ASBJ Statement No. 8

Accounting Standard for Share-based Payment

ASBJ Guidance No. 11

Guidance on Accounting Standard for Share-based Payment

December 27, 2005

Accounting Standards Board of Japan

Remarks on the Release

In light of increasing use of subscription rights to shares as share options since its introduction under the revised Commercial Code in November 2001, the Accounting Standards Board of Japan (ASBJ) has deliberated on accounting for share options, referring to the developments of similar standards by other international accounting standard setters.

In examining the basic direction of accounting treatments, the ASBJ gathered opinions as widely as possible from constituents by surveying the actual use of share options in Japan, releasing the issues paper, and holding public hearing. The ASBJ published the results of deliberations as an exposure draft in December 2004 taking these opinions into consideration. After the deliberation of the application guidance for the standard, the ASBJ released the revised exposure draft for the standard and its application guidance in October 2005.

Under the legal environment for share option being developed in the meantime, the ASBJ reviewed the comments received, revised the exposure drafts, and approved ASBJ Statement No. 8 and ASBJ Guidance No. 11 for public release at the 95th ASBJ meeting of December 20, 2005.

Outline of the Accounting Standard

Scope

This standard shall apply to the following transactions:

(1) Transactions in which a company grants its own share options to its employees as a compensation (hereinafter, referred to as "**employee share option(s)**")

(2) Transactions in which a company grants its own share options as a compensation for goods or services (excluding the transactions covered by Scope (1))

(3) Transactions in which a company grants its own shares as a compensation for goods or services.

Accounting Treatments prior to the Vesting Date

(1) Basic idea

When share options are granted to employees and the company acquires services in exchange, the services acquired and consumed shall be expensed, and the corresponding amount shall be recorded as "the subscription rights to shares" (meaning "share options") in net assets section of the balance sheet, until they are exercised or are expired.

(2) Amount to be expensed in each accounting period

The amount to be expensed in each accounting period shall be the accrued portion of the fair value (of total service expected to be acquired, the value of which is measured by the fair value) of the share options granted (hereinafter, referred to as "**SOFV**") calculated using a method based on the service period or other reasonable method.

- SOFV = Per unit fair value of the share option granted (hereinafter, referred to as "**SOFV per unit**") × Number of share options to be vested (hereinafter, referred to as "**SO number**")

(3) SOFV per unit (Per unit fair value of the share option granted)

1) SOFV per unit shall be measured as of the grant date and shall not subsequently be re-measured (except in the case of modifications.)

2) Basic ideas of measurement

   a. Because it is usually difficult to quote market value, SOFV per unit shall be measured utilizing a measurement method that meets certain conditions.

   b. The measurement method to be utilized needs to be adjusted, when necessary, to appropriately reflect the characteristics of, or conditions associated with, the granted share options except for factors which affect SO number).

(4) SO number (Number of share options to be vested)

1) On the grant date, SO number shall be estimated by deducting the estimated number to be forfeited from the granted number.

2) During the vesting period, the estimation of SO number shall be updated, so far as the change is material.
   ==> The corresponding impact on profit or loss statement shall be reflected when the estimation is updated.

3) On the vesting date, the SO number shall be matched to the actual number vested as of the vesting date.
   ==> The corresponding impact on profit or loss statement shall be reflected on the vesting date.

Accounting Treatments after the Vesting Date

(1) Exercise of share options

The portion of the “subscription rights to shares” corresponding to the exercised share options shall be transferred to owners’ equity (paid-in capital).

(2) Nullification due to expiration

The portion of the “subscription rights to shares” corresponding to the expired share options shall be transferred to owners’ equity (retained earnings) through profit.

Modifications

(1) Modifications causing a change in the SOFV per unit

1) If the SOFV per unit on the modification date is greater than that on the grant date

A. Expensing based on the SOFV prior to the modification shall be continued.

B. On top of A, incremental SOFV corresponding to the upward modification of SOFV per unit from that on the grant date, shall be expensed over the remaining service period.

2) If the SOFV per unit on the modification date is less than that on the grant date

Expensing based on the SOFV prior to the modification shall be continued (Downward modification of SOFV per unit from that on the grant date shall not be reflected).

