



**FINANCIAL SERVICES AGENCY  
GOVERNMENT OF JAPAN**

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May 8, 2007

Mr. Paul Koster  
Chairman of CESR-Fin  
The Committee of European Securities Regulators (CESR)  
11-13 avenue de Friedland, 75008 Paris, France

**RE: Consultation Paper on a Mechanism for Determining the Equivalence of the  
Third Countries GAAPs (CESR/07-212)**

Dear Mr. Koster,

On behalf of the Financial Services Agency of Japan, I would like to welcome the opportunity to comment on the issue of equivalence assessment mechanism, which is critical to the relationship between Japan and the European Union (EU). As we have reiterated in the past, any mechanism for equivalence assessment should be designed in a way that is conducive to maintaining the global and open nature of European markets. It should be built on a sound economic foundation, using clear language understandable to market participants.

From this standpoint, we would appreciate it if CESR could provide more clarity in some of the key terms used in the proposed mechanism:

- “*significant difference*” (paragraphs 16, 23)
  - It is unclear how this undefined term relates to the same term used in CESR’s previous Technical Advice (CESR/05-230b), which, in case of Japanese GAAP, includes 26 items.
- “*non-complex disclosure*” (paragraphs 16, 19)
  - It is equally unclear how this undefined term relates to the similar term used in the previous Advice - “*remedy*” - which includes: supplementary statements, disclosures A, and disclosures B.
- “*material difference*” (paragraph 18)
  - The paragraph 18 seems to suggest that certain “*significant differences*” that do not amount to “*material differences*” may not require any additional disclosures. This appears inconsistent with paragraph 16, and is at any rate confusing because both of the key terms are used without any definitions.

For the purpose of responding to your consultation, we are assuming, barring further clarifications, that “*significant difference*” and “*non-complex disclosure*” are to be used synonymously, in respect to the two terms used in the previous Advice (CESR/05-230b).

At this stage we would like to raise the following three issues:

- 1) How the existence of a convergence programme should be considered in determining the equivalence;
- 2) Whether auditor assurance should be required for the remedies; and
- 3) Who should initiate application procedures for seeking equivalence status for accounting principles and/or provide an impact assessment upon the issuance of new standards?

**(i) How the existence of a convergence programme should be considered in determining equivalence (Questions 3 & 4)**

CESR's proposed approach, as illustrated in Appendix 1, is to determine equivalence between the standards solely on the basis of the standards "as is" on the day of the assessment, and independently from the ongoing convergence programmes, however robust they may be.

We fear, however, that such a snapshot approach may entail the following risks:

- It could seriously undercut the motivation of the standard setters and other stakeholders in regards to ensuring a robust convergence process;
- It could threaten stability of accounting standards, and consequently affect the comparability of financial reporting to the detriment of the interest of investors; and
- More importantly, by requiring a set of cumbersome rectifications, it could seriously damage the openness of the European markets, and might even invite reciprocal actions by other regulators.

We therefore believe that, in a case where a robust convergence programme is well-established, the alternative approach, as illustrated in Appendix 2, can provide a more appropriate solution in the context of the EU. As CESR suggested in its Advice in March (CESR/07-138), there exists a robust convergence programme between Japanese GAAP and IFRS, which clearly identifies the differences and their expected changes within a clear timeframe, demonstrating a firm commitment on the part of Japanese standard-setter (ASBJ).

**(ii) Whether auditor assurances should be required for the remedies (Question 6)**

CESR proposes that all additional rectifications should be subject to auditor assurance requirement. We believe this question is not relevant to GAAPs like ours, which would be considered fully equivalent to IFRS without any requirement for additional remedies.

As a general question, however, this proposal warrants a very careful consideration, taking into account cost-benefit analyses and impacts on markets. Auditor assurance will necessitate additional cost to issuers, and hence could have significant negative impact to their decision to be listed in the relevant markets. A case in point is the recent wave of delisting of Japanese issuers from European markets. The benefit of auditor assurance, on the other hand, remains yet to be identified. The additional disclosures could well be sufficiently "non-complex" as to not require any comprehensive auditor assurance.

In this context, CESR might want to be reminded that the Japanese securities regulator do not, at least at this point, require any auditor assurance for explanatory notes on significant differences identified between Japanese GAAP and foreign GAAPs accepted in Japanese market, including IFRS.

**(iii) Who should initiate application to seek equivalence status for accounting principles, and/or provide impact assessments upon the issuance of new standards (Questions 1 & 6)**

CESR proposes that the determination of equivalence be made, to encompass the assessment of not only accounting standards *per se*, but also of disclosure standards and “*filters*” such as auditor assurance and enforcement aspects. Clearly, very few standard-setters, if any, are empowered with such comprehensive competence. In many jurisdictions, including Japan, securities regulators are probably better placed to coordinate with other authorities in those jurisdictions, and to act on their behalf, when applying for equivalence status and/or providing an impact assessment upon the issuance of new standards. Also, we think that, among other things, the definition and the procedure of “*impact assessments*” needs to be further clarified. We do not believe that a comprehensive impact assessment is warranted unless there are fundamental changes in key concepts of the accounting standards. A periodical review every three years, for example, should otherwise suffice.

Finally, please note that our comments are subject to changes or additions, depending on the clarifications on the issues we have raised above. We would appreciate your thoughtful consideration of our comments. We would also welcome further opportunities for consultation, should CESR be adding significant changes to this Technical Advice. Should you have any questions, please do not hesitate to contact me.

With my best regards,

Yours sincerely,

Junichi Maruyama  
Deputy Commissioner for International Affairs  
Financial Services Agency  
Government of Japan

c.c. Mr. Fabrice Demarigny, Secretary General of CESR