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Director of Research and Technical Activities File Reference No. 154-D Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, Connecticut 06856-5116 Letter of Comment No: 136
File Reference: 1082-154
Date Received: 1/24/96

RE: Proposed Statement of Financial Accounting Standards Consolidated Financial Statements: Policy and Procedures (the "proposed SFAS")

Dear Sir/Madam:

This response to the Financial Accounting Standards Board (the "FASB") on its proposed SFAS is the result of a survey which was distributed to a group of leading Japanese companies by The Mitsubishi Bank, Limited. Twenty-one of the largest and most prominent Japanese companies covering banking, distribution, manufacturing and various other industries (collectively the "Group") were surveyed and their responses are summarized below.

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

CONSOLIDATION POLICY

Control of an Entity

The Group suggests that the proposed SFAS be amended to set forth more quantitative guidelines and to expand illustrations in Appendix B since the existence of effective control can be determined only at management's discretion if there are few objective or specific guidelines. Since the existence of control under the proposed SFAS is very subjective, it may reduce the comparability of consolidated financial information between companies.

Business in Japan is quite often effected by consensus rather than by "majority rule." Consequently, the existence of control is often very difficult to rationalize.

Accordingly, some companies comprising the Group object to the inclusion of "effective control" due to the above reasons.

Assessing the Existence of Control

The Group generally believes that the proposed definition of control is better defined than in SFAS 94 but some of them object to paragraph 14a. of the proposed SFAS. They believe that the 40% guideline (as defining control) is not sufficiently supported for inclusion in the proposed SFAS as a quantitative

guideline because the underlying basis for 40% and the definition of *significant* interest set forth in 14a. are not clear. In addition, the Group generally believes that the increased cost of financial reporting for this guideline is prohibitive.

Further, one criteria that should be considered in the evaluation of effective control is the continuance of effective control for a reasonable period of time in the future.

CONSOLIDATION PROCEDURES

Changes in a Parent's Ownership Interest in a Subsidiary

The Group recommends that the proposed SFAS be amended to permit income recognition of a gain or loss from the sale of a subsidiary's stock regardless of whether such sale results in a loss of control or not, as accepted under the current accounting standards (the parent company approach), since the economic unit approach adopted by the proposed SFAS accounts for the parent's sale or purchase of a subsidiary's stock in a significantly different manner depending on the presence or absence of control as a result of such transaction and it does not reflect management's strategies on equity investments in a subsidiary.

The proposed SFAS requires very different accounting treatment for similar transactions before and after a loss or acquisition of control. For example, a gain or loss is recognized if a parent loses control of a subsidiary by selling a portion of its ownership interest in the subsidiary; no gain or loss is recognized if control is not lost. If a parent acquires a subsidiary, goodwill is recognized at the date when the parent-subsidiary relationship is established; no goodwill is recognized for additional purchases of the subsidiary's stock after the date of the initial establishment under the proposed SFAS.

Such different accounting treatment for transactions with the same economic substance under the proposed SFAS does not seem to conform with management's intent or purpose for equity investments in a subsidiary. For example, some companies of the Group have subsidiaries whose equity securities have been or are to be listed on stock exchanges, and one of management's purposes for the investment in the subsidiary is to realize capital gains by selling a portion of their holdings of the subsidiary's stock on or after the initial public offering. In the case of selling the entire or a portion of the holding of listed securities of a subsidiary, it is common practice to sell the stock over a period of time, considering the effect on the market price in order to realize maximum gains. However, no gain recognition is permitted before a loss of control occurs.

Conforming Fiscal Periods

In view of timely issuances of consolidated financial statements and cost/benefit considerations, the Group unanimously objects to the proposed SFAS's requirement that the financial information of a subsidiary cover the same fiscal period as its parent's information, and strongly recommends that the FASB retain the current accounting standards (ARB 51) in this respect: financial information of a subsidiary is allowed to differ from up to three months from the fiscal period of the parent.

