



THE COMMITTEE OF EUROPEAN SECURITIES REGULATORS

Ref: CESR/07-138

CESR's advice to the European Commission on the work programmes of the Canadian, Japanese and US standard setters, the definition of equivalence and the list of third country GAAPs currently used on the EU capital markets

6 MARCH 2007



INDEX

I.	EXECUTIVE SUMMARY.....	3
II.	INTRODUCTION.....	3
III.	DESCRIPTION OF THE WORK PROGRAMMES OF THE CANADIAN, JAPANESE AND US STANDARD SETTERS (PARAGRAPHS 16-24)	6
A.	CANADIAN GAAP.....	8
B.	JAPANESE GAAP.....	9
C.	US GAAP.....	13
IV.	DEFINITION OF EQUIVALENCE	18
V.	LIST OF GAAPS CURRENTLY USED ON THE EU CAPITAL MARKETS	20
VI.	ANNEX.....	21

I. EXECUTIVE SUMMARY

1. CESR provides in this advice a factual description of the work timetable of the Canadian, Japanese and US standard setters on the convergence between IFRS and the GAAPs of these countries. The information is given in the format of tables. As the Accounting Standards Board of Canada (AcSB) decided in January 2006 to move financial reporting for Canadian publicly accountable enterprises to IFRS, the table on Canada outlines the steps to be followed until the changeover in 2011. In the case of Japan and the US, CESR has prepared the tables using as a starting point the differences between the Japanese and US GAAP and IFRS identified in CESR's 2005 technical advice¹. In the other columns of the tables CESR gives an indication of the current situation of those issues and the prospects for 2007/2008. The information included has been obtained through public sources only and should not be interpreted as providing any evaluation or assessment of the progress in convergence at this stage of the three considered GAAP.
2. Regarding the **definition of equivalence**, CESR agrees with the Commission on the need to publish as soon as possible the notion it will use when the determinations of equivalence are made by 1 July 2008. In this respect, this advice confirms the outcome based approach CESR followed in 2005. Third country GAAP would be equivalent to IFRS if investors should be able to make a similar decision irrespective of whether they are provided with financial statements based on IFRS or on such third country GAAP. CESR also considers that a determination that third country GAAP are equivalent to IFRS must be based on the presumption that filters at country levels (as described in Section IV of this paper), audit assurance and enforcement on entity levels are sufficient for investors to rely on.
3. To map out the situation of **third country GAAP** in the EU, the Commission has asked CESR to provide a list of those GAAP currently used in the EU regulated markets. This list is included in section V of this advice. It's important to note that the list is only indicative, as at the date of this document some of the considered issuers could have delisted the securities or changed the accounting standards. Also, although CESR considers that the list provides a good indication of the situation in the EU, it could not obtain data from all the EU regulated markets in the very short time available.
4. According to the available information, third country issuers using third country GAAP (other than Canadian, Japanese and US GAAP) represent 5,8% of the total number of issuers having their securities admitted to trading on EU regulated markets. There are 28 GAAP different from IFRS, Canadian, Japanese and US GAAP. In terms of number of issuers, the Indian (around 70 issuers), Korean (around 30), Chinese (around 20) and Russian (around 14) GAAP are the most common "other GAAP" on EU regulated markets.

II. INTRODUCTION

5. The Prospectus Directive and Regulation ("the prospectus regime")² and the Transparency Directive³ will soon require the European Commission ("EC or the Commission") to establish whether a given third country GAAP is equivalent to IFRS.

¹ Ref 05-230 "Technical advice on equivalence of certain third country GAAP and on description of certain third country mechanisms of enforcement of financial information"

² Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC

Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements.

6. As a result of the prospectus regime, third country issuers who have their securities admitted to trading on an EU regulated market or who wish to make a public offer of their securities in Europe, are required from 1st January 2007 (unless any transitional measures apply) to publish a prospectus including financial statements prepared on the basis of EU endorsed IFRS or on the basis of third country's national accounting standards (third country GAAP) if these standards are equivalent to the endorsed IFRS. In the meantime, appropriate transitional arrangements apply under Article 35 of the Commission Regulation on prospectus.
7. Similarly, under the Transparency Directive, third country issuers whose securities are admitted to trading on a EU-regulated market also have to provide annual and half-yearly financial statements (as from January 2007) which should either be prepared in accordance with IFRS or third country GAAP equivalent to the endorsed IFRS. Appropriate transitional arrangements will also apply under Article 26 (3) of that Directive.
8. The EC has recently adopted in December 2006 two measures⁴ allowing for a two-year transitional period (until January 2009) third country issuers to prepare their annual financial statements and half-yearly financial statements in accordance with the accounting standards of Canada, Japan or the United States. The aim is to give more time to the standard setters and regulators of these countries to continue with the convergence process. Also, as other countries are converging national GAAP to IFRS over a period of time, the Commission considered it appropriate to allow for the same two-year transitional period such third country issuers to continue preparing their annual and half-yearly financial statements in accordance with a GAAP that is converging to IFRS, providing that certain conditions are met.
9. The abovementioned December 2006 measures envisage a different treatment of third country issuers before and after January 2009:
 - Transitional period until January 2009. During this phase, accounting frameworks other than IFRS, Canadian, Japanese or US GAAP may be used subject to certain conditions⁵. The decision to accept other accounting frameworks is the responsibility of the competent authority, although recitals in the two measures state that *"To ensure consistency within the Community, CESR should co-ordinate the competent authorities' assessment as to whether those conditions are satisfied in respect of individual third country GAAP"*.
 - After the transitional period, a third country's GAAP will be acceptable only if it has been determined equivalent to IFRS by the European Commission pursuant to their definition of

³ Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC.

⁴ Commission Regulation 1787/2006 of 4 December amending Commission Regulation 809/2004 on prospectuses and Commission Decision 2006/891/EC of 4 December 2006 on the use by third country issuers of securities of information prepared under internationally accepted accounting standards ("the Transparency Decision").

⁵ According to the revised Article 35.5A (c) of the Prospectus Regulation (and the similar provision in the Transparency Decision) these conditions are:

- (i) The third country authority responsible for the national accounting standards in question has made a public commitment, before the start of the financial year in which the prospectus is filed, to converge those standards with IFRS;
- (ii) That authority has established a work programme which demonstrates its intention to progress towards convergence before 31 December 2008; and
- (iii) The issuer provides evidence that satisfies the competent authority that the conditions in (i) and (ii) are met.

equivalence which they will establish by 1 January 2008. The Commission will consult CESR on the appropriateness of the definition of "equivalence", the "equivalence mechanism" and the actual determination of the equivalence.

10. According to the revised Prospectus Regulation and the Transparency Decision, the Commission must establish a definition of equivalence, setup an equivalence mechanism and then determine the equivalence of third country GAAP to a specified timetable. The legal measures require the Commission to consult CESR on each of these issues.
11. At least six months before 1 January 2009, the Commission shall ensure a determination of the equivalence of the GAAP of third countries, pursuant to a definition of equivalence and an equivalence mechanism that it will have established before 1 January 2008. In order to start the process of determining equivalence, the EC is going to ask CESR for advice in several phases. On 22 February 2007 CESR has received the first request for advice (details of the EC's request can be found in Annex 1). This document addresses the request regarding the first phase. The deadline for submission to the Commission is 1 March 2007
12. In the first phase, the Commission is seeking advice on issues needed for its first report to the European Securities Committee and European Parliament, and for the definition of equivalence. The EC has to report to these two institutions before 1 April 2007 on the timetable envisaged by national accounting authorities of Canada, Japan and the United States for the convergence. To this end, the Commission is requesting a list of the GAAP currently being used on EU markets as well as updates on the IFRS convergence in US, Japan and Canada.
13. To comply with the request relative to the second phase, CESR will have to advise by 1 May 2007 on a suitable mechanism for determining the equivalence of a third country GAAP. This advice will not be an assessment of which GAAP are equivalent, but of the mechanism, or procedure, for making that assessment.
14. Within CESR, the operational group CESR-Fin chaired by Paul Koster, Commissioner of the Netherlands Authority of Financial Markets (AFM) has been in charge of the EC's request.
15. On 19 February 2007, CESR-Fin representatives met with a few members of the staff and board of the International Accounting Standards Board (IASB) with the purpose of discussing the forthcoming EC requests on third countries GAAP. There was a useful exchange of views on the work programmes of the IASB, the Accounting Standards Board of Canada (AcSB), the Financial Accounting Standards Board of the United States (FASB) and the Accounting Standards Board of Japan (ASBJ) and the IASB participants at the meeting expressed their willingness to co-operate with CESR in the preparation of the future reports CESR has to produce for the Commission on third countries GAAP.

III. DESCRIPTION OF THE WORK PROGRAMMES OF THE CANADIAN, JAPANESE AND US STANDARD SETTERS (PARAGRAPHS 16-24)

Extract of the Commission's mandate

In order for the Commission Services to present a report to the European Securities Committee (ESC) and the European Parliament (EP) by 1 April 2007 and to satisfy their obligations to monitor and inform the ESC and EP about the amount of progress in convergence, we request the following advice from CESR.

