

May 19, 2006

The Director, Accounting Standards  
Canadian Accounting Standards Board  
277 Wellington Street West  
Toronto ON M5V 3H2  
Canada

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Dear Sir:

I appreciate the opportunity to comment on the November 2005 Discussion Paper entitled: Measurement Bases for Financial Accounting—Measurement on Initial Recognition(the Paper).

General—Underlying Assumption of the Paper

The fundamental conclusion of the Paper is that assets and liabilities should be measured at their fair value on initial recognition when fair value can be estimated with an acceptable level of reliability (paragraph416). Fair value of assets and liabilities reflect the present value of future expected cash flows to yield the current market rate of return for commensurate risk (paragraph128).

This conclusion is based on assumption that fair value measurement will best serve the needs of financial statement users. However, there is no available evidence to support this assumption. Users, who need information about future expected cash flows, are the parties of business combination and acquisition. Other users, particularly individual investor, take interest in earnings (performance) and prediction of earnings rather than future cash flows. Measurement bases for business combination and acquisition should be distinguished from measurement bases for financial reporting.

Responses to Specific Questions

Q1. Do you agree that the list of identified possible measurement bases sets out the bases that should be considered?

Comment:

No. The bases listed in paragraph 69 are related to re-measurement rather than initial recognition. The list seems to complicate the issue uselessly.

The following bases may serve to consideration on initial recognition.

- (a) Transaction price
  - ( i ) Purchase price
  - ( ii ) Contractual price
- (b) Manufacturing cost
- (c) Market value
- (d) Estimated market value
- (e) Estimated value

Pleas see comment on Q18.

Q2. Do you have any comments on the term “fair value” and its definition?

Comment:

The term “fair value” used by the Paper involves not only market value but also another value, amount or price. For example, the Paper states “...the amount of cash or cash equivalents paid should always equal the fair value of consideration given ” (paragraph78 a). Cash or cash equivalents paid are not always equal the market value. Therefore, the term “fair value” be replaced by “market value”, “estimated market value” and “estimated value” so as to avoid confusion.

Q.6 Do you agree with...the proposed conclusion that the market value measurement objective has important qualities that make it more relevant than entity-specific measurement objectives for assets and liabilities on initial recognition?

Comment:

No. In general, financial statement users, particularly individual investor, take interest in earnings (performance) rather than future cash flows. Earnings is the result of intentions, assumptions and expectations of management. It is useless to compare actual result with market expectation.

Q14 Do you agree that fair value is the most relevant measure of assets and liabilities on initial recognition of assets and liabilities...?

Comment:

No. The explanation of paragraph412 is inconsistent with paragraph78 (a).

Paragraph412 states “ the paper would measure the truck at its fair value on March 1, which is 1100.” On the other hand, paragraph78(a) states “the amount of cash or cash equivalents paid should always equal the fair value. ” In the case of paragraph412, an entity pays 1000 which is contractual amount. According to paragraph 78(a), fair value of truck on March 1 may be 1000.

Q18 Do you agree with the proposed hierarchy for the measurement of assets and liabilities on initial recognition?

Comment:

No. Before measurement hierarchy, it is necessary to illustrate applying measurement bases on initial recognition according as attributes of each asset and liability.

In accordance with the definition in paragraph 77 and 78(a)(b), applying measurement bases, for example, are as follows:

Asset and Liability	Applying Measurement Basis
Goods, Securities, Plant, Equipment	Amount of cash or cash equivalent paid (Purchase price, Contractual price)
Borrowing, Bond	Amount of proceeds received in exchange for the obligation.
Derivative financial instrument	Market value, Estimated market value
Non-contractual asset, liability	Estimated value

Q19. Do you have comments on any other issues or proposals?

Proposal:

The Paper considers measurement bases of all assets and liabilities in a lump. Consequently, the issues become complicated. It is to be desired that measurement bases should be considered according as the attributes of assets and liabilities and as type of acquisition and incurring.