

Accounting Standards Board of Japan (ASBJ)

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Project Plan Concerning the Development of Japanese Accounting Standards

— *Initiatives towards the international convergence of accounting standards*

in light of the equivalence assessment by the EU

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Accounting Standards Board of Japan

I. Introduction

The Accounting Standards Board of Japan (ASBJ) believes that convergence towards compatible high quality accounting standards is beneficial for capital markets around the world. Based on this belief, the ASBJ has been developing Japanese accounting standards and has contributed to the International Accounting Standards Board (IASB) actively in working towards the development of International Financial Reporting Standards (IFRSs) by exchanging comments and participating in the IASB projects.

Based upon the foregoing basic policy, the ASBJ and the IASB launched a joint project in March 2005 with the final goal of accomplishing convergence between Japanese GAAP and IFRSs. During the course of this project, both boards have exchanged views and discussed actively and, as a consequence, the ASBJ has been accelerating its revision of Japanese accounting standards to minimize the differences between the two standards. Since the ASBJ believes that a closer relationship should be established with other standard-setters around the world, the ASBJ and the Financial Accounting Standards Board of the United States (FASB) initiated periodical meetings between the representatives of both boards, commencing in May 2006.

In July 2006, the Planning and Coordination Committee of the Business Accounting Council issued an opinion paper entitled, "Towards the International Convergence of Accounting Standards" in which the committee pointed out the necessity of formulating a definite programme as soon as possible concerning a time-framed approach to the EU equivalence assessment for the purpose of accomplishing convergence of accounting standards by early 2008 for such issues as convergence whereof is considered as achievable reciprocally and also showing the progress of work for such issues as convergence thereof may require a longer time to accomplish.

While the ASBJ has occasionally announced the progress and prospects of convergence between Japanese GAAP and IFRSs, based on the foregoing opinion paper of the Business Accounting Council, the ASBJ has recently decided to formulate and release "ASBJ Project Plan" (attached hereto) focusing on such accounting standards development projects as those specifically related to convergence among other projects currently being undertaken, or planned to be undertaken in the future, in an attempt to

express in a clearer manner the status of initiatives of the ASBJ to various constituencies in Japan and abroad. In releasing the ASBJ Project Plan, primary emphasis was placed on mapping out the work planned to be achieved through the end of 2007, and also on clarifying the prospects of convergence status as of the beginning of 2008 concerning the initiatives to be undertaken with respect to the 26 issues for which the remedies were advised by the Committee of European Securities Regulators (CESR) in connection with the equivalence assessment.¹⁾

II. Relationship between the ASBJ Project Plan and the joint project on-going with the IASB

In their third meeting held in March 2006 on the joint project with the goal of achieving convergence of accounting standards, in order to accelerate the progress in convergence process the ASBJ and the IASB agreed to shift from the current "phased" approach, in which differences between the accounting standards that are relatively easy to initiate discussion about are addressed first, to a "whole picture" approach where all differences in accounting standards to be addressed in the future are extensively expressed and projects will be initiated simultaneously in accordance with priority to be addressed.

Under this "whole picture" approach, major differences in accounting standards are classified into "short-term projects" that can be solved in a short time, and "longer-term projects" representing the remainder. Short-term project issues, at this stage, are scheduled to be solved either by 2008, or else, by then, at least, an overall course of actions for eliminating differences shall be determined. For longer-term projects, among others, putting the priority on the five issues, namely: revenue recognition, performance reporting (financial statement presentation), intangibles (including R&D expenses), the scope of consolidation (including SPEs), and retrospective restatement, the ASBJ has decided to initiate research projects in order to focus on setting up the course of actions for eliminating differences and to convey opinions or comments, if any, to the IASB and the FASB.

