



27 May 2005

Mr. Fabrice Demarigny
Secretary General
Committee of European Securities Regulators
11-13 avenue de Friedland
75008 Paris
France

Re: Draft Technical Advice on Equivalence of Certain Third Country GAAP and on
Description of Certain Third Countries Mechanisms of Enforcement of Financial
Information

Dear Mr. Demarigny :

As Deputy Commissioner for International Affairs of the Financial Services Agency of Japan ("Japanese FSA"), I am pleased to submit this letter on behalf of the Japanese FSA in response to the request, published on 27 April 2005, of the Committee of European Securities Regulators ("CESR") for comments on the draft technical advice on equivalence of certain third country GAAP and on description of certain third countries mechanisms of enforcement of financial information (the "CESR Draft").

I . Introduction

1. We appreciate the CESR giving us an opportunity to send a comments letter to the CESR Draft on equivalence on third country GAAP, after our participation in the CESR open hearing on 18 May. Our comments have been divided into three parts. The first part is our positive comments on the equivalence assessment. The second part deals with the major problems of the Draft, namely remedies and assessment of significant differences. The third part explains the other problems of the CESR Draft.

2. We have tackled the issue of equivalence of Japanese GAAP from two major viewpoints. The first viewpoint is that while the assessment of Japanese GAAP in the EU only deals with a comparison with IAS/IFRS, this raises the issue of international reliability in the quality of Japanese GAAP. The second viewpoint is that this raises the issue of accessibility of Japanese issuers to the EU capital markets.

II . Positive Comments on the CESR Draft

3. **We appreciate that the CESR Draft assesses Japanese GAAP, together with US GAAP and Canadian GAAP, as equivalent to IAS/IFRS, taken as a whole. We believe that such assessment acknowledges the internationally high-quality nature of Japanese GAAP due to its continuous development and improvement thus far.** Therefore, we believe that international reliability in the quality of Japanese GAAP has been achieved, and that the first issue mentioned above has been generally resolved.

4. **We are also grateful that the CESR Draft properly refers to the fact that the ASBJ (Accounting Standards Board of Japan) agrees to the goal of international convergence toward high-quality accounting standards, and has started the joint**

project for convergence with the IASB. The Japanese FSA supports such efforts of the ASBJ for international convergence of accounting standards under the Financial Reform Program announced 24 December 2004. The ASBJ and the IASB agreed, in their initial meeting held on 11 March 2005 in Tokyo, to continue deliberating the five topics, including Measurement of inventories (IAS2) and Unification of accounting policies applied to foreign subsidiaries (IAS27), in the first phase within a term of one to two years. We are confident that such efforts of the ASBJ for convergence will have further positive effects on the assessment of the equivalence of Japanese GAAP.

5. We welcome that the CESR has paid due consideration to ensuring a fair, unbiased and transparent process for assessing equivalence of third country GAAP by having dialogues with the Japanese interested parties such as the FSA, ASBJ, JICPA (Japanese Institute of Certified Public Accountants) and Nippon Keidanren (Japan Business Federation), listening carefully to the views of these Japanese parties, and partly reflecting these views in its assessment. The overall process would be more transparent if CESR were to make public the input of experts of the Consultative Working Group, whose 17 members include 11 experts from the Big 4 accounting firms. **We request that the CESR continue to properly reflect the views of interested Japanese parties in its assessment through this open hearing and public comments letters.**

III. Major Problems of the CESR Draft: Significant Differences and Remedies

(1) Problem regarding the General Approach of the CESR Draft

6. We generally support the approach expressed in the CESR Concept Paper that equivalence should not be defined as being identical, and that the definition is whether or not the third country GAAP enables investors to make a similar decision in terms of whether to invest or divest. We also support that the CESR should focus its assessment only on significant differences between IAS/IFRS and third country GAAP. Such approach enables the CESR to strike a good and practical balance between the important policy objectives of the protection of investors, and the promotion of the global and open nature of the EU capital markets, thus ensuring investment opportunities for investors in the EU capital markets. When considering the protection of investors in the EU capital markets, it should be noted that the securities of Japanese issues are targeted to wholesale markets, not retail markets, and thus direct institutional investors should be considered as investors.

