

November 2, 2001

The Standing Interpretations Committee
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Comments on SIC-D33 and D34

Dear Sirs:

This letter is in response to the Draft Interpretations SIC-D33, *Consolidation and Equity Method – Potential Voting Rights* and SIC-D34, *Financial Instruments – Instruments or Rights Redeemable by the Holder*.

The views expressed in this letter are those of the Accounting Standards Board of Japan (ASBJ) technical staff responsible for its preparation. Accordingly, this letter should be considered a staff reply and it does not represent an official position of the ASBJ based on its due process.

SIC-D33, *Consolidation and Equity Method – Potential Voting Rights*

We oppose to the proposed consensus in paragraph 3, if it means potential voting rights that are presently exercisable or convertible should be almost always deemed as voting rights that are actually held when assessing whether an enterprise controls or significantly influences another enterprise. If it only intends to suggest that potential voting rights may indicate the existence of control or significant influence, that meaning should be made clear.

We believe that potential voting rights by themselves usually do not give the holder the power to govern the financial and operating policies of an enterprise or the power to participate in the financial and operating policy decisions of the investee. However, we admit that potential voting rights may sometimes indicate the existence of control or significant influence when considered in conjunction with other factors.

The conclusion in Example 4 that the options which have no economic substance should be neglected seems reasonable, but the distinction from the case of Example 1, which says that even the options that are out-of-the-money should be considered, is not clear.

We agree with the proposed consensus in paragraph 4.

SIC-D34, *Financial Instruments – Instruments or Rights Redeemable by the Holder*

It is not clear to us what is included in “Puttable Instrument”. Typical examples other than open-ended mutual funds and certain cooperative enterprise, if any, should be shown. In connection with this, it should be made clear why an embedded derivative in a Puttable Instrument is always a non-option derivative.

Yours sincerely,

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