

ASBJ Newsletter



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1. Foreword: Launch of Newsletter

Activities at the Accounting Standards Board of Japan (ASBJ) and the Financial Accounting Standards Foundation (FASF) are becoming broader than before, as the trend towards the convergence of accounting standards is gathering momentum on a global scale. Accordingly, it has become increasingly important for us to gain the understanding of as many people as possible about our activities, and get their

feedback regardless of whether it is critical or supportive.

As one of the means to achieve this, we have launched the Newsletter to actively disseminate information from our side. This newsletter will be issued every second month initially, primarily for the purpose of providing a brief explanation of our activities. We hope you will enjoy reading the Newsletter in the years to come.

2. Information on ASBJ

1) Development of ASBJ Standards (released between December 2007 and January 2008)

(1) [Final] Announcement of Accounting Standard for Construction Contracts (ASBJ Statement No.15) and Guidance on Accounting Standard for Construction Contracts (ASBJ Guidance No.18) (December 27, 2007)

(2) [Final] Amendment of Guidance on Accounting Standard for Impairment of Fixed Assets (ASBJ Guidance No.6) (January 24, 2008)

(3) [ED] Release of Exposure Draft of Accounting Standard for Asset Retirement Obligations (ASBJ Exposure Draft of Statement No.23) and Exposure Draft of Guidance on Accounting Standard for Asset Retirement Obligations (ASBJ Exposure Draft of Guidance No.27) (December 27, 2007)

The deadline for public comments on the Exposure Draft was February 4.

(4) [ED] Release of Exposure Draft of Guidance on Determining a Subsidiary and an Affiliate (ASBJ Exposure Draft of Guidance No.28) (January 24, 2008)

The deadline for public comments on the

Exposure Draft was February 25.

(5) [DP] Release of Issue Paper on Accounting for Research and Development Costs (December 27, 2007)

The deadline for public comments on the Exposure Draft was February 4.

(6) [DP] Release of Issue Paper on Accounting for Business Combinations (December 27, 2007)

The deadline for public comments on the Exposure Draft was February 4.

[Legend]

DP: Issue Paper, Discussion Paper

ED: Exposure Draft

Final: Statement/Guidance, etc. (final version)

2) Events (December 2007 -January 2008)

(1) Announcement of New Project Plan (related to Convergence) (December 6, 2007)

ASBJ, which works on the initiatives toward international convergence of accounting standards, announced the new Project Plan in consideration of the [Tokyo Agreement](#) reached with the [International Accounting Standards Board \(IASB\)](#) last August (the [previous Project Plan](#) was announced on October 12, 2006).

The Project Plan classifies the project items

into three categories (short-term, medium-term and medium & long-term) and presents the schedule in more specific terms according to the Tokyo Agreement.

(2) Launch of New Technical Committees, etc.

ASBJ has established the following three new technical committees as part of its efforts to accelerate the convergence of accounting standards.

- ✓ [Technical Committee for Investment Property](#)
- ✓ [Technical Committee for Financial Statement Presentation](#)
- ✓ [Technical Committee for Revenue Recognition](#)

Furthermore, ASBJ has established a working group to start considering discussions held between IASB and the Financial Accounting Standards Board (FASB) about reconsidering liabilities and equity distinctions.

(3) ASBJ Chairman Ikuo Nishikawa attended Open Hearing on CESR Consultation Paper “CESR’s Advice on the Equivalence of Chinese, Japanese and US GAAPs”

Chairman Ikuo Nishikawa and other ASBJ members attended an open hearing on a consultation paper published by the

Committee of European Securities Regulators (CESR) in December 2007 titled “[CESR’s advice on the equivalence of Chinese, Japanese and US GAAPs](#)”, held at the CESR office in Paris on January 21, 2008.

At the open hearing, Mr. Nishikawa commented that he appreciated the CESR for regarding that the Japanese Generally Accepted Accounting Principles (GAAP) is considered to be equivalent to International Financial Reporting Standards (IFRS) based on an holistic approach, that ASBJ is working on Project items relating to equivalence assessment by the EU based on the Project Plan announced in December 2007 as a highest priority, and that ASBJ will be fully involved in the discussion from early stages with respect to projects relating to the Memorandum of Understanding between IASB and FASB.

CESR invited comments on the Consultation Paper until (Monday) February 25.

(4) ASBJ Chairman Ikuo Ishikawa participated in [Japan Securities Summit in London](#) as a Panel Member

The Japan Securities Summit, co-organized by the [Japan Securities Dealers Association \(JASDA\)](#) and the [International Capital Market Association \(ICMA\)](#), was held in London on January 21 and 22, 2008 for the

purpose of promoting Japanese capital markets. The Summit, headed by Prof. Heizo Takenaka, Keio University, was unprecedented in terms of scale as a securities industry's event in Europe, as many representatives of leading companies and organizations of capital markets were invited as speakers and panel members.

