

About Japanese GAAP

Japanese generally accepted accounting principles (GAAP) are one of the four sets of accounting standards listed companies in Japan can currently choose to use to file their consolidated financial statements. The other three sets of accounting standards are Designated IFRS, U.S. GAAP, and Japan's Modified International Standards (JMIS).

Accounting Standards are developed by the Accounting Standards Board of Japan (ASBJ) and are designated as Japanese GAAP by the Financial Services Agency of Japan.

The ASBJ develops Accounting Standards in accordance with the "Rules on the Due Process for the Development of Japanese GAAP and Japan's Modified International Standards" (hereinafter referred to as the "Due Process Rules") set out by the Financial Accounting Standards Foundation (FASF).

1. Setting the Agenda

The Standards Advisory Council, set up by the FASF, discusses matters related to the operations of the ASBJ, including topics to be discussed by the ASBJ and their priorities. For items that are of high importance or urgency, the Standards Advisory Council advises the ASBJ to add them on the ASBJ's agenda.

When the Standards Advisory Council advises the ASBJ on either the topics or their priorities, the ASBJ generally respects such advice. In some cases, the ASBJ may request the Standards Advisory Council to discuss a potential agenda item. In cases of emergency, the ASBJ may decide to put an item on its agenda without the consultation of the Standards Advisory Council.

2. Standards Issued by the ASBJ

The types of Accounting Standards issued by the ASBJ after following the Due Process Rules can be classified as follows:

Accounting Standards	Basic rules underlying the accounting and disclosures
Implementation Guidance	Interpretations of Accounting Standards and practical guidance when applying Accounting Standards
Practical Solutions	Tentative treatment for areas where Accounting Standards do not exist and practical treatment for areas where there is urgent need for guidance

3. Technical Committee Meetings

The ASBJ sets up Technical Committees to assist in its research and discussion in specific areas. Members of Technical Committees comprise Board members and staff of the ASBJ as well as experts in the specific area. For each Technical Committee, the Chairman of the ASBJ appoints one of the Technical Committee members as the Chairman of the Technical Committee.

The discussions of the Technical Committee meetings are generally open to the public unless, under limited circumstances, the Chairman of the Technical Committee decides to make the meeting private.

4. Board Meetings

The ASBJ holds Board meetings at least once a month. The discussions of the Board meetings are generally open to the public unless, under limited circumstances, the Chairman of the ASBJ decides to make the meeting private. The video recordings of Board meetings are made available for a certain period of time on the FASF website. Furthermore, papers used for discussions at Board meetings are generally made available on the FASF website unless they relate to drafts of Exposure Drafts and accounting standards.

Accounting Standards(including Implementation Guidance and Practical Solutions), Exposure Drafts, and Discussion Papers are issued when three fifths (3/5) or more of existing Board members vote in favor. When issuing an Accounting Standard, the names of the Board members voting for and against will be written in that accounting standard. When one or more Board members vote against issuing an Accounting Standard, their reasons for voting against will be written in the Accounting Standard. For an Exposure Draft or a Discussion Paper, the number of Board members attending the Board meeting and the number of Board members voting in favor will be written in the document.

During the deliberations, Board members may be asked for their leanings to reach a tentative decision on a specific item. The ASBJ reaches a tentative decision when three fifths (3/5) or more Board members attending the meeting vote in favor.

5. Exposure Drafts and Discussion Papers

When developing accounting standards, the ASBJ is required to solicit the views of constituents in a sufficient and appropriate manner.

When the ASBJ develops a new Accounting Standard or amends an existing Accounting Standard, the ASBJ generally issues an Exposure Draft and solicits comments from the general public. However, in rare cases such as when the proposal is immaterial, the Chairman of the ASBJ

may decide to ask the ASBJ to vote for not issuing an Exposure Draft. Furthermore, when considered necessary, the ASBJ may issue a Discussion Paper prior to the issuance of an Exposure Draft and solicit the views of constituents.

Exposure Drafts and Discussion Papers generally have a comment period of two months or longer. However, considering the significance or urgency of the proposals, the ASBJ may vote to have a shorter comment period.

Responses received on Exposure Drafts and Discussion Papers, together with the name of the respondents, will be made available on the FASF website. Responses received are considered by the ASBJ in a timely manner and the results of the ASBJ's considerations will be made available on the FASF website.

Before an Accounting Standard is issued, the ASBJ considers whether there is a need to re-expose its proposals.

6. Post-Implementation Reviews

When the ASBJ issues a new Accounting Standard or amends an existing Accounting Standard that is considered material, the ASBJ is required to conduct a post-implementation review with the objective of assessing the effects of the new Accounting Standard on investors, financial statement preparers, and auditors. A post-implementation review is generally conducted two years after the new Accounting Standard becomes effective.

As a result of the post-implementation review, the ASBJ may decide to amend the Accounting Standard that is subject to review. The procedures to be followed in such case are the same as those that are required to be followed when the ASBJ develops a new Accounting Standard or amends an existing Accounting Standard.

7. Reporting to the Due Process Oversight Committee

The Due Process Oversight Committee, set up by the FASF, ensures that the due process that the ASBJ must follow when developing Accounting Standards is followed indeed.

The ASBJ is required to report to the Due Process Oversight Committee its compliance with the Due Process Rules whenever the ASBJ issues a new Accounting Standard or amends an existing Accounting Standard that is considered material, or whenever the ASBJ plans or conducts a post-implementation review. Furthermore, the ASBJ is required to report annually to the Due Process Oversight Committee a summary of its compliance with the Due Process Rules for the specific year.