

*ASBJ Statement No. 11*

## **Accounting Standard for Related Party Disclosures and**

*ASBJ Guidance No. 13*

## **Guidance on Accounting Standard for Related Party Disclosures**

**October 17, 2006**

**Accounting Standards Board of Japan**

### **Remarks on the Release**

The Accounting Standards Board of Japan (hereinafter referred to as the "ASBJ") was, in accordance with a decision in March 2005 to put the issue of related party disclosures on the discussion agenda for the joint project for the convergence of accounting standards between the ASBJ and the International Accounting Standards Board (hereinafter referred to as the "IASB"), examining the specifics of related party disclosures for the purpose of developing accounting standards in Japan.

The ASBJ published for public comment the exposure draft for the accounting standard and the guidance on June 6, 2006. The ASBJ reviewed the comments received, and amended part of the proposed standard and guidance to reflect the comments. On October 10, 2006, at the 114th meeting, the ASBJ approved ASBJ Statement No. 11 and ASBJ Guidance No. 13 (hereinafter, the accounting standards) for public release.

## **Outline of the Accounting Standards**

The accounting standards address related party disclosures from a viewpoint of ensuring international convergence of accounting standards, taking into consideration such as a comparative analysis between the current rules associated with the Securities and Exchange Law (the Regulation for Financial Statements and the Regulation for Consolidated Financial Statements) and International Financial Reporting Standards and U.S. generally accepted accounting principles.

This outline of the Accounting Standards focuses on the points that have details different from the current rules associated with the Securities and Exchange Law.

### **■ Scope of Related Parties**

In the Accounting Standard, the following parties are additionally defined as related parties (refer to Paragraph 5 of the Accounting Standard):

Jointly controlling investing entities of the entity preparing financial statements

Jointly controlled entities

Directors of the parent entity and their close family members, as well as any entities in which those parties own, for their own account, majority voting rights, and their subsidiaries

Important persons among directors of subsidiaries and their close family members, as well as any entities in which those parties own, for their own account, majority voting rights, and their subsidiaries

Corporate pension plans for employees (only where any material transaction is made between the pension plans and the entity in any area other than payments of contributions)

Accounting councilor and their family members, as well as any entities in which those parties own, for their own account, majority voting rights, and their subsidiaries

Of those parties, ① jointly controlling investing entities of the entity preparing financial statements (any entities that jointly control the entity preparing financial statements) and ② jointly-controlled entities (any entities that are controlled jointly by the entity preparing financial statements (which, for consolidated financial statement purposes, are included in its consolidated subsidiaries) and any other independent entities) are prescribed in the "Accounting Standard for Business Combinations" and are, in accordance with the revised rules associated with the Securities and Exchange Law, clearly specified as falling under "other related entities" and "affiliates," respectively. The categories ③ to ⑤ are newly added from a viewpoint of ensuring more adequate related party disclosures as well as by reference to internationally

accepted accounting standards, and the category ⑥ for accounting councilor is defined in consideration of the fact that they are now prescribed as directors under the Corporate Law.

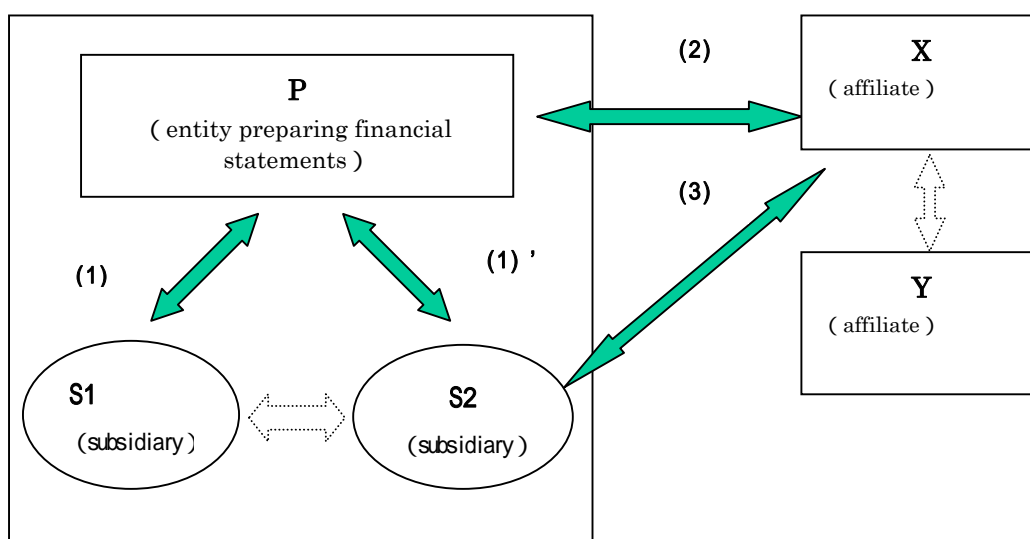
Whether a party falls under any category of related party or not should be judged by the concept of substance over form(Paragraph 17 of the Accounting Standard).