1.1 Provide a description of the work timetable of the Canadian, Japanese and US standard setters, on the convergence between IFRS and the GAAPs of these countries (TD Article 2(1), PR Article 35(5B)).

1.2 Provide a description of the progress, to the extent possible, on these work programmes using the work that CESR carried out for its June 2005 advice to the Commission as a basis (TD Article 2(2), PR Article 35(5B)). NB: To the extent possible, the Commission would welcome assessment of the progress in convergence at this stage and asks CESR to bear in mind that a thorough report on progress in such convergence and on progress on the elimination of reconciliation requirements will be requested from CESR at a later stage to meet its obligation to "closely monitor and regularly inform ESC and EP about the amount of progress in this convergence and of progress on the elimination of reconciliation requirements" – TD Article 2(2), PR Article 35(5B)).

16. This section provides a factual description of the work timetable of the Canadian, Japanese and US standard setters on the convergence between IFRS and the GAAPs of these countries. The Commission also requests CESR to provide, to the extent possible, a description of the progress made on these work programmes, using the 2005 CESR advice as a basis. To this aim, CESR has prepared the second and third tables below using as a starting point the differences between the Japanese and US GAAP and IFRS identified by CESR in the abovementioned advice. In the other columns of the tables CESR gives an indication of the current situation of those issues and the prospects for 2007/2008. In the case of Canada, the table has a different structure. The AcSB decided in January 2006 to move financial reporting for Canadian publicly accountable enterprises to IFRS. The table on Canada outlines the steps to be followed until the changeover in 2011.

17. The tables have been drawn up summarising information that CESR has obtained through the following public sources:

- CESR/05-230b "*Technical advice on Equivalence of certain third country GAAP and on description of certain third country mechanisms of enforcement of financial information*" published in June 2005.
- The "*Project plan concerning the development of Japanese Accounting Standards*" published by the Accounting Standards Board of Japan in October 2006.
- The IASB work plan and projected timetable as of 31 December 2006.
- The IASB/FASB Memorandum of Understanding published in February 2006.
- The FASB work plan and projected timetable.
- The "*Implementation Plan for Incorporating IFRS into Canadian GAAP*" published by the Accounting Standards Board of Canada in June 2006.

18. The extremely tight deadline given to CESR to produce this advice (see paragraph 11) made it impossible to get additional inputs from the national standard setters of the countries concerned (AcSB of Canada, ASB of Japan and FASB of US) or from the IASB, neither their confirmation that the information included in the tables was accurate and up to date.
19. Also due to the time constraints, CESR has not analysed the content of the standards issued by standards setters since the publication of its advice in June 2005 and therefore cannot, at this stage, assess whether the issuance of these standards means a progress toward convergence. Similarly, CESR has not analysed either the other steps set out in the tables (such as the setting up of working groups to deliberate on the issues, the publication of exposure drafts, etc) and therefore is not in a position to judge its possible impact on the process of eliminating differences.
20. Since CESR issued its advice, new standards were published by the IASB, some already endorsed by the European Commission (IFRS 6 and IFRS 7) and some not yet (IFRS 8). These newly published standards were not analysed in CESR's 2005 advice and are not considered in this advice either.
21. Similarly, since June 2005, the International Financial Reporting Interpretation Committee published a certain number of interpretations ("IFRIC"). Those IFRIC were not considered in this advice nor the interpretations issued by the interpretative bodies in the concerned countries.
22. For the reasons mentioned above, this advice should not be interpreted as providing any evaluation or assessment of the progress in convergence at this stage of the three considered GAAP.

A. CANADIAN GAAP

23. In January 2006, the Accounting Standards Board of Canada (AcSB) adopted its Strategic Plan, which includes the decision to move financial reporting for Canadian publicly accountable enterprises to International Financial Reporting Standards, as issued by the International Accounting Standards Board.
24. Consequently, as regards Canadian GAAP, CESR only outlines the AcSB's implementation plan for incorporating IFRS into Canadian GAAP, including identifying key decisions that the AcSB will need to make as it implements the Strategic Plan for publicly accountable enterprises.

Deadline	Objectives
2006-2008	Obtain training and thorough knowledge of IFRS
By early 2008	Progress review by AcSB
Early 2008	Changeover timing to be announced by the AcSB following progress review
2008	Enterprises assess accounting policies with reference to IFRS and develop a plan for convergence
December 31, 2008	Disclosure of an enterprise's plan for convergence and what effects the enterprise anticipates will arise with the change to IFRS (see paragraph 29 of this document)
December 31, 2009	Same disclosure required as in 2008, but with a greater degree of quantification of the effects of the change to IFRS (see paragraph 29 of this document)
January 1, 2010	First year for collection of comparative information for inclusion with 2011 financial statements under new IFRS-based requirements.
December 31, 2010	Last year of reporting under current Canadian GAAP
January 1, 2011	Changeover. First year reporting under new IFRS-based standards.
March 31, 2011	Enterprises issuing interim financial statements prepare their first IFRS-based statements for the three months ended March 31, 2011
December 31, 2011	End of first annual reporting period in accordance with new IFRS-based requirements

B. JAPANESE GAAP

SIGNIFICANT ISSUES IDENTIFIED IN CESR ADVICE

Theme	Issues according to CESR advice (June 2005)	Current status as of 02/07	Prospects 2007/2008
Share-based payments (IFRS 2)	Expense recognition + explanatory notes: Remaining differences between Japanese GAAP ED3 and IFRS 2 are considered not significant. However, to the extent that Japanese GAAP does not provide information for investors to be able to compare the basis of the expense, Disclosure A should be required as a remedy.	Accounting standards and guidance were released (December 2005). Requisite disclosure is also defined therein.	Accounting standards and guidance have been implemented since.
Business Combination (IFRS 3)	Pooling of interest method - The basics of accounting treatment for business combinations of Japanese GAAP and IFRS are the same. However the required application of pooling-of-interest method would create differences in the financial reporting, which by no means available to the investor could create comparable information on the financial position and performance of the merged entity	A Project Team was launched in December 2006.	A research report should be issued in the third quarter of 2007. Depending on the discussion on this research report, a discussion paper may be issued in the fourth quarter of 2007.
	Date of exchange - Under Japanese GAAP shares issued as consideration are measured at their market price over a reasonable period of time (a few days) before the parties reach an agreement on the purchase price and the transaction is announced. Under IFRS 3 shares issued as consideration are measured at their fair value on the date of the exchange transaction.		
	Minority interests at historical cost - Under Japanese GAAP, minority interest can be measured the same way as IFRS or as the minority's portion of the pre-acquisition historical book value of the identifiable net assets acquired.		
	Step acquisitions - Step acquisitions under IFRS 3 require revaluation of previous interests at fair value at each acquisition date. Under Japanese GAAP previous interests are not revalued, resulting in an accumulation of fair values at different dates		
	Capitalization of acquired R&D in process - In process R&D is capitalised under IFRS but usually expensed under Japanese GAAP		
	Negative goodwill - Japanese GAAP recognises negative goodwill as a liability and amortised on a straight-line basis within 20 years.	Information required to be disclosed as Disclosure B (amounts, causes of occurrence, methods of amortization and amortization periods) are already required under the new accounting standards put into effect from 2006.	Accounting standards and guidance are currently effective.
Insurance (IFRS 4)	Catastrophic provisions - Japanese GAAP requires insurance companies to account for catastrophe provisions. The degree of disclosure in relation to this varies in practice. It is to be noted that the amount of catastrophe provisions is not systematically disclosed.	The industry targeted for application is limited to the insurance industry and the IASB is currently discussing the phase II.	

Remark: for a full description of the issues, please consult CESR 05-230b. Remedies (disclosures A, B and supplementary statements) are described in paragraphs 99 to 131.

