

[[Nippon Keidanren](#)] [[Policy](#)]

Future Directions of Accounting Standards in Japan

- The Next Step Towards a Single Set of Accounting Standards -

Executive Summary

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I. Background

The world's capital market is heading towards to adopt a single set of accounting standards. Since 2005, when the EU adopted IFRS (International Financial Reporting Standards) in European capital market for consolidated purpose, today, more than 100 countries are adopting or planning to adopt IFRS. The move towards the use of IFRS has been accelerated in 2007, when the SEC announced to permit foreign companies listed in the U.S. market to use IFRS with no reconciliation. The trend became prominent this year, when the SEC proposed setting a Roadmap for transitioning to IFRS reporting beginning in 2014. This move by the U.S. enhanced the potential of IFRS to become the real global set of accounting standards.

Japan, who already possesses its own accounting standards that are equivalent to IFRS, also should make clear its mid-long term policy, including the adoption of IFRS. The proposal sets out Nippon Keidanren's vision on the future direction of accounting standards in Japan.

II. Point of View

Increasing vitality and competitiveness of the Japanese capital market is the pressing issue in Japan. In order to promote inflow of financing sources to Japanese financial and capital market, which the share of foreign investors count up to approximately 30%, it is inevitable to develop a market infrastructure with international conformity and build an attractive and reliable market. Accounting standards and disclosure are the most basic market infrastructure of the capital market, therefore, Japan should continuously revise its system and actively participate in the international discussion.

Accounting standards is an important tool which functions as a "measuring stick" to convey investors and stakeholders the financial situation of the company as well as an important tool for company management. The worldwide integration of the "measuring stick" will not only provide benefit to investors by bringing increased comparability, but will also decrease fund raising costs of multi-national companies, and increase efficiency in global management.

We must bear in mind that cost and benefit analysis is also important in considering the future direction of accounting standards.

III. Proposal Towards Adopting IFRS

A. Publish a Roadmap Including Adoption of IFRS

Having had the U.S. announcement this year, Japan became the only country among the major capital markets, which has not officially announced the adoption of IFRS. Some of the Japanese companies have already begun the study of IFRS preparing for future adoption. Japan should accelerate the discussion of the future direction of accounting standards and set out a concrete Roadmap as soon as possible, indicating the adoption of IFRS. It is important to mention in the Roadmap the necessary conditions in adopting IFRS, such as, checking the direction of discussions of mid-long term projects at the IASB, adequate governance of the IASB, and progress in the ASBJ-IASB convergence project.

B. Scope of Application of IFRS

For the near term, it is appropriate to permit the use of IFRS for listed companies as an option. In the future, because we think it is necessary to have a single set of accounting standards, for the purpose of securing reliability and convenience for the investors, Japan should require all listed companies to apply IFRS for preparing their financial statements. In that case, there should be, at least, three years of preparation period. It is also important make decisions taking into account to maintain and heighten Japan's international presence.

For those companies which are not required to prepare consolidated financial statements or unlisted companies that are subject to Financial Instruments and Exchange Law, comparability could be maintained by permitting the use of IFRS or to provide footnotes indicating the effect of accounting change.

Besides disclosing consolidated financial statements like other countries, Japanese companies are required to disclose the parent company's individual financial statements. We think that IFRS is much more focused on disclosure, and therefore, the adoption of IFRS should be limited to consolidated financial statements. At the same time, considering that consolidated financial statements are the global standard in the world's market disclosure, Japan should review the current system which requires disclosing non-consolidated financial information and put more emphasis on the disclosure of consolidated financial statements in line with other markets.

C. Convergence of Accounting Standards and Development of Accounting Standards for Non-Consolidation Purpose

It is important to continue the convergence project with the IASB, as well as drawing future plans to adopt IFRS. Eliminating the differences between Japanese accounting standards and IFRS as much as possible, means that it will make transition to IFRS more easily with little effect due to change of accounting standards.

On the other hand, it is inefficient in terms of public costs to require the use of IFRS to unlisted companies and SMEs in Japan which amount to about 2.5 million. Because the objectives of accounting standards for consolidated purpose and accounting standards for non-consolidated purpose are different - the former mainly for disclosure in the international market, the latter

mainly for Corporate Law and Corporate Tax Law - it is natural for the two accounting standards to be different. Adjustment with Corporate Tax Law is already becoming difficult in the current convergence project. Therefore, future revisions of accounting standards for non-consolidated purpose should be limited within the scope feasible for the required role.

IV. Expectations for the IASB

As a global standard setter, impartial and neutral decision based on the opinions of the market participants is required for the IASB. At the same time, the IASB must comply with its due process, make careful decisions, assess impacts to the market and industries, coordinate views from all over the world with no bias, and provide thorough accountability.

It is important for the IASB to develop accounting standards that reflects the voices and the needs of the market. Some accounting standards in the mid-long term project, such as presentation of financial statements and post-employment benefits have the potential to cause radical changes to the current accounting practice. Japan should also closely watch and actively participate in the discussion when adopting IFRS.

Noting that the funding of the IASB is based on international contributions, it is necessary to achieve efficient operation and enhance oversight of the IASB. At the same time, sustainable method of funding should be discussed and realized to support stable operation.

Currently, Japan is contributing over 10% of the IASB funding. These funds come from limited Japanese market participants. Because there is a great possibility that, in the future, all Japanese listed companies will be required to use IFRS for their financial statements, we need to establish a broad and compulsory way of funding.

V. Issues to be Solved -Challenges in Japan-

In adopting IFRS in Japan, the following issues must be achieved: a) Training and education in Japan related to IFRS. This point should be specified in the Roadmap; b) Full-scale participation in the IFRS developing process. This includes, participating in the IASB discussion from an early stage, enhancing relations and communication with other standard setters including the IASB, actively stating opinions to the on-going and future discussions; c) Enhance the role of the ASBJ. The ASBJ should continue with their convergence project, staff training, assume the role of translating IFRS into Japanese, ensure stable financial resource and adequate governance, and promote IFRS with sound understanding over Japan.

Spontaneous worldwide decline in stock values derived from the subprime mortgage crisis shed shadow on the credibility of the financial and capital market in the world. Accordingly, people are realizing the growing importance of accounting standards and disclosure.

With the measures taken by other countries against the financial crisis in mind, Japan should restructure its accounting and disclosure system as to enhance competitiveness of our market and companies.

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For the full text of the policy paper, please see "[*Kaikeikijyun no kokusaiteki na touitsuka heno wagakuni no taiou*](#)" (in Japanese).

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