

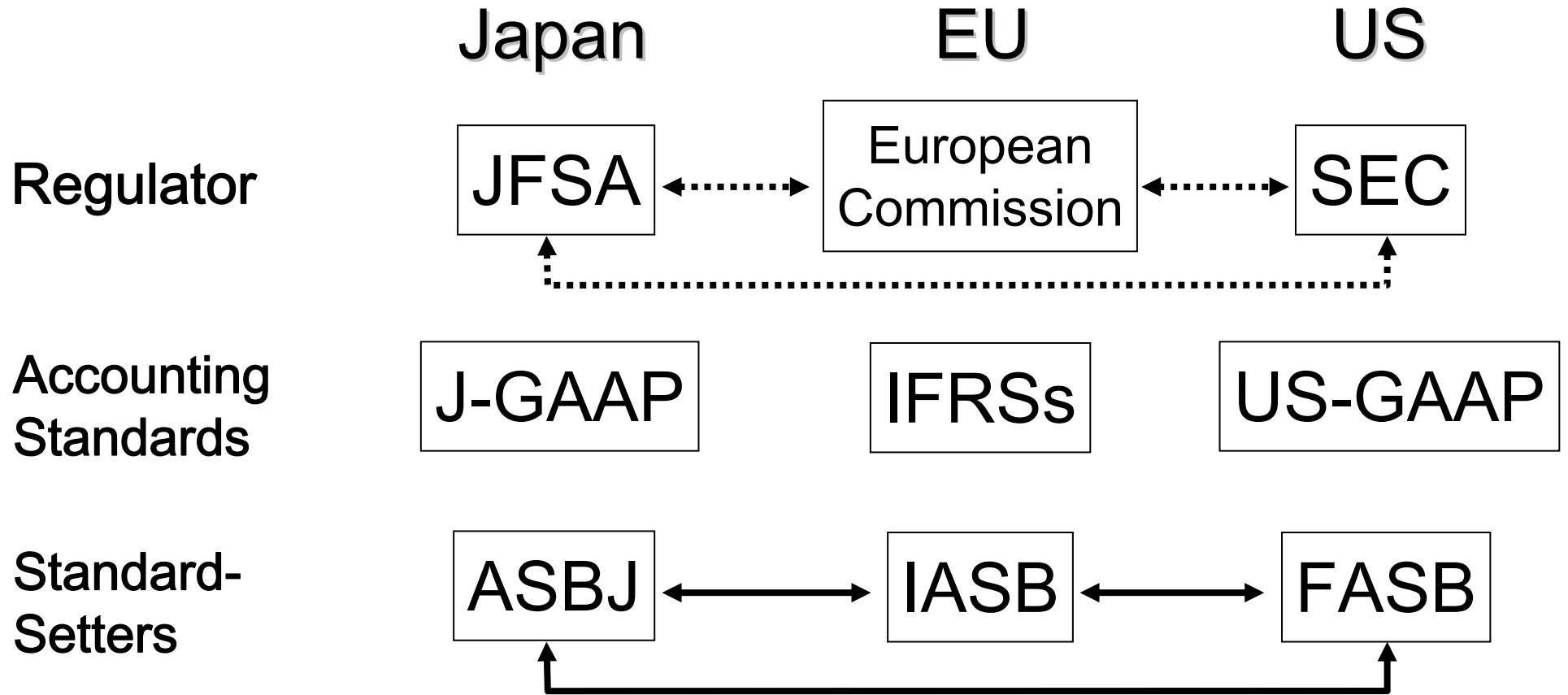
Progress towards Adoption of IFRSs

February 2010

Financial Services Agency, Japan

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Players in Standard-Setting



←.....→ Mutual Recognition on Accounting Standards
←————→ Convergence Activity on Accounting Standards

Japan's Convergence Process

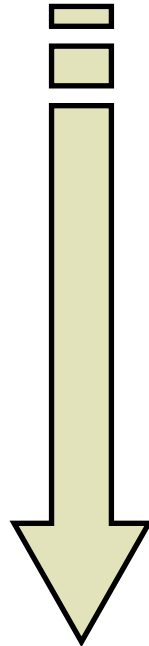
EU's Actions →

Adoption of EU Directives → ('03, '04)