Inventories (IAS 2)	LIFO - Japanese GAAP permits the use of LIFO stock valuation. However, in practise the usage of LIFO for Japanese entities is relatively rare.	A project team is to be established in 2007 to initiate deliberations. Only a few companies have adopted the LIFO method. Also, this is an issue for which the application of remedies can be avoided by the choice of accounting policies at each entity level.	A decision will be made on the course of action
	Lower cost or market method - The cost method is allowed under Japanese GAAP as an alternative to lower of cost or market.	Accounting standards were released (July 2006) stipulating book value should be adjusted downward where any deterioration of earning power thereof exists.	Accounting standards will be applied from April 2008 (earlier application is encouraged).
Constructions contracts (IAS 11)	Percentage-of-completion method - Contract revenue and costs associated with the short-term contracts are recognised when constructions are to be completed (“completed contract method”). Under the long-term contracts, both percentage of completion method and completed construction method are permitted. Many companies adopting the percentage of completion method do not apply it to all contracts but under certain conditions only, partially influenced by taxation rules.	A Technical Committee was set up in November 2006.	Accounting Standards and guidance will be released by the end of the year 2007.
Property, plant & equipment (IAS 16)	Asset retirement obligations - Estimated costs for asset retirement obligations, such as dismantling and removing costs and site restoration costs, are not commonly capitalized at initial measurement under Japanese GAAP. Recognition of restoration costs (under the definition of IAS 37 for the recognition of provisions) is required under IFRS, whereas recognition is limited to certain industries only, under Japanese GAAP.	A Technical Committee was set up in November 2006.	Accounting Standards and guidance will be released by the end of the year 2007.
Employee benefits (IAS 19)	Pensions, Post Retirement Benefits (including the discount rate to be used for calculating retirement benefits obligations)	This issue was chosen as the agenda for the longer-term joint project with the IASB, and a working group will be established in 2007 to initiate deliberations and to convey opinions and comments to the IASB and the FASB.	A decision will be made on the course of action to be taken, based on considering the progress in discussions between the IASB and the FASB.
Effects of changes in foreign exchange rates (IAS 21)	Translation of goodwill - Under Japanese GAAP goodwill shall be translated by using the historical rate at the time of initial consolidation.	Deliberations are to be conducted in conjunction with No. 1, “Business combinations (pooling-of-interest method)”.	See “Business combinations, pooling-of-interest method”
Consolidated & separate financial statements (IAS 27)	Qualified special purpose entities - In Japanese GAAP, the status of Qualifying SPEs (QSPEs) is slightly different as being essentially addressed in connection with provisions on derecognition of assets. Exemptions provided in this context for QSPEs could lead, <i>res sic stantibus</i> , to their possible non-inclusion in consolidated balance sheet and income statements.	A technical committee was established for this issue. The committee has picked up the issue of the disclosure of SPE as the first agenda to be discussed and deliberations thereon have been initiated. An Exposure Draft on Guidance No.22 was issued in January 2007.	As for deliberations of the disclosure, its guidance will be released by March 2007. As for deliberations of the scope of consolidation, a discussion paper will be released taking into consideration the progress in discussions between the IASB and the FASB by the end of 2007.
	Uniformity of accounting policies concerning overseas subsidiaries - However it is permitted to use financial statements prepared in accordance with local GAAP of foreign subsidiaries, unless the difference in accounting policies will lead to unreasonable consequences.	With the release of Practical Issues Task Force (PITF) (May 2006), accounting policies applicable to foreign subsidiaries will be unified substantially with those applicable to parent companies. (Furthermore, consolidation of financial statements using IFRS or U.S. GAAP is now permitted here subject to certain adjustments.)	PITF will be applied from April 2008 (earlier application encouraged).
Investments in associates (IAS 28)	Uniformity of accounting policies of associates - In principle there is the requirement for unification of accounting policies, however reference is made to the previous aspect mentioned under IAS 27 B, although having a different impact on the investors’ decision	A project team will be established in 2007 to initiate deliberations. Also to include such issues that may arise from the introduction of IFRS in fiscal 2005 in the project team deliberations, it is considered that this issue may be brought up for redeliberation in the course of discussions with the IASB and/or with the FASB. (Under current Japanese accounting standards, uniformity of accounting policies applied to investing companies and their affiliates are considered to be desirable as a general rule, but such uniformity is not forced from practical considerations.)	Based on the deliberations by the project team, an exposure draft will be released as necessary.

Financial instruments : disclosure & presentation (IAS 32)	Disclosure of financial instruments at fair value - Under Japanese GAAP, fair value of derivatives and investments in securities shall be disclosed in comparison with their carrying amounts. In addition, fair value disclosure of derivative instruments which are used for hedging purposes is not required.	This issue was chosen as the agenda for a short-term joint project with the IASB, and a working group was established to initiate deliberations. A technical committee was established in November 2006.	Accounting standards and guidance will be issued by the end of the year 2007.
Impairments of assets (IAS 36)	Impairment tests - When amounts of undiscounted future cash flows of long-lived assets are less than their carrying amounts, the difference between the carrying amounts and the recoverable amounts are recognised as impairment losses.	On the agenda - no publication yet.	The ASBJ will assess feedback from markets on the impairment standards effective from 2005. To this end, a project team will be established in 2007 to conduct market research. Deliberations will be made reflecting the progress in discussions between the IASB and the FASB (short-term convergence project). A Project team will be established in the first quarter of 2007.
	Reversal of impairment loss - Reversal of impairment loss is prohibited under Japanese GAAP. Reversal of impairment loss on goodwill is prohibited under both standards.		
Provisions (IAS 37)	Scrapping costs - Estimated costs for asset retirement obligations, such as dismantling and removing costs and site restoration costs, are not commonly capitalized at initial measurement under Japanese GAAP. Recognition of restoration costs (under the definition of IAS 37 for the recognition of provisions) is required under IFRS, whereas recognition is limited to certain industries only, under Japanese GAAP.	Deliberations will be conducted in conjunction with “Asset retirement obligations”	
Intangibles Assets (IAS 38)	Capitalisation of development costs - Under Japanese GAAP, costs incurred during development phase shall be expensed when incurred. The total R&D expenditure itself is disclosed, but there is no requirement for detailed disclosure.	A working group was established to initiate deliberations. Deliberations will be made taking into consideration the progress in discussions with the IASB and the FASB (short-term convergence project).	Discussion papers will be released by the end of 2007 based on the results of market research and taking into consideration the progress in discussions between the IASB and the FASB. If IFRS are converged to U.S. GAAP, differences between Japanese standards and IFRS will then be eliminated.
Financial instruments (IAS 39)	Financial instruments - CESR needs more information to determine whether the identified differences do in fact influence investors’ decisions. Reference is made to paragraph 138	The ASBJ is monitoring the IASB's and FASB's discussion.	Deliberations will be made taking into consideration the progress in discussions between the IASB and the FASB.
Investment Properties (IAS 40)	Fair value - Fair value of investment properties is not required to be disclosed.	On the agenda - no publication yet	Deliberations will be made taking into consideration the progress in discussions between the IASB and the FASB (short-term convergence project). If IFRS are converged to U.S. GAAP, differences between Japanese standards and IFRS will then be eliminated.
Agriculture (IAS 41)	Agriculture - Differences in fair value of specific agriculture items. There is no specific standard for agriculture under Japanese GAAP	Not on the agenda	Very few numbers of publicly listed companies are engaged in agricultural businesses.

OTHER ISSUES WHICH WERE NOT SIGNIFICANT OR NOT IDENTIFIED IN CESR ADVICE BUT ON WHICH THERE IS A CONVERGENCE PROJECT

Theme	Issues according to CESR advice (June 2005)	Current status as of 02/07	Prospects at the beginning of 2008
Segment reporting (IAS 14)	Not significant	A Technical Committee was set up in December 2006.	An exposure draft should be issued by the end of 2007.
Lease (IAS 17)	Not significant	Exposure Draft of Accounting Standard No.17 was issued in December 2006.	A standard should be issued in 2007 (second quarter)
Related party disclosure (IAS 24)	Not significant - Directors and other officers' compensation are disclosed in total amounts under other regulations for reporting in Japan, outside the scope of financial statements. Information on related party transactions is by nature relevant for investors and such disclosure can be considered significant. However, the information is expected to be provided elsewhere in the annual report, or will be identifiable from notifications to be made pursuant to EU Transparency requirements on major shareholding.	Accounting Standard No.11 was issued in October 2006.	Accounting standards will be applied from April 2008 (earlier application is encouraged).
Retrospective restatements	Not in the advice	A working group was set up in December 2006.	A Discussion Paper should be issued in 2007 (second quarter).
Quarterly financial reporting	Not in the advice	Exposure Draft of Accounting Standard No.16 was issued in November 2006.	A standard should be issued in 2007 (first quarter)



C. US GAAP

SIGNIFICANT ISSUES ACCORDING TO CESR ADVICE

Theme	Issues according to CESR advice (June 2005)	FASB		IASB	
		Current status as of 12/06 on FASB agenda	Prospects 2007/2008	Current status as of 12/06 on IASB agenda	Prospects 2007/2008
Share-based payments (IFRS 2)	Remaining differences between US GAAP (FAS 123R) and IFRS 2 are considered not significant. However, to the extent that US GAAP does not provide information for investors to be able to compare the basis of the expense, disclosure A should be required as a remedy.	Nothing specific		Nothing specific	
Business Combination (IFRS 3)	<p>Acquisition date - Under US GAAP, the acquisition date is ordinarily the date on which consideration passes and the acquired (net) assets are received. That is, the date on which the transaction closes. However, if the parties agree in writing that effective control passes to the acquirer at an earlier date then that earlier date is the acquisition date. Under IFRS3 the acquisition date is the date on which the acquirer effectively obtains control of the acquiree. Under US GAAP shares issued as consideration are measured at their market price over a reasonable period of time (a few days) before and after the parties reach an agreement on the purchase price and the transaction is announced. Under IFRS 3 shares issued as consideration are measured at their fair value on the date of the exchange transaction.</p> <p>In process R&D - In process R&D is capitalised under IFRS but usually expensed under US GAAP</p> <p>Negative Goodwill - Under IFRS 3 negative goodwill is recognized immediately as a gain. Under US GAAP it is initially allocated on a pro rata basis against the carrying amounts of certain acquired non-financial assets, with any excess recognized as an extraordinary gain.</p> <p>Minority interest - Minority interest under IFRS is measured at fair value but under US GAAP it is at historical cost.</p> <p>Step acquisitions - Step acquisitions under IFRS 3 require revaluation of previous interests at fair value at each acquisition date. Under US GAAP previous interests are not revalued, resulting in an accumulation of fair values at different dates</p> <p>Contingent consideration - Under US GAAP, contingent consideration is part of the purchase price when additional consideration is issued or becomes issuable whereas under IFRS 3 it is part of the purchase price at the date of acquisition if payment is probable and can be measured reliably.</p>	On agenda – deliberations in process	A final document should be issued in the second quarter of 2007.	On agenda – deliberations in process	An IFRS should be issued in the third quarter of 2007.