7. We believe that such CESR basic policy direction is consistent with the European Commission Green Paper on Financial Policy (2005-2010) issued on 3 May, which states that the overall objective of the Commission's financial services policy over the next five years includes consolidating progress towards an integrated, open, competitive, and economically efficient European financial market, and that regulatory approach should be the "better regulation" principle-based and simplification approach. As mentioned in the Green Paper, a rigorous "better regulation" approach is crucial for reducing administrative costs for financial institutions and issuers and raising the competitiveness of the European financial industry, and the yardstick should be the extent to which measures facilitate cross-border business and enhance the competitiveness of Europe's financial markets, while at the same time, protecting internal stability.

8. However, there are large gaps between the CESR Concept Paper and Commission Green Paper on the one hand, and this CESR Draft on the other hand, because the CESR Draft conducts technically detailed comparisons on a item-by-item basis, following a bottom-up approach (see paragraph 63). While we understand the need for the CESR to conduct detailed technical analysis, the CESR should conduct a global and holistic assessment of the quality of the financial information, as mandated by the European Commission. We cannot help but have the

impression that the CESR assesses technical differences as significant differences not in view of the real world outcome of investor behavior (see paragraph 7) but in view of accountants. **The CESR should, fully in line with the Concept Paper, focus its assessment only on truly significant differences from the viewpoint of investors.** It should be considered that EU institutional investors actually make a large amount of investment in Japanese securities by relying on Japanese GAAP. The ratio of EU investors in trading value of the Japanese markets was almost one-fourth when dealings by securities companies were excluded. **The CESR should listen to views of investors more.**

9. In addition, while the CESR Draft refers to the consideration of cost and benefit (see paragraph 14), **required remedies would certainly cause huge costs for the Japanese issuers, thus being inconsistent with the promotion of the global and open nature of the EU capital markets and ensuring investment opportunities for investors in the EU capital markets, and have negative impact on investors in the EU markets.** At the end of March 2005, there were at least 220 Japanese issuers with their securities listed in the EU capital markets, including about 53 Japanese companies with their shares listed. Residents in Japan issued foreign bonds of approximately 5.1 trillion yen in 2004, and almost 90 percent were issued in the EU capital markets. **The CESR should take a practical outcome-based approach by seriously considering what kinds of impact the CESR's rather theoretical assessment would have on the behavior of market participants, namely economic impacts.** We were encouraged by the statement of the CESR at the open hearing on 18 May that the CESR would take a practical and cost-efficient approach.

(2) Problem regarding Remedies

10. The CESR Draft requires a considerable amount of additional quantitative disclosures and supplementary statements. **Supplementary statements in the form of pro-forma statements would result in forcing Japanese issuers to prepare two sets of financial statements and thus cause huge costs and burden for issuers.** Huge costs and burden can be clearly understood from the fact that the Japanese issuers have many consolidated subsidiaries. The greatest number amounts to approximately one thousand subsidiaries. **There is a also concern with large costs and burden to be caused by additional quantitative disclosure requirement under the remedies of Disclosure C.** In particular, additional disclosures of net of tax effect of the differences on the profit and loss or on the shareholders' equity under Disclosure C would cause no less burden than Supplementary statements. **There is a concern that such requirements for remedies could cause a problem with regard to the accessibility of Japanese issuers to the EU capital markets, which would be beneficial neither for Japan nor the EU.** Furthermore, it should be noted that the Japanese issuers who use US GAAP would be forced to prepare three sets of financial statements in accordance with Japanese GAAP, US GAAP and IAS/IFRS.