CESR Advice → (Jul '05)

Establishment of Japan-EU → (Nov '06)
Monitoring Meeting

Decision on Equivalence of → (Dec '08)
Japanese GAAP with IFRSs



(Oct '02) Norwalk Agreement of IASB-FASB

← Japan's Actions

(Jan '05) ← ASBJ – IASB launched joint program for convergence

(Jul '06) ← BAC※ report “Towards International Convergence of Accounting Standards”

(Oct '06) ← ASBJ published the project plan

(Aug '07) ← Tokyo Agreement

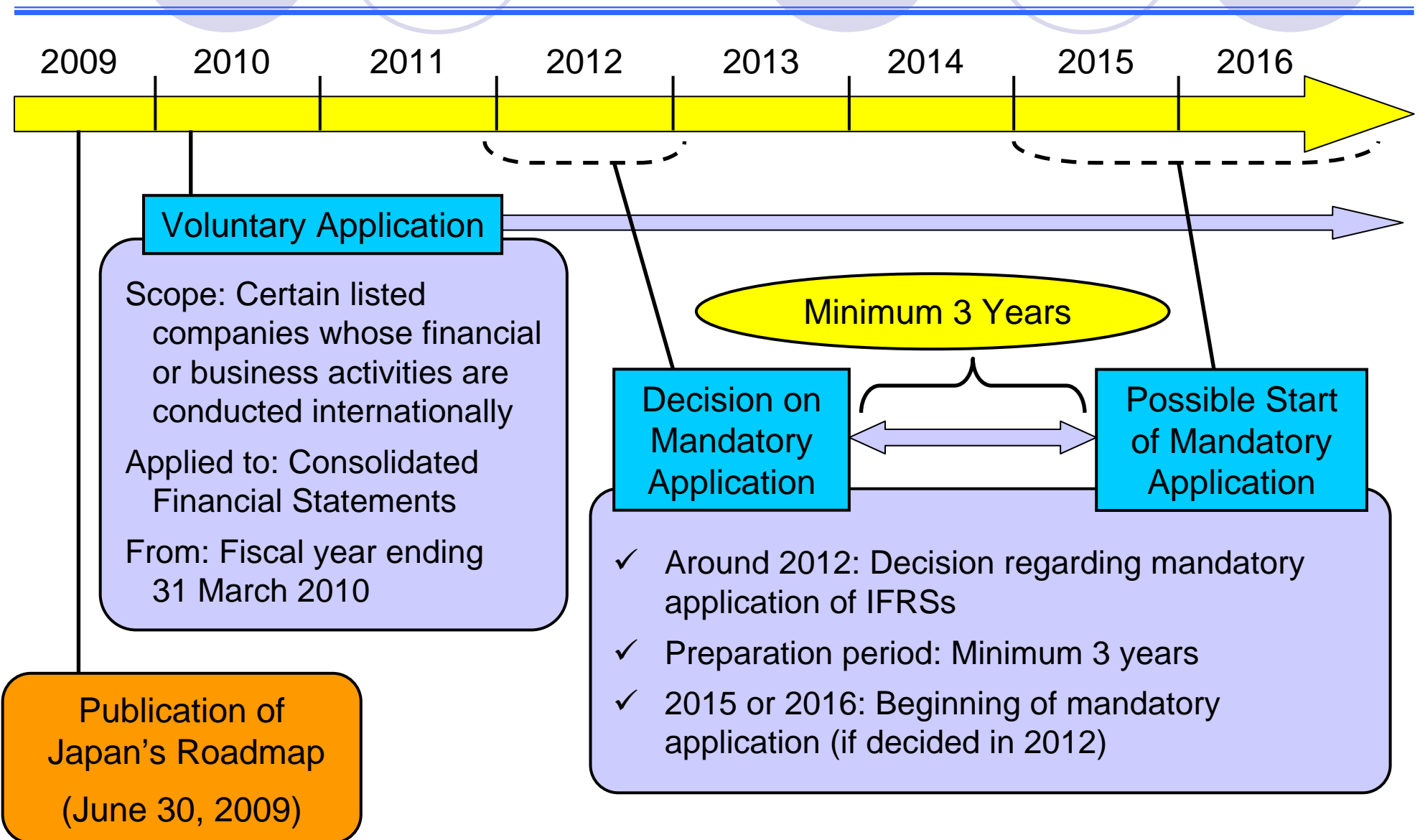
(Dec '07) ← ASBJ published the revised project plan based on the Tokyo Agreement