Remark: for a full description of the issues, please consult CESR 05-230b. Remedies (disclosures A, B and supplementary statements) are described in paragraphs 99 to 131.

Property, plant & equipment (IAS 16)	Costs of replacing component parts - Costs of replacing component parts of an asset and planned major maintenance activities may be capitalized or expensed. The deferral method which is specified under IFRS is one of four possible methods under US GAAP.	Nothing specific			
Employee benefits (IAS 19)	US GAAP and IAS 19 have the same objectives and follow the same principles. While there are differences, the fact that there are four broad options for defined benefit schemes available under IAS make it difficult to determine which version would be used as the basis for reconciliation, and against that background a reconciliation would not help investors' decisions. The key point is to have adequate disclosures to enable investors to make decisions	On agenda – deliberations underway on the first phase of multi-phase project	A final document should be issued in the first quarter of 2007.	On agenda – no publication yet	A Discussion Paper should be issued in the third quarter of 2007.
Consolidated & separate financial statements (IAS 27)	Scope of Consolidation. Under IAS 27 and SIC 12, the scope of consolidation is determined by reference to the principle of control defined in general terms as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities (IAS 27.4). The issue of consolidation of Special Purpose Entities (SPE) in the US is very complex, being based on principles combined with additional guidance that altogether make the third country framework close to IFRS in most cases. The status of Qualifying SPEs (QSPEs) is slightly different as being essentially addressed in connection with provisions on derecognition of assets.	On agenda – currently inactive	None	On agenda – no publication yet	A Discussion Paper should be issued in the second quarter of 2007. An Exposure draft should be issued in the second semester of 2008.
Investments in associates (IAS 28)	No requirement to conform accounting policies where associate's policies are different	Nothing specific			
Impairments of assets (IAS 36)	Impairment test - Impairments under US GAAP are based firstly on a comparison of carrying amount to the expected future cash flows to be derived from an asset (or asset group) on an undiscounted basis. If the carrying amount is lower the asset (or asset group) is not impaired, if higher then impairment is measured by comparing the carrying amount to the fair value of the asset (or asset group). Subsequent reversal of an impairment loss is prohibited under US GAAP	"Impairment" is a topic for short term convergence according to the Roadmap but is not on the agenda of IASB or FASB			
Provisions (IAS 37)	Measurement of decommissioning provisions – discount rates are not adjusted under US GAAP	Nothing specific		On the Agenda (ED was issued in June 2005) but the project is not part of the MoU.	An IFRS should be issued in the first semester of 2008.

Intangibles Assets (IAS 38)	Capitalisation of development costs. Development costs and purchased IPR&D are expensed under US GAAP (with some exceptions)	This potential short-term convergence project is currently in the staff research phase.	Not indicated in the work plan	On research agenda (led by a national standard-setter)	An Agenda Decision should be made in the fourth quarter of 2007.
Financial instruments (IAS 39)	Key differences that could affect investors decisions are: <ul style="list-style-type: none"> • Derecognition of securitizations • Split accounting on convertible bonds • Reversal of impairments on debt securities 	At joint meetings held in April 2005 and October 2005, the FASB and the IASB agreed to long-term objectives to improve, simplify, and converge financial reporting requirements for financial instruments. The Boards are addressing some of those impediments in various active projects: Fair Value Measurement, Fair Value Option and Financial Instruments: Liabilities and Equity . These projects are described in the next table.			
Investment Property (IAS 40)	US GAAP does not permit property to be measured at fair value . A cost based method of accounting is generally required	To be considered by the FASB as part of the fair value option project		See Fair value option project	
Agriculture (IAS 41)	Differences in fair value of specific agriculture items	Nothing specific			



OTHER ISSUES WHICH WERE NOT SIGNIFICANT OR NOT IDENTIFIED IN CESR ADVICE BUT ON WHICH THERE IS A CONVERGENCE PROJECT

Theme	Issues according to CESR advice (June 2005)	FASB		IASB	
		Current status as of 12/06 on FASB agenda	Prospects 2007/2008	Current status as of 12/06 on IASB agenda	Prospects 2007/2008
Subsequent events (IAS 10)	Not in the advice	To be examined	The Board expects to begin deliberation of issues in this project in late 2006 or early 2007.	Nothing specific	
Income tax (IAS 12)	Not significant - Various differences in detail exist between US GAAP and IFRS. Nevertheless, basics and objectives of the standards are the same in both standards.	On the agenda - no publication yet	The Board plans to issue an Exposure Draft for public comment in the second quarter of 2007.	To be examined (jointly with the FSAB)	An ED should be issued in the second quarter of 2007. An IFRS should be issued in the second semester of 2008.
Segment reporting (IAS 14)	Not significant	Nothing specific yet		IFRS 8 was issued in Nov 2006 with an application on 1 Jan 2009.	N/A
Leases (IAS 17)	Not significant - IAS 17 and US GAAP have the same objective – to require leases that effectively transfer ownership of assets (usually called finance leases) to be capitalised. Differences of detail, between the standards may give rise to different treatment of the same leases under the two GAAPs, but a reasonably knowledgeable investor could be expected to understand that the lease terms will be different if the standards changed.	A joint international working group was formed in 2006 and will provide input on the issues to be considered in a lease project.	The Board will begin deliberations of those issues in 2007; those deliberations will result in issuing for public comment a discussion paper that explores lease accounting issues and describes the preliminary views of both Boards. That discussion paper is expected to be published in 2008.	On the agenda since July 2006 - no publication yet	A working group meeting held in Feb 2007. A Discussion Paper should be issued in the second semester of 2008.
Revenue recognition (IAS 18)	Not significant - General principles are consistent between the two GAAPs, but there are some differences of detail. Unlikely to affect investors' decision making as long as there is full disclosure of accounting policies and sufficient information provided under US GAAP for investor making decisions.	On agenda – no publication yet	The Board's goal is to issue a Preliminary Views by the end of 2007 covering both concepts- and standards-level revenue recognition guidance.	On agenda – no publication yet	A Discussion Paper should be issued in the fourth quarter of 2007.
Government grants (IAS 20)	Not significant	Nothing specific yet		On agenda – no publication yet	Timing yet to be determined - pending work on other projects

Borrowing costs (IAS 23)	Not significant	Nothing specific yet		On agenda – an ED was issued in May 2006.	An IFRS should be issued in the first quarter of 2007.
Earnings per share (IAS 23)	No significant differences	On agenda – The Board commenced redeliberations and noted that it and the IASB reached different conclusions on the earnings per share treatment of options, warrants, and their equivalents classified as equity, mandatorily convertible instruments, and convertible debt. The Board directed the staff to further analyze those differences for discussion at a future meeting.	An Exposure Draft should be issued in the second quarter of 2007.	On agenda – no publication yet	An Exposure Draft should be issued in the first quarter of 2007. An IFRS should be issued by the end of 2007.
Joint-ventures	No significant differences	Nothing specific yet		On the agenda - no publication yet	An Exposure Draft should be issued in the second quarter of 2007. An IFRS should be issued in the first half of 2008.
Fair Value measurement guidance		Statement 157 was issued in Sept 06	N/A	On agenda – Discussion Paper was issued in Nov 2006	A roundtable is going to take place in the second quarter of 2007. An ED should be issued in the second semester of 2008.
Fair Value Option	Key differences that could affect investors decisions are: • Derecognition of securitizations • Split accounting on convertible bonds • Reversal of impairments on debt securities	On agenda – On January 25, 2006, the Board issued an FASB Exposure Draft, The Fair Value Option for Financial Assets and Financial Liabilities, for Phase 1.	The Board will continue its discussions on disclosure requirements at a Board meeting in January 2007. A Statement for Phase 1 will be issued in the first quarter of 2007. The Board's activity on Phase 2 will begin after a final Statement has been issued for Phase 1.	On the agenda - no publication yet	Not indicated in the work plan
Financial Instruments: Liabilities and Equity		On the agenda - no publication yet	The Preliminary Views are expected to be issued in the second quarter of 2007.	On agenda – deliberations in process	A Discussion Paper should be issued in the second quarter of 2007.
Financial Statements Presentation	Not in the advice	On agenda – no publication yet	The FASB decided that it would not publish a separate Exposure Draft on Phase A of the project. Rather, it will expose its Phase A decisions along with its Phase B decisions. The initial output for Phase B is an initial discussion document (similar to a Preliminary Views or a Discussion Paper) that is expected to be published in the third quarter of 2007.	Exposure draft on phase A	On the first phase, an IFRS should be issued in the second quarter of 2007. On the second phase, a Discussion Paper should be issued in the second quarter of 2007 and an Exposure Draft should be issued in the second semester of 2008.



