

NIPPON KEIDANREN

《Japan Business Federation》

9-4, OTEMACHI 1-CHOME, CHIYODA-KU, TOKYO 100-8188, JAPAN

27 May, 2005

Nippon Keidanren's Comments on the CESR Draft Technical Advice on Equivalence of Certain Third Country GAAP

1. The Japan Business Federation (hereinafter Nippon Keidanren), has strongly supported the convergence project of accounting standards and the improvement of IAS/IFRS, under the assumption that these efforts will contribute to the globalization of capital markets. We see the EU's assessment of the equivalence of certain third country GAAP is an important step towards this process and have been paying strong attention.

We have no doubt that the acceptance of financial statements based on Japanese GAAP in the EU will facilitate capital flow between Japan and the EU, benefiting both Japanese companies and the EU investors, and strengthening Japan-EU economic relations.

2. However, we are deeply disappointed with the Draft Technical Advice, published by CESR on April 27. We take this draft seriously as a threat against Japanese companies (including those that adopt US GAAP), because the Draft requires Japanese companies a considerable amount of remedies, including excessive quantitative information. The Draft is virtually forcing Japanese companies-- which now have no problem in financing in the EU-- to retreat from the EU market.

Nippon Keidanren and Japanese companies are profoundly disturbed by the fact that the EU countries' security authorities came out with such a result that actually goes against today's trend of globalization of capital markets. We are seriously concerned that this decision will damage Japan-EU economic relations.

3. CESR should go back to the basic idea written in the previously published Concept Paper and revise wholly the Draft Technical Advice in terms of facilitating globalization of capital markets. In this respect, we would like to emphasize the following two points:

- (1) The basic idea of the Concept Paper to focus on "the significant difference" which may influence investment decision making has not been thoroughly explored. The idea to focus on "the significant difference" should be firmly maintained.

European investors who purchase Japanese securities have a good knowledge of

Japanese accounting standards. Moreover, investors in the EU have never pointed out the problems in Japanese accounting standards used in financial statements of the Japanese companies. Therefore, it is clear that there are no significant differences between Japanese GAAP and IAS/IFRS that might cause change in investor's decision.

With respect to specific accounting standards that are considered "significant GAAP differences" in the Draft Technical Advice, for example, uniformity of accounting policies in a group is not a significant difference since Japanese GAAP does not accept local accounting standards that are obviously inconsistent with it. Also, the capitalization of development costs is not a significant difference considering that such costs will be depreciated.

Even if the difference is "significant" when focused on the standards one by one, the difference may not be significant when the financial statement of a company is seen as a whole. The Draft leaves the decision whether the differences are material to the financial position to the issuer and its auditor. But in order to make this system workable, some kind of concrete standard is definitely needed. In addition, in order to avoid an overly conservative application, it is essential that the relevant authority provide clear guidance on the standard.

- (2) CESR should not ask for quantitative information in the remedy. The Draft calls for the disclosure of quantitative indication in additional disclosures A, C, and supplementary statements. However, to meet these requirements, issuers are forced to prepare another financial statement based on IAS/IFRS virtually from the very beginning. Although Japanese companies have already prepared financial statements based on Japanese accounting standards which are "equivalent to IAS/IFRS," they will still be asked to commit large amounts of money and enormous time. These costs and fees will be financial burden on investors, and ultimately inhibit the efficiency of the EU capital market.

In addition, several financial statements based on different accounting standards for a company will come out in the market and confuse managements and investors. There is a great possibility that it might also have serious effects on investor relations activities.

[Supporting Companies and Organization] (alphabetical order)

Asahi Glass Co., Ltd.
Asahi Kasei Corporation
CANON INC.
Daiwa Securities Group Inc.
FUJI PHOTO FILM CO., LTD
HITACHI, Ltd.
Honda Motor Co., Ltd.
ITOCHU Corporation
JFE Holdings, Inc.
KAJIMA CORPORATION
KONAMI CORPORATION
MAEDA CORPORATION
Makita Corporation
Marubeni Corporation
Matsushita Electric Industrial Co., Ltd.
Mitsubishi Corporation
MITSUBISHI ELECTRIC CORPORATION
MITSUBISHI HEAVY INDUSTRIES, LTD.
Mitsubishi Tokyo Financial Group, Inc.
MITSUI FUDOSAN CO., LTD
Mizuho Financial Group, Inc.
NEC Corporation
NIDEC CORPORATION
Nippon Life Insurance Company
NIPPON MEAT PACKERS, INC.
NIPPON PAPER INDUSTRIES CO., LTD.
Nippon Steel Corporation
NIPPON TELEGRAPH AND TELEPHONE CORPORATION
Ricoh Company, Ltd.
Sony Corporation
SUMITOMO CHEMICAL COMPANY, LIMITED
SHIMIZU CORPORATION
Sumitomo Corporation
Sumitomo Mitsui Financial Group, Inc
TDK Corporation
The Bank of Tokyo-Mitsubishi, Ltd.
The Dai-ichi Mutual Life Insurance Company
The Tokyo Electric Power Company, Incorporated
Tokio Marine & Nichido Fire Insurance Co., Ltd.
TOKYO GAS CO., LTD
Toray Industries. Inc.
TOSHIBA CORPORATION
Toyota Motor Corporation
UBS Securities Japan Ltd
Japanese Bankers Association

Nippon Keidanren is a broad-based economic organization, consisting of 1,306 major Japanese companies (including 91 foreign-owned corporations), 126 industry organizations, and 47 regional economic organizations. This comment represents the view of Nippon Keidanren and major Japanese companies who have great interests in the EU capital market.
