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Director of Major Project and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
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Letter of Comment No: 113
File Reference: 1204-001

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FASB Exposure Draft of the Proposed Statements of Financial Accounting Standards, Business Combinations - a replacement of FASB Statement No. 141

Dear Sir / Madam,

This comments on the FASB's Exposure Draft of the Proposed Statements of Financial Accounting Standards, Business Combinations - a replacements of FASB Statements No. 141 is the result of a survey which was distributed to a group of leading Japanese companies by OMRON corporation. Twenty second of the largest and most prominent Japanese companies covering distribution, manufacturing and various other industries (collectively the "Group") were surveyed and their responses are summarized below.

The name of the companies comprising the Group are listed in Attachment A. The Group has reached a consensus and endorses the comments stated below.

1. General view - Economic entity view

Despite an attempt by this exposure draft to shift its basic approach regarding consolidated financial statements from the current parent entity view to the economic entity view, we believe the superiority of the current parent entity view, and that the basic approach should not be changed, because:

(a) The primary objective of financial reporting is to disclose fundamental information about corporate value; ie, corporate performance helpful for owners of the parent entity to predict future cashflow. In this case, the corporate value estimated in the consolidated financial statements is useful for owners of the parent entity, not for minority shareholders of subsidiaries;

(b) Owners of the parent entity hold control over a whole corporate group, while minority shareholders of subsidiaries possess only right of claim on equity to a specific subsidiary; and,

(c) Considering the fact that the approach regarding earnings per share, which has remained unchanged at a calculation based on the parent entity's net income, changing approach only for net income as presented in the exposure draft should be regarded as inappropriate.

Despite the importance of a choice between the parent entity view and the economic entity view,

we can hardly believe that sufficient examination thereof has been performed. In our opinion, the points of arguments should have been summarized and disclosed for hearing opinions of interested parties before changing such important approach pertaining to the fundamental concept of consolidated financial statements. We also think that the exposure draft has failed to provide sufficiently convincing basis for concept change from the parent entity view to the economic entity view.

2. Questions related with proposed amendments to SFAS141

Question 3: Treatment of goodwill belonging to non-controlling interests

We are opposed to the full goodwill method including goodwill belonging to non-controlling interests. Meanwhile, we agree with the approach to purchased goodwill stipulated by the current accounting standards under which only controlling interests are recognized.

Question 5: Date of equity remeasurement in business combination

We do not agree with a provision of the exposure draft stipulating that equity security issued by the acquirer as compensation should be remeasured on acquisition date. We believe that remeasurement on the date of agreement as the existing FASB stipulations is more reasonable. Generally, combining entities have agreed on the principal conditions for the business combination, in particular, on the exchange ratio by properly reflecting the business value of each entity. Any fluctuation in share price after the public announcement may relate to influences having nothing to do with the underlying business value of the acquired entity.

Question 7: Accounting treatment of acquisition-related costs

We do not agree with the proposal of the exposure draft that the costs that the acquirer bears should be excluded from the measurement of the consideration transferred for the acquiree in connection with a business combination. Any specified compensations and fees, including those paid to external advisors, should be deemed as part of the consideration for the acquisition, as stipulated by the current accounting standards. These current accounting treatments are consistent with those of inventory and fixed assets.

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

Best Regards,

Yoshinori Suzuki
Executive Officer,
Senior Manager of Corporate Planning H. Q.
OMRON Corporation

Attachments

Attachment A

Names of Japanese Companies Comprising the Group

1. Hitachi, Ltd.
2. HONDA MOTOR CO., LTD.
3. KUBOTA CORPORATION
4. Kyocera Corporation
5. Makita Corporation
6. Marubeni Corporation
7. Matsushita Electronic Industrial Co., Ltd.
8. Millea Holdings, Inc.
9. MITSUBISHI CORPORATION
10. Mitsubishi Electric Corporation
11. Murata Manufacturing Co., Ltd.
12. NEC Corporation
13. NEC Electronics Corporation
14. Nidec Corporation
15. Nippon Meat Packers, Inc.
16. NOMURA SECURITIES CO., LTD.
17. OMRON Corporation
18. ORIX Corporation
19. Ricoh Company, Ltd.
20. Sony Corporation
21. TDK Corporation
22. WACOAL HOLDINGS CORP.