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The Committee of European Securities Regulators

11-13 avenue de Friedland

75008 Paris, FRANCE

**Comments on, "Draft Concept Paper on Equivalence of Certain Third Country GAAP
and Description of Certain Third Countries Mechanisms of Enforcement of Financial
Information."**

Dear Sirs:

We, the Japanese Institute of Certified Public Accountants (JICPA), are pleased to provide you with our comments about the above draft concept paper.

Japan has significantly enhanced its accounting and auditing systems in the last decade. Most of the International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS) have been reflected in recent Japanese accounting standards, and we believe that the Japanese accounting standards are substantially more equivalent to IAS/IFRS than those of any other country. In auditing system, we established the quality assurance review system performed by JICPA several years ago and recently introduced third party monitoring by the Certified Public Accountants and the Auditing Oversight Board (CPAFOB).

Concerning the assessment of equivalence by the Committee of European Securities Regulators (CESR), we believe that the Japanese accounting and auditing system is equivalent not only in terms of the standards but also in terms of the whole system to that of Europeans which will implement IAS/IFRS, and we hope that CESR will arrive at the same conclusion.

JICPA supports the proposal in which CESR refers to investors' needs and ensures transparency in assessing equivalence of certain third country GAAP. We also agree with the proposed definition of equivalence that does not mean "identical standards," but the one that emphasizes whether it enables investors to make similar decisions based on financial statements prepared under the third

country GAAP. For a country like Japan, where the large capital market has a long history, accounting standards have to be developed through discussions for achieving consensus among stakeholders in its standards setting process. Replacing an incumbent set of accounting standards, which have been in force for a long period of time, with a new set of accounting standards is extremely difficult unless its capital market is integrated like in the EU. Accordingly, Accounting Standards Board of Japan (ASBJ), the Japanese accounting standards setting body is continuously trying to develop and improve accounting standards with the basic policy that it agrees with the objective of international convergence to achieve high-quality accounting standards without simply employing IAS/IFRS. ASBJ has started talks with the International Accounting Standards Board (IASB) to launch a joint project toward the said objective. JICPA will fully support this new project so that it will work successfully. We believe that some proposals concerning the review of general principles and technical assessments should be considered further. If certain topics not covered by third country GAAP are not relevant to preparers in the third country, then the absence of those topics should not be regarded as a cause of non-equivalence. In addition, in assessing the third country GAAP, not only the standards that will be adopted and enforced on 1 January 2005, but also the ones that will be enforceable by 2007 should be included. In performing technical comparisons between IAS/IFRS and third country GAAP, when the significant differences are derived from differences in the social system or sound accounting theories, and so do not affect the quality of financial information provided, then those differences should not be considered significant.

As to the proposal of remedies, it should be recognized that preparing proposed remedies such as statements of reconciliation and supplementary statements imposes on preparers and auditors the same degree of burden as that for restatements and also full audits of proposed remedies may cause certain technical difficulties such as different auditors arriving at various conclusions. We realize that, the involvement of regulatory agencies is indispensable to provide investors with appropriate information under various circumstances. The involvement of all the participants, not just some of them, is also indispensable when it is determined what remedies be applied. Practically, we believe that detailed dialogue and discussions are necessary among preparers, auditors and regulatory bodies. This is particularly true for the application of statements of reconciliation and supplementary statements. While the application of remedies is the responsibility of preparers and auditors, regulatory agencies are responsible for setting requirements for remedies. We believe that it is appropriate that more flexible measures should be allowed in accordance with the practices established in the current certain EU market based on the fact that EU investors are increasingly knowledgeable about the Japanese GAAP. We propose that differences in accounting standards be narratively explained in the part following to the notes to the financial statements. Since such

narrative explanations are distinctly different from the notes to the financial statements, we propose that such explanations not be subject to audits and be clearly marked as "unaudited." We believe that the investor protection in capital markets pursued in this draft concept paper can be achieved by allowing all the market participants (preparers, auditors and regulators) to play their own roles equally and steadily. Instead of placing excessive expectations for the auditors' roles, the satisfactory dialogue and discussion among regulators, preparers and auditors are necessary for investor protection.

Described below are our comments on each question.

Q1. CESR is firmly of the view that equivalent should not be defined as meaning 'identical'. CESR believes that third country GAAP can be declared as equivalent to IAS/IFRS when financial statements prepared under such third country GAAP enable investors to take at least similar decision in terms of whether to invest or divest, as if they were provided with financial statements prepared on the basis of IAS/IFRS. Do you agree with the proposed definition of equivalence and reference to investors' needs?

