NIPPON KEIDANREN

《Japan Business Federation》

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July 27, 2004

Mr. Fabrice Demarigny
Secretary General
The Committee of European Securities Regulators
11-13 avenue de Friedland
75008 Paris
France

Re: Response to the Call-for-Evidence on Technical Advice on Implementing Measures on the Equivalence between Certain Third Country GAAP and IAS/IFRS

Dear Mr. Demarigny:

As the chairman of the Sub-committee on Accounting of Nippon Keidanren (Japan Business Federation), I am pleased to submit this letter on behalf of Nippon Keidanren in response to the Committee of European Securities Regulators' (hereinafter, the "CESR") Call-for-Evidence on the mandate to CESR for technical advice on implementing measures on the equivalence between certain third country GAAP and IAS/IFRS (hereinafter, the "mandate").

Nippon Keidanren is a broad-based economic organization, consisting of 1,584 major Japanese corporations (including 79 foreign-owned corporations), 126 industry organizations, and 47 regional economic organizations. This letter reflects the views both of Nippon Keidanren as an organization, as well as Japanese companies that have keen interest in capital markets in Europe.

Our comments are as follows:

1. We support the ongoing development of a single European financial market. We strongly believe that the formation of a single financial market in Europe will have an extremely positive impact on the economic prosperity of the world, including Japan. From this perspective, we highly appreciate the current efforts of the EU and the CESR.
2. We also concur with the mandate's approach that is consistent with the principle set forth in the mutual recognition which we proposed in the April 2004 "Joint Statement on International Accounting Standards" with UNICE (see the attached "Joint Statement on International Accounting Standards"). Respect for mutual recognition is a substantial step to achieve a global convergence of accounting standards.
3. We appreciate that the mandate grants priority to Japanese GAAP as well as US GAAP and Canadian GAAP to be reviewed by the CESR because Japanese issuers have been actively financing in European market.
4. We believe that Japanese GAAP is the same quality as IAS/IFRS. Since 1997 Japan

has promoted the reform of financial and capital markets under the slogan of "free, fair, and global;" with regard to corporate accounting standards, new standards have been formulated and implemented with a stated aim of pursuing international consistency. Business combination accounting is scheduled to become a mandatory standard in fiscal 2006. Asset impairment accounting became a voluntary standard in fiscal 2003 and will become a mandatory standard in fiscal 2005 (see the attached Nippon Keidanren's position paper "Seeking International Collaboration on Accounting Standards").

5. Should financials be based on accounting standards other than Japanese GAAP, Japanese issuers would have to bear the burden of doing so, and the resultant burden would be shifted to shareholders, investors, and creditors. In addition, the disadvantage for Japanese issuers would cause them to leave European capital market, thereby ultimately impeding the opportunities for European investors.
6. Finally, we would be highly appreciative if the CESR and the European Commission were to reach a conclusion as soon as possible to increase the predictability for Japanese issuers in European capital market.

We respectfully hope that our comments are helpful to the CESR's work. We would be pleased to discuss this issue and to provide further inputs.

Sincerely yours,

Yoshiki Yagi

Yoshiki Yagi

Chairman of Sub-committee on Accounting
Nippon Keidanren

Board Director, Chairman of Audit Committee of Hitachi, Ltd.

October 21, 2003

Seeking International Collaboration on Accounting Standards

Nippon Keidanren

(Japan Business Federation)

[Executive Summary]

1. Development of Japan's accounting and auditing standards and restoration of global acknowledgement

Thanks to the formulation and introduction of a series of new standards from 1997, the establishment of the Accounting Standards Board in 2001 and the revision of the Certified Public Accountant Law in 2003, Japan's accounting and auditing standards have already been raised to a level that compares favorably with international levels. It is imperative that this should be fully understood by people involved in the market, both within Japan and overseas.

2. Mutual recognition of accounting standards in Japan, the United States, and Europe

Nippon Keidanren considers it desirable that accounting standards in the three major capital markets–those of the United States, Europe, and Japan–move in a direction in which the basic principles are unified to the greatest extent possible. At this stage, however, differences remain between countries in a number of areas, including capital markets systems, and the relationships between accounting standards and company law and tax law. Given the present state of global capital markets and the existing disparities surrounding accounting standards, Nippon Keidanren considers it important to create a system in which Japan, the United States, and Europe accept financial statements based on each other's standards.

To achieve this goal, the FSA of Japan should make rapid and forceful approaches to the SEC, the European Commission, and other relevant bodies, concerning the acceptance of Japanese accounting standards.

