ASBJ PITF No. 18

Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements

May 17, 2006

Accounting Standards Board of Japan

Remarks on the Release

Generally, the accounting policies applied to foreign subsidiaries for the preparation of consolidated financial statements should be unified within group entities. However, according to the Japanese Institute of Certified Public Accountants Auditing Committee Report No. 56, "Tentative Audit Treatment Concerning the Adoption of Consistent Accounting Policies by Parent and Subsidiary Companies" (hereinafter, the Audit Guideline), the accounting policies applied to a parent company and those of foreign subsidiaries are tentatively not required to be uniform, even if accounting policies applied to foreign subsidiaries in accordance with their local generally accepted accounting principles (GAAP) differ from the accounting policies uniformly applied to the parent company and other subsidiaries. This rule applies unless the accounting policies of foreign subsidiaries are acknowledged as unreasonable.

Since the Audit Guideline was issued in 1997, Japanese GAAP have improved to become equivalent to international standards, and the application of international standards has changed such that many countries in Europe and elsewhere have begun adopting International Financial Reporting Standards (IFRSs). For these reasons, the Accounting Standards Board of Japan (ASBJ) has deliberated revision of the above-stated, tentative treatment.

An exposure draft was released in November 2005, and comments were widely sought. The ASBJ reviewed the comments received, revised the exposure draft, and approved Practical Issues Task Force No. 18 (hereinafter, PITF) for public release at the 104th ASBJ meeting of May 12, 2006.

Outline of the PITF

Principle treatment

For the preparation of consolidated financial statements, the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should be unified, in principle.

Tentatively permitted treatment

Financial statements prepared by foreign subsidiaries in accordance with IFRSs or the generally accepted accounting principles in the United States (U.S. GAAP) tentatively may be used for the consolidation process. The financial statements prepared by foreign subsidiaries described above include financial statements required by the regulations of the jurisdiction of a foreign subsidiary, financial statements intended for disclosure, and financial statements prepared internally for consolidation purposes.

However, the following items should be adjusted in the consolidation process so that net income is accurately accounted for, unless they are not material:

- Amortization of goodwill
- Actuarial gains and losses of defined benefit plans recognized outside profit or loss
- Capitalization of intangible assets arising from development phases
- Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
- Retrospective application when accounting policies are changed
- Accounting for net income attributable to a minority interest

If items other than those listed above are identified as clearly unreasonable items, they should be adjusted in the consolidation process as well.