※BAC (Business Accounting Council) is an advisory body on accounting matters to the JFSA

Tokyo Agreement -> ASBJ agreed with IASB to accelerate convergence between J-GAAP and IFRSs

- Eliminate the major differences or provide compatible accounting standards for the items which CESR advised in 2005, by 2008
- Set a target date of 30 June 2011 for resolving other issues
- Enhance cooperation to facilitate Japan's greater contribution to the international standard-setting process

Japan's Roadmap for IFRSs Application



Japan's Roadmap: Basic Concept & Key Conclusion

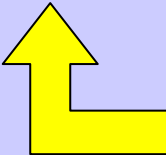
Basic Concept for Application of IFRSs in Japan

- ✓ To improve quality and international comparability of financial reporting for investors; and
 - ✓ To enhance international competitiveness of Japanese financial market; etc.
- ⇒ must draw a roadmap with a concrete vision for the future toward a possible voluntary or mandatory application of IFRSs in statutory disclosure of financial statements by Japanese companies

Application of IFRSs

From the end of March 2010 : Voluntary application for the consolidated financial statements of certain listed companies whose financial or business activities are conducted internationally

Around 2012 : Decision regarding mandatory application of IFRSs for listed companies



Before making a decision regarding mandatory use of IFRSs, JFSA considers achievements of some issues, such as;

- whether IFRSs appropriately reflect business practices in Japan
- whether Japanese accounting stakeholders express opinions to IASB proactively and effectively
- whether IFRSs are appropriately and promptly translated into Japanese
- whether education and training on IFRSs are sufficiently conducted

Voluntary Application of IFRSs (1)

On December 11, 2009, FSA published the set of revised Cabinet Office Ordinances

Criteria for voluntary application of IFRSs

- ✓ Listed on a Security Exchange in Japan
- ✓ Disclose in their Annual Securities Reports information regarding specific efforts to ensure appropriateness of their consolidated financial statements
- ✓ Allocate executives or employees with ample knowledge about Designated IFRSs and have in place a structure that enables them to properly prepare consolidated financial statements in accordance with Designated IFRSs
- ✓ Companies, parent companies, other related companies or parent companies of the other related companies shall either:
 - (a) disclose under laws and regulations of foreign jurisdiction periodically as required thereby, documents on their business conditions prepared in accordance with IFRSs;
 - (b) disclose under rules set by foreign security exchange markets periodically as required thereby, documents on their business conditions prepared in accordance with IFRSs; or
 - (c) own a foreign subsidiary whose capital is equal to or exceeds the equivalent of 2 bln yen.

Voluntary Application of IFRSs (2)

Designated IFRSs

- ✓ Commissioner of the FSA will designate and publish those IFRSs which are recognized as
 - i. having been approved and issued through fair and reasonable due process; and
 - ii. are expected to be considered as being fair and appropriate financial reporting standards from the viewpoint of investor protection and market integrity in Japan
- ✓ Designation of IFRSs involves examining whether accounting standards concerned have been developed and published via a process in which the standards have been:
 - i. clearly drafted and made generally known to the market in advance;
 - ii. carefully considered by various stakeholders;
 - iii. assessed by a large number of stakeholders as reasonable standards reflecting actual economic conditions; and
 - iv. widely received by the stakeholders as fair and appropriate financial reporting standards.

Voluntary Application of IFRSs (3)

Other

- ✓ The current treatment where certain Japanese listed companies are allowed domestically to submit their consolidated financial statements prepared under US-GAAP for the purpose of meeting the requirements under Financial Instruments and Exchange Act, will be discontinued for consolidated fiscal years ending after March 31, 2016
- ✓ On January 20, 2010, the draft amendment of the Regulatory Notices was published for public consultation until February 22, 2010, which includes designation of IFRS 9 as the Designated IFRSs

Effective Date

- ✓ Starting from the consolidated fiscal years ending on or after March 31, 2010



Thank you

Japan FSA
February 2010

<http://www.fsa.go.jp/en/index.html>