In their fourth meeting held in September 2006 on the joint project, both boards promoted mutual understanding through discussions and confirmed to continue the joint project, as well as confirmed the progress of each project plan

The ASBJ believes that differences between the two accounting standards could be decreasing by proceeding with the joint project between the ASBJ and the IASB. Also, the ASBJ is fully aware that the steady work should be continued to solve all the differences subject to the remedies for issues as

¹⁾ In the ASBJ, other than the project items related to convergence in the ASBJ Project Plan, the project items specific to the Japanese accounting standards are addressed through each technical committee such as business combinations, retirement benefits, modernization of corporate law, etc. Also, the ASBJ addresses the development of "Conceptual Framework" related to financial accounting as a main topic in conjunction with every accounting standard.

proposed by the CESR in light of their importance. Accordingly, the ASBJ envisions prioritizing these issues from viewpoint of their substance²⁾ and their progress and background in Japan and abroad³⁾ and aggressively undertaking the necessary initiatives.

III. Future steps for responding to the equivalence assessment by the EU

In its “STATEMENT ON JAPAN’S PROGRESS TOWARD CONVERGENCE BETWEEN JAPANESE GAAP AND IFRSs - In Reference to Technical Advice on Equivalence by the CESR” issued in January 2006, the ASBJ described the then current progress toward remedies for the issues advised by the CESR, and the prospects for convergence status as of 2008.

Thereafter, the ASBJ has carried out its work in accordance with this direction. Also, as agreed to shift the approach for the joint project with the IASB to the “whole picture” approach as stated above, it was decided that future directions will be extensively indicated with remedies for issues other than those advised by the CESR⁴⁾.

The environment surrounding convergence of accounting standards is constantly changing; accordingly, initiatives undertaken to cope with the technical advice on equivalence issued by the EU need to be constantly reviewed as well in light of such a continually evolving environment. In conjunction with the release of the ASBJ Project Plan, the ASBJ has updated the current status of progress with respect to remedies for issues advised by the CESR, its policy for initiatives to be undertaken, and the prospects for convergence status as of the beginning of 2008, as follows.

²⁾ When the application of remedies is assessed at the entity level, some of the differences identified by the CESR may be avoidable, depending on each entity’s rational choices of accounting policies.

³⁾ The issues related to the convergence project between the IASB and FASB will be deliberated considering the progress of their discussions. In addition, the issues related to recent developed standards in Japan should be taken into consideration assessment of the market.

⁴⁾ The MOU (Memorandum Of Understanding) containing mutual agreements between the FASB and the IASB was released in February 2006, in which initiatives to be undertaken for minimizing the differences between accounting standards by 2008 are stated in more concrete terms. In the joint project between the ASBJ and the IASB, the agenda to be discussed are decided based on the issues to be addressed in the above MOU. While the issues to be considered, such as revenue recognition and performance reporting (financial statement presentation), under the “whole picture” approach are not necessarily indicated in the ASBJ Project Plan, the ASBJ plans to make timely comments in accordance with the progress in discussions between the IASB and the FASB.

Issues advised by CESR concerning the equivalence assessment on Japanese Accounting Standards and
the ASBJ's approach to those issues

Remedies	No.	Issues	Current status and policy	Prospects at the beginning of 2008
Supple- mentary statement	1	Business combinations (pooling-of-interest method)	<p>The ASBJ will ascertain the feedback from markets on the accounting standards put into effect from 2006.</p> <p>To this end, a project team will be established by the end of 2006 in order to conduct market research in 2007.</p> <p>The application of the pooling-of-interest method is very limited only to business combinations where it is impossible to identify an acquiring party.</p>	Deliberations will be made considering the results of market research, feedback from markets after the implementation of IFRS, and the progress in discussions between the IASB and the FASB. A discussion paper will be released as necessary.
	2	Scope of consolidation (qualified special purpose entities)	<p>A technical committee was established for this issue. The committee has picked up the issue of the disclosure of SPE as the first agenda to be discussed and deliberations thereon have been initiated. Further study will be done considering the progress in discussions between the IASB and the FASB in 2007.</p>	As for deliberations of the disclosure, its guidance will be released by March 2007. As for deliberations of the scope of consolidation, a discussion paper will be released taking into consideration the progress in discussions between the IASB and the FASB by the end of 2007.