Major changes

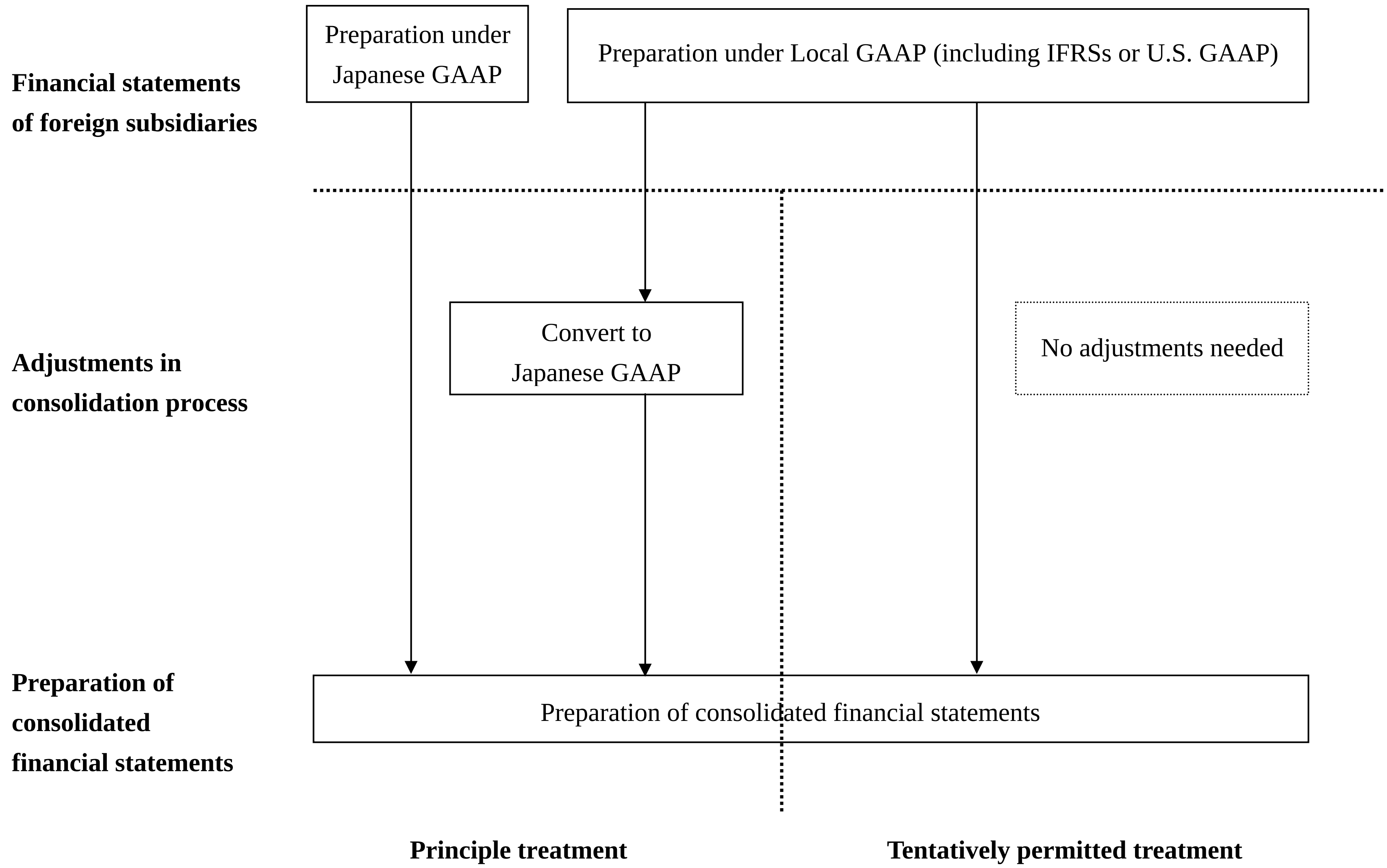
Existing tentative permitted treatment under the Audit Guideline (Attachment 1)	Tentatively permitted treatment under the PITF (Attachment 2)
● Even if accounting policies applied to foreign subsidiaries in accordance with their local GAAP are different from the accounting policies uniformly applied to a parent company and other subsidiaries, the accounting policies applied to the parent company and those of foreign subsidiaries are tentatively not required to be uniform.	● Financial statements prepared by foreign subsidiaries in accordance with IFRSs or U.S. GAAP tentatively may be used for the consolidation process. The financial statements prepared by foreign subsidiaries described above include financial statements required under the regulations of the jurisdiction of the foreign subsidiary, financial statements intended for disclosure, and financial statements prepared internally for consolidation purposes (consolidation package).
● If an accounting policy applied to foreign subsidiaries is acknowledged as unreasonable, adjustments to the financial statements of the foreign subsidiaries are required in the consolidation process.	● The items listed in the PITF should be adjusted in the consolidation process so that net income is accurately accounted for. ● If items other than those listed in the PITF are identified as clearly unreasonable items, they should be adjusted in the consolidation process as well.

Effective date

This PITF becomes effective for consolidated financial statements of a consolidated fiscal year beginning on or after April 1, 2008. This PITF may also be applied to consolidated financial statements of consolidated fiscal years beginning prior to April 1, 2008.

Concerning the balances of assets and liabilities on the balance sheets of foreign subsidiaries as at the beginning of the fiscal year of the initial application of the PITF, if the application of the PITF causes some amounts to be accounted for as items of net income or loss of previous years, the net amount of these adjustments should be reflected as a change in retained earnings as of the beginning of the fiscal year. Also, if the application of the PITF causes some amounts to be accounted for as items of valuation and translation adjustments of previous years, the net amount of those adjustments should be reflected as a change in the corresponding accounts of valuation and translation adjustments. In addition, if minority interests exist, the amounts which are not attributable to the parent company should be reflected as a change in minority interests.

Attachment 1: Consolidation process under existing practice



Attachment 2: Consolidation process under the PITF