3. The Desirable Form of the IASB

(1) Large-scale review of IASB governance

There are mounting concerns, not only about the content of the accounting standards that the IASB has been studying, but also about its governance and the procedures it adopts for its studies. Indeed, criticism of the IASB is voiced in European Union and other countries. It is essential 1) for the International Organization of Securities Commissions (IOSCO) to work closely with the IASB, 2) for IASB to create a structure to ensure that in the study of standards by the

IASB, the opinions of national governments, regions, preparers and users of financial statements, and others, are properly considered, 3) for economic organizations to collaborate with each other countries and to voice its opinions in a timely manner.

(2) Opinions on specific points at issue

1) Reporting Performance

We strongly oppose the IASB's proposal for discarding the concept of net income in income statements in their present form and of prohibiting recycling.

2) Full fair value accounting for financial instruments

Considering how the JWG draft was received, IASB would do well to remember that the concepts behind full fair value accounting have been rejected worldwide.

3) Accounting for post-employment benefits including pensions

We oppose the aggregated recognition of actuarial losses and the removal of the corridor rule.

Preface

Given the globalization of capital flows through capital markets, and the diversification and increasing sophistication of economic transactions, there is an urgent need to develop internationally-accepted corporate accounting standards that ensure the comparability of corporate financial statements. However the three major markets – the United States, Europe, and Japan – have adopted different accounting standards.

In the European Union, the consolidated financial statements of listed companies within the region must conform to the International Financial Reporting Standards (IFRS/IAS) prepared by the International Accounting Standards Board (IASB) from 2005, in accordance with the integration of currency and capital markets.

In the United States, which has the largest capital markets, the Financial Accounting Standards Board (FASB), the US standard-setting body for accounting, reached a basic agreement with the IASB on the future convergence of the two bodies' standards in October 2002. In practice, however, the US uses Generally Accepted Accounting Principles (US GAAP) which prescribe the most strict and detailed rules under the oversight of the Securities and Exchange Commission (SEC).

In the past few years, Japan has been energetically reviewing its accounting and auditing standards with an eye to harmonizing them with those in the West wherever possible.

Given the coexistence of these different accounting standards from 2005, Nippon Keidanren would like to make the following proposals with respect to the international collaboration on accounting standards and the desirable form of standard-setting by the IASB.

I International Collaboration on Accounting Standards

1. Development of Japan's accounting and auditing standards

Japan has been reforming its financial markets since 1997 in order to make them "free, fair, and global." As part of this effort, it has formulated and introduced a series of new standards for corporate accounting and auditing systems that form the infrastructure of the capital markets. With respect to the remaining issues, accounting for business combinations is mandatory as of FY 2006. Impairment accounting will be applied voluntarily from FY 2003 and made mandatory as of FY 2005.

In addition, the Accounting Standards Board was established in 2001 as an independent, private-sector standing body for the setting of accounting standards. As a result, standard-setting capabilities have been strengthened, and from a basis of solid independence and transparent and fair procedures, accounting standards are being developed rapidly to meet the fast-changing economic environment.

Based in part on the US Sarbanes-Oxley Act of 2002, Japan's Certified Public Accountant Law was revised in 2003 to improve and strengthen provisions relating to certified public accountants, and to assure the independence of certified public accountants (CPAs). The examination system for CPAs is also being revised.

In the past there were criticisms by some that Japanese accounting standards lagged behind those in other countries, and that accounting and auditing in Japan was unreliable. However, developments such as those referred to above have already raised Japan's accounting and auditing standards to a level that compares favorably with international levels. It is imperative that this should be fully understood by people involved in the market both within Japan and overseas.

2. Mutual recognition of accounting standards in Japan, the United States, and Europe

In the current debate on accounting standards, the IASB has set the goal of achieving convergence for the purpose of developing "a single set of high-quality, understandable and enforceable global accounting standards." Given the rapid globalization of capital flows and fund-raising, Nippon Keidanren would urge that accounting standards in the three major capital markets—the United States, Europe, and Japan —move in a direction in which the basic principles are unified to the greatest extent possible. To that end, the business community has been contributing to the IASB's activities.

At this stage, however, differences remain between countries in a number of areas, including capital market systems, the fundamental character of accounting standards (whether rule-based or principle-based), and the relationships between accounting standards and company laws and tax laws.

In order to make accurate comparisons and to ensure the appropriateness of disclosure of actual conditions — all the while responding to the globalization of capital markets — Nippon Keidanren believes it is essential to move accounting standards in Japan, the United States, and Europe closer to each other.