11. The issue of cost and benefit is not about issuers versus investors. It should not be forgotten that costs and burden for issuers become those for investors through withdrawals of Japanese issuers from the EU capital markets. While the CESR states in its Feedback Statement on the Concept Paper that it will propose a reasonable solution balancing implied additional cost for issuers and expected benefits for investors, the CESR Draft does not provide a reasonable balance. **The CESR should strictly limit applications of additional quantitative disclosures and supplementary statements, and in principle limit remedies to Disclosure A or Disclosure B.**

12. Under the CESR Draft, supplementary statements are to be required for pooling of interest method (IFRS3), scope of consolidation (IAS27), and uniform accounting policies for foreign subsidiaries (IAS27), and Disclosure C is to be required for use of LIFO (IAS2), uniform accounting policies for investments in associates (IAS28), and capitalization of development costs (IAS38). These remedies should be changed to Disclosure A or Disclosure B.

(3) Problem regarding Assessment of Significant Differences

13. There are many items which are assessed as significant differences despite the fact that the differences are technical in substance and would not be significant for investor decisions. Such items include ASBJ's Exposure Draft for Stock Options (IFRS2), business combinations other than pooling of interest method (IFRS3), catastrophic reserves of insurance contracts (IFRS4), construction contracts (IAS11), disclosure of deferred tax assets (IAS12), costs for assets retirement obligation (IAS16), employee benefits (IAS19), effects of changes in foreign exchange rates (IAS21), disclosure of fair value of financial assets and liabilities (IAS32), impairment of assets (IAS36), and agriculture (IAS41). The detailed comments on each item are provided as attached.

14. The CESR should not assess these differences as significant in line with the CESR Concept Paper because they stem from technical details of accounting standards.

IV. Other Problems regarding the CESR Draft

(1) Need for Guidance on Remedies

15. In order to make it easy for a company and its auditors to make a judgment of materiality as to the application of a remedy and avoid an overly conservative application, **it is essential for the relevant authority to provide clear guidance on best practices, and hold thorough dialogues with the company and the auditors.** Reference should be made to the fact that the U.S. SEC and the PCAOB issued guidance on 16 May, which was intended to avoid unnecessary costs to be caused by mechanical and overly cautious applications with regard to internal control over financial reporting prescribed in Section 404 of the Sarbanes-Oxley Act of 2002.

16. The CESR Draft (see paragraph 101) states that its advice does not intend to provide an exhaustive list of differences between third country GAAP and IAS/IFRS. Such treatment would certainly make it practically difficult for a company and its auditors to judge a necessity of additional disclosures. Reference to the general rule would not be workable in practice at all. Therefore, **paragraph 101 should be deleted.**

(2) Need for Clear Distinction among Remedies

17. Disclosure A requires additional narrative and/or quantitative disclosures. Since Disclosure C also requires quantitative disclosures, it is difficult to make clear distinction between Disclosure A and Disclosure C, and there is a concern that issuers would be required to provide the same level of additional quantitative disclosures under the category of Disclosure A as under Disclosure C. **In order to have clear distinction among Disclosure A, Disclosure B and Disclosure C, Disclosure A should be limited to additional narrative disclosures, and issuers can add quantitative disclosures only on a voluntary basis, not on an obligatory basis.**

(3) Problem of Retrospective Applications of Remedies

18. The CESR Draft (see paragraph 92) states that remedies, in particular Disclosure C and supplementary statements, should be applied to all relevant past transactions accounted for in the financial statements of the reporting entity, consistently with the principles stated by IFRS1. It should be natural that there is no need for remedies with regard to past transactions which are to be exempted under IFRS1 such as past business combinations. In addition, considering that IFRS1 is not applicable to issuers which use Japanese GAAP, and that retrospective applications of remedies would certainly cause huge costs and burden to issuers, **retrospective applications of remedies should**

not be required.

(4) Problem of Treatment of Banks' Deferred Tax Assets

19. The CESR Draft (see paragraph 138) refers to the issue of banks' deferred tax assets (DTA) in Japan. The reference includes some misunderstanding.

20. First, the FSA is considering introduction of proper banking regulatory treatment of banks' deferred tax assets in calculating regulatory capital adequacy ratios. This is from the banking regulatory perspective, not from the accounting standards perspective. **There are few differences in income tax accounting between Japanese GAAP and IAS 12, and income tax accounting should not be assessed as significant differences.** While the CESR Draft (see paragraph 138) questions whether IFRS as a benchmark would be appropriate for such specific circumstances, IFRS cannot be a benchmark for the issue under the banking regulations.