IV. DEFINITION OF EQUIVALENCE

Extract of the Commission's mandate

The Commission Services must adopt a legal measure, using comitology, on the definition of equivalence and the determination of equivalence by 31 December 2007 (TD Article 2(5), PR Article 35(5E)). To do this, a first draft of a legal measure will need to be presented to the ESC and the EP by June 2007. Therefore we also request the following advice from CESR.

1.3 Confirm the definition of equivalence (see below for details).

1.4 Provide a list of the GAAPs currently used on the EU capital markets (see below for details).

Definition of equivalence

In order to establish the mechanism for determining the equivalence of third country GAAPs, we first need define equivalence for this purpose. CESR is therefore asked to advice on how the definition of equivalence should be formulated.

25. CESR considers that the definition of equivalence provided in its June 2005 advice (CESR/05-230b) is still valid. In that advice, CESR defined that, for equivalence's purposes, investors should be able to make a similar decision irrespective of whether they are provided with financial statements based on IFRS or on third country GAAP. This definition of equivalence is an outcome based approach, and market responses to accounting differences are considered particularly relevant for the assessment of the significance of such differences. The method CESR used in its 2005 advice for assessing comparison of GAAP can be described as a form of direct comparison of standards, and it was explained in the annex 3 to the document CESR/05-230b.

26. The following observations have to be made:

- The objective of financial reporting standards, including IFRS, is framed in terms of investor decision-making. Financial reports are one element, albeit an important one, in a broad range of information sources used by investors for decision making. As a result, much of the information in earnings and financial statements is anticipated and priced by investors before they appear in the released financial statements. A focus exclusively on accounting standards would ignore these other sources of information for investor decision making;
- The quality of financial reports is an important factor determining their usefulness for investor decision making. However, accounting standards in isolation are not sufficient basis, as reasonable investors will make their investment decision based on the reduction of uncertainty through several filters. Accounting standards are only one factor determining the quality of financial reports. As supported by academic research, the quality of financial reporting is not only determined by GAAP alone, other important factors, referred to as filters, include the corporate governance of reporting



entities, legal environment, compensation schemes, auditing quality and auditors' independence, acceptable level of attestation using international standards on auditing, ownership structure, other incentives (such as the need for raising funds...) as well as the enforcement mechanisms and activities regarding financial reporting. Weakness in one filter can place increased pressure on the others. A focus exclusively on accounting standards could ignore these other factors.

27. According to the Commission's mandate CESR received in 2005, its assessment of equivalence between Canadian, Japanese, US GAAP and IAS/IFRS was based in the advice CESR/05-230b on a comparison between third country GAAP and IFRS, at country level. Investors use financial statements for investment decisions which are prepared at a company level, affected by the entities application of standards. CESR wishes to reiterate that accounting standards in isolation on a pure technical basis, and on a country level, do not seem to be a sufficient basis to address all issues to the equivalence project.
28. Assessment of GAAP equivalence described in the June 2005 paper (and which, presumably, will be the starting point of CESR's future contribution to the determinations of equivalence of the three abovementioned GAAP) is only one part of this framework. CESR conclusions on equivalence will be therefore based on the presumption that filters at country levels, and audit assurance and enforcement on entity levels are sufficient for investors to rely on. CESR assumes that third country GAAP are applied and complied with properly. This means that the necessary filters for ensuring market confidence are *ceteris paribus* considered to be in place for third country issuers using or participating in the EU capital markets.
29. Assessment of the existence and quality of these filters in third countries is not part of the second request given by the European Commission in relation to the equivalence mechanism, but CESR believes that it is a key element for market confidence and market efficiency.
30. The filters each contribute to protecting the investor's rights and investments. They are an important factor for investor decision making and related to market responses like liquidity, bid & ask spreads and the cost of capital, as these filters influence the level of uncertainty investors have in their decisions making process. Significant GAAP differences will have impact on these decisions; however the impact of weaknesses in the other filters cannot be ignored.

V. LIST OF GAAPs CURRENTLY USED ON THE EU CAPITAL MARKETS

Extract of the Commission's mandate

GAAPs used on the EU capital markets

The purpose of this part of the request is to obtain as complete a picture as possible on the third country GAAPs that are currently used by issuers on the EU regulated markets. Over time, new issuers may use other GAAPs, but this list is an essential starting point.

CESR is asked to prepare, to the extent possible, a list of existing third country issuers that are traded on regulated markets in the EU specifying:

- their country of origin;
- the GAAP that they use; and
- whether that GAAP is reconciled to another GAAP; if so, what that GAAP is.

31. The following indicative table provide a list of third country GAAP used by issuers listed on regulated markets in the European Union. The figures come from a survey submitted to CESR members. The list is not exhaustive because CESR could not obtain data for all EU regulated markets, for example because they could not obtain the information from the stock exchange or because it has not been updated after the admission (i.e. some issuers might have moved to IFRS after admission because its country of incorporation decided to adopt IFRS, as in the case of Australia and others). Moreover, some members could only gather data for shares or depository receipts over shares.
32. It is important to note that some issuers may have been double-counted if they have securities admitted in more than one Member State and/or if they have admitted different types of securities in the same or in several Member States.

List of GAAP	Number of third country issuers listed on a EU regulated market using these GAAP ⁶	
	Shares/DR over shares issuers	Debt issuers
Argentinean	3	2
Australian	1	16
Brazilian	2	2
Canadian	13	32
Chilean	1	
Chinese	19	1
Columbian	1	
Egyptian	10	

⁶ Third country issuers using IFRS have not been considered in the table.

Hong Kong		2
Indian	69	1
Indonesian	2	
Israeli	6	2
Japanese	13	71
Lebanese	3	
Malaysian	2	1
Mexican		2
Moroccan	1	
New Zealand		2
Nigerian		
Pakistan	1	
Peruvian		3
Philippines	3	
Russian	3	11
Singapore	1	1
South African	8	1
South Korean	20	10
Swiss	2	2
Thai	1	3
Tunisian	1	
Turkish	7	
US	102	131
Venezuelan	1	
Zambian	1	
Zimbabwe	1	
Total	295	296

33. According to the data supplied, CESR members also identified around 130 third country issuers using Member States' GAAP, such as UK GAAP.

34. According to the data supplied by our members, overall there is no legal requirement to reconcile third country GAAP with IFRS in the Member States.

VI. ANNEX

1. Request from the European Commission to CESR for technical advice
2. IASB/FASB Roadmap
3. Project plan concerning the development of Japanese Accounting Standards



ANNEX TO THE ADVICE

ANNEX I - Request from the European Commission to CESR for technical advice



EUROPEAN COMMISSION
Internal Market and Services DG

FREE MOVEMENT OF CAPITAL, COMPANY LAW AND CORPORATE GOVERNANCE
Director

CESR	
ARRIVE	
ON:	22/02/07
N°:	07-128

Brussels, 14.02.07 0634
MARKT/F3 JH/js D (2007) 2182

Mr. Arthur Docters van Leeuwen
Chairman
Committee of European Securities
Regulators
11-13 Avenue de Friedland – 75008
PARIS FRANCE

Subject: Request for advice on equivalence under the Transparency Directive and Prospectus Regulation

Dear Mr. Docters van Leeuwen,

I write to request the assistance of CESR concerning the equivalence of third country GAAPs under the Transparency Directive and Prospectus Regulation, and more specifically, creating the equivalence mechanism as envisaged by these legal measures.

According to the revised Prospectus Regulation¹ and the Decision regarding the Transparency Directive², the Commission must establish a definition of equivalence, setup an equivalence mechanism and then determine the equivalence of third country GAAPs to a specified timetable. The legal measures require the Commission to consult CESR on each of these issues.

In order to start the process of determining equivalence, we are asking CESR for advice in four phases. This first letter contains the request regarding the first two phases.

In the first phase, we are seeking advice on issues needed for the first report to the European Parliament, and for the definition of equivalence. To this end, we are requesting a list of the GAAPs currently being used on EU markets as well as updates on the IFRS convergence in US, Japan and Canada. Details of this request for first advice can be found in the Annex 1.

¹ Revised by the Commission Regulation No 1787/2006 of 4. December 2006, OJ L337/17 from 5.12.2006 (see Annex 3).

² Commission Decision No 2006/891/EC of 4. December 2006, OJ L343/96 from 8.12.2006 (see Annex 4).

J:\7.CORRESPONDENCE\2007\Externe\2182 1st request of assistance vers10 - 13 02 2007.doc

Commission européenne, B-1049 Bruxelles / Europese Commissie, B-1049 Brussel - Belgium. Telephone: (32-2) 299 11 11.
http://ec.europa.eu/internal_market/



In order to meet the deadlines specified in the Prospectus Regulation and Transparency Decision, we would be grateful to receive your first advice by the 1st March 2007.

The second phase relates to the establishment of the equivalence mechanism. In the request for the second advice, the Commission asks CESR to advise in particular on how the equivalence of third country GAAPs should be assessed. Further details on this request can be found in Annex 2.