At present, financial statements prepared by Japanese companies in accordance with Japanese standards are accepted in European countries. Subject to the approval of the Director General of the Financial Services Agency (FSA), financial statements prepared by foreign companies in accordance with their own national standards are accepted in Japan, as are consolidated financial statements prepared by Japanese companies in accordance with US GAAP.

Given the present state of global capital markets and existing disparities surrounding accounting standards, Nippon Keidanren considers it important to create a system in which Japan, the United States, and Europe accept financial statements based on each other's standards. Doing so would constitute a first step towards removing the barriers to international capital flows and towards common global accounting standards. To achieve this goal, the FSA of Japan must make rapid and forceful approaches to the SEC, the European Commission, supervisory authorities in European Union countries, and other relevant bodies concerning the acceptance of Japanese accounting standards.

II. The Desirable Form of the IASB

1. Large-scale review of IASB governance

The presence of the IASB in the international community is growing and its influence is being felt in many quarters. Its very prominence means that it is necessary for the IASB to be recognized as a genuine, legitimate international institution.

That said, there are mounting concerns not only about the content of the accounting standards that the IASB has been studying, but also about its governance and the procedures it adopts for its studies. Indeed, criticism of the IASB is not only voiced in Japan, but also within France and other European Union countries.

After their meeting at the Evian Summit in May 2003, the finance ministers stated: "We favor the emergence, through open and public processes involving the private sector, of high-quality internationally recognized accounting standards that are applied, interpreted and enforced, with due regard to financial stability concerns."

For the ministers' statement to be realized, the International Organization of Securities Commissions (IOSCO), which groups together national supervisory authorities that have the power to approve accounting standards, must work closely with the IASB. Furthermore, a structure should be created to ensure that in the study of standards by the IASB, the opinions of national governments, regions, preparers and users of financial statements, and others, are properly considered. In parallel, economic organizations throughout the world must collaborate and voice their opinions timely in order to contribute to the IASB's deliberations from the perspective of business practices.

2. Opinions on specific points at issue

Because the current IAS due to be adopted in Europe by 2005 is virtually the same as Japanese accounting standards, we are able to endorse mutual recognition today. But proposals now being studied by the IASB include those that in the future will involve principles that differ radically from the current standards, and that may lead to dramatic changes. Accordingly, we set out our opinions below with respect to the items that are the immediate principal points at issue.

(1) Reporting Performance

In the Reporting Performance Project, consideration is being given to abolishing the concept of net income in income statements in their present form, as well to the prohibition of the recycling (an accounting treatment to recognize the changes in the fair value, once presented as unrealized gains and losses) of financial instruments and others in income statements at the time they are realized. Thereby the IASB is seeking to introduce income statements that use comprehensive income based on valuation differences (the amount of change in fair value) in stock between the beginning and end of periods.

In the IASB discussions, however, with respect to the superiority of comprehensive income over conventional net income, it is inconceivable that comprehensive income could be chosen after full deliberation is carried out based on logical and empirical examination. Moreover, whereas we have heard no evidence whatsoever that investors and analysts require information on comprehensive income only, the need for information on net income remains strong.

Even if considered from the perspective that the value of information on comprehensive income is extremely high, according to current Japanese standards, the items of comprehensive income, including changes in the fair value of financial instruments and the foreign exchange adjustment account, are included in the shareholders' equity section of the balance sheet. It is therefore possible for users of financial statements to obtain information on comprehensive income. In addition, if recycling is prohibited, information on net income based on the realization concept would not be available, thus making it impossible to measure income resulting from the cost of a company's investment.

In consequence, we strongly oppose the IASB's proposal for discarding the concept of net income in income statements in their present form and prohibiting recycling. Our counterproposal is that the present realization concept should be retained.

(2) Full fair value accounting for financial instruments

The current Japanese standards, US GAAP, and IAS hold in common that accounting for financial instruments differs according to the purpose for which the instruments are held, and that changes in fair value are presented in profit and loss only in the case of trading securities.

In December 2000, the Joint Working Group (an informal organization of the IASC, the IASB's predecessor) released a draft standard for full fair value accounting which would have required the measurement of all financial assets and liabilities at fair value, and the recognition of changes in fair value in profit and loss. The proposal was abandoned when it met with nearly unanimous opposition from business communities and other quarters around the world.

The IASB has included the full fair value accounting project among matters to be studied in the future, and formal study has been suspended. However, the exposure draft released in June 2002 for the revision of the current standard proposes a standard that makes it possible to opt for full fair value accounting in which changes in the fair value of financial instruments are recognized in profit and loss, irrespective of the purpose for which they are held. In addition, there is concern that if the Reporting Performance Project referred to above proceeds, it will ultimately have the same result as the introduction of full fair value accounting.