Remedies	No.	Issues	Current status and policy	Prospects at the beginning of 2008
	3	Uniformity of accounting policies concerning overseas subsidiaries	With the release of Practical Issues Task Force (PITF) (May 2006), accounting policies applicable to foreign subsidiaries will be unified substantially with those applicable to parent companies. (Furthermore, consolidation of financial statements using IFRS or U.S. GAAP is now permitted here subject to certain adjustments.)	PITF will be applied from April 2008 (earlier application encouraged).
<u>Disclosure B</u>	4	Share-based payments (expense recognition)	Accounting standards and guidance were released (December 2005). Requisite disclosure is also defined therein. (See No.13, "Share-based payments - explanatory notes")	Accounting standards and guidance have been implemented since.
	5	Business combinations (date of exchange)	Deliberations will be conducted considering the progress in discussions between the IASB and the FASB also in conjunction with the deliberations of No. 1, "Business combinations (pooling-of-interest method)."	(See No. 1, "Business combinations, pooling-of-interest method")
	6	Business combinations (capitalization of acquired R&D in process)	Deliberations will be conducted by the Intangible Assets Working Group. (See No. 11, "Capitalization of development costs")	(See No. 11, "Capitalization of development costs")
	7	Business combinations (negative goodwill)	Information required to be disclosed as Disclosure B (amounts, causes of occurrence, methods of amortization and amortization periods) are already required under the new accounting standards put into effect from 2006.	Accounting standards and guidance are currently effective.

Remedies	No.	Issues	Current status and policy	Prospects at the beginning of 2008
	8	Inventories (LIFO)	A project team is to be established in 2007 to initiate deliberations. Only a few companies have adopted the LIFO method. Also, this is an issue for which the application of remedies can be avoided by the choice of accounting policies at each entity level.	A decision will be made on the course of action.
		Inventories (lower of cost or market method)	Accounting standards were released (July 2006) stipulating book value should be adjusted downward where any deterioration of earning power thereof exists.	Accounting standards will be applied from April 2008 (earlier application encouraged).
	9	Uniformity of accounting policies of associates	A project team will be established in 2007 to initiate deliberations. Also to include such issues that may arise from the introduction of IFRS in fiscal 2005 in the project team deliberations, it is considered that this issue may be brought up for redeliberation in the course of discussions with the IASB and/or with the FASB. (Under current Japanese accounting standards, uniformity of accounting policies applied to investing companies and their affiliates are considered to be desirable as a general rule, but such uniformity is not forced from practical considerations.)	Based on the deliberations by the project team, an exposure draft will be released as necessary.

Remedies	No.	Issues	Current status and policy	Prospects at the beginning of 2008
	10	Impairment tests	The ASBJ will assess feedback from markets on the impairment standards effective from 2005. To this end, a project team will be established in 2007 to conduct market research. Deliberations will be made reflecting the progress in discussions between the IASB and the FASB (short-term convergence project).	A decision will be made regarding the course of action to be taken, based on the results of market research and considering the progress in discussions between the IASB and the FASB. If IFRS are converged to U.S. GAAP, differences between Japanese accounting standards and IFRS will then be eliminated.
	11	Capitalization of development costs	A working group was established to initiate deliberations. Deliberations will be made taking into consideration the progress in discussions with the IASB and the FASB (short-term convergence project).	Discussion papers will be released by the end of 2007 based on the results of market research and taking into consideration the progress in discussions between the IASB and the FASB. If IFRS are converged to U.S. GAAP, differences between Japanese standards and IFRS will then be eliminated.
	12	Agriculture	Very few numbers of publicly listed companies are engaged in agricultural businesses.	—
<u>Disclosure A</u>	13	Share-based payments (explanatory notes)	(See No. 4, “Share-based payments - expense recognition”)	(See No. 4, “Share-based payments, expense recognition”)

