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

Comments on Proposed Amendments to IAS 27 "Consolidated and Separate Financial Statements"

Dear Sir or Madam;

We, the Japanese Institute of Certified Public Accountants, are pleased to comment on proposed amendments to IAS 27 "Consolidated and Separate Financial Statements".
We disagree with the main part of the Exposure Draft because we are in favor of the parent entity view. Our responses to questions asked in Invitation to Comments are as follows:

Question 1

We disagree with the proposal in draft paragraph 30A. Although non-controlling interest is classified as equity because it does not meet the definition of a liability, the position of a minority equity holder of a subsidiary as an equity holder in the consolidated group significantly differs from that of the parent's equity holders. Therefore, they should not be treated equivalently. From this viewpoint, a transaction with minority equity holders should be treated as a profit-and-loss transaction, not a capital transaction, irrespective of whether control is retained or not.

Question 2

We disagree with recognition of gain or loss on remeasurement in the consolidated income statement at the date control is lost. Investment is continuing even if control is lost and gain or loss on continuing investment should not be recognized in profit or loss.

As to measurement of the remaining non-controlling equity investment, we believe that treatment should vary depending on whether the former subsidiary becomes an associate after the loss of control. When it becomes an associate, the remaining investment should be measured by the equity method, instead of being remeasured to fair value. When it does not, we agree that the remaining investment should be remeasured to fair value, but we believe that the resultant gain or loss should be directly recognized in equity when it is classified as an available-for-sale financial asset.

Question 3

As mentioned in the response to Question 1, we believe gain or loss should be recognized in profit or loss even in the cases of changes in the parent's ownership that do not result in a loss of control. Under such approach, the issue addressed in this question need not be considered. We do not believe that the proposal of draft paragraph 30F would be operational, because it is difficult to make judgment on what situation might create inadequate consequence.

Question 4

We disagree with the draft paragraph 35. Capital deficit of a subsidiary is usually borne by the parent entity and minority shareholders do not bear loss in excess of their investment, unless there is a particular arrangement to the contrary. Therefore, the proposed approach does not represent economic substance and accounting treatment should be based on arrangements between shareholders.

Very truly yours,

Satoshi Komiyama
Executive Board Member—Accounting Standards
The Japanese Institute of Certified Public Accountants