

ASBJ Statement No. 1 (revised 2006)

Accounting Standard for Treasury Shares and Appropriation of Legal Reserve

ASBJ Guidance No. 2 (revised 2006)

Guidance on Accounting Standard for Treasury Shares and Appropriation of Legal Reserve

August 11, 2006

Accounting Standards Board of Japan (ASBJ)

Remarks on the Release

In line with the enforcement of the Corporate Accounting Rules on May 2006, the Accounting Standards Board of Japan (ASBJ) has undertaken a series of deliberations for the purpose of making requisite amendments to ASBJ Statement No. 1, “Accounting Standard for Treasury Shares and Appropriation of Legal Reserve” issued by the ASBJ on February 21, 2002, as last amended on December 27, 2005 (hereinafter referred to as the “Pre-amended Accounting Standard”), and ASBJ Guidance No. 2 “Guidance on Accounting Standard for Treasury Shares and Appropriation of Legal Reserve” issued on the same day, as last amended on December 27, 2005 (hereinafter referred to as the “Pre-amended Guidance”).

The ASBJ released exposure drafts on June 16, 2006 to seek comments and revised them based on the comments received. The ASBJ hereby issues the above-captioned ASBJ Statement (hereinafter referred to as the “Amended Accounting Standard”) and Guidance (hereinafter referred to as the “Amended Guidance”), which were approved in the 110th ASBJ meeting held on August 8, 2006.

Outline of the Amended Accounting Standard and the Amended Guidance

The following outline summarizes the major changes to the Pre-amended Accounting Standard and the Pre-amended Guidance.

Retirement of Treasury Shares

The Pre-amended Accounting Standard permitted companies to decide whether the book value of treasury shares to be retired is to be deducted from either capital surplus or earned surplus. However, as the Corporate Accounting Rules have stipulated that the book value of treasury shares to be retired shall first be deducted from other capital surplus, the Amended Accounting Standard was revised accordingly. Furthermore, the Amended Accounting Standard stipulates that when the balance of other capital surplus at the end of an accounting period would become negative as a result of such a retirement of treasury shares, the negative balance of other capital surplus shall be zero and the negative balance shall be deducted from other earned surplus (earned surplus brought carried forward).

Offsetting the negative balance of earned surplus with other capital surplus

The Corporate Law (Law No. 86 of 2005) has enabled companies to reclassify the amount within surpluses accounts by the resolution of the general meeting of shareholders (not limited to the resolutions of annual shareholders' meetings). The Pre-amended Accounting Standard allowed offsetting the negative balance of earned surplus with other capital surplus, and the Amended Accounting Standard expressly stipulates that the amount of the earned surplus eligible for such offsets shall be limited to the negative balance of this account at the end of fiscal year, from the viewpoint of preventing the blurring of the distinction between capital surplus and earned surplus.

Treatment of the concurrent disposal of treasury shares and issuance of new shares

The method of calculating the maximum allowable increase of paid-in capital and capital legal reserve, etc., when the disposal of treasury shares and the issuance of new shares are effected at the same time, has been stipulated by the Corporate Accounting Rules. Following that, the Amended Guidance expressly stipulates that the allocation of paid-in capital to be increased (paid-in capital, capital legal reserve and other capital surplus) shall be treated in accordance with the provisions of the Corporate Law and the Corporate Accounting Rules, and adds an example of accounting treatment when the disposal of treasury shares and the issuance of new shares are effected at the same time.

Effective date

The Amended Accounting Standard and Amended Guidance shall apply to matters to which the provisions of the Corporate Law will apply, on or after the date on which the Amended Accounting Standard and Amended Guidance are issued; provided however, the Amended Accounting Standard and Amended Guidance may be applied to matters to which the provisions of the Corporate Law were applied prior to the date on which the Amended Accounting Standard and Amended Guidance were issued in 2006.