Remedies	No.	Issues	Current status and policy	Prospects at the beginning of 2008
	14	Business combination (minority interests at historical cost)	Deliberations will be made taking into consideration the progress in discussions between the IASB and the FASB in conjunction with No. 1, "Business combinations (pooling-of-interest method)."	(See No. 1, "Business combinations, pooling-of-interest method")
	15	Business combinations (step acquisitions)	Deliberations will be made considering the progress in discussions between the IASB and the FASB in conjunction with No. 1, "Business combinations (pooling-of-interest method)."	(See No. 1, "Business combinations, pooling-of-interest method")
	16	Insurance contracts (catastrophic provisions)	The industry targeted for application is limited to the insurance industry and in the IASB currently the phase II discussion has been conducted.	—
	17	Construction contracts (percentage-of-completion method)	This issue was chosen as the agenda for a short-term joint project with the IASB, and a working group was established to initiate deliberations.	Accounting Standards and guidance will be released by the end of the year 2007.
	18	Non-performing loans	The development of specific measures against this issue is not considered to be necessary because the group of financial institutions already have certain established disclosure rules.	—
	19	Scrapping costs	(Deliberations will be conducted in conjunction with No. 24, "Asset retirement obligations")	(See No. 24, "Asset retirement obligations")

Remedies	No.	Issues	Current status and policy	Prospects at the beginning of 2008
	20	Pensions, Post Retirement Benefits (including the discount rate to be used for calculating retirement benefits obligations)	This issue was chosen as the agenda for the longer-term joint project with the IASB, and a working group will be established in 2007 to initiate deliberations and to convey opinions and comments to the IASB and the FASB.	A decision will be made on the course of action to be taken, based on considering the progress in discussions between the IASB and the FASB.
	21	Business combinations (translation of goodwill)	Deliberations are to be conducted in conjunction with No. 1, "Business combinations (pooling-of-interest method)".	(See No. 1, "Business combinations, pooling-of-interest method")
	22	Disclosure of financial instruments at fair value	This issue was chosen as the agenda for a short-term joint project with the IASB, and a working group was established to initiate deliberations.	Accounting standards and guidance will be issued by the end of the year 2007.
	23	Reversal of impairment loss	Deliberations will be conducted in conjunction with No. 10, "Impairment tests".	(See No. 10, "Impairment tests")
	24	Asset retirement obligations	Working Group was established on this issue which was added to topics for the convergence project with the IASB.	Accounting standards and guidance will be issued by the end of 2007.

Remedies	No.	Issues	Current status and policy	Prospects at the beginning of 2008
	25	Investment property	This is the agenda for the short-term joint project with the IASB. The ASBJ will continue to provide its own comments to the IASB. Deliberations will be made taking into consideration the progress in discussions between the IASB and the FASB (short-term convergence project).	A decision will be reached on the course of action taking into consideration the progress in discussions between the IASB and the FASB. If IFRS are converged to U.S. GAAP, differences between Japanese standards and IFRS will then be eliminated.
Future agenda	26	Financial instruments	Because of the complexity of pertinent Japanese standards, the position of the CESR is to continue reviewing its technical assessments. Therefore no particular actions are scheduled at this stage. Deliberations will be made taking into consideration the progress in discussions between the IASB and the FASB.	—

(Note 1) The ASBJ puts the above “No.” for convenience.

(Note 2) Headings in the column “Remedies” means as follows.

