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March 7, 2003

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

Comments on the Exposure Draft “Share-based payment”

The Accounting Standards Board of Japan (ASBJ) is pleased to comment on ED 2 “Share-based payment” (the Exposure Draft). Our objective in this letter is to express our views on the way of applying the Framework, rather than to comment on specific proposals of the Exposure Draft.

We have concern about consistency between the way of applying the asset/liability approach in several major projects of IASB, particularly the Performance Reporting project, and the explanation for the consistency with the Framework shown in the Basis for Conclusions of the Exposure Draft. We do not express arguments for or against the proposals in the Exposure Draft, for the reason explained in the last paragraph of this letter. However, we would like to take this opportunity to state our views on how the Framework should be applied, because we believe it is a very critical issue in conjunction with other projects.

Answering to the question whether recognition of an expense arising from share-based payment transactions is consistent with the Framework, the Basis for Conclusions explains that the recognition of an expense is consistent with the definition of an expense because it represents consumption of the resource that the entity has received as consideration for the issue of equity instruments (paragraphs BC40-48). However, under the Exposure Draft, since the increase of equity would be measured by notional inflow of an asset according to the quantity of the services received, the inflow of an asset is determined dependently on the expense to be recognized. If the asset/liability approach is a notion that revenue and expense always should be determined dependently on assets and liabilities, the order of determination under the Exposure Draft is contrary to that and it seems to show that the notion under the revenue/expense approach is concomitantly used.

In our understanding, the original intent of the asset/liability approach adopted in the conceptual framework is primarily to reject the recognition of inadequate assets or liabilities. We believe that the asset/liability approach and the revenue/expense approach complement each other and the former does not necessarily deny the concepts under the latter such as periodical cost allocation and matching. As mentioned above, we consider the Exposure Draft indeed uses the concepts under the revenue/expense approach concomitantly. We believe it is desirable to use such concepts when necessary and their use should be admitted also in other projects.

Please note that we are now under consideration of the domestic accounting standard on stock options and have just issued the “Summary Issues Paper on Accounting for Stock Options” on December 19, 2002 for public comments by February 28, 2003. Accordingly, we are not yet at a stage where we can express particular views on the specific issues about accounting for share-based payment transactions and therefore we cannot express any arguments for or against the proposed requirements in the Exposure Draft here.

Best Regards,

Ikuo Nishikawa

Chairman, International Issues Standing Committee
Vice Chairman, Accounting Standards Board of Japan