A. We agree with the proposed definition of equivalence that does not mean "identical standards" and that emphasizes whether it enables investors to make similar decisions based on financial statements prepared under the third country GAAP. We expect that CESR will keep this position throughout the assessment process of GAAP equivalence.

For a country like Japan, where a large capital market has been operating for a long time, accounting standards have to be developed through discussions to achieve consensus among stakeholders in its standards setting process. Replacing the incumbent set of accounting standards which have been in force for a long period of time with another new (identical) set of accounting standards is extremely difficult unless its capital market is integrated like in the EU. Accordingly, the Japanese accounting standards setting body is continuously trying to develop and improve accounting standards with the basic policy that it agrees with the objective of international convergence to achieve high-quality accounting standards without simply employing IAS/IFRS.

Q2. The global assessment should have three elements, i.e. review of general principles including the four characteristics: relevance, understandability, reliability and comparability, the topics covered by GAAP and the objectives of GAAP, technical assessment of the significant differences in accounting standards and appropriate remedies to meet investors' need. Do you agree with this approach?

Q3. What characteristics should a difference between IAS/IFRS and third countries GAAP have to

be perceived as significant for an investor?

Q4. Do you consider other general aspects should be taken into account for the assessment of equivalence?

A. We have no objection to the approach where the global assessment will contain three elements.

Q5. Do respondents believe that EU investors can be assumed to have a good knowledge of third country GAAP or that IAS/IFRS should be assumed to be the only benchmark?

Q6. Should this issue have an impact on the assessment of equivalence, and if so, how?

Q7. Do you think that CESR should distinct professional and individual investors in assessing equivalence?

A. We agree that IAS/IFRS should be an important benchmark for us because of the purpose of developing IAS/IFRS, the efforts of the accounting standards setters in each country toward this purpose, and the resultant achievements. In the meantime, other principal accounting standards including Japanese GAAP and US GAAP can be also regarded as benchmarks as they prevail worldwide. In addition, the recent upheaval in Europe concerning the accounting standards for financial instruments that were completed more than five years ago should be settled immediately. The situation as if there exist two sets of standards in IAS/IFRS, one that is developed by IASB and the other which is endorsed by the EC, causes misunderstandings. This situation can result in questioning the quality of the standards as a benchmark. So the situation should be resolved.

Q8. Do you believe that the three elements of the review of general principles mentioned above, i.e. whether third country GAAP has the four characteristics: relevance, understandability, reliability and comparability, whether third country GAAP contains standards and principles covering the same topics as the IAS/IFRS and whether third country GAAP pursues the same objectives as IAS/IFRS, are relevant and sufficient for conducting a review of general principles?

Q9. Do you have other views on how to take investors' needs into account in a global assessment?

A. The three elements are relevant and sufficient. One of the principles required for financial accounting standards in Japan stipulates that *financial accounting should present clearly essential accounting facts to stakeholders and not mislead their judgment on a company's position.*

Q10. Do you believe that the review of general principles as described above is appropriate and sufficiently complete?

A. Concerning the equivalence of third country GAAP, it is not necessary to cover all the standards of IAS/IFRS. If the topics not covered by a third country GAAP are not relevant to issuers in the third country, then the absence of those topics should not be regarded as a cause of non-equivalence. For example, Japanese GAAP does not have standards equivalent to IAS 29 (“Financial Reporting in Hyperinflationary Economies”). This is because hyperinflation does not exist in Japan.

Q11. Do you have comments on the articulation between the technical assessment and the review of the general principles, which are both parts of the global assessment?

A. Our comments on the technical assessment will be discussed below.

Q12. Do you agree with the proposed approach for identifying significant differences between third country GAAP and IAS/IFRS?

A. In assessing the third country GAAP, not only the standards that would be adopted and enforced on 1 January 2005, but also the ones that are published and would be enforceable by 2007 should be included because non-EU companies will be regulated under the EC directives beginning in 2007. In other words, if certain accounting standards are already developed and published as of 1 January 2005 even though they are not enforced as of 1 January 2005, and it is mandatory that they be applied to issuers by 2007, such accounting standards should also be assessed in the technical assessment.

Q13. Do you see other specific elements to be considered for defining what the significant differences are?

