ASBJ’s Achievement in Activities and Future Outlook

A Decade at the ASBJ
~ From the Past and to the Future~

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The Financial Accounting Standards Foundation (FASF), the governing body of the Accounting Standards Board of Japan (ASBJ), was established on July 26, 2001, and the summer of 2011 marks its tenth anniversary. Since its inaugurated meeting in August 2001, the ASBJ has held 229 meetings by the end of July 2011.

Beginning with my personal matter, I am the only one who has been continuously with the ASBJ since its establishment, among its full-time Board Members and technical staff. The founding Constitution of the FASF stated that the maximum terms Board Members can serve was three terms with no exceptions and therefore 8 years and 8 months was the maximum period for which anyone could stay as a Board Member of the ASBJ. So, it is an unexpected thing that ten years later I am writing this article still as an active Board Member, following a process of the term extension\(^1\).

In this article, I look back memorable events and briefly discuss the future of the ASBJ as well.

Development of Accounting Standards and their Legitimacy

The phrase “development of accounting standards”, which is mentioned in the FASF Constitution as one of its objectives, had not been often heard before its establishment. A mechanism to give legitimacy to the accounting standards the ASBJ would develop was not discussed in details during the preparation stage of its establishment. While a governmental ordinance provided “business accounting standards publicly announced by the Business Accounting Council (BAC) qualify as generally accepted business accounting standards,” the framework for assuring the legitimacy of the ASBJ’s standard-setting was not established at the time.

\(^1\) In December 2009, the Constitution was amended to include a provision for an extendable term of full time Board Members. I am currently serving my two-year term extended starting from April 2010.
When the ASBJ was discussing Accounting Standard No.1, a mechanism was clarified through a negotiation between the then ASBJ Chairman Shizuki Saito and the Financial Services Agency (FSA), under which the FSA would issue guidelines authorizing each of the standards developed by the ASBJ. The Chairman Saito also suggested an idea that the FSA attend the ASBJ Board meetings as an observer and make remarks, if any, during the meetings. This was a means to avoid situations of the FSA not authorizing the standards approved by the ASBJ.

After the establishment of the ASBJ, we determined that ASBJ’s pronouncements would be consisted of Accounting Standards, Implementation Guidance and Practical Solutions. Considering that the FSA’s authorization would cover only Accounting Standards, we decided to include in each accounting standard the statement that corresponding Implementation Guidance should be referred to. In addition, by our request with the Chairman’s consent, the then Secretary General, Mr. Masatsugu Matsuyama, asked nine constituent bodies, which supported the establishment of the ASBJ, whether they could jointly issue a document stating that members of those bodies would comply with the pronouncements developed by the ASBJ. Thanks to the Secretary General’s prompt actions, the document was published in a short time. It represented the original intention of the standard-setting by a private sector that constituents comply with the ASBJ pronouncements which are developed as their self regulatory standards. This document still has an important meaning, although the FSA now gives legitimacy to the ASBJ standards by its official announcements instead of guidelines.

**Accounting Standards and Macro Economy**

In the spring of 2003, we received a request from the Financial Policy Project Team of then the Government Parties to suspend the mark-to-market accounting and delay the application of the impairment accounting. Accounting Standard for Financial Instrument and Accounting Standard for Impairment of Fixed Assets were developed by the BAC, as key standards in so-called the Accounting Big Bang. The ASBJ developed Implementation Guidance on Accounting Standard for Impairment of Fixed Assets. The request was first discussed by the Theme Council established within the FASF and following the recommendation by the Council, the ASBJ started discussing whether to suspend or delay the application of those standards. This request was primarily based on the concerns that the application of the mark-to-market accounting and the impairment accounting, in a sluggish economy and stock market, would have adverse effects on economy and economic recovery. In a sense, this issue was beyond accounting. Although it was

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2 Treatment of Accounting Pronouncements issued by the Financial Accounting Standards Foundation/Accounting Standards Board of Japan (Compliance), published in May 2002.

3 Currently, renamed as the Standards Advisory Council, as a consequence of the amendments to the Constitution
a matter of urgency, we decided to solicit views widely from the public as well as listen to views of a wide range of experts, instead of reaching a conclusion solely based on internal discussions within the organization. In the end, the conclusion was that it was difficult to find sufficient reasons for accepting the request, considering the risk of damaging the function of accounting standards to disclose information to the market and of undermining the credibility of the standard-setting process. In June 2003, the ASBJ released this conclusion in a document named “Deliberations from urgent considerations on the application of the mark-to-market valuation and write-off of marketable securities and the impairment accounting for fixed assets.”

