

# ASBJ Newsletter



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## ASBJ Project Plan

The Accounting Standards Board of Japan (ASBJ) works on the initiatives toward international convergence of accounting standards. On 6<sup>th</sup> December 2007, ASBJ published the new Project Plan based on the Tokyo Agreement on achieving convergence of accounting standards jointly announced with the International

Accounting Standards Board (IASB) in August 2007. (The previous Project Plan was published on October 2006.)

The Project Plan, in accordance with the content of the Tokyo Agreement, classifies the project items into three categories (short-term, medium-term and medium & long-term) and indicates the schedule for each item.

### ASBJ Project Plan (Items related to convergence)

As of 6<sup>th</sup> December 2007

	2007	2008				2009	
	Q4	Q1	Q2	Q3	Q4	H1	H2
<i>1. Items advised by CESR for EU equivalence assessment purpose (short-term)</i>							
Business combinations (STEP1) <sup>※2</sup>							
(Pooling-of-interest method)	RR/DP		ED		Final		
(Others) <sup>※3</sup>	RR/DP		ED		Final		

Inventories (LIFO)		ED		Final			
Uniformity of accounting policies (Associates)	ED		Final				
Impairments of fixed assets <sup>※4</sup>							
Intangibles (R&D expenses)	DP		ED		Final		
Construction contracts	Final						
Asset retirement obligations	ED	Final					
Retirement benefits		ED		Final			
Disclosure of FV information of financial instruments		Final					
Investment property	TC		ED		Final		
<b>2. Items remaining differences between Japanese GAAP and IFRSs except above (medium-term)</b>							
Segment reporting		Final					
Business combinations (STEP2)							
Issues for PHASE2							ED
Amortization of goodwill							ED
Retrospective restatement							
Change in accounting policy			(DP)			ED	Final
Depreciation method			(DP)			ED	Final
Discontinued operations							
<b>3. Items related MOU between the IASB and the FASB (medium and long-term)</b>							
Scope of consolidations				DP			
Financial statement presentation		TC			DP		
Revenue recognition		TC			DP		
Liabilities and equity distinctions		WG					
Financial instruments					DP		

(※1) For "2007/ 2009" column : WG: Working Group to be established    TC : Technical Committee to be established  
RR : Research Report to be issued    DP : Discussion Paper to be issued  
ED : Exposure Draft to be issued    Final: Accounting Standard/Guidance, etc.

(※2) ASBJ will divide "Business combinations project" into STEP1 and STEP2.

STEP1 deal with the items related to EU equivalence assessment, and STEP2 take up others.

(※3) "Business combinations-STEP1(others)" includes issues for "Date of exchange", "Negative goodwill", "Minority interests at historical cost", "Step acquisitions", and "Translation of goodwill".

(※4) No schedule has been fixed at this stage, due to monitoring progress of IASB/FASB discussions.

“Toward the Global Convergence”--A Dialogue between Ikuo Nishikawa, Chairman of the ASBJ and Sir David Tweedie, Chairman of the IASB, on 7<sup>th</sup> November in Tokyo--

«Disclaimer» *The views expressed in this dialogue are their own, and do not necessarily reflect the views of the ASBJ or the IASB.*



## 1. The reactions about the Tokyo Agreement from the constituents

**【Mr. Nishikawa】** Welcome to Tokyo. Thank you for being with us today. I'm sorry to bother you when you are weary from a long journey, but shall we have a small talk about global convergence since you came all the way?

**【Sir David】** No problem. I am very pleased to meet you again.

**【Mr. Nishikawa】** First, let's talk about the Tokyo Agreement. Now, the Japanese media companies and the press have taken up the Tokyo Agreement in a large manner by featuring the news on the cover page, and therefore, there was very strong reaction.

On the same day, Keidanren was kind enough to publish a document offering support to the Tokyo Agreement. Then I had the opportunity to meet with the top leaders of the four major auditing firms and got the impression that they all were very positive with regards to the Tokyo Agreement.

