for those receivables for which interest is not collected when a considerable time has passed from the due date as well as for claims against bankrupt and substantially bankrupt obligors and others. However, in cases where the loan agreement entered into with customers are still effective, it is not reasonable and may cause practical problems if financial institutions may determine at their discretion whether to appropriate cash receipts to principal or interest. Such an approach will not result in providing useful financial information for users' decision-making.

For debt securities for which impairment was recognized, it is impracticable to trace the carrying amount before impairment back to the point of acquiring such assets, and to record

additional payments as an adjustment to the allowance for expected credit losses. Therefore, in the case of those debt securities for which impairment was recognized before the application of the proposed amendments, the FASB is respectfully requested to introduce a certain transitional provision that allows such additional payments to be recorded in earnings as per current practice, instead of recording an adjustment to the allowance for expected credit losses.

Question 16: Under existing U.S. GAAP, the accounting by a creditor for a modification to an existing debt instrument depends on whether the modification qualifies as a troubled debt restructuring. As described in paragraphs BC45– BC47 of the basis for conclusions, the Board continues to believe that the economic concession granted by a creditor in a troubled debt restructuring reflects the creditor's effort to maximize its recovery of the original contractual cash flows in a debt instrument. As a result, unlike certain other modifications that do not qualify as troubled debt restructurings, the Board views the modified debt instrument that follows a troubled debt restructuring as a continuation of the original debt instrument. Do you believe that the distinction between troubled debt restructurings and nontroubled debt restructurings continues to be relevant? Why or why not?

(Our Position)

We believe that the distinction between troubled debt restructurings and nontroubled debt restructurings continues to be relevant.

(Rationale)

We agree with the FASB's view that the economic concession granted by a creditor in a troubled debt restructuring reflects the creditor's effort to maximize its recovery of the original contractual cash flows from the debt instrument, and therefore the modified debt instrument that follows a troubled debt restructuring is considered as a continuation of the original debt instrument.

Question 18: Do you foresee any significant operability or auditing concerns or constraints in complying with the disclosure proposals in the proposed Update?

(Our Position)

There are concerns over some areas in the proposed Update.

(Rationale)

Specifically, we are concerned about the following areas:

<Overall>

The proposed amendments require entities to disclose either by portfolio segment or by class of financial asset. The information at the portfolio segment level may reveal an entity's strategy in some cases and therefore level of disclosure should be made optional.

<Roll Forward (Breakdown of Increase/Decrease) >

For certain debt instruments, the majority of transactions are rolled over in the short-term and therefore information on Originations and Repayments is not currently obtained. The collection of such information will require new systems development. Further, it is expected that the figures for Originations and Repayments will tend to be significantly large. However, such information will not result in providing useful financial information for users' decision-making.

Question 19: Do you believe that the implementation guidance and illustrative examples included in this proposed Update are sufficient? If not, what additional guidance or examples are needed?

(Our Comment)

The following additional guidance and example are needed.

- Examples of the amortized cost calculation concerning non-purchased-credit-impaired assets (Fixed/variable interest rate; individual asset/pool of assets).
- A guidance regarding financial assets whose carrying amount is modified by applying fair value hedge accounting (if debt securities are within the scope of this proposal).

Question 20: Do you agree with the transition provision in this proposed Update? If not, why?

(Our Comment)

We agree with the transition provision from a practical perspective.

Question 23: Do you believe that the transition provision in this proposed Update is operable? If not, why?

(Our Comment)

We welcome that the Exposure Draft considers a practical burden and ensures comparability by stipulating that "an entity would apply the proposed amendments by means of a cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period."

Question 24: How much time would be needed to implement the proposed guidance? What type of system and process changes would be necessary to implement the proposed guidance?

(Our Comment)

It will take at least three years after finalizing the proposed guidance for entities to develop a methodology and system for future projections that satisfy the requirements of such guidance.