Beyond the inherent problems in terms of accounting theory, IASB should be aware that since the JWG proposal there have been no changes in the environment that call for the introduction of full fair value accounting, nor has there been any softening in the world's business community of its opposition to full fair value accounting.

In studying the standard, the IASB should recognize and give serious consideration to the concern expressed in the markets, including those of users of financial statements, that accounting information based on full fair value accounting will mislead investors. Considering the circumstances of the JWG draft, IASB would do well to remember that the concepts behind full fair value accounting has been rejected worldwide.

Furthermore, the study of accounting standards for insurance should be advanced with care in light of the fact that the fair valuation of insurance liabilities presents various issues.

(3) Accounting for post-employment benefits including pensions

The IASB has reached tentative agreement on the immediate aggregated recognition of actuarial losses arising as a result of factors, such as changes in projected benefit obligations, and on the removal of the corridor rule which carries forward the recognition of actuarial gains and losses within certain limits (10 percent of the larger of either [a] projected benefit obligations or [b] pension assets). As with the Reporting Performance Project, this thinking has the effect of anticipating future gains and losses as results for the current period, based on the measurement of assets and liabilities at fair value, and therefore represents a fundamental change from current thinking.

However, with respect to retirement benefit systems, which do not have the character of financial investments, it is essential that great caution be exercised when considering the meaning of measurement at fair value. At present, net actuarial gains and losses are amortized over the average remaining tenure of employees participating in a plan. Because this is also a commonly-accepted business practice, there are no indications of any requirements for change on the part of users of financial statements.

The corridor rule is not used in Japanese standards, but adopted under US GAAP and current IAS from the standpoint that post-employment benefit accounting is by its nature premised upon estimation based on future assumptions, and that it is suitable to alleviate the burden on preparers of financial statements. The necessity for it is widely recognized.

Based on the thinking tentatively agreed by the IASB, given that there can be very large fluctuations in the base rates upon which estimations are premised, and that these impact profit and loss, this raises the concern that it will make it difficult for companies to sustain defined benefit pension plans. Accordingly, we oppose the aggregated recognition of actuarial losses and the removal of the corridor rule.

Appendix

Comparison on Accounting and Auditing Standards

	Japan	US	IAS/IFRS/ISA
Impairment	-Voluntarily from FY 2003 -Mandatory as of FY 2005 -Now ASBJ is studying guidelines -No standards on Investment Property	-Mandatory as of FY 1995 (FAS121) -No standards on Investment Property	-Mandatory as of FY 1998 (IAS36:Impairment) -Mandatory as of FY 2000 (IAS40:Investment Property)
Business Combination	-Mandatory as of FY 2006 (scheduled) -Now BAC is studying based on public comments against the exposure draft released in August 2003	-Mandatory as of FY 1970 (APB16) -Mandatory as of FY 2001 (FAS141,142)	-Mandatory as of FY 1998 (IAS22) -Now IASB is studying to revise
Going Concern	-Mandatory as of FY 2002	-Mandatory as of FY 1988 (SAS59)	-Mandatory as of FY 1994 (ISA570)
Full Fair Value Accounting on Financial Instruments	-N/A	-N/A	-N/A ･JWG* proposed draft standards in 2000
Stock Options	-Now ASBJ is studying standards -Commercial Code requires to disclose information on stock options	-Mandatory as of FY 1995 (FAS123) (Recognition of expenses is voluntary) -Now FASB is studying to revise	-Now IASB is studying standards

* The JWG (Joint Working Group) comprised representatives or members of accounting standard setters or professional organizations in Australia, Canada, France, Germany, Japan, New Zealand, five Nordic countries, the United Kingdom, the United States, and the IASC. The IASB takes over its work.

Structure of Japan, US, and EU etc

Market	Japan	US	EU etc
Regulator	Financial Services Agency	SEC	IOSCO European Commission Regulators of each counties in EU
Management Organization of Standard Setter	FASF	FAF	IASCF
Standard Setter	BAC ASBJ	FASB	IASB
Accounting Standards	Standards released by ASBJ Statements released by BAC	USGAAP (SFAS, APB (released by AICPA) etc)	IAS IFRS (from 2005)