Supplementary statement : Pro-forma statements including a limited restatement for taking account of one identified aspects of IFRS requirement that is not present or not fully applied under Japanese GAAP

Disclosure B : Quantitative indication of the impact of an event or transaction under IAS/IFRS provisions (The gross and net of tax effect of the difference on the profit and loss or on the shareholders’ equity)

Disclosure A : Additional narrative and/or quantitative disclosures augmenting the disclosures already provided pursuant to Japanese GAAP

Future Agenda : To be reconsidered later

ASBJ Project Plan

(Attachment)

- Items related to convergence -

October-2006

Project Items	Before 3Q of 2006	2006	2007				Remarks		
		4Q	1Q	2Q	3Q	4Q	Project status as of January 2008	Supplementary comments	
<Items advised by CESR for EU equivalence assessment purpose>(Note2)									
1-S	Business combinations-(1/2) (Pooling-of-interest method)		PT			RR	(DP)	I, possibly II	ASBJ will deliberate for DP after RR is issued.
2-S	Scope of consolidation-(1/2) (Enhanced disclosure of SPEs)	TC	ED	Final				III	-
	Scope of consolidation-(2/2) (Consolidation of SPEs)						DP	II	ASBJ will deliberate considering developments at IASB/FASB.
3-S	Uniformity of accounting policies(Oversea subsidiaries)	Final						III	PITF No.18 was issued in May 2006.
4-B/ 13-A	Share-based payments (Expense recognition/ Explanatory notes)	Final						III	Accounting Standard No.8 was issued in December 2005.
Note3	Business combinations-(2/2) (Others)		PT			RR	(DP)	I, possibly II	ASBJ will deliberate for DP after RR is issued.
8-B	Inventories (LIFO)			PT				I	ASBJ will conclude a tentative decision within 2007.
	Inventories (Valuation method)	Final						III	Accounting Standard No.9 was issued in July 2006.
9-B	Uniformity of accounting policies (Associates)			PT			(ED)	I, possibly II	ASBJ will deliberate ED considering developments at PT.
10-B/ 23-A	Impairments of fixed assets			PT			RR	I	ASBJ will deliberate considering RR and developments at IASB/FASB.
11-B	Intangibles (including R&D expenses)	WG					DP	II	ASBJ will deliberate considering developments at IASB/FASB.
17-A	Construction contracts	WG	TC			ED	Final	III	-
19-A/ 24-A	Asset retirement obligations	WG	TC			ED	Final	III	-
20-A	Retirement benefits			PT				I	ASBJ will deliberate considering developments at IASB/FASB.
22-A	Disclosure of FV information of financial instruments	WG	TC			ED	Final	III	-
25-A	Investment property	PT						I	ASBJ will continue its deliberation considering developments at IASB/FASB.
<Other major projects>									
	Segment reporting	WG	TC			ED	Final		
	Related party disclosures	ED	Final						
	Leases	ED#1	ED#2		Final				
	Retrospective restatements	PT			DP				
	Quarterly financial reporting		ED	Final					

(Note1)

The following illustrates definitions of abbreviations in the project plan.

For "Project Items" column:

- S : Supplementary statements
- B : Disclosure B (Quantitative disclosures)
- A : Disclosure A (Additional narrative and/or quantitative disclosures)

For "Project status as of January 2008" column:

- III : Project to be finalized by January 2008.
- II : Project to be in the deliberating process towards finalization at the Board.
- I : Project to be in the deliberating process at PT/WG Level towards next steps.

For "2006/ 2007" column:

- PT : Project Team to be established.
- WG: Working Group to be established.
- TC : Technical Committee to be established.
- RR : Research Report to be issued.
- DP : Discussion Paper to be issued.
- ED : Exposure Draft to be issued.
- Final: Accounting Standard/Guidance, etc.

(Note2)

12-B Agriculture, 16-A Insurance contracts (Catastrophic provisions), 18-A Non-performing loans, and 26 Financial Instruments, which are required remedies in the Technical Advice by the CESR, are not included this Project Plan.

(Note3)

The project "Business combinations-2/2(others)" includes issues for "Date of exchange(5-B)", "Capitalization of acquired R&D in process(6-B)", "Negative goodwill(7 B)", "Minority interests at historical cost(14-A)", "Step acquisitions(15-A)", and "Translation of goodwill(21-A)".