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July 18, 2005

Mr., Robert P. Garnett, Chairman
International Financial Reporting Interpretations Committee

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

Dear Robert,

Comments on IFRIC D17 "IFRS 2–Group and Treasury Share Transactions"

Accounting Standards Board of Japan (ASBJ) is pleased to comment on IFRIC D17 "IFRS 2–Group and Treasury Share Transactions". The views expressed in this letter are those of International Issues Standing Committee of ASBJ.

We agree that issuance of an interpretation on the points addressed in D17 is helpful in clarifying the accounting treatments in separate financial statements. However, we suggest the categorization and treatment as shown below to achieve clearer interpretation.

D17 classifies transactions in which employees of a subsidiary are granted the rights to the parent entity's equity instruments, according to which of the parent or subsidiary directly grants those rights. Paragraph 9 applies to cases where the parent entity directly grants those rights and paragraph 11 applies to cases where the subsidiary grants those rights.

However, we believe that this categorization should be based on the substance of the transaction ("whose" compensation) rather than the form ("who" grants the rights). We suggest that the accounting treatment as equity settled transactions (paragraph 9) should be applied to the transactions in which the parent grants rights to its equity instruments to the subsidiary's employees as consideration for their services and that the accounting treatment as cash settled transactions (paragraph 11) should be applied to transactions in which the subsidiary grants to its employees rights to the parent's equity instruments as consideration for their services.

We suggest such categorization because we believe that economically identical transactions should be accounted for in the same way. Paragraph 9 applies only to the transactions in which the parent grants rights to its equity instruments direct to the subsidiary's employees. In reality, however, there are often cases where the parent achieves the same objectives by granting rights to its equity instruments through the subsidiary. D17 treats such cases as cash settled transactions to which paragraph 11 should be applied, because the subsidiary grants the rights. However, we believe that both of those cases should be accounted for in the same way by paragraph 9, because they are identical in economic substance in that the parent grants the rights as consideration of service received by the parent, although the routes of granting are different.

Secondly, we suggest that a subsidiary should recognize a gain in its separate financial statements when a parent entity grants rights to its equity instruments direct to the subsidiary's employees, instead of capital contribution from the parent as described in IE2 of Illustrative Example. The gain represents the relief from payment of the consideration for its employees' services by the parent entity's grant of its equity instruments. In addition, in that case, we suggest that the parent entity should recognize an expense in its separate financial statements, instead of capital contribution to the subsidiary as described in paragraph IE3. The expense represents the employee service received by the parent entity as the consideration for its equity instruments granted to its subsidiary's employees.

We hope that our comments will contribute to the work of the IASB in arriving at its final decision.

Best Regards,

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