The program was wide-ranging, spanning from macro-level themes relating to Japanese capital markets to subject-specific themes. On the second day, a panel discussion on Japanese accounting standards entitled "Japanese Accounting Standards - Efforts toward international convergence" was held.

The panel discussion was moderated by Prof. Tomo Suzuki, University of Oxford. Mr. Nishikawa and Mr. Seiichi Kaneko, Director of the Security Analysts Association of Japan (SAAJ) participated as panel members.

In the panel discussion, Mr. Nishikawa gave a presentation on the following.

- ✓ As convergence efforts, ASBJ aims to develop Japanese accounting standards that would eliminate differences with IFRS and converge them with IFRS rather than adopting IFRS, and is making contributions to the development of IFRS.
- ✓ As Japanese capital markets became increasingly globalized, harmonization with international accounting standards and improvements in Japanese accounting

standards were made in the form of "Accounting Big Bang" in the late 1990s.

- ✓ Current status of equivalence assessment by the EU, which was one of the triggers of the Convergence Project with IFRS launched in March 2005.

- ✓ Overview of the Tokyo Agreement reached in August 2007 and an explanation of the current progress of the Project.

- ✓ Explanation of three factors of high-quality accounting standards, namely: value relevance, which is useful for investors to predict future cash flows; full disclosure of financial risks; and coordination with market regulations.

The panel discussion attracted more than 100 people, who listened eagerly to the panel members and took part in a question-and-answer session. We believe this event helped Europeans understand the current situation of Japanese accounting standards.



**3) Overview of the ASBJ Meetings
(December 2007—January 2008)**

another company.

(1) 142nd Meeting (held on December 6, 2007)

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| <ul style="list-style-type: none"> a. Project Plan b. Progress of Studies conducted by Technical Committee for Construction Contracts c. Progress of Studies conducted by Technical Committee for Asset Retirement Obligations d. Progress of Studies conducted by Intangible Assets Technical Committee e. Progress of Studies conducted by Technical Committee for Business Combinations f. Progress of Studies conducted by Technical Committee for SPEs |
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a. The Board approved the announcement of the Project Plan showing the convergence schedule for 2008 onwards. The Project Plan presents the schedule by classifying the Project items into three categories (short-term, medium-term and medium & long-term) according to the Tokyo Agreement. For items relating to equivalence assessment by the EU, the development of standards is mostly scheduled to be completed by the end of 2008, excluding some items.

b. - e. The Board had wrap-up discussions on the drafts of the final documents to be approved at the next meeting.

f. The Board discussed the treatment of fostering investment purposes and debt collection purposes in cases where the investments made in multilayered structure, that is, where the investee company invests in

(2) 143rd Meeting (held on December 20, 2007)

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| <ul style="list-style-type: none"> a. Accounting Standard for Construction Contracts and Guidance on Accounting Standard for Construction Contracts [Resolution for public release] b. Exposure Draft “Accounting Standard for Asset Retirement Obligations” and Exposure Draft of Guidance on Accounting Standard for Asset Retirement Obligations [Resolution for public release] c. Issue Paper “Issue Paper on Accounting for Research and Development Costs” [Resolution for public release] d. Issue Paper “Issue Paper on Accounting for Business Combinations” [Resolution for public release] e. Amendment of Guidance on Accounting Standard for Impairment of Fixed Assets f. Progress of Studies conducted by Technical Committee for SPEs g. Establishment of Technical Committee for Investment Property |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

a. The Board approved the release of an accounting standard and guidance for construction contracts. It provides that the percentage of completion method should apply when the outcome is deemed certain during the construction process (if total amount of construction revenues, total amount of construction costs and the construction progress at the closing date can be reliably estimated) and the completed contract method should apply when those conditions are not satisfied.

b. The Board approved the release of an exposure draft proposing to require recognition of asset retirement obligations as liabilities and the corresponding amount as an addition to the cost of plant, property and equipment.

c. The Board approved the release of an issue paper covering the topics of “research and development subject to issue paper”, “treatment of in-house development expenses”, and “treatment of research and development in process acquired by business combination, etc.”

d. The Board approved the release of an issue paper covering the six topics in the “Research Report on Accounting for Business Combinations”, including the abolition of the pooling-of-interest method.

e. Explanation was provided regarding the amendment of the Guidance on Accounting Standard for Impairment of Fixed Assets in response to the abolition of the optional treatment similar to operating leases for finance leases.

f. Establishment of the Technical Committee for Investment Property was reported, together with its planned subjects, including studies about the pros and cons of disclosing the fair value of investment property, the scope (definition) of investment property and the method of calculating fair value.