#### ■ **Scope of Transactions Subject to Disclosure**

In the same way as the internationally accepted accounting standards, any transactions between consolidated subsidiaries and a related parties shall be disclosed as transactions with related parties in consolidated financial statements, so that users of the financial statements will be able to comprehend more properly the effects of the transactions with the related parties on consolidated financial statements (Paragraph 6 of the Accounting Standard).

Note that for the purpose of disclosures in consolidated financial statements, any transactions that are eliminated during the course of preparing consolidated financial statements are to be excluded from the disclosure requirement, as are the case under the current rules associated with the Securities and Exchange Law and internationally accepted accounting standards (refer to Paragraph 6 of the Accounting Standard).

(Chart) Scope of Transactions Subject to Disclosure



\* White arrows indicate transactions not covered by the disclosure requirement.

(Note) Scope of related parties and transactions subject to disclosure

Scope of related parties

For the purpose of non-consolidated financial statements of Entity P:

Entities S1, S2, X and Y

For the purpose of consolidated financial statements of Entity P:

Entities X and Y

Scope of transactions with related parties covered by the disclosure requirement

a. For a entity preparing financial statements on a consolidated basis: Under the current rules associated with the Securities and Exchange Law, Type (2) transactions only

Under the Accounting standard, Type (2) and (3) transactions

For the purpose of consolidated financial statements, Entities P, S1 and S2 are consolidated entities of which transactions with related parties are covered by the disclosure requirement

b. For a entity preparing financial statements on a non-consolidated basis: Under the current rules associated with the Securities and Exchange Law, Type (1), (1)' and (2) transactions

Same under the accounting standard: Type (1), (1)' and (2) transactions

## ■ Disclosure Regarding Transactions with Related Parties

In addition to the disclosure items under the current rules associated with the Securities and

Exchange Law, the accounting standards also require information on the provision for the future credit losses and on actual credit losses etc., as information concerning doubtful receivables and uncollectable receivables in connection with transactions with related parties (refer to Paragraph 10(8) of the Accounting Standard).

Note that the criteria for the determination of materiality in relation to the disclosure items regarding transactions with related parties are described in Paragraphs 13 to 18, and 20 of the Guidance.

#### ■ **Disclosure Regarding the Existence of Related Parties**

While the current rules associated with the Securities and Exchange Law require only the disclosure of transactions between the entity preparing financial statements and its related parties, information on the parent entity etc. is presumably material information for the purpose of understanding a entity's financial statements. Therefore, the Accounting Standard additionally requires the disclosure of the existence of related parties, as is the case under internationally accepted accounting standards.

More specifically, it requires that the name etc. of the parent entity should be disclosed as information on the parent entity. In relation to significant affiliates, it also requires the disclosure of their names and condensed financial information, as is the case under internationally accepted accounting standards (refer to Paragraph 11 of the Accounting Standard).

Note that criteria for the determination of materiality of significant affiliates are described in Paragraphs 19 and 20 of the Guidance.

#### ■ **Effective Date**

Considering that entities preparing financial statements will need to make themselves ready to address the expanded scope of related parties, these accounting standards becomes effective for consolidated and non-consolidated financial statements of a consolidated and non-consolidated fiscal year beginning on or after April 1, 2008. These accounting standards may also be applied to consolidated and non-consolidated financial statements of consolidated and non-consolidated fiscal years beginning on or after April 1, 2007 (refer to Paragraph 12 of the Accounting Standard).

The end.