The requests for the third and fourth advice will be sent later on this year (the third request for advice with the advice of CESR to be received by 1st November 2007 and the fourth request for advice with the response to be received by 1st February 2008).

Yours sincerely,



Pierre DELSAUX

Contact: A. Leppilähti, +32 229 67961, R. Croci +32 229 92174, J. Hrudová, +32 229 53757

CC: Messrs J. Holmquist, Jean-Yves Muylle

Annexes:

- Annex 1: Request for first advice
- Annex 2: Request for second advice
- Annex 3: Commission Regulation (EC) No 1787/2006 of 4 December 2006 amending Commission Regulation (EC) 809/2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements (OJ L337/17 from 5.12.2006)
- Annex 4: Commission Decision of 4 December 2006 on the use by third country issuers of securities of information prepared under internationally accepted accounting standards (OJ L343/96 from 8.12.2006)

Annex 1: Request for first advice

1. REQUEST FOR FIRST ADVICE

Description of the work programmes of the Canadian, Japanese and US standard setters, definition of equivalence and list of GAAPs currently used on the EU capital markets

In order for the Commission Services to present a report to the European Securities Committee (ESC) and the European Parliament (EP) by 1 April 2007 and to satisfy their obligations to monitor and inform the ESC and EP about the amount of progress in convergence, we request the following advice from CESR.

- 1.1. Provide a description of the work timetable of the Canadian, Japanese and US standard setters, on the convergence between IFRS and the GAAPs of these countries (TD Article 2(1), PR Article 35(5B)).
- 1.2. Provide a description of the progress, to the extent possible, on these work programmes using the work that CESR carried out for its June 2005 advice to the Commission as a basis (TD Article 2(2), PR Article 35(5B)). NB: To the extent possible, the Commission would welcome assessment of the progress in convergence at this stage and asks CESR to bear in mind that a thorough report on progress in such convergence and on progress on the elimination of reconciliation requirements will be requested from CESR at a later stage to meet its obligation to "closely monitor and regularly inform ESC and EP about the amount of progress in this convergence and of progress on the elimination of reconciliation requirements" – TD Article 2(2), PR Article 35(5B)).

The Commission Services must adopt a legal measure, using comitology, on the definition of equivalence and the determination of equivalence by 31 December 2007 (TD Article 2(5), PR Article 35(5E)). To do this, a first draft of a legal measure will need to be presented to the ESC and the EP by June 2007. Therefore we also request the following advice from CESR.

- 1.3. Confirm the definition of equivalence (see below for details).
- 1.4. Provide a list of the GAAPs currently used on the EU capital markets (see below for details).

2. DEFINITION OF EQUIVALENCE

In order to establish the mechanism for determining the equivalence of third country GAAPs, we first need define equivalence for this purpose. CESR is therefore asked to advice on how the definition of equivalence should be formulated.

3. GAAPs USED ON THE EU CAPITAL MARKETS

The purpose of this part of the request is to obtain as complete a picture as possible on the third country GAAPs that are currently used by issuers on the EU regulated



markets. Over time, new issuers may use other GAAPs, but this list is an essential starting point.

CESR is asked to prepare, to the extent possible, a list of existing third country issuers that are traded on regulated markets in the EU specifying:

- their country of origin;
- the GAAP that they use; and
- whether that GAAP is reconciled to another GAAP; if so, what that GAAP is.

Due: CESR's initial advice is sought by the 1 March 2007.

Annex 2: Request for second advice

1. REQUEST FOR SECOND ADVICE

Outline of the equivalence mechanism

The Commission Services must adopt a legal measure, using comitology, on the definition of equivalence and the determination of equivalence by 31 December 2007 (TD Article 2(5), PR Article 35(5E)). To do this, a first draft of a legal measure will need to be presented to the ESC and the EP by June 2007.

The Commission requests CESR to:

- Advice on a suitable mechanism for determining the equivalence of a third country GAAP. This is not an assessment of which GAAPs are equivalent, but of the mechanism, or procedure, for making that assessment.

Due: CESR is asked to provide advice on these matters by 1st May 2007.

* * *



Annex II ~ IASB/FASB Roadmap

A Roadmap for Convergence between IFRSs and US GAAP—2006-2008

Memorandum of Understanding between the FASB and the IASB

27 February 2006

After their joint meeting in September 2002, the US Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) issued their Norwalk Agreement in which they 'each acknowledged their commitment to the development of high quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting. At that meeting, the FASB and the IASB pledged to use their best efforts (a) to make their existing financial reporting standards fully compatible as soon as is practicable and (b) to co-ordinate their future work programmes to ensure that once achieved, compatibility is maintained.'

At their meetings in April and October 2005, the FASB and the IASB reaffirmed their commitment to the convergence of US generally accepted accounting principles (US GAAP) and International Financial Reporting Standards (IFRSs). A common set of high quality global standards remains the long-term strategic priority of both the FASB and the IASB.

The FASB and the IASB recognise the relevance of the roadmap for the removal of the need for the reconciliation requirement for non-US companies that use IFRSs and are registered in the United States. It has been noted that the removal of this reconciliation requirement would depend on, among other things, the effective implementation of IFRSs in financial statements across companies and jurisdictions, and measurable progress in addressing priority issues on the IASB-FASB convergence programme. Therefore, the ability to meet the objective set out by the roadmap depends upon the efforts and actions of many parties—including companies, auditors, investors, standard-setters and regulators.

The FASB and the IASB recognise that their contribution to achieving the objective regarding reconciliation requirements is continued and measurable progress on the FASB-IASB convergence programme. Both boards have affirmed their commitment to making such progress. Recent discussions by the FASB and the IASB regarding their approach to the convergence programme indicated agreement on the following guidelines:

- Convergence of accounting standards can best be achieved through the development of high quality, common standards over time.
- Trying to eliminate differences between two standards that are in need of significant improvement is not the best use of the FASB's and the IASB's resources—instead, a new common standard should be developed that improves the financial information reported to investors.
- Serving the needs of investors means that the boards should seek to converge by replacing weaker standards with stronger standards.

Consistently with those guidelines, and after discussions with representatives of the European Commission and the SEC staff, the FASB and the IASB have agreed to work towards the following goals for the IASB-FASB convergence programme by 2008:

Short-term convergence

The goal by 2008 is to reach a conclusion about whether major differences in the following few focused areas should be eliminated through one or more short-term standard-setting projects and, if so, complete or substantially complete work in those areas.

Topics for short-term convergence include:

To be examined by the FASB	To be examined by the IASB
Fair value option*	Borrowing costs
Impairment (jointly with the IASB)	Impairment (jointly with the FASB)
Income tax (jointly with the IASB)	Income tax (jointly with the FASB)
Investment properties**	Government grants
Research and development	Joint ventures
Subsequent events	Segment reporting
<i>FASB Note:</i> *On the active agenda at 1 July 2005 ** To be considered by the FASB as part of the fair value option project	<i>IASB Note:</i> Topics are part of or to be added to the IASB's short-term convergence project, which is already on the agenda.

Limiting the number of short-term convergence projects enables the boards to focus on major areas for which the current accounting practices of US GAAP and IFRSs are regarded as candidates for improvement.

Other joint projects

The goal by 2008 is to have made significant progress on joint projects in areas identified by both boards where current accounting practices of US GAAP and IFRSs are regarded as candidates for improvement.

The FASB and the IASB also note that it is impractical, when factoring in the need for research, deliberation, consultation and due process, to complete many of the other joint projects by 2008. The two boards understand that during this time frame measurable progress on such projects, rather than their completion, would fulfil their contribution to meeting the objective set forth in the roadmap.

Furthermore, it is noted that the strategy regarding other joint projects and the goals described below should be consistent with one of the IASB's objectives of providing stability of its standards for users and preparers in the near term.

After consultations with representatives of the European Commission and the SEC staff and consistently with existing priorities and resources, the FASB and the IASB have expressed the progress they expect to achieve on their convergence project in the form of a list of 11 areas of focus. It is noted that these projects will occur in the context of the ongoing joint work of the FASB and the IASB on their respective Conceptual Frameworks. As part of their Conceptual Framework project, the FASB and the IASB will be addressing issues relating to the range of measurement attributes (including cost and fair value) to enable a public discussion on these topics to begin in 2006.

After considering the complexity of those topics and consultation requirements, the boards set the following goals for 2008 for convergence topics already on either their active agendas or the research programmes:

Topics already on an Active Agenda			
Convergence topic	Current status on the FASB Agenda	Current status on the IASB Agenda	Progress expected to be achieved by 2008
1. Business combinations	On agenda – deliberations in process	On agenda – deliberations in process	To have issued converged standards (projected for 2007), the contents and effective dates of which to be determined after taking full account of comments received in response to the Exposure Drafts.
2. Consolidations	On agenda – currently inactive	On agenda – no publication yet	To implement work aimed at the completed development of converged standards as a matter of high priority.
3. Fair value measurement guidance	Completed standard expected in the first half of 2006	On agenda – deliberations in process	To have issued converged guidance aimed at providing consistency in the application of existing fair value requirements. ¹
4. Liabilities and equity distinctions	On agenda – no publication yet	On agenda (will follow FASB's lead)	To have issued one or more due process documents relating to a proposed standard.
5. Performance reporting	On agenda – no publication yet	Exposure draft on a first phase	To have issued one or more due process documents on the full range of topics in this project.
6. Post-retirement benefits (including pensions)	On agenda – deliberations underway on the first phase of multi-phase project	Not yet on the agenda	To have issued one or more due process documents relating to a proposed standard.
7. Revenue recognition	On agenda – no publication yet	On agenda – no publication yet	To have issued one or more due process documents relating to a proposed comprehensive standard.