**Convergence and EU Equivalent Assessment**

The ASBJ presented the direction of convergence in its Medium-Term Operating Policies in June 2004. In the meantime, the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) announced the Norwalk Agreement and were undertaking convergence projects. The IASB Chairman Sir David Tweedie, at some point in time, realized that Japanese GAAP was already similar to IFRSs, and he proposed to launch joint projects for convergence during his visit to Japan in the summer of 2004. At the end of the year, we discussed the framework of convergence and signed into an agreement, followed by the first joint meeting in the spring of 2005. Since then, the ASBJ and the IASB hold joint meetings twice a year: once in Tokyo and another in London. By June 2011, the joint meetings were held thirteen times.

In 2005, the European Union (EU) initiated an assessment of whether third country GAAPs are equivalent to the IFRS, and the Committee of European Securities Regulators (CESR) provided a technical advice on the equivalency assessment, which identified 26 major differences that would need remedies such as additional disclosure in order for Japanese GAAP to be equivalent to IFRSs. Elimination of the major differences pointed out by the CESR became an major task for the ASBJ to address in developing its standards, although a holistic approach was later introduced, under which the determination was made based on differences as a whole, rather than individual differences.

The ASBJ was faced with difficulty at the initial stage of the equivalency assessment when it failed to issue an exposure draft on its Conceptual Framework. The structure of the ASBJ’s Conceptual Framework document was aligned to that of the IFRS and in Chapter 1 “Objective of Financial Reporting” it specified that the primary objective of financial reporting is to assist investors in

4 The past issues at the FASB on accounting for goodwill and accounting for stock options, and the request to the IASB for reclassification of financial assets during the financial crisis in 2008 as well as the resulting issue on the Due Process suggests the history of the debates on accounting standard and its impact on macro economy tend to repeat itself.

5 Medium-Term Operating Policy was published, in 2007 and in 2010, each year of the appointments of Board Members.

6 Currently, known as the European Securities and Markets Authority (ESMA)
forecasting the entity’s results and evaluating the entity’s corporate values of the entity. This was an approach consistent with the international standard. However, it contained some aspects different from the IASB’s Framework, such as inclusion of definition of net income in Chapter 3 “Elements of Financial Statements”. In this regard, some of those involved in the equivalency assessment expressed a strong concern that such aspects might hinder the Japanese GAAP from being assessed by the EU as equivalent to IFRSs. As a result, in December 2006, the ASBJ’s Conceptual Framework was issued as a discussion paper rather than an exposure draft issued for public comments and the discussion on that was suspended.

The Tokyo Agreement

When I took over as Chairman of the ASBJ in April 2007, I first felt we should clarify a timeline for convergence for market constituents. Convergence can be a never-ending process: any new standards or amendments by one Board create new differences. Paying attention to users of accounting standards, I considered it would be desirable to set a target for the progress of revising accounting standards. Following my visit to London in May 2007 to prepare for an agreement, as well as extensive consultations with the market constituents in Japan, the agreement was reached with Chairman Tweedie during his visit to Japan in August 2007. As a result, the Tokyo Agreement was announced. It was not so difficult to set a target date for the short-term convergence projects relating to the equivalent assessment and other projects on remaining differences. A challenging task was rather to determine how to address ongoing projects, such as the MoU Projects between the IASB and the FASB, but we managed to come up with the direction of the close cooperation between the ASBJ and the IASB.

The progress made under the Tokyo Agreement contributed to the EU’s equivalence assessment. The ASBJ’s Project Plan updated based on the Tokyo Agreement was positioned as a timetable in order to address the equivalency assessment. The efforts on the short-term projects to eliminate the differences helped to bring the prospects for the assessment as being equivalent to IFRSs. In fact, the primary party in negotiation regarding the equivalence assessment was the FSA, and the ASBJ provided supports in technical aspects. Nevertheless, the ASBJ participated in public hearings and exchanges of views with the CESR representatives and with the EU Parliament representatives.

By the end of 2008, the short-term projects under the Tokyo Agreement completed, and the EU announced the equivalence of Japanese GAAP, together with US GAAP, of the IFRS.8

7 In August 2007, the ASBJ and the IASB issued Press Release “The ASBJ and the IASB announce Tokyo Agreement on achieving convergence of accounting standards by 2011,” along with “Agreement on initiatives to accelerate the convergence of accounting standards.”