If I may share with you some positive comments we obtained from the market, first of all, the Tokyo Agreement is meaningful in that it has written down a specific timeline for the scheduling of the convergence. Secondly, it once again reaffirmed the fact that the direction of Japanese accounting standards is looking towards the same direction as the global standards. Thirdly, the fact that Japan is expected to actively participate in the development of the global accounting standards.

With this high level of expectations amongst stakeholders in Japan, we are

determined to make our utmost efforts towards the achievement of the Tokyo Agreement.

Now, to you, David, how do you find the reaction in the Europe or in the U.S.?

**【 Sir David 】** I think the global reaction was quite dramatic. The fact that many have looked upon Japanese accounting as being there for years and years to come, and suddenly we have an agreement that Japan is going to take part in the development of global standards, I think that made a huge impression. I think a lot of credit must go to the ASBJ in seizing the moment.

I think what it's done has had an effect that has been very dramatic in the United States. Over the last few weeks I've been in the United States twice, appearing before the Senate Banking Subcommittee <sup>1</sup> and also meeting with the representatives of the FASB (Financial Accounting Standards Board) and their trustees (FAF: Financial Accounting Foundation), and I think the impression that the United

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<sup>1</sup> The Subcommittee on Securities, Insurance and Investment Committee on Banking, Housing, and Urban Affairs of the United States Senate (on 24<sup>th</sup> Oct. 2007) .

States now realizes it's the last major economy that has its own accounting standards, or will have its own accounting standards, after 2011. And I believe the US is now getting ready to set a date when it too will switch to IFRS (International Financial Reporting Standards). That has been said by the chairman of the FASB. I think the fact that Japan did it has accelerated the process in the United States.

I think within our organization it's had another effect in the sense that if Japan wasn't going to adopt the standards, why should Japan have a big say in what the eventual outcome will be? That's all changed, too, and Japan is entitled to have a major say in what the eventual outcome of our standards will look like. Japan's input is now welcome at any stage of our deliberation.

I think there's one other thing that perhaps should be mentioned for the future. We've had the economies of China, Japan, India, Korea, all moving towards IFRS, however the IASB is dominated by Americans and Europeans. That can't last. We have a constitutional review starting next year, and that is something Japan really

wants to look at, to make suggestions about what the IASB should look like in the future.



## 2. U.S.' move

**【Mr. Nishikawa】** May I talk about a little bit old times? Now, back when the financial Big Bang had taken place in Japan in the 1990, in a way we had been looking both ways, IFRS as well as towards US GAAP (Generally Accepted Accounting Principles). And considering that United States is the advanced nation when it comes to financial transactions, we may have been slightly more tilted towards the US GAAP back then. So, the Japanese standards are, in a way, a mixture of US GAAP and IFRS, I think. But I believe that now with the matters of the MOU between the IASB and the FASB and so forth, it would no longer be necessary for Japan

to be having to look towards both ways.

Another point. So far, the ASBJ has been proceeding with projects with the IASB on the one hand, as well as regular meetings with the FASB on the other hand for exchange of opinions. These meetings have been hosted from the perspective of both organizations proceeding towards convergence with IFRS. So, in the future, we may be able to study the possibility of putting together and integrating these two separate meetings into one.

**【Sir David】** That's a possibility (to integrate two meetings into one). However, I find the bilateral meetings very helpful, because what we're trying to understand what people are doing (in the bilateral meeting).

I find the more people involved in the meeting, the less you can go into depth. Bilateral meetings enable us to ascertain precisely the views of the other party. When several parties are present it is not quite so easy.

**【Mr. Nishikawa】** By the way, you mentioned you're testifying at the Senate subcommittee. And in that context, Chairman Herz of the FASB has made quite a dramatic comment.

I imagine the background of Bob Herz's testimony. Like Japan, or more than Japan, in the case of the United States, because of the large size of the market and because their own GAAP is well rooted, they face a situation where it would not be possible for them to convert fully to IFRS at a stretch.

I think Bob Herz had intended to deliver two points: first of all he shows the goal that the United States will migrate to the improved version of IFRS, and in the meantime, until such migration takes place, the environment will be developed within the United States to enable that. Then his intention was not to give a choice to the US companies to use US GAAP or IFRS, but to switch all to IFRS at once.

