



Japanese Accounting Standards -Current Status and Future Perspective-

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Introduction



◆ Current Status

⇒ Comparable to international standards

➤ Standard line-up

➤ Foreign investment using Japanese GAAP

➤ Assessment of equivalence in the EU

◆ Future Perspective

⇒ Full convergence – Ultimate goal

➤ ASBJ's positive stance toward convergence

➤ Accelerated convergence activities

➤ Japanese contribution to IASB

Standard line-up



- “Accounting Big Bang” in the late 1990’s –
 - Along with reform of the financial market in Japan for globalization
 - Japanese accounting standards has been developed or revised to harmonize international standards and improved in quality

Major Japanese Accounting Standards (issued or revised since 1997) (1)



Issues	Issued/Revised
Consolidation	Jun. 1997 R
Cash Flow Statement	Mar. 1998 I
Research and Development Costs	Mar. 1998 I
Interim Financial Reporting	Mar. 1998 R
Retirement Benefits	Jun. 1998 I
Income Taxes	Oct. 1998 I
Financial Instruments	Jan. 1999 I
Foreign Currency Transactions	Oct. 1999 R

Major Japanese Accounting Standards (issued or revised since 1997) (2)



Issues	Issued/Revised
Impairment of Fixed Assets	Apr. 2002 I
Earnings Per Share	Sep. 2002 R
Business Combinations	Oct. 2003 I
Presentation of Net Assets in the Balance Sheet	Dec. 2005 I
Statement of Changes in Net Assets	Dec. 2005 I
Share Based Payments	Dec. 2005 I
Measurement of Inventories	July 2006 R

Foreign Investment using Japanese GAAP



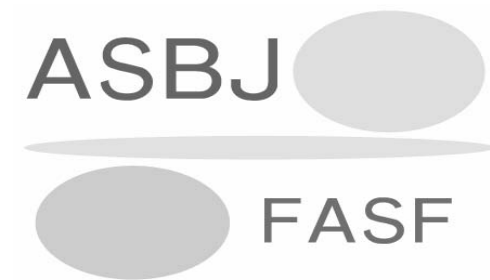
- Further globalization of capital markets in Japan
 - Overseas investors' share of equity trading: **35.4%**
(Overseas: North America **28%**, Europe**47%**, Asia**24%**)
 - Overseas investors' share of ownership: **26.7%**
(2005 Survey of Tokyo Stock Exchange)
- ⇒ Overseas investors widely use Japanese GAAP.
- ⇒ Further convergence will be of benefit and of important to the Japanese capital markets

Assessment of Equivalence in the EU



- Technical advice on equivalence of the third country GAAP (Japan, U.S. and Canada) was issued by CESR in July 2005.
 - Three countries GAAP are, taken as a whole, **equivalent** to IFRSs.
 - Remedies required (Japan:26, US:19, Canada:14)
 - 18 remedies are common to Japan and US.
- EC presents its draft proposal for postponement of the equivalence decision for two years in April 2006.

Current Status



Japanese Accounting Standards

⇒ Comparable to international standards

Positive Stance toward International Convergence



- “Medium-term operating policy ” in July 2004
 - Objective is **to achieve high-quality accounting standards.** ⇒ beneficial to respective capital markets around the world
 - The convergence be **attained through the process of assessment and selection by market participants** from international accounting standards which are mutually accepted in major capital markets.
 - To promote international convergence , the ASBJ will establish closer relationship with other accounting standard setters around the world.

High Quality Standards



⇒ Decision usefulness

⇒ Attained through the process of assessment and selection by market participants (market driven)

Examples of concerns over IFRS:

⇒ Net income might be eliminated.

⇒ Fair value measurement might be overgrown in full-scale.