21. Secondly, this issue is from the banking regulatory perspective, and thus not an issue of borrower companies. **It is not appropriate and there is no need to require additional disclosures for borrower companies.** It should be noted that companies are required to disclose reasons for the existence of DTA under Japanese GAAP.

22. The Japanese major banks have already enhanced disclosure of DTA since semi-annual reports of FY 2003. The disclosure includes such items as basis of calculation of DTA, taxable income for the last five years, prospective taxable income, and the reason for the existence of DTA. Therefore, **sufficient information on DTA of the major banks has been already disclosed to investors, and no remedy should be necessary.**

(5) Deadline for Making Comments on the CESR Draft

23. It would not be easy for non-English countries like Japan to make comments on such technical and voluminous papers as the CESR Draft. We hope that CESR will pay due attention to this matter in the future.

V. Final Remark

24. We would greatly appreciate it if the CESR would seriously consider our views.

Yours Sincerely,

Toru Shikibu
Deputy Commissioner for International Affairs
Financial Services Agency, Japan

Comments on Draft Assessments of GAAP Differences

IFRS/IAS	Items identified by CESR	Remedy	Our Comments
IFRS 2	Share-based Payments <ul style="list-style-type: none"> • Under current standards • Assuming SFAS 123 R and Japan ED3 	Disclosure C Disclosure B	<ul style="list-style-type: none"> • The ASBJ (Accounting Standards Board of Japan) released an exposure draft (“ED3”) to require share-based payments to be measured at fair value at grant date and be expensed in December 2004. • It is currently unclear what additional disclosure is required for this remedy; however, considering “there is adequate disclosure of the underlying assumptions” under ED3, this should not be a significant difference.
IFRS 3	Business Combination <ul style="list-style-type: none"> • Minority interest at historical cost • Date of exchange 	Disclosure B Disclosure C	<ul style="list-style-type: none"> • Minority interests are measured at fair value by most Japanese companies. Indeed, current survey (conducted by JICPA) revealed that 273 of 300 companies measure minority interests at fair value by their accounting policies. • These alternative accounting policies do not have a significant impact on net results of operations, and therefore investors’ decisions will not be affected by this technical difference. • Under Japanese GAAP, when minority interests are measured at cost by accounting policies, such policies are required to be disclosed in the notes of consolidated financial statements. Therefore, this remedy is not relevant. • Differences of measurement dates, which result in difference of consideration to be paid for business combination, will be reflected in the amount of goodwill. However, when considered that goodwill shall be expensed by amortisation under Japanese GAAP, such differences will disappear over the amortisation periods, and will not remain on the consolidated balance sheets. Therefore, this should not be a significant difference. • Considering the resulting huge costs and burden of recalculation for issuers, even in the case where a