It is not easy to make a decision to switch all at a stretch when we accept IFRS. Japan comes to the same things as the United State to take steps to reach that point. But in the case of the situation in Japan, to a certain extent, we have tolerated the use of US GAAP already; therefore, already have experience in having two sets of standards in parallel. The Japanese preparers may be more familiar with having two sets as a choice than the Americans. In this context, we will

continue to watch closely whether the comment made by Bob Herz will lead to consensus-building in the United States. We are of the same intention in that we do not wish to cause any turbulence in the country.

**【Sir David】** Basically, I also think there has been a sea change in the views in the United States. I think that the Concept Release<sup>2</sup> that was issued by the SEC (The Securities Exchange Commission) came as a bit of a surprise to many Americans, the fact that Americans would be allowed the choice of views in either US GAAP or IFRS. The view of the FASB is, having a choice is all right for the short term, but it should only be allowed if there was an ultimate end that the US switches over to a single set of standards: IFRS. I would not have said that this was the view a year ago, but there has been a major change. Bob's thinking has moved in line with, or moved ahead of the general view. But we know there are a lot of American companies that have subsidiaries throughout the world,

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<sup>2</sup> SEC Concept Release On Allowing U.S. Issuers To Prepare Financial Statements In Accordance With International Financial Reporting Standards (Issued on 7<sup>th</sup> Aug. 2007) .

as you have Japanese multinationals too, and hundreds of them using IFRS. So converting them all back to US GAAP is very expensive and is becoming increasingly unpopular.

And one more point. Like Japan, the IASB believes that you have to use judgments in accounting and should not answer every question. So we should try and make the standards in principle-based. The Americans are also principle-based, but with an awful lot of guidance. Now it's got so heavy that companies are struggling even to interpret what's there. This is another reason for starting again.

Japan's decision has come when the US was considering all of these matters. Therefore don't underestimate how much your decision has affected the United State.

### 3. The balance between practice and theory in the development of accounting standards

**【Mr. Nishikawa】** Now that you have touched upon the principle-based policy, I would like to mention the following. On one hand, it is important that we come up with a united set of standards, but at the same time, ensuring

similarity in practice is also of great importance. Although principle-based approach has its own merits, it also embeds the risk of the possibility of completely different practices coming out of the same principle, so that is one concern we have.

**【Sir David】** The principle-based standards are going to be quite hard to write. The way both Japan and the United Kingdom have been used to dealing with standards is the fact that judgment is required on the basis of the principles. But if we have loose principles, we will not have comparability. If we can get the principles to be set out tightly, then that almost in itself is an anti-abuse device.

For example, if Ikuo's answer was 94 and mine was 91, that's acceptable. If one of us got 61, then clearly the standard is totally defective. And we have to accept there will be a small envelope of acceptability. Everyone will not get precisely the same answer, but you don't anyway in accounting. And what we don't want to do is get into the situation which they have in the United States.

I watched a litigation lawyer in New York hold up in one hand a copy of

the American Constitution, which was a very thin document; you could hold it between a finger and a thumb, and on the other hand he had the American Standards on Financial Instruments, which he had difficulty holding in one hand. Then he said, “Now, which of these would you think I’d like to defend? It’s very easy to defend a principle in court; it is not very easy to defend the fact that somebody has forgotten a rule on page 743.”

I think that’s the difference - we have to operate with good auditing systems, with good enforcement systems and with integrity. The standard-setter’s job is to set the scene for that. The job of industry and the auditor is to make sure that a fair reflection is given within the principles.

**【Mr. Nishikawa】** In that sense, I think that the practice and enforcement are of great importance, so in that context I generally agree to what you have mentioned.

And I recently heard that IASCF (International Accounting Standards Committee Foundation) will be conducting oversight on the suitability or the actual status quo of application of standards that had been decided once.

That would mean that they would be listening to the evaluation in the market. So I think that’s very positive.



