

ASBJ Statement No. 10 (revised 2006)

Accounting Standards for Financial Instruments

August 11, 2006

Accounting Standards Board of Japan (ASBJ)

Remarks on the Release

“Accounting Standards for Financial Instruments” published by the Business Accounting Council in January 1999 (hereinafter referred to as the ‘Pre-amended Accounting Standards’) required debt securities to be presented at their face value on the balance sheets in accordance with the rules of the Commercial Code which stated monetary liabilities shall be presented at their face value on the balance sheet. Therefore, when debt securities were issued at price lower or higher than their face value, the differences between face value and the amount actually received were to be included as assets or liabilities on the balance sheet, and had to be amortized until the maturity date using predetermined systematic methods.

However, the Corporate Accounting Rules under the Corporate Law enforced in May 2006 allows all liabilities to be presented at value other than face value. Also, Pre-amended Accounting Standards have not been revised although Commercial Code rules on convertible debt securities and debt securities with warrant rights had been amended. In addition, the Accounting Standards Board of Japan publicly released ASBJ Statement No. 5 “Accounting Standards for Presentation of Net Assets in the Balance Sheet” in December 2005, and it states that the subscription rights to shares and valuation and translation adjustments (including deferred gains or losses on hedges, or valuation difference of available-for-sale securities) shall be presented in net assets.

Given the circumstances described above, the ASBJ has deliberated the revision on Pre-amended Accounting Standards. Exposure drafts of the above-captioned Accounting Standards (hereinafter referred to as ‘Amended Accounting Standards’) were released on June 6, 2006, and comments were widely sought. The ASBJ reviewed the comments received, revised the exposure drafts, and approved ASBJ statement No. 10 for public release at the 110th ASBJ meeting of August 8, 2006.

Outline of the Amended Accounting Standard

Followings are the summary of the main amendments that have been made to the Pre-amended Accounting Standards.

Valuation of Monetary Debts including Debts Securities

Under the Pre-amended Accounting Standards, debt securities were required to be presented at their face value on the balance sheets, and if they were issued at price lower or higher than their face value, the differences between face value and the amount actually received were to be included under assets or liabilities on the balance sheet, and had to be amortized until the maturity date following predetermined systematic methods.

Under the Amended Accounting Standards, liabilities such as notes payable, accounts payable, borrowings and debt securities are required to be presented on the balance sheets at their face value. However, if they are to be issued at price lower or higher than their face value, amortized cost shall be recorded on the balance sheets by using an accretion or amortization of the differences between fair value and the amount actually received.

Presentation for Valuation Difference of Available-for-Sale Securities, Deferred gains or losses on hedges, and Subscription Rights to Shares

(1) Valuation difference of available-for-sale securities

Under the Pre-amended Accounting Standards, in principle, changes in the valuation difference of available-for-sale securities (the amount recorded after deducting related deferred tax assets or deferred tax liabilities) were to be directly recorded at equity section with the exception when any valuation difference is recognized in loss. Under the Amended Accounting Standards, they (that is any valuation difference recorded in equity section under the Pre-amended Accounting Standards) are to be included in net assets section.

(2) Deferred gains or losses on hedges

Under the Pre-amended Accounting Standards, any gains or losses on hedging instruments which were marked to market were deferred in assets section or liabilities section until the gains or losses on the corresponding hedged items are recognized. Under the Amended Accounting Standards, they are to be recorded in net assets section after deducting related deferred tax assets or deferred tax liabilities.

(3) Subscription rights to shares

Under the Pre-amended Accounting Standards, warrant right were to be recorded in liabilities by issuers. Under the Amended Accounting Standards, subscription rights to shares (including warrant right) are to be included in net assets section.

Accounting for Compound Financial Instruments with Option to Increase Paid-in-capital

Pre-amended Accounting Standards for compound financial instruments with option to increase paid-in-capital provides the accounting treatments for convertible debt securities and debt securities with warrant rights. Under Amended Accounting Standards, the accounting rules for bonds with subscription rights to shares are described.

Effective Date

Entities shall apply the Amended Accounting Standards for the fiscal year or interim period ended on or after the Amended Accounting Standards are publicly released. Entities are allowed to apply the Amended Accounting Standards to fiscal year or interim period ended after the Corporate Law takes effect (May 1, 2006) but before the Amended Accounting Standards are publicly released. Entities must take into account that the first-time application of amortized cost method is regarded as changes in accounting policies due to changes in accounting standards.

As for the specific guidelines for adoption of the Amended Accounting Standards, Japanese Institute of Certified Public Accountants (JICPA) is to revise the “Practical

Guidelines on Accounting Standards for Financial Instruments (Accounting System Committee Report No. 14).” Moreover, the ASBJ is to deliberate on “Practical Solution on Accounting for Subscription Rights to Shares and for Bonds with Subscription Rights to Shares under Commercial Code” (ASBJ PITF No.1 (revised 2005)) and “Practical Solution on Accounting for Subscription Rights to Shares and for Bonds with Subscription Rights to Shares under Corporate Law” (ASBJ PITF No.16) in the near future.