IFRS/IAS	Items identified by CESR	Remedy	Our Comments
	<ul style="list-style-type: none"> <li data-bbox="248 360 562 384">• Acquired R&D <li data-bbox="248 743 562 767">• Pooling of interests <li data-bbox="248 1270 562 1294">• Step acquisitions <li data-bbox="248 1366 562 1390">• Negative goodwill 	<p data-bbox="595 360 768 384">Disclosure C</p> <p data-bbox="595 743 768 815">Supplementary statement</p> <p data-bbox="595 1270 768 1294">Disclosure B</p> <p data-bbox="595 1366 768 1390">Disclosure C</p>	<p data-bbox="846 217 2007 288">remedy is still required, Disclosure C is inappropriate, and rather narrative disclosure (Disclosure B) should be sufficient, so as not to mislead investors' decision.</p> <ul style="list-style-type: none"> <li data-bbox="801 360 2007 480">• Once items are expensed, it is practically very difficult to pick up items to be capitalised, although the difference is very detailed from the viewpoints of investors. Even in the case where a remedy is still required, Disclosure C is inappropriate, and rather narrative disclosure (Disclosure B) should be sufficient. <li data-bbox="801 504 2007 576">• It has been pointed out that retrospective selection for what items are to be capitalised from past costs would result in different outcomes from its initial selection. <li data-bbox="801 600 2007 671">• Japanese GAAP is more strict in capitalisation of costs on this issue, and therefore this will not be a problem from the viewpoint of protection of investors in the EU. <li data-bbox="801 743 2007 863">• Pooling-of-interest method more reflects the economic substance when a true merger-of-equals is presumed by all the strict criteria, and it is anticipated that there would be problematic arbitrary decision in determining the “acquirer” under the purchase method in the case of such a true merger-of-equals. <li data-bbox="801 887 2007 1110">• Under Japanese GAAP, the pooling-of-interest method is required when a true merger-of-equals is presumed, where the acquirer cannot be determined in its definition, and in such cases, meaningful supplemental statements cannot be prepared theoretically. In order to prevent problematic uses of the pooling-of-interest method, it is important to ensure transparency by disclosing the rational and reason for use of the pooling-of-interest method, when applied. <li data-bbox="801 1134 2007 1206">• Even in the case where a remedy is still required, such remedy shall be prospectively applied from the business combinations which take place after 2007. <li data-bbox="801 1270 2007 1302">• This difference is very detailed, and therefore this should not be a significant difference. <li data-bbox="801 1366 2007 1398">• It is very rare to have negative goodwill arising from business combination, and even if it should appear in

IFRS/IAS	Items identified by CESR	Remedy	Our Comments
			<p>the balance sheet, the amount will usually be small, and therefore this should not be a significant difference.</p> <ul style="list-style-type: none"> Negative goodwill shall be presented in the balance sheets as a component of liability and/or disclosed in the notes under Japanese GAAP, as such comparability shall be maintained for sophisticated investors, and therefore this should not be a significant difference.
IFRS 4	<p>Insurance Contracts</p> <ul style="list-style-type: none"> Catastrophic reserves 	Disclosure B	<ul style="list-style-type: none"> Catastrophic reserve has already been disclosed as a component of solvency-margin related disclosure, and has been understood by sophisticated investors. Therefore, this should not be a significant difference.
IAS 2	<p>Inventories</p> <ul style="list-style-type: none"> Use of LIFO Cost method 	<p>Disclosure C</p> <p>Disclosure A</p>	<ul style="list-style-type: none"> This issue is categorized as a Disclosure A remedy in the summary table (p.8-10) in the draft paper. Considering the resulting impact on the financial statements, narrative disclosure should be sufficient. LIFO is rarely used by Japanese companies. Indeed, the current survey (conducted by JICPA) revealed that only 16 of 300 companies use LIFO under their accounting policies. This issue is under deliberation in the convergence project between ASBJ and IASB. This should not be a significant difference, considering the write-down requirement under Japanese GAAP. In addition, it is currently unclear what additional disclosure is required on this issue; however, even in the case where a remedy is still required, narrative disclosure should be sufficient.
IAS 11	Construction Contracts	Disclosure B	<ul style="list-style-type: none"> The description in the draft paper (p. 45), which states that the use of percentage-of-completion method or completed construction method is influenced by taxation rules, is inappropriate. We note that the remedy is not required for other third countries' GAAP, which permit the use of percentage-of-completion method when revenues are doubtful. Under Japanese GAAP, it is common that the percentage-of-completion method is in practice applied for construction contracts other than small or