(Note)

Accounting for the modification shall be applied based on the underlying economic substances of transactions. Therefore, the accounting for modification shall be applied to cancellations of share options in exchange for granting new share options with revised conditions, if the economic effects, as a whole, are substantially the same as modification.

(2) Modifications causing a change in the estimation of the SO number

A. Expensing based on the SOFV prior to the modification shall be continued.

B. On top of A, the change in SOFV corresponding to the modification of the estimated SO number, shall be expensed over the remaining service period.

(3) Modifications causing a change in the service period

The amount is expected to be expensed over the original remaining service period shall be expensed over the revised remaining service period.

Non-Public Entities

Non-public entity can select intrinsic value based accounting, subject to the additional disclosures of the realized value of share options on exercise dates and total intrinsic value at the end of each accounting period.

Group transactions （Non-Consolidated Financial Statements）

(1) A parent company

Services the parent company enjoys at the site of its subsidiary as a result of granting its own share options to the employees of its subsidiary shall be expensed on the non-consolidated financial statement of the parent company.

(2) A subsidiary

1) In the case where parent-company share options are also used as a compensation of the subsidiary company for its employees, like in the case where parent-company share options have been incorporated in the employee compensation plan in the subsidiary company.

==> Services provided by employees in exchange for the parent-company share options shall be expensed also on the non-consolidated financial statements of the subsidiary.

==> At the same time, gains due to the exemption from any payments of compensation shall also be recorded on the non-consolidated financial statement of the subsidiary, as the subsidiary company does not bear any burden of its own.

2) In the case other than the case 1) above

==> There is no need for any accounting treatments on the non-consolidated financial statements of the subsidiary.

Scope (2) and (3) (Other share based payment transactions in which share options or shares of the reporting company are used as a compensation)

The accounting treatment for share options (Scope (2)) or shares (Scope (3)) used as compensation in acquiring goods or services, shall be consistent with the accounting treatment for employee share options (Scope (1)).

In scope (2) or (3), however, the fair value should be measured on the side (i.e. the share options (or the shares) granted or the goods or services acquired) that leads to more reliable measurement.

Disclosure in notes

(1) Impact of the application of this Standard on financial statements

Following impacts shall be noted.

1) On acquiring services

==> The expensed amount in the accounting period (and its account name)

2) On acquiring goods

==> The asset value initially recognized (and its account name)

3) On the expiration of share options

==> The profited amount

(2) Terms of, Scope of, and Changes in Share Options

Scope: Share options in existence during the accounting periods concerned

Notes:

A Grantee categories (executives, employees, etc.) and numbers of grantees

B Number of share options

(a) Granted number
(b) Nullified number (due to forfeiture)
(c) Vested number
(d) Number yet to be vested
(e) Exercised number
(f) Nullified number (due to expiration)
(g) Number yet to be exercised

b, c, e and f	Figures during the accounting period shall be disclosed.
d and g	Figures at the beginning and the end of the accounting period shall be disclosed.

C Grant date

D Vesting conditions (when there are no vesting conditions, a statement to that effect)

E Service period (when no requisite service period has been provided, a statement to that effect);

F Exercise period

G Exercise price

H Fair value per share option at the grant date

I Average share price at exercise (for those exercised during the accounting period)

Unit: In principle, figures to be disclosed should be provided with respect to individual agreements. In certain cases, however, it is permissible to provide aggregate figures for multiple agreements.

(3) Estimation methods for SOFV per unit and SO Number

1) Estimation methods for SOFV per unit

Scope: Share options granted or modified during the accounting period

Notes: A Calculation method utilized

B Key figures and estimation methods utilized

* For non-public entities, the method for estimating the value of the company's share shall also be described in notes.

2) Estimation methods for SO Number

The method for estimating the number of share options forfeited due to failure to meet service conditions or performance conditions shall be described.

(4) Non-public entity

If non-public entity selects intrinsic value based accounting, following disclosure shall be additionally required in notes.

1) Total intrinsic value of share options at the end of each period

2) Total intrinsic value, at the exercise date, of share options exercised during the period

(5) Modifications

When descriptions previously disclosed in notes are changed as a result of a modification, those changes shall also be disclosed in notes.

Effective Date

This accounting standard applies to share options granted to employees, other share options and shares within the scope of the standards on and after the date on which the Corporation Law takes effect.