A. We agree that CESR will focus on the assessment of the significant differences between IAS/IFRS and third country GAAP. In judging what the significant differences are, we consider it important not to compare excessively detailed technical differences of accounting standards and not to excessively emphasize symbolic differences. In addition, some differences are derived from the differences in the social system or the accounting theories in which the third country GAAP is based may be sounder for particular economic situations. Accordingly, if these differences do not affect the quality of the financial information, then those differences should not be considered significant. Furthermore, we would like to point out that the CESR concept paper does not clearly designate as to whether even one significant difference in accounting standards may lead to the conclusion that the whole of the third country GAAP is not equivalent.

Q14. There may be three potential outcomes from the assessment process. At one end of the scale is the finding of equivalence of the third country GAAP with no adjustments. Whilst at the other end of the scale is a finding of non-equivalence. Between these extremes CESR believes there is a range of instances of non-equivalence that could be solved by remedies. Do you agree that there may be three potential outcomes from the assessment process, as described above?

A. As discussed below, we believe that it is appropriate that more flexible remedies be allowed. We propose that differences in accounting standards be narratively explained in the section following notes to the financial statements based on the practices established in the current EU market because Japanese GAAP is increasingly recognized as equivalent to IAS/IFRS. Since such narrative explanations are distinctly different from notes to the financial statements, we propose that such explanations not be subject to audits and be clearly marked as "unaudited."

Q15. Do you agree that the auditor's opinion should cover the original third country GAAP financial statements and the additional remedies? Which level of comfort should be provided for the additional remedies (equal to full audit)?

Q16. Do you believe that these three different kinds of remedies, i.e. additional disclosures, statements of reconciliation and supplementary statements, are appropriate or whether one or more of them would be enough in all circumstances?

Q17. Are the three remedies sufficiently clear? If not, please provide us with specific alternatives?

Q18. CESR believes that the first judgment for the application of the remedy should be made by the company and endorsed by the auditors. Do you agree with this approach?

A. These proposals may cause certain technical difficulties. Under the current understanding, external auditors are required to express an opinion on whether financial statements are prepared in accordance with the certain GAAP. In cases where recognition and measurements of certain parts of financial statements are made by other standards which are different from the original GAAP, then those financial statements as a whole may be described as not complying with the original standards. We note that difficulties will certainly arise if auditors are required to endorse which types of remedies preparers should choose for particular accounting treatments;

- When certain remedies are applied by plural preparers in one country, all auditors in that country may not necessarily arrive at the same conclusions as to what remedies are appropriate,
- Furthermore, auditors in one country may come to a conclusion that is different from that of auditors in another country as to what remedies are appropriate in a similar situation.

We propose that European regulators establish a system or structure where auditors are allowed to have satisfactory dialogue with respective regulator experts who review the cases and discuss the

issues with the auditors. Without such a system or structure, it would be extremely difficult for auditors to have consistent outcomes among various auditors. If different auditors endorse diverse treatments to a particular difference in accounting standards between IAS/IFRS and the third country's GAAP, investors will be left puzzled at the diversely different outcomes, and this will make it difficult for investors to compare the financial results prepared in the same country much less in different countries. Investors' interests will not be well protected in such circumstances.

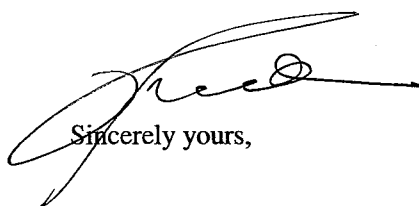
In the end, investor protection pursued in this concept paper cannot be fully achieved unless the satisfactory dialogue and discussion among regulators, preparers and auditors are assured upon the first application of remedies and initial public offerings.

It should be noted, as a practical issue, that the costs incurred in obtaining the necessary information to prepare the statements of reconciliation or supplementary statements can be enormous and therefore opportunities of financing in the EU market would be reduced.

We believe that it is appropriate that more flexible measures should be allowed in accordance with the practices established in the current certain EU market based on the fact that EU investors are increasingly knowledgeable about the Japanese GAAP. We propose that differences in accounting standards be narratively explained in the part following to the notes to the financial statements. Since such narrative explanations are distinctly different from the notes to the financial statements, we propose that such explanations not be subject to audits and be clearly marked as "unaudited."

Q19. Do you agree with this approach of early warning mechanisms?

A. Additional proposals should be required concerning whether a body which will perform a reassessment will be established in each member country in the EU or within the European Commission.



Sincerely yours,

Tsuguoki Fujinuma, Chairman and President
The Japanese Institute of Certified Public Accountants