Market Driven



Social cost

⇒ World Market Capitalization

US 41% Japan 18% : EU25% Others 16%

←←←←←←←←←←GAAP overall equivalent→→→→→→→→

⇒ World Share Traded Value

US 49% Japan 11% : EU27% Others 13%

←←←←←←←←←←GAAP overall equivalent→→→→→→→→

Convergence



- High Quality Standards ↔ Market driven
- Social cost ↔ Market driven



Convergence

Convergence Project with the IASB (1)



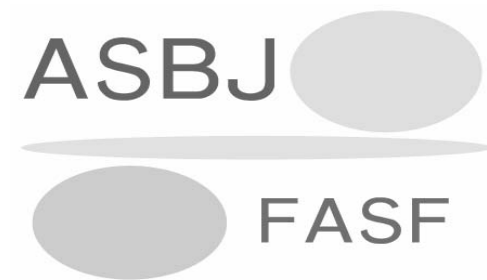
- Whole picture approach
 - Entire picture of convergence process
 - Classify “short-term project” and “longer-term project”
 - Review regularly differences and progress of deliberation (“on-going” process)

Convergence Project with the IASB (2)



Whole picture approach (cont.)

- Short-term project
 - Eliminate or find a way to eliminate major differences by 2008
- Longer-term project
 - Differences primarily due to conceptual frameworks, legal restrictions or items being discussed between the IASB and the FASB
- Authorization of conceptual framework



Short-term items

1. Inventories(valuation method)
2. Segment reporting
3. Related party disclosures
4. Uniformity of accounting policies in overseas subsidiaries
5. Investment properties
6. Cost of issuing new shares

Short-term items



7. Asset retirement obligation
8. Disclosure of financial instruments at fair value (footnote)
9. Construction contracts
10. Leases

Longer-term items



1. Revenue recognition
2. Performance reporting
3. Intangibles (including R&D expenses)
4. Scope of consolidation (including SPE)
5. Fixed assets (impairment, revaluation)
6. Provisions
7. Fair value measurements
8. Fair value option

Longer-term items

9. Liabilities and equity
10. Government grants
11. Insurance contracts
12. Financial instruments
13. Retirement benefits
14. Uniformity of accounting policies in associated companies
15. Inventories (LIFO)
16. Income taxes

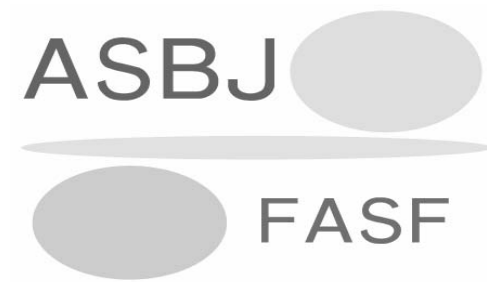


Longer-term items



17. Retrospective restatement
18. Business combinations (pooling-of-interest method, goodwill, etc)
19. Share-based payments

Japan's Contribution to IASB



- ⇒ 2 Trustees
- ⇒ 1 Board Member
- ⇒ 2 SAC Members
- ⇒ 1 IFRIC Member
- ⇒ 2 Staffs (1 full-time)

Japan's Contribution to IASB



- Amounts of contribution to IASB (Top five nations)

(Y2005 US\$)

US	7,679,000	46.1%
Japan	2,000,000	12.0%
Germany	1,950,000	11.7%
Netherlands	869,265	5.2%
UK	820,000	4.9%

IFRS Regional Forum



- ASBJ will host IFRS Regional Forum on March 29, 2007 in Tokyo.
- Regulators and Standards Setters in the Asia Oceania region get together to discuss issues in the IFRS environment.

Periodical Meetings with FASB



- An initial meeting was held in May 2006 in Tokyo.
 - Mr. Robert Herz, Chairman of the FASB joined the meeting.
- Major long-term issues was discussed.
 - Conceptual framework
 - Performance reporting
 - Business combination
- Next meeting will be held in US this month.

Future Perspective

⇒ Gear up convergence activities



Full Convergence ⇒ Ultimate Goal