IFRS/IAS	Items identified by CESR	Remedy	Our Comments
			<p>short-term (usually within one year) contracts, unless revenue is doubtful. Accordingly, Japanese GAAP accounting treatments are consistent with those under other third countries' GAAP, and therefore this should not be a significant difference.</p>
IAS 12	Income Taxes <ul style="list-style-type: none"> • Non Performing Loans (NPL) effects (depending on existing disclosures requirements) 	Disclosure B	<ul style="list-style-type: none"> • It is inappropriate to require non-performing loans related disclosure for borrower companies. • This is an issue of banking supervision, not an accounting standard (as stated in the draft paper, there are few differences between Japanese GAAP and IAS12). • Components of deferred tax assets are disclosed under Japanese GAAP, and as such, temporary differences for allowance for non-performing loans have already been disclosed as a component of deferred tax assets. • Non-performing loans information for banking institutions has been continuously enhanced over the past decade, and banking institutions have already disclosed detailed non-performing loans related information. Therefore this requirement (which also appears under IAS30) is irrelevant, and this should not be a significant difference.
IAS 16	Property, Plant and Equipment (PPE) <ul style="list-style-type: none"> • Costs for Assets Retirement Obligation 	Disclosure B	<ul style="list-style-type: none"> • The costs for assets retirement obligation will not usually be a significant amount, and therefore this should not be a significant difference.
IAS 19	Employee Benefits <ul style="list-style-type: none"> • Employee Benefits 	Disclosure A	<ul style="list-style-type: none"> • “Various differences of details” are noted in the draft paper, however, it is not clear enough what is intended. In addition, there would be some small technical differences between Japanese GAAP and IAS; however pointing out such small technical differences, which investors are not likely to be interested in will contradict with CESR’s concept paper, and therefore this should not be a significant difference.

IFRS/IAS	Items identified by CESR	Remedy	Our Comments
	<ul style="list-style-type: none"> • Return of substitutional portion • Discount rate 	<p>Disclosure A</p> <p>Disclosure A</p>	<ul style="list-style-type: none"> • Differences of details between Japanese GAAP and IAS should not be a significant difference for investors' decision, when considered that alternative accounting treatments exist even under IAS19. • Adequate information for investors regarding return of substitutional portion of post-retirement liability has already been disclosed under Japanese GAAP, and therefore this remedy should be irrelevant. • When required to disclose the numerous impacts on a post-retirement liability based on different discount rate, this will result in recalculating the post-retirement liability by using the replaced discount rates for all entities (including large numbers of subsidiaries), which would be a significant burden for issuers. • Even in the case where a remedy is still required, it should be sufficient to disclose the rationale of discount rates, and how they are obtained under the Disclosure A requirement.
IAS 21	<p>The Effects of Changes in Foreign Exchange Rate</p> <ul style="list-style-type: none"> • Translation of goodwill 	Disclosure A	<ul style="list-style-type: none"> • This is due to the difference between the year-end rate and historical rate for foreign currency-denominated goodwill, which shall be amortised over the applicable terms. This difference is very detailed, and therefore this should not be a significant difference.
IAS 27	<p>Consolidated and Separate Financial Statements</p> <ul style="list-style-type: none"> • Scope of consolidation (Definition of Control – Special Purpose Entities) 	Supplementary statement	<ul style="list-style-type: none"> • Under Japanese GAAP, SPEs established solely for the purpose of transfer of financial assets (securitisations), which are generally considered as pass-through-entities are not within the scope of the consolidation. In addition, the conduct of such SPEs' businesses is restricted and modifications of their business are prohibited. Since such SPEs are not controlled in substance, this treatment is in line with control-based approach and therefore it is consistent with IAS.

IFRS/IAS	Items identified by CESR	Remedy	Our Comments
	<ul style="list-style-type: none"> Uniformity of Accounting policies in a group 	Supplementary statement	<ul style="list-style-type: none"> Consideration of potential voting rights does not always reflect the economic substances. Even in the case where a remedy is still required, supplementary statements are inappropriate, when considered from the viewpoint of costs-and-benefits, and rather narrative disclosure (Disclosure B) should be sufficient. This issue is under deliberation in the convergence project between ASBJ and IASB. It is our understanding that CESR's advice is intended to require that either IFRS or any of the third countries' GAAP (i.e. Japanese GAAP or U.S. GAAP or Canadian GAAP) be applied in preparing financial statements of subsidiaries for consolidation. Japanese GAAP requires unification of accounting standards, in principle, and does not admit the use of local GAAP when considered apparently unreasonable. Even in the case where a remedy is still required, supplementary statements are inappropriate, when considered from the viewpoint of costs-and-benefits, and rather narrative disclosure (Disclosure B) should be sufficient.
IAS 28	Investments in Associates <ul style="list-style-type: none"> Uniformity of Accounting policies 	Disclosure C	<ul style="list-style-type: none"> It is our understanding that CESR's advice is intended to have remedy, which requires either IFRS or any of the third countries' GAAP (i.e. Japanese GAAP or U.S. GAAP or Canadian GAAP) be applied in preparing financial statements of associates for equity method. Associates are not controlled by issuers in its definition, and issuers do not have legal power over their associates to order financial statements be furnished based on the specified accounting standards or policies. In particular, situations would be difficult for issuers, when associates are subsidiaries of other companies. Therefore, even in the case where a remedy is still required, Disclosure C is inappropriate, and rather narrative disclosure (Disclosure B) should be sufficient.

