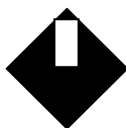

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February 13, 2008

International Accounting Standards Board
30 Cannon Street
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Comments on the exposure draft of proposed amendments to IFRS 1 and IAS 27 "Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate"

To the Board Members:

The Japanese Institute of Certified Public Accountants is pleased to comment on the exposure draft *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate,* proposed amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements* .

We basically agree with the proposals contained in the exposure draft. However, with regard to the issue set out in Question 4, there appears to be a problem from the following viewpoints:

1) The proposed requirement would impose undue burden on preparers.

The exposure draft proposes to require an entity to test its investment in a subsidiary, jointly controlled entity or associate in its separate financial statements for impairment in accordance with IAS 36, if it received a dividend from that investment during the reporting period. However, if an investment is unlisted, the impairment test would have to be done in a manner similar to estimating its fair value. Therefore, in our opinion, the

proposed requirement would force investors to incur efforts and expenses that would be considered unreasonable from both a conceptual and practical point of view.

Therefore, even if the impairment test would be required, it should be limited to cases where the amount of the dividend is significant, and comprises a large percentage of the investee's equity. In addition, the impairment test should not be required when it is obvious that the dividend is received from retained earnings of the investee arising subsequent to the date of acquisition (for example, the entity holds the investment from inception of the investee, or the dividend was distributed from the net profit for the year).

2) The application of IAS 36 to accounting for equity investments is not clear.

It is not clear as to what methods are to be used in applying IAS 36 to investments in subsidiaries (for example, how to estimate the recoverable amount, whether grouping of investments is allowed, etc.). Therefore, we are concerned that the expansion of the application of the impairment test, as proposed in the exposure draft, might lead to different interpretation and resulting confusion in practice.

3) Presentation of both the dividend income and the impairment loss is not adequate.

In cases where the value of an investment is determined to be impaired as a result of a dividend from the investee, we believe that the appropriate treatment would be to record it as a recovery of the investment. This would better reflect the economic substance of the transaction; especially when a significant amount of dividend is received immediately after the date of acquisition. Therefore, even if the impairment test would be applied, the resulting impairment loss should be offset with the related dividend income on the income statement.

Yours faithfully,

Kiyoshi Ichimura
Executive Board Member—Accounting Standards
The Japanese Institute of Certified Public Accountants