

A stylized teal map of Japan is centered in the background of the slide. The map shows the four main islands: Hokkaido, Honshu, Shikoku, and Kyushu, along with numerous smaller islands and archipelagos.

Issues on the International Accounting Standards and Japan's Treatment

June 2004

Financial Services Agency, Japan



Financial Services Agency, Japan



Report of the Business Accounting
Council, an important third-party
advisory council to the FSA, on
June 24, 2004

Summary

- Adoption of IFRS in the EU as a single set of accounting standards and adoption of IFRS for consolidated financial statements in non-EU jurisdictions has raised the issues of treatment of IFRS-based financial statements for foreign issuers and domestic Japanese issuers under the legal framework of Japan.
- The Business Accounting Council, an important third-party advisory council to the Financial Services Agency, discussed the issues and published an issues report on 24th June 2004 for public comments.
- Financial statements of foreign issuers based on the home jurisdiction's or third-jurisdiction's accounting standards are allowed under the current regime for secondary offerings, but consideration is given to introducing assessment of equivalence with the Japanese standards. If the financial statements for primary offerings are allowed, assessment of equivalence will also be a key issue to be considered.
- It is open to further consideration to accept IFRS-based consolidated financial statements for domestic Japanese issuers in the future.



I. Background (1)

1. Year 2005 Issue

- Current Treatment within EU
 - Japanese GAAP is recognised within EU
- Accounting Standard under EU Prospectus Directive and Transparency Directive
 - Principle: in accordance with IFRS
 - Exception for non-EU issuers: equivalent accounting standards
- Implementation in 2007
 - Use of the home jurisdiction's standards may be used
 - ✓ by the end of 2006 for Prospectus Directive, and
 - ✓ by the implementation of Transparency Directive expected in late 2006

I. Background (2)

2. Regulatory Response in Japan

- The Business Accounting Council started deliberations in March 2004 on treatment of IFRS-based consolidated financial statements under the framework of the Japanese Securities and Exchange Law(‘SEL’); namely,
 - How to treat use of IFRS-based consolidated financial statements prepared by foreign issuers, in case of their public offering or listing in the Japanese markets, and
 - How to treat use of IFRS-based consolidated financial statements prepared by Japanese issuers within Japan.

II. Treatment of IFRS-based Foreign Issuers (1)

1. Current Treatment

(1) Approval of financial statements based on non-Japanese standards

- Foreign issuers may use financial statements based on their home jurisdiction's standards or the third-jurisdiction's standards, which are the standards in a jurisdiction neither in Japan nor in the home jurisdiction, if they are approved by the FSA as *not lacking in public interests or investors' protection*.
- Financial statements of 150 companies over 20 jurisdictions based on non-Japanese standards, including German, French, UK or US GAAP, have been accepted (in the period from July 2002 to June 2003).



II. Treatment of IFRS-based Foreign Issuers (2)

(2) Note of differences

- It is required to disclose differences in accounting standards from the viewpoint of public interests or investors' protection.

(3) Audit of financial statements

- No Japanese audit is required for financial statements of foreign issuers, which is accepted by the FSA as *not lacking in public interests or investors' protection*, if such financial statements are audited by any qualified persons who correspond to the Japanese CPAs or auditors.

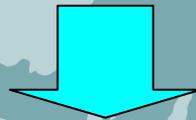
(4) Disclosure of financial statements

- It is required to disclose financial statements of foreign issuers in Japanese in the format required in Japan from the viewpoint of public interests or investors' protection.

II. Treatment of IFRS-based Foreign Issuers (3)

2. Issues

- The current treatment is based on the ‘secondary’ offerings, where securities of foreign issuers have already been disclosed properly.
- Whether the current treatment (=‘secondary’ offerings) should be maintained.
- How to treat ‘primary’ offerings, where securities of foreign issuers have not been disclosed in their home or other jurisdictions but will be disclosed in the Japanese markets for the first time.



II. Treatment of IFRS-based Foreign Issuers (4)

3. Points to be considered

(1) Secondary offerings

- The current treatment may be maintained as there is no specific issue from the viewpoint of public interests or investors' protection.
- Introduction of 'assessment of equivalence' of accounting, audit and disclosure standards with the Japanese standards may be considered in judging public interests or investors' protection.

(2) Primary offerings

- It will be possible to accept financial statements based on the IFRS or home jurisdiction's standards, if they are accepted on a case-by-case basis as *not lacking in public interests or investors' protection*.



III. Treatment of IFRS-based domestic Japanese Issuers

- Disclosure of financial statements based on non-Japanese accounting standards by domestic Japanese issuers are not allowed, in principle, from the viewpoint of public interests or investors' protection.
- It is open to further consideration to accept IFRS-based consolidated financial statements for domestic Japanese issuers in the future.