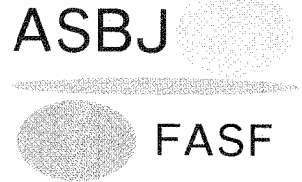


**Accounting Standards Board of Japan (ASBJ)**  
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December 22, 2004

Committee of European Securities Regulators  
11-13 Avenue de Friedland  
75008 Paris  
France

Dear Sirs,

**Comments on the Draft Concept Paper on Equivalence of Certain Third Country GAAP and on Description of Certain Third Countries' Mechanisms of Enforcement of Financial Information**

The Accounting Standards Board of Japan (ASBJ) is grateful that the Committee of European Securities Regulators (CESR) has given us the opportunity to comment on the "Draft Concept Paper on Equivalence of Certain Third Country GAAP and Description of Certain Third Countries' Mechanisms of Enforcement of Financial Information"(Draft Concept Paper). Although we briefly presented the improvements in accounting standards in Japan and the current situation of the ASBJ at the open hearing held on November 23, we would like to explain them again in more detail and make comments on the Draft Concept Paper.

**I. Improvement of Accounting Standards in Japan**

Since the mid-1990s, when the International Accounting Standards Committee (IASC) started the core standards program on the request of the International Organization of Securities Commissions (IOSCO), Japan has also developed accounting standards such as Consolidated Financial Statements, Financial Instruments, Income Tax, Retirement Benefits, Impairment of Assets, and Business Combinations in accordance with international accounting standards. Through these efforts, accounting standards in Japan have reached a level of high quality, internationally recognized accounting standards.

**II. Structure of ASBJ and Stance on the International Convergence of Accounting Standards**

**1. Structure of ASBJ**

The ASBJ was established in 2001 as a private-sector organization for setting accounting standards. It has thirteen board members (two of them full-time) and twenty technical staff (all full-time). Board members are market participants such as preparers, investors, auditors, and analysts as well as academic professionals.

The ASBJ has been developing accounting standards under the fundamental philosophies of “fairness,” “transparency” and “independence,” considering international accounting standards as an important environmental factor. These principles are stated in the Medium-Term Operating Policy of the Accounting Standards Board of Japan formulated in July 2004 as a basic principle for the development of accounting standards.

## 2. Stance of the ASBJ on the Convergence of Accounting Standards

The medium-term operating policy of the ASBJ states that “the ASBJ agrees with the objective of international convergence to achieve high-quality accounting standards, since they are beneficial to capital markets around the world” as a basic stance on the international convergence of accounting standards.

The ASBJ has started talks with the International Accounting Standards Board (IASB) about a joint project to reduce the differences between accounting standards as much as possible and the initial meeting will be held in early spring of 2005.

The ASBJ recognizes that reducing the differences between accounting standards as much as possible through the joint project is important for the development of global capital markets.

## 3. Conceptual Framework

The ASBJ released a discussion paper “Conceptual Framework of Financial Reporting” in July 2004. This was the result of a study by a working group commissioned by the board and was released in the name of the ASBJ. It is not a final statement but summarizes the basic philosophies underlying current Japanese accounting standards. Therefore it is useful for understanding current Japanese accounting standards.

The discussion paper consists of “Objectives of Financial Reporting,” “Qualitative Characteristics of Accounting Information,” “Elements of Financial Statements,” and “Recognition and Measurement in Financial Statements.” In “Objectives of Financial Reporting,” the discussion paper states that the primary objective of financial reporting is to provide investors with information that is useful in investors’ decision-making, which is similar to the IASB Framework.

# III. Comments on the Draft Concept Paper

## 1. Basic Comments

The ASBJ recognizes that the Draft Concept Paper on equivalence of certain third country GAAP by the CESR appropriately states the objective of equivalence and the process of assessment to maintain the transparency of assessment. We hope that the CESR will maintain the stance on actual assessment that “third country GAAP can be declared as equivalent to IAS/IFRS when financial statements prepared under such third country GAAP enable investors to take at least a similar decision” stated in the

section "Objective of Equivalence" in the Draft Concept Paper.

## 2. Specific Comments

### 1) Review of General Principles

- The Draft Concept Paper states that "third country GAAP could appear as not equivalent if they do not cover all topics regulated by IAS/IFRS." (par. 27) It should be kept in mind that in some cases third country GAAP does not cover some IAS/IFRS because they are not relevant to the third country due to differences in market environments and economic situations. For example, we do not have standards corresponding to Financial Reporting in Hyperinflation Economics (IAS29) and Agriculture (IAS41).

### 2) Technical Assessment

- The Draft Concept Paper states that "CESR may have to make assumptions on standards and interpretations that will potentially be in force as of 1<sup>st</sup> January 2005." (par. 36) We request that at least accounting standards which are issued before 1<sup>st</sup> January 2005 and will be applied to issuers by 2007 should be included in items for the technical assessment because the equivalent requirement for non-EU issuers under the EU directives will be applied from 2007. Specifically, Impairments of Assets and Business Combinations should be included.

Accounting standards that are being developed now and are scheduled to be applied to issuers by 2007 should also be included in items for technical assessment. For example, Share-based Payment should be included.

- The global assessment of the equivalence of the third country GAAP should not be conducted as a basis of whether third country GAAP is identical to IAS/IFRS or not. Rather than that, the rationality underlying the differences should be considered.

We hope that our comments will contribute to the work of the CESR.

Sincerely yours,



Ikuo Nishikawa  
Vice-Chairman, Accounting Standards Board of Japan