The objective of the goals set out above is to provide a time frame for convergence efforts in the context of both the objective of removing the need for IFRS reconciliation requirements by 2009 and the existing agendas of the FASB and the IASB. The FASB and the IASB will follow their normal due process when adding items to the agenda. Items designated as convergence topics among the existing research programmes of the boards include:

Topics already being researched, but not yet on an Active Agenda			
Convergence topic	Current status on the FASB Agenda	Current status on the IASB Agenda	Progress expected to be achieved by 2008
1. Derecognition	Currently in the pre-agenda research phase	On research agenda	To have issued a due process document relating to the results of staff research efforts.
2. Financial instruments (replacement of existing standards)	On research agenda and working group established	On research agenda and working group established	To have issued one or more due process documents relating to the accounting for financial instruments.

¹ The fair value guidance measurement project will not extend requirements for the use of fair value measurements, and any proposals regarding increasing the use of fair value accounting will be addressed in the context of the Conceptual Framework and other projects on the FASB's and IASB's respective agendas.

3. Intangible assets	Not yet on agenda	On research agenda (led by a national standard-setter)	To have considered the results of the IASB's research project and made a decision about the scope and timing of a potential agenda project.
4. Leases	Pre-agenda research underway	On research agenda (led by a national standard-setter)	To have considered and made a decision about the scope and timing of a potential agenda project.

In setting out the projects for both the short-term convergence topics and the major joint topics, the FASB and the IASB recognise that with respect to its foreign registrants the SEC staff will undertake an analysis of their 2005 IFRS financial statements across companies and jurisdictions. This analysis may reveal the need for additional standard-setting actions by one of the boards or both. Furthermore, the FASB and the IASB note that their work programmes are not limited to the items listed above, but remain committed to fulfilling their contribution to meeting the objectives set out by the roadmap.

The FASB and the IASB also recognise the need to undertake this work in a manner that is consistent with their established due process, including consultation with interested parties on their ongoing joint efforts before reaching conclusions.

Annex III ~ Project plan concerning the development of Japanese Accounting Standards

Accounting Standards Board of Japan (ASBJ)

Fukoku Seimei Building 20F, 2-2, Uchisaiwaicho 2-chome, Chiyoda-ku, Tokyo 100-0011, Japan
Phone +81-3-5510-2737 Facsimile +81-3-5510-2717 URL <http://www.asb.or.jp/>



Project Plan Concerning the Development of Japanese Accounting Standards

— *Initiatives towards the international convergence of accounting standards
in light of the equivalence assessment by the EU*

October 12, 2006

Accounting Standards Board of Japan

I. Introduction

The Accounting Standards Board of Japan (ASBJ) believes that convergence towards compatible high quality accounting standards is beneficial for capital markets around the world. Based on this belief, the ASBJ has been developing Japanese accounting standards and has contributed to the International Accounting Standards Board (IASB) actively in working towards the development of International Financial Reporting Standards (IFRSs) by exchanging comments and participating in the IASB projects.

Based upon the foregoing basic policy, the ASBJ and the IASB launched a joint project in March 2005 with the final goal of accomplishing convergence between Japanese GAAP and IFRSs. During the course of this project, both boards have exchanged views and discussed actively and, as a consequence, the ASBJ has been accelerating its revision of Japanese accounting standards to minimize the differences between the two standards. Since the ASBJ believes that a closer relationship should be established with other standard-setters around the world, the ASBJ and the Financial Accounting Standards Board of the United States (FASB) initiated periodical meetings between the representatives of both boards, commencing in May 2006.

In July 2006, the Planning and Coordination Committee of the Business Accounting Council issued an opinion paper entitled, "Towards the International Convergence of Accounting Standards" in which the committee pointed out the necessity of formulating a definite programme as soon as possible concerning a time-framed approach to the EU equivalence assessment for the purpose of accomplishing convergence of accounting standards by early 2008 for such issues as convergence whereof is considered as achievable reciprocally and also showing the progress of work for such issues as convergence thereof may require a longer time to accomplish.

While the ASBJ has occasionally announced the progress and prospects of convergence between Japanese GAAP and IFRSs, based on the foregoing opinion paper of the Business Accounting Council, the ASBJ has recently decided to formulate and release "ASBJ Project Plan" (attached hereto) focusing on such accounting standards development projects as those specifically related to convergence among other projects currently being undertaken, or planned to be undertaken in the future, in an attempt to

express in a clearer manner the status of initiatives of the ASBJ to various constituencies in Japan and abroad. In releasing the ASBJ Project Plan, primary emphasis was placed on mapping out the work planned to be achieved through the end of 2007, and also on clarifying the prospects of convergence status as of the beginning of 2008 concerning the initiatives to be undertaken with respect to the 26 issues for which the remedies were advised by the Committee of European Securities Regulators (CESR) in connection with the equivalence assessment.¹⁾

II. Relationship between the ASBJ Project Plan and the joint project on-going with the IASB

In their third meeting held in March 2006 on the joint project with the goal of achieving convergence of accounting standards, in order to accelerate the progress in convergence process the ASBJ and the IASB 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 "whole picture" approach where all differences in accounting standards to be addressed in the future are extensively expressed and projects will be initiated simultaneously in accordance with priority to be addressed.

Under this "whole picture" approach, major differences in accounting standards are classified into "short-term projects" that can be solved in a short time, and "longer-term projects" representing the remainder. Short-term project issues, at this stage, are scheduled to be solved either by 2008, or else, by then, at least, an overall course of actions for eliminating differences shall be determined. For longer-term projects, among others, putting the priority on the five issues, namely: revenue recognition, performance reporting (financial statement presentation), intangibles (including R&D expenses), the scope of consolidation (including SPEs), and retrospective restatement, the ASBJ has decided to initiate research projects in order to focus on setting up the course of actions for eliminating differences and to convey opinions or comments, if any, to the IASB and the FASB.

In their fourth meeting held in September 2006 on the joint project, both boards promoted mutual understanding through discussions and confirmed to continue the joint project, as well as confirmed the progress of each project plan

The ASBJ believes that differences between the two accounting standards could be decreasing by proceeding with the joint project between the ASBJ and the IASB. Also, the ASBJ is fully aware that the steady work should be continued to solve all the differences subject to the remedies for issues as

¹⁾ In the ASBJ, other than the project items related to convergence in the ASBJ Project Plan, the project items specific to the Japanese accounting standards are addressed through each technical committee such as business combinations, retirement benefits, modernization of corporate law, etc. Also, the ASBJ addresses the development of "Conceptual Framework" related to financial accounting as a main topic in conjunction with every accounting standard.



proposed by the CESR in light of their importance. Accordingly, the ASBJ envisions prioritizing these issues from viewpoint of their substance²⁾ and their progress and background in Japan and abroad³⁾ and aggressively undertaking the necessary initiatives.

III. Future steps for responding to the equivalence assessment by the EU

In its “STATEMENT ON JAPAN’S PROGRESS TOWARD CONVERGENCE BETWEEN JAPANESE GAAP AND IFRSs - In Reference to Technical Advice on Equivalence by the CESR” issued in January 2006, the ASBJ described the then current progress toward remedies for the issues advised by the CESR, and the prospects for convergence status as of 2008.

Thereafter, the ASBJ has carried out its work in accordance with this direction. Also, as agreed to shift the approach for the joint project with the IASB to the “whole picture” approach as stated above, it was decided that future directions will be extensively indicated with remedies for issues other than those advised by the CESR⁴⁾.

The environment surrounding convergence of accounting standards is constantly changing; accordingly, initiatives undertaken to cope with the technical advice on equivalence issued by the EU need to be constantly reviewed as well in light of such a continually evolving environment. In conjunction with the release of the ASBJ Project Plan, the ASBJ has updated the current status of progress with respect to remedies for issues advised by the CESR, its policy for initiatives to be undertaken, and the prospects for convergence status as of the beginning of 2008, as follows.

²⁾ When the application of remedies is assessed at the entity level, some of the differences identified by the CESR may be avoidable, depending on each entity’s rational choices of accounting policies.

³⁾ The issues related to the convergence project between the IASB and FASB will be deliberated considering the progress of their discussions. In addition, the issues related to recent developed standards in Japan should be taken into consideration assessment of the market.

