



Setting the global standard for investment professionals

Mr Shoichi Nakagawa  
Minister of Finance and Minister of State for Financial Services  
Ministry of Finance Japan  
3-2-1 Kasumigaseki, Chiyoda-ku, Tokyo, 100-8940, Japan

23 October 2008

Dear Mr Nakagawa,

On behalf of our members, we respectfully urge you to carefully consider whether increasing flexibility in the fair value accounting standard will do anything to increase investor confidence in Japan's financial system.

CFA Institute believes that any weakening of accounting rules will not improve market stability and will further undermine investor confidence. Accounting standards are developed to provide investors and other users of financial statements with a faithful representation of economic reality. Altering fair value accounting policies will reduce transparency, undermine globally accepted standards, increase investor risk and hence raise the cost of capital.

As a global body representing 97,000 investment professionals - with over 1,100 practicing members in Japan - CFA Institute believes that fair value accounting, coupled with accompanying disclosure, aids transparency and allows investment professionals to assess the financial health of a company. It can also discourage company management from taking imprudent risks. This financial crisis is about the mis-pricing of risk and ill-considered risk management. We do fully acknowledge that fair value should be based on more factors than an isolated fire sale price. However, masking financial performance through the suspension of fair-value accounting will not address these fundamental points and will continue to impact on investor confidence.

Complaints about fair value arise largely in the context of their impact on capital adequacy. Rather than suspending fair value measurement, and thereby the transparency and relevance of financial information, consideration should be given to other means for addressing issues of capital adequacy.

We urge Japan to keep fair value rules in place so that investors continue to have the most relevant or faithful representation of economic reality with which to make their decisions, particularly during periods of extreme market stress. Such transparency sits at the heart of restoring confidence and we should not allow ourselves to be distracted by fine tuning the accounting rules in the belief that this will fix the situation.

Yours faithfully,

Jeffrey J. Diermeier, CFA  
President and CEO

Ashvin Vibhakar, CFA  
Managing Director, Asia Pacific

cc: Dr Takafumi Sato  
Commissioner  
Financial Services Agency  
The Central Common Government Offices No. 7,  
3-2-1 Kasumigaseki, Chiyoda-ku, Tokyo, 100-8967 Japan