AICPA	The American Institute of Certified Public Accountants
APB	(Opinion of) the Accounting Principles Boards
ASBJ	Accounting Standards Board of Japan
BAC	Business Accounting Council (managed by FSA as a public sector)
FAF	Financial Accounting Foundation
FASB	Financial Accounting Standards Board
FASF	Financial Accounting Standards Foundation
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASCF	International Accounting Standards Committee Foundation
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commissions （consisted of regulators of 102 countries and regions, including FSA and SEC)
SEC	The Securities Exchange Commission
SFAS	Statements of Financial Accounting Standards
USGAAP	United States Generally Accepted Accounting Principles

Nippon Keidanren (Japan Business Federation)

Japan Business Federation is a comprehensive economic organization born in May 2002 by amalgamation of Keidanren (Japan Federation of Economic Organizations) and Nikkeiren (Japan Federation of Employers' Associations). Its membership of 1,584 is comprised of 1,268 companies including 79 foreign ownership, 126 industrial associations, and 47 regional employers' associations (as of May 31, 2003).

Mission of the Federation is to achieve a private sector-led, vital and affluent economy and society in Japan, for which it will demonstrate its leadership and in setting the path for the country. Establishment of free, fair, and transparent market economy under the principles of self-responsibility is essential. This should lead to recovery of national economy into hands of the private sector in seeking healthy growth of both Japan's and global economy.

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NIPPON KEIDANREN
《Japan Business Federation》

PRESS RELEASE

19 April 2004

JOINT STATEMENT ON INTERNATIONAL ACCOUNTING STANDARDS

Given the globalisation of capital flows through capital markets, and the diversification and increasing sophistication of economic transactions, there is an urgent need to develop a single internationally accepted set of accounting standards that ensure the comparability of corporate financial statements. Especially, the presence of the International Accounting Standards Board (IASB) is growing and its influence is being felt in many quarters.

The business community, which is mainly composed of preparers, recognises that it must contribute to the IASB's activities on its own initiative. UNICE and Nippon Keidanren support the need for international cooperation on accounting standards and make the following joint statement from a standpoint of business practice.

1. Basic Concepts of Accounting Standards

Proposals on accounting standards now being studied by the IASB include those that may lead to material changes in the basic concepts of current standards. The need for these changes has not been proved by clear and unambiguous research among preparers, users, auditors and financial markets supervisory bodies.

We note that the IASB intends to adopt as fundamental for financial accounting a full fair value approach, which is recognised especially in the proposals for "Performance Reporting (Comprehensive Income Reporting)", "Accounting for financial instruments", and "Changing the accounting for post-employment benefits including pensions".

We strongly oppose the IASB's further consideration of the "Full fair value concept" without further research on the needs of users and preparers, and the economic consequences of this fundamental change in concepts because of its inherent theoretical and practical problems.

In preparing the standards, the IASB should recognise the concerns expressed by market participants.

2. Improvement of the IASB's Governance (review of the IASC Foundation)

In the current stage, not only preparers but also auditors, users, politicians, and others all over the world have expressed dissatisfaction with the IASB.

The IASB must improve its governance structure and the process of developing standards in order to be recognised as a genuine, legitimate international institution. In particular, a structure should be created to ensure that in the study of standards by the IASB, the opinions of capital markets are properly considered in order to be accepted by each market.

The International Accounting Standards Committee Foundation (IASCF), which is a steering body of the IASB, invited public comments on its Constitution review by February 11, 2004.

We submitted comments respectively to make a useful contribution to the IASB's improvement with the aim of becoming an appropriate international institution. We greatly hope that the IASCF would revise the Constitution in conformity with our comments.

3. Need for Mutual Recognition of Accounting Standards

In line with the globalisation of capital markets, we fully support a convergence of accounting standards to ensure the comparability of financial statements.

At this stage, however, it is difficult to achieve full convergence within the short term by 2005 because differences remain between countries in a number of areas, including capital markets systems, and the relationships between accounting standards and company law and tax law.

In order to reach the goal of sharing a single set of international accounting standards, Europe and Japan should join forces to influence the definition of international accounting standards that are likely to best serve the public interest. Given the present situation and before reaching convergence, joint efforts could be made to allow for an interim phase of mutual recognition.

For further information, please contact:

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UNICE

UNICE is the official voice of more than 16 million small, medium and large companies in Europe. Active in European affairs since 1958 UNICE's members are 36 central industrial and employers' federations from 29 countries, working together to achieve growth and competitiveness in Europe.

NIPPON KEIDANREN

Japan Business Federation is a comprehensive economic organization. Its membership of 1,584 is comprised of 1,268 companies, 126 industrial associations, and 47 regional employers' associations (as of July 17, 2003). The mission is to achieve a private sector-led, vital and affluent economy and society.