

March 2, 2006

The ASBJ and the IASB hold third meeting on joint project towards convergence

On March 1 and 2, 2006 in Tokyo, the Accounting Standards Board of Japan (ASBJ) and the International Accounting Standards Board (IASB) held the third joint meeting toward the final goal of achieving convergence between Japanese GAAP and International Financial Reporting Standards (IFRSs). Four board members including Professor Shizuki Saito, Chairman, and staff on behalf of the ASBJ and four board members including Sir David Tweedie, Chairman, and staff on behalf of the IASB attended the meeting.

Update of the current development

The ASBJ and the IASB shared with each other the progress that has been made on the first six items, which are valuation method of inventories, segment reporting, related party disclosures, uniformity of accounting policies on overseas subsidiaries, investment property, and cost of issuing new shares. Seeing that the deliberations on these items are making steady progress towards convergence, the ASBJ and the IASB agreed to add three items as follows:

- Asset retirement obligation,
- Construction contracts, and
- Disclosure of financial instruments at fair value.

Next step of the joint project: New plan

The ASBJ and the IASB also discussed how the Boards could accelerate convergence. As proposed by the ASBJ, the Boards 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 new “whole picture” approach, in which all of the differences between the accounting standards are addressed from an entire perspective.

This new approach classifies the major differences which can be eliminated in a relatively short time into a “short-term project,” and remaining differences into a “longer-term project.” In the short-term projects, the major differences will be eliminated, or at least will be in the right direction to be eliminated through discussion by 2008. Nine items are currently included in the short-term projects. The longer-term projects address differences which need relatively longer periods to converge, including performance reporting, revenue recognition, retrospective

restatement, scope of consolidation (including SPE), and intangibles (including R&D expenses). The ASBJ and the IASB will discuss these items in the joint project based on their respective deliberations or research work.

The new approach is expected to clarify the joint project as a whole and show that it is an on-going process towards convergence by regularly reviewing all of the differences between the accounting standards and progress of deliberations in the short-term and the longer-term projects.

The next meeting will be held in London in September 2006.

Professor Shizuki Saito, Chairman of the ASBJ said:

In light of the progress and our mutual confidence enhanced until now, we agreed on a new plan which clarifies an entire perspective of our project and will further accelerate achieving the convergence. The ASBJ will commence the deliberation to authorize its conceptual framework based on the series of discussion papers “Conceptual Framework of Financial Accounting” for the purpose of facilitating discussions with the IASB. I firmly believe that those efforts will bring new aspects to the joint project and enable us to achieve our common goal earlier. The ASBJ will contribute to the development of the new standards which the IASB and the FASB are undertaking.

Sir David Tweedie, Chairman of the IASB said:

The ideal of having one set of high quality global accounting standards has been broadly accepted for many years. Now, however, the world is moving rapidly to make convergence on a single set of standards a reality. Consequently the IASB warmly welcomes the ASBJ’s proposal to accelerate our convergence programme. The sooner we can remove the differences between IFRSs and Japanese GAAP the sooner our joint meetings can be devoted to discussing the development of new standards on many critical aspects of financial reporting. The IASB will be developing standards in these areas over the next few years jointly with the American standard setter (the FASB). The earlier the ASBJ can become involved in the debate on these critical issues the greater the influence it will have on the final standards.