The Group believes that timely issuances of consolidated financial statements are not assured without the three-month allowance, and does not agree with the reasons why the allowance is no longer necessary, as set forth in paragraph 133 of the proposed SFAS. In spite of improvements in telecommunications and management information systems and techniques since the issuance of ARB 51, timely collection of financial information from subsidiaries is still difficult for companies with a

significant number of subsidiaries in different countries (especially emerging economies). Further, several companies comprising the Group currently make general disclosures about the existence of subsidiaries with differing fiscal periods in their consolidated financial statements, although the proposed SFAS mentioned the lack of such disclosures.

Regulatory requirements and/or prevailing practices for fiscal periods by country or by industry prevent a multinational company from conforming the fiscal periods of all of its subsidiaries to its fiscal period. For example, laws and/or regulations require closing books of accounts on a calendar year basis in some countries such as Brazil and China. The Bank Law of Japan requires banks to close their books on March 31, whereas annual regulatory reports for banks are generally based on a calendar year period in the USA. Further, the dominant fiscal year-end for Japanese companies is March 31.

The Group believes that changes in fiscal year-ends of a subsidiary or a parent, or pro forma closing of books by a subsidiary for its parent's fiscal year-end requires significant additional costs to reporting companies with little enhancement of useful and meaningful consolidated financial information for its users since material intercompany transactions or events during the intervening period are currently recognized and/or disclosed in such consolidated financial statements under the current accounting standards.

EFFECTIVE DATE AND TRANSITION

Some companies suggest prospective application of the requirements related to Consolidation Policy if retroactive application is not practicable, and suggest a postponement of the effective date of the proposed SFAS.

ADDITIONAL COMMENTS

In addition to the above comments, the survey shows that certain companies comprising the Group have the following comments:

Paragraph 14a.

Certain companies of the Group strongly request elimination of paragraph 14a. from the proposed SFAS due to the same reasons stated in **Assessing the Existence of Control** above.

Reporting the change in a parent's ownership interest in a subsidiary

The proposed SFAS requires reporting the change in a parent's share of ownership interest in a subsidiary as an increase or decrease in only additional paid-in capital with a corresponding decrease or increase in the noncontrolling interest. One company of the Group strongly requests that an alternative way for reporting such a change as an increase or decrease in items comprising the equity of the subsidiary be permitted on a proportionate basis when the change results from a subsequent transaction or event which does not accompany a change in an amount of a parent's investment (e.g., issuance by the subsidiary of its stock to noncontrolling stockholders).

It believes that equity account items, such as retained earnings, cumulative foreign currency translation adjustments under SFAS 52, and net unrealized gains on available-for-sale investment securities under SFAS 115, also reflect the change in the parent's share therein.

Measurement date of unrealized holding gains or losses

One company of the Group has interpreted paragraph 28 of the proposed SFAS to not specifically state when unrealized gains or losses on earlier investments classified as available-for-sale securities under SFAS 115 are measured, while paragraph 217e. (2) of the proposed SFAS sets forth that such gains or losses are measured at the date when significant influence is obtained. It suggests that paragraph 217e. (2) be consistent with paragraph 28 in this respect.

We would appreciate your consideration of our views and comments.

Very truly yours,

Masamichi Yamada

Managing Director and

General Manager of Corporate Planning Division

The Mitsubishi Bank, Limited

Attachments

Names of Japanese Companies Comprising the Group

- 1. Canon Inc. (*)
- 2. Fuji Photo Film Co., Ltd. (*)
- 3. Hitachi, Ltd. (*)
- 4. Honda Motor Co., Ltd. (*)
- 5. Komatsu Ltd. (*)
- 6. Kubota Corporation (*)
- 7. Kyocera Corporation (*)
- 8. Makita Corporation (*)
- 9. Matsushita Electric Industrial Co., Ltd. (*)
- 10. Mitsubishi Electric Corporation (**)
- 11. Mitsui & Co., Ltd. (*)
- 12. NEC Corporation (*)
- 13. OMRON Corporation (*)
- 14. Pioneer Electronic Corporation
- 15. Ricoh Company, Ltd. (*)
- 16. Sanyo Electronic Co., Ltd.
- 17. Sony Corporation (*)
- 18. TDK Corporation (*)
- 19. The Mitsubishi Bank, Limited
- 20. TOSHIBA CORPORATION (*)
- 21. Wacoal Corp.

^{*} indicates that letters issued by the above companies are also enclosed.