IFRS/IAS	Items identified by CESR	Remedy	Our Comments
IAS 30	Disclosures in the Financial Statements of Banks and Similar Financial Institutions	Disclosure B (see also IAS 12 on NPL)	<ul style="list-style-type: none"> Please see IAS12 for reference.
IAS 32	Financial Instruments: Disclosure and Presentation <ul style="list-style-type: none"> Fair value of derivatives 	Disclosure C	<ul style="list-style-type: none"> It is unclear that lack of fair value information for financial liabilities misleads investors' decision. In addition, it is practically anticipated that book values will be disclosed as fair value information for financial assets and liabilities whose fair values cannot easily be determined. As a result, application of Japanese GAAP and IAS would result in consistent outcomes, and therefore this should not be a significant difference.
IAS 36	Impairment of Assets <ul style="list-style-type: none"> Impairment Test (non discounted future cash flows) Reversal of Impairment Definition of significant decline 	Disclosure A Disclosure A Disclosure A	<ul style="list-style-type: none"> This difference is very detailed, and therefore should not be a significant difference. This difference is very detailed, and therefore should not be a significant difference. Japanese GAAP is more strict for revenue recognition on this issue, and therefore this will not be a problem from the viewpoint of protection of investors in the EU. The treatment under Japanese GAAP is, in principle, consistent with IAS, and not only 50% decline in the value of assets but also other factors, of course, need to be considered under Japanese GAAP. In addition, it is clearly stated that "at least" 50% decline is one of the indicators under the Guidance of Accounting Standards in Japan, and thus it is obvious that assets are to be impaired by other indicators. Therefore, this should not be a significant difference.

IFRS/IAS	Items identified by CESR	Remedy	Our Comments
IAS 37	Provisions, Contingent Liabilities and Contingent Assets <ul style="list-style-type: none"> • Decommissioning costs 	Disclosure B	<ul style="list-style-type: none"> • Please see IAS16 for reference.
IAS 38	Intangible Assets <ul style="list-style-type: none"> • Capitalisation of development costs 	Disclosure C	<ul style="list-style-type: none"> • Under Japanese GAAP, costs for software shall be capitalised when it is certain that revenues will be generated or expenses will be reduced from the development of software. • Once items are expensed, it is practically very difficult and burdensome to pick up the items to be capitalised, although the difference is very detailed from the viewpoints of investors. Even in the case where a remedy is still required, Disclosure C requirement is inappropriate, and rather narrative disclosure (Disclosure B) should be sufficient. • As long as development costs do not significantly fluctuate, the results will not significantly differ between the sum of amortized amounts and annual disbursements for the development costs. • It has been pointed out that retrospective selection for what items are to be capitalised from past costs would result in different outcomes from its initial selection. • Japanese GAAP is more strict in capitalisation of costs on this issue, and therefore this will not be a problem from the viewpoint of protection of investors in the EU.
IAS 40	Investment Property	Disclosure B	<ul style="list-style-type: none"> • Considering that lands and buildings are to be written down when impaired, this should not be a significant difference.
IAS 41	Agriculture	Disclosure C	<ul style="list-style-type: none"> • This remedy requires fair values of biological assets and agricultural products to be disclosed; however, there are very few companies that engage in agricultural industries in Japan, and therefore this difference

IFRS/IAS	Items identified by CESR	Remedy	Our Comments
			does not have a significant impact on investors' decision and this should not be a significant difference.