⁴⁾ The MOU (Memorandum Of Understanding) containing mutual agreements between the FASB and the IASB was released in February 2006, in which initiatives to be undertaken for minimizing the differences between accounting standards by 2008 are stated in more concrete terms. In the joint project between the ASBJ and the IASB, the agenda to be discussed are decided based on the issues to be addressed in the above MOU. While the issues to be considered, such as revenue recognition and performance reporting (financial statement presentation), under the “whole picture” approach are not necessarily indicated in the ASBJ Project Plan, the ASBJ plans to make timely comments in accordance with the progress in discussions between the IASB and the FASB.

Issues advised by CESR concerning the equivalence assessment on Japanese Accounting Standards and the ASBJ's approach to those issues

Remedies	No.	Issues	Current status and policy	Prospects at the beginning of 2008
Supplementary statement	1	Business combinations (pooling-of-interest method)	The ASBJ will ascertain the feedback from markets on the accounting standards put into effect from 2006. To this end, a project team will be established by the end of 2006 in order to conduct market research in 2007. The application of the pooling-of-interest method is very limited only to business combinations where it is impossible to identify an acquiring party.	Deliberations will be made considering the results of market research, feedback from markets after the implementation of IFRS, and the progress in discussions between the IASB and the FASB. A discussion paper will be released as necessary.
	2	Scope of consolidation (qualified special purpose entities)	A technical committee was established for this issue. The committee has picked up the issue of the disclosure of SPE as the first agenda to be discussed and deliberations thereon have been initiated. Further study will be done considering the progress in discussions between the IASB and the FASB in 2007.	As for deliberations of the disclosure, its guidance will be released by March 2007. As for deliberations of the scope of consolidation, a discussion paper will be released taking into consideration the progress in discussions between the IASB and the FASB by the end of 2007.

Remedies	No.	Issues	Current status and policy	Prospects at the beginning of 2008
	3	Uniformity of accounting policies concerning overseas subsidiaries	With the release of Practical Issues Task Force (PITF) (May 2006), accounting policies applicable to foreign subsidiaries will be unified substantially with those applicable to parent companies. (Furthermore, consolidation of financial statements using IFRS or U.S. GAAP is now permitted here subject to certain adjustments.)	PITF will be applied from April 2008 (earlier application encouraged).
Disclosure B	4	Share-based payments (expense recognition)	Accounting standards and guidance were released (December 2005). Requisite disclosure is also defined therein. (See No.13, "Share-based payments - explanatory notes")	Accounting standards and guidance have been implemented since.
	5	Business combinations (date of exchange)	Deliberations will be conducted considering the progress in discussions between the IASB and the FASB also in conjunction with the deliberations of No. 1, "Business combinations (pooling-of-interest method)."	(See No. 1, "Business combinations, pooling-of-interest method")
	6	Business combinations (capitalization of acquired R&D in process)	Deliberations will be conducted by the Intangible Assets Working Group. (See No. 11, "Capitalization of development costs")	(See No. 11, "Capitalization of development costs")
	7	Business combinations (negative goodwill)	Information required to be disclosed as Disclosure B (amounts, causes of occurrence, methods of amortization and amortization periods) are already required under the new accounting standards put into effect from 2006.	Accounting standards and guidance are currently effective.

Remedies	No.	Issues	Current status and policy	Prospects at the beginning of 2008
	8	Inventories (LIFO)	A project team is to be established in 2007 to initiate deliberations. Only a few companies have adopted the LIFO method. Also, this is an issue for which the application of remedies can be avoided by the choice of accounting policies at each entity level.	A decision will be made on the course of action.
		Inventories (lower of cost or market method)	Accounting standards were released (July 2006) stipulating book value should be adjusted downward where any deterioration of earning power thereof exists.	Accounting standards will be applied from April 2008 (earlier application encouraged).
	9	Uniformity of accounting policies of associates	A project team will be established in 2007 to initiate deliberations. Also to include such issues that may arise from the introduction of IFRS in fiscal 2005 in the project team deliberations, it is considered that this issue may be brought up for redeliberation in the course of discussions with the IASB and/or with the FASB. (Under current Japanese accounting standards, uniformity of accounting policies applied to investing companies and their affiliates are considered to be desirable as a general rule, but such uniformity is not forced from practical considerations.)	Based on the deliberations by the project team, an exposure draft will be released as necessary.

Remedies	No.	Issues	Current status and policy	Prospects at the beginning of 2008
	10	Impairment tests	The ASBJ will assess feedback from markets on the impairment standards effective from 2005. To this end, a project team will be established in 2007 to conduct market research. Deliberations will be made reflecting the progress in discussions between the IASB and the FASB (short-term convergence project).	A decision will be made regarding the course of action to be taken, based on the results of market research and considering the progress in discussions between the IASB and the FASB. If IFRS are converged to U.S. GAAP, differences between Japanese accounting standards and IFRS will then be eliminated.
	11	Capitalization of development costs	A working group was established to initiate deliberations. Deliberations will be made taking into consideration the progress in discussions with the IASB and the FASB (short-term convergence project).	Discussion papers will be released by the end of 2007 based on the results of market research and taking into consideration the progress in discussions between the IASB and the FASB. If IFRS are converged to U.S. GAAP, differences between Japanese standards and IFRS will then be eliminated.
	12	Agriculture	Very few numbers of publicly listed companies are engaged in agricultural businesses.	—
<u>Disclosure</u> <u>A</u>	13	Share-based payments (explanatory notes)	(See No. 4, “Share-based payments - expense recognition”)	(See No. 4, “Share-based payments, expense recognition”)

Remedies	No.	Issues	Current status and policy	Prospects at the beginning of 2008
	14	Business combination (minority interests at historical cost)	Deliberations will be made taking into consideration the progress in discussions between the IASB and the FASB in conjunction with No. 1, "Business combinations (pooling-of-interest method)."	(See No. 1, "Business combinations, pooling-of-interest method")
	15	Business combinations (step acquisitions)	Deliberations will be made considering the progress in discussions between the IASB and the FASB in conjunction with No. 1, "Business combinations (pooling-of-interest method)."	(See No. 1, "Business combinations, pooling-of-interest method")
	16	Insurance contracts (catastrophic provisions)	The industry targeted for application is limited to the insurance industry and in the IASB currently the phase II discussion has been conducted.	—
	17	Construction contracts (percentage-of-completion method)	This issue was chosen as the agenda for a short-term joint project with the IASB, and a working group was established to initiate deliberations.	Accounting Standards and guidance will be released by the end of the year 2007.
	18	Non-performing loans	The development of specific measures against this issue is not considered to be necessary because the group of financial institutions already have certain established disclosure rules.	—
	19	Scrapping costs	(Deliberations will be conducted in conjunction with No. 24, "Asset retirement obligations")	(See No. 24, "Asset retirement obligations")

Remedies	No.	Issues	Current status and policy	Prospects at the beginning of 2008
	20	Pensions, Post Retirement Benefits (including the discount rate to be used for calculating retirement benefits obligations)	This issue was chosen as the agenda for the longer-term joint project with the IASB, and a working group will be established in 2007 to initiate deliberations and to convey opinions and comments to the IASB and the FASB.	A decision will be made on the course of action to be taken, based on considering the progress in discussions between the IASB and the FASB.
	21	Business combinations (translation of goodwill)	Deliberations are to be conducted in conjunction with No. 1, "Business combinations (pooling-of-interest method)".	(See No. 1, "Business combinations, pooling-of-interest method")
	22	Disclosure of financial instruments at fair value	This issue was chosen as the agenda for a short-term joint project with the IASB, and a working group was established to initiate deliberations.	Accounting standards and guidance will be issued by the end of the year 2007.
	23	Reversal of impairment loss	Deliberations will be conducted in conjunction with No. 10, "Impairment tests".	(See No. 10, "Impairment tests")
	24	Asset retirement obligations	Working Group was established on this issue which was added to topics for the convergence project with the IASB.	Accounting standards and guidance will be issued by the end of 2007.

Remedies	No.	Issues	Current status and policy	Prospects at the beginning of 2008
	25	Investment property	This is the agenda for the short-term joint project with the IASB. The ASBJ will continue to provide its own comments to the IASB. Deliberations will be made taking into consideration the progress in discussions between the IASB and the FASB (short-term convergence project).	A decision will be reached on the course of action taking into consideration the progress in discussions between the IASB and the FASB. If IFRS are converged to U.S. GAAP, differences between Japanese standards and IFRS will then be eliminated.
Future agenda	26	Financial instruments	Because of the complexity of pertinent Japanese standards, the position of the CESR is to continue reviewing its technical assessments. Therefore no particular actions are scheduled at this stage. Deliberations will be made taking into consideration the progress in discussions between the IASB and the FASB.	—

(Note 1) The ASBJ puts the above “No.” for convenience.

(Note 2) Headings in the column “Remedies” means as follows.

Supplementary statement : Pro-forma statements including a limited restatement for taking account of one identified aspects of IFRS requirement that is not present or not fully applied under Japanese GAAP

Disclosure B : Quantitative indication of the impact of an event or transaction under IAS/IFRS provisions (The gross and net of tax effect of the difference on the profit and loss or on the shareholders’ equity)

Disclosure A : Additional narrative and/or quantitative disclosures augmenting the disclosures already provided pursuant to Japanese GAAP

Future Agenda : To be reconsidered later