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International Accounting Standards Board
30 Cannon Street, 1st Floor
London EC4M 6XH
United Kingdom

Comments on Exposure Draft of Proposed Improvements to IAS

Dear Sirs:

We, the Japanese Institute of Certificate Public Accountants, are pleased to provide our comments on the proposed improvements to International Accounting Standards (the "Proposed Improvements.")

We support the Proposed Improvements and, therefore, agree with many of the proposed standards. However, we do have specific comments and recommendations with respect to certain proposed standards, which are described below:

IAS 21, "The Effects of Changes in Foreign Exchange Rates"

(1) The IASB proposes that a reporting entity(whether a group or a stand-alone entity) should be permitted to present its financial statements in any currency or currencies that it chooses (Question 2 of Invitation to Comment.) We disagree with this proposed standard.

It is overemphasized that the financial statements of an entity may be presented in any currency (or currencies) as stated in paragraph 36 of IAS 21. Also, the proposed standard does not address the issue as to whether a currency, once chosen by the entity as a presentation currency, should consistently be used as the presentation currency. To present financial statements using a presentation currency not related to the entity's or group's functional currency (or currencies) may confuse the users of the financial statements, as stated in A8 of Appendix - Basis for Conclusion. Although presentation currencies should be limited, they should not always be the functional currency of the reporting entity or the local currency of the county where the reporting entity operates. Other criteria should be applied to choose the presentation currency (or currencies).

For example, the presentation currency could be the functional currency that management uses when controlling and monitoring the performance and financial position of the group, as counterproposed in A8. Alternatively, the functional currency of any of the substantive entity (entities) of the group could be designated as the presentation currency for the consolidated financial statements.

(2) The IASB proposes that all entities translate their financial statements into the presentation currency (or currencies) using the same method as that required for translating the accounts of a foreign operation for inclusion in the reporting entity's financial statements (Question 3). We agree with this proposed standard, except for the translation of equity items which should be translated at their historical exchange rates as described in Paragraph 37 (a).

Otherwise, the subsidiary's prior–year retained earnings since acquisition would have to include a translation differences component as a result of translating these at the current exchange rates. The nature of this item demands that translation differences be segregated from retained earnings.

IAS 27, "Consolidated and Separate Financial Statements"

(1) Paragraph 26 of the proposed standard states that minority interests shall be presented in the consolidated balance sheet within equity, but separately from the parent's shareholders' equity (Question 2). We disagree with this proposed standard.

There are two concepts inherent in consolidated financial statements: the "parent company concept" and the "economic unit concept." We disagree with presenting minority interests within equity because it seems inappropriate to determine the presentation without discussing the related concepts and accounting treatment. We propose that the present accounting standard remain unchanged until future discussions lead us to reach a consensus.

(2) Paragraph 29 of the proposed standard states that investments in subsidiaries, jointly controlled entities and associates that are consolidated, proportionately consolidated or accounted for by the equity method in the consolidated financial statements be either stated at cost or accounted for in accordance with IAS 39 in the investors' separate financial statements (Question 3). We propose that the equity method apply to investments in such investee companies, since the equity method provides the users of the investors' separate financial statements with the relevant financial information. We, therefore, support Paragraph 29 (b) of the present standard.

IAS 28, "Accounting for Investments in Associates"

We agree that IAS 28 and IAS 31 should not apply to investments that otherwise would be associates or joint ventures held by venture capital organizations, mutual funds, unit trusts and similar entities if these investments are measured at fair value in accordance with IAS 39 and when this method of valuation is a well-established practice in those industries (Question 1). However, it should be clarified that the measurement of an investment in a joint venture must comply with IAS 39 by modifying "However, it does not apply to investments in associates held by venture capital organizations…" in Paragraph 1 to "However, it does not apply to investments in associates *or joint ventures as defined under IAS 31* held by venture capital organizations…" (italics added).

IAS 33, "Earnings per Share"

(1) We disagree that contracts which may be settled either in ordinary shares or in cash, at the issuer's option, be included as potential ordinary shares in the calculation of diluted earnings per share based on the rebuttable presumption that the contract will be settled in shares (Question 1).

If the contact allows an issuer to settle in ordinary shares, it should be treated as potential ordinary shares regardless of the possibility that the contract is settled in ordinary shares, as interpreted by SIC 24. Therefore, the contract has to be taken into consideration in the calculation of diluted earnings per share. This treatment is also consistent with the treatment for other potential ordinary shares. For example, all convertible shares or bonds should be treated as potential ordinary shares, assuming dilution, even if there is only a remote possibility of their conversion into ordinary shares because they are deep out-of-the money.

We propose that Paragraph 51 (c) be deleted in order to maintain the present standard.

(2) We disagree with the approach to the year-to-date calculation of diluted earnings per share as illustrated in Appendix B, Examples 7 and 12 (Question 2).

There is no logic to the assertion that the results of the calculation of annual earnings per share may vary depending upon the frequency of the calculation on a quarterly basis or only on an annual basis. Information on earnings per share should be clearly linked with a specific reporting period and with the results reported in the financial statements. Accordingly, the calculation of earnings per share should be stated as if the period for which the earnings per share is calculated were a separate period, and the year-to-date earnings per share should be independently recalculated rather than based on the calculation of the quarterly earnings per share.

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We would be pleased to discuss any aspect of this letter with the IASB or its staff at your convenience.

Very truly yours,

Michiyoshi Sakamoto
Chairman
Technical Committee for IASBs