8 In December 2008, the European Commission published the EC Regulation to accept IFRS, Japanese GAAP and US GAAP, for 2009 and beyond.
The latest joint meeting, the last with the Chairman Tweedie, was held in June 2011. It also was the target date for eliminating the remaining differences and the Boards issued a press release assessing the achievement under the Tokyo Agreement.9

The Interim Report by the Business Accounting Council

In June 2009, the Business Accounting Council of the FSA released the “Application of International Financial Reporting Standards (IFRSs) in Japan (Interim Report)”. It contained a similar direction to the proposal issued by the US Securities and Exchange Commission (SEC) in the fall of 2008. It also indicated the voluntary use of the IFRS for some listed companies that meet certain criteria. The interim report had significant impacts on several aspects of the ASBJ’s works.

First, in emphasizing continuation and acceleration of convergence, it put forth the notion of applying converged standards to consolidated accounts in advance of applying them to non-consolidation accounts. This idea came from the intention of a smooth transition to the IFRS, by introducing a treatment of the IFRSs in the consolidated financial statements while retaining the differences in the non-consolidated financial statements for some time. The application to individual standards is up to the ASBJ’s deliberation. As of August 2011, no final resolution has been reached, on several projects potential for advance application to consolidated accounts.

Second, as the voluntary use of the IFRSs started, clarification about several interpretational issues has become necessary. The ASBJ assumed a role in resolving these issues, through meetings with the IASB as well as communication with its directors.10

Third, there has been an increased need for the ASBJ to be more influential to development of the IFRSs itself. The ASBJ conducts this initiative, through the regular meetings with the IASB, the regular meetings with the US FASB, which shares convergence with the IASB, and the involvement of the ASBJ staff in the MoU projects.

In addition, the ASBJ took an active role in establishing the Asian-Oceanian Standard-Setters Group (AOSSG). The Second Annual Meeting was held in Tokyo, and Japan is serving as a chair of the AOSSG from Fall 2010 through Fall 2011. We have been conducting activities, focusing on clarifying the direction of the activities by the organization11, listening to and taking in the views in the Asian-Oceanian region, and delivering those views to the IASB.

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9 Press Release titled “IASB and ASBJ announce their achievements under the Tokyo Agreement and their plans for closer cooperation” accompanied by Appendix “Achievements under the Tokyo Agreement between the IASB and the ASBJ”

10 As an outcome of those efforts, IASB Director issued an educational material on depreciation in the fall of 2010.

11 In June 2011, the AOSSG published a Vision Paper “A Driving Wind for IFRS from Asia-Oceania.”
Furthermore, the ASBJ is involved also in setting the accounting guideline for Japanese small and medium-sized entities\(^{12}\) to seek to maintain the basic framework of accounting in Japan.

### The Future of the ASBJ

The FSA is currently deliberating the use of the IFRSs in Japan. Depending on its decision, the ASBJ’s works may significantly change. Having said that, if Japanese GAAP retains in the domestic capital market or the statutory accounting, in any form, the ASBJ’s works in the immediate future would remain to be the development of the national standards and contribution to development of the global standards (and practical issues in implementing the IFRS), which are the stated operations in the original Constitution.

Given the current situation of the ongoing discussions on the use of the IFRSs, the primary issue would be how to proceed with convergence of Japanese GAAP with IFRSs. Issues relating to the use of the IFRSs and those relating to convergence of Japanese GAAP with IFRSs are closely interrelated. If Japan wants to have the Japanese views incorporated into the IFRSs based on the consideration of what are the issues in implementing IFRSs, an approach that starts with converging Japanese GAAP with the IFRS would not suit such a purpose. To this end, we need to fully understand global trends, properly analyze the information, specify the issues to be delivered from Japan and then raise those issues to the IASB at an appropriate time. Success at the international negotiation table depends on strong supports by domestic constituents. Once the views of Japanese market participants are integrated, the ASBJ would make every effort to deliver those views to outside Japan.

From the long-term perspective, to foster accounting professionals who can work in the global field is another major task for the FASF and the ASBJ. In coordination with companies and accounting firms, users and others which have human resources, we aim at establishing a system to develop human resources on a mid- to long-term basis, and thereby fostering accounting professionals who can play a leadership role in developing the IFRS in the future.

In concluding this article, I would like to express my sincere appreciation to our constituents who have so far supported the ASBJ’s activities, including the organizations that helped its establishment. We look forward to your continued supports.

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\(^{12}\) In addition to the “Accounting Guideline for Small and Medium-sized Entities” developed by the Japan Federation of Certified Public Tax Accountants’ Associations, the Japanese Institute of Certified Public Accountants, the Japan Chamber of Commerce and Industry and the ASBJ, a new guideline for broader small and medium-sized entities is under consideration by the organizations of small and medium-sized entities, the ASBJ, academics and others, in light of the “the Report by Council on Accounting Standard for Unlisted Companies” released in August 2010. The Small and Medium Enterprise Agency and the Financial Services Agency serve as co-secretariats.