#### 4. How the inputs from the IFRS adopted countries have been used in the development of standards

**【Mr. Nishikawa】** Well, it is very important for the global economy that comes up with high-quality standards through convergence. I think there has to be a process where the major countries involved in convergence input diversified information based upon the expertise that each of these countries had accumulated so far in order to stimulate a wide range of discussions. Currently, how are the inputs from the countries such as Australia or Canada that have already adopted IFRS used in the development of standards? Now, on the basis of the Tokyo Agreement, we

are going to accelerate our inputs to you. So I am interested in.

**【Sir David】** It's different from the way in which we're working with the ASBJ. We have ten major projects, and more if the ASBJ wishes to get involved, in which you can give constant input. We get occasional input from Canada and Australia, if there is something in particular that they're concerned about. And they often help us with a project that's not on our agenda, because we have no time or room for it, but we know we'll have to go on our agenda one day. For example, Australia has been looking at intangible assets and also at extractive industries, oil, gas mining. The board has been working with some other standard-setters too. But (Australia is) doing the research and coming forward the result such as "Here are the accounting problems. Here are possible solutions. On balance we think this will be the answer." In that event we will publish their research as a discussion paper. That will save us two years when we actually start the project.

This project is something that we have to deal within the accounting standards in years to come and we'd be

delighted to see the ASBJ do something similar. If there are particular issues at the ASBJ, the ASBJ has now time to think about this way.

## 5. Formulation of the structure to achieve the Tokyo Agreement

**【 Mr. Nishikawa 】** We have to establish a mechanism or structure that would enable inputs from Japan to the IASB on routine basis. In that sense, we need to establish such a mechanism that will get off on the right foot. But at the same time, we are under constraints resource-wise, so we would like to clarify which of the staff would be responsible for which area. And hopefully, when Mr. Wayne Upton<sup>3</sup> visits Japan on January, we would be able to consult with him on such matters as well so that we could have such mechanism in place as early as possible.

Well, David, how about the IASB side?

**【Sir David】** I think a big change will come. The way that the ASBJ and the IASB worked before was that we were

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<sup>3</sup> Mr. Wayne Upton, Director of Research of the IASB.

looking at the existing IASB standards. From now on, we would like to see what principle we should adopt into new standards on the basis of arguments forwarded by the ASBJ. This we feel will be very important while we are developing the new standards.

It's probably far better for us if Japan becomes actively involved in shaping the future as opposed to tinkering with the old standards. The big change that Ikuo and the ASBJ has brought in is the focus on the future.

All of these projects that we're working on now are at a very early stage. I often say that the IASB has only been standard-setting for about a year now. We've been trying to fix things that we inherited in the past in the last five years, but now we're moving forward. And I think that's the big difference for us.

About the structure, there would be two major changes. One would be the fact that the staffs, as Ikuo mentioned, would know who their opposite number in the other board and be able to just pick up the telephone or e-mail and get in touch directly. The second thing, we feel that the directors have to have far more contact than they've had in the past. And the flow of information will be

on quite a different, almost a real-time basis as opposed to every six months the boards get together. I think that is the fundamental change that we are making.

**【Sir David】** I realize we're coming to the end of our time together but I would just like to mention that when I was last here, we met somebody who mentioned the fact that the IASB was like the Black Ship arriving off Japan. I don't think the Tokyo Agreement was the Black Ship. I think Ikuo is like Admiral Togo there. (laughter) Japan did this because Japan wanted to do this, and we're delighted to join in, and it's a real asset to us to have Japan so actively involved in the future.

**【Mr. Nishikawa】** Thank you very much. We look forward to working together as we work towards the common goal of high-quality convergence.

## Message

We, ASBJ/FASF are pushing forward preparations to publish our newsletter by the next spring to let communication with the person concerned fill up. The newsletter will convey the points of our activities to the readers. And it will be distributed by E-mail bimonthly. We distribute this newsletter to you as an inaugural preparatory issue. We hope you will enjoy this newsletter.

If you would like to receive “ASBJ Newsletter”, please send us the following information about you by E-mail (mail to: [publicity@asb.or.jp](mailto:publicity@asb.or.jp)). It is free.

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