(3) 144th Meeting (held on January 17, 2008)

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| <p>a. Amended ASBJ Guidance “Guidance on Accounting Standard for Impairment of Fixed Assets” [Resolution for public release]</p> <p>b. Exposure Draft “Guidance on Determining a Subsidiary and an Affiliate” [Resolution for public release]</p> <p>c. Progress of Studies conducted by Technical Committee for Retrospective Application</p> |
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<p>d. Progress of Studies conducted by Segment Reporting Technical Committee</p>

<p>e. Progress of Studies conducted by Technical Committee for Inventories</p>

a. The Board approved the release of the Guidance bypassing the exposure draft stage, because it is a purely technical amendment to comply with changes in other Accounting Standards.

b. The Board approved the release of the Exposure Draft “Guidance on Determining a Subsidiary and an Affiliate” which sets forth the treatment of shareholdings for fostering investment or debt collection purposes.

c. Approaches pursued in the Technical Committee were explained. Treatment of changes in segmentation and reporting of discontinued operations are planned to be deliberated in separate future phases. Modification of the definition of “accounting policies” is considered so that “method of presentation” would be separated from it. In addition, the consensus of the Technical Committee was that “changes in accounting estimates” would not be retrospectively applied to financial statements for prior years.

d. The Technical Committee is conducting studies with the view of adopting the management approach to segment reporting. The Board had discussion of the “possibility of encumbering business activities of the reporting entity”, which is often cited as a shortcoming of the management approach. In addition, the

treatment of transactions between segments which are aggregated into the same reporting segment was discussed.

e. The Technical Committee is conducting studies based on the results of a survey on the treatment of the last-in-first-out (LIFO) method in Japanese GAAP, IFRS and U.S. GAAP. The progress of the studies was reported and the Board had discussion about it.

(4) 145th Meeting (held on January 31, 2008)

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| <ul style="list-style-type: none">a. Progress of Studies conducted by Practical Solutions Standing Committeeb. Progress of Studies conducted by Segment Reporting Technical Committeec. Progress of Studies conducted by Technical Committee for Inventoriesd. Establishment of Technical Committee for Financial Statement Presentatione. Establishment of Technical Committee for Revenue Recognition |
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a. Regarding the Exposure Draft for unification of accounting policies of associates, public comments and the plan of how to deal with them were reported. Given that it is often difficult to unify the accounting policies at the level of the investees' non-consolidated financial statements, in the cases of associates, the Board decided to provide that adjustments for unification of accounting policies should be made in the process of application of the equity method if accounting policies are not unified at the level of the non-consolidated financial statements of the investees.

b. The Board reviewed the draft of the final standards, mainly regarding clarification of

segment profit and segment assets and argument about the concern about possibility of encumbering business activities, corresponding to comments on the Exposure Draft.

c. The Technical Committee is conducting studies with the view of abolishing LIFO. The Board discussed the pros and cons of LIFO and the measures that would become necessary if LIFO is abolished.

d. - e. The establishment of new Technical Committees was reported. Both Technical Committees are aimed at dealing with convergence issues.

4)Progress of Projects (related to convergence) As of February 1

	2007	2008				2009	
	Q4	Q1	Q2	Q3	Q4	H1	H2
1. Items advised by CESR for EU equivalence assessment purpose (short-term)							
Business Combinations(STEP1)							
Pooling-of-interest method	<i>RR/DP</i>		ED		Final		
Others	<i>RR/DP</i>		ED		Final		
Inventories (LIFO)		ED		Final			
Uniformity of accounting policies(Associates)	<i>ED</i>		Final				
Impairments of fixed assets							
Intangibles (R&D expenses)	<i>DP</i>		ED		Final		
Construction contracts	<i>Final</i>						
Asset retirement obligations	<i>ED</i>	Final					
Retirement benefits		ED		Final			
Disclosure of FV information of financial instruments		Final					
Investment property	TC		ED		Final		
2. Items remaining differences between Japanese GAAP and IFRSs except above (medium-term)							
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							
3. Items related MOU between the IASB and the FASB (medium and long-term)							
Scope of consolidations				DP			
Financial statement presentation		TC			DP		
Revenue recognition		TC			DP		
Liabilities and equity distinctions		WG					
Financial instruments					DP		

[Legend]

WG Launch of Working Group

TC Launch of Technical Committee

RR Research Report

DP Issue Paper, Discussion Paper

ED Exposure Draft

Final Standards/Guidance (Final Version) *Italic face describes done events*

3. Information on FASF

1) FASF Seminar “Points to be Heeded when Preparing a Report on First Quarter ending June 30, 2008”

A new quarterly reporting system will be introduced with respect to fiscal years commencing on or after April 1, 2008. In conjunction with this, FASF holds a seminar on “Matters to be Heeded when a Preparing Report on First Quarter ending June 30, 2008”. At the same time, ASBJ holds a briefing session on “ASBJ’s Recent Activities and Overview of Quarterly Accounting Standards”.

As this is the first seminar on quarterly reports, it is held earlier than usual conventional seminars on securities reports, etc.

The seminar is held in Osaka, Tokyo, Nagoya, Takamatsu, Kanazawa, Sendai, Hiroshima, Sapporo and Fukuoka, from February 26.

4. Notice

FASF issues a quarterly journal titled “Accounting Standards - Quarterly” for the purpose of explaining the details of FASF activities, business accounting standards, etc., and reviewing the global trends in accounting and disclosure. The next issue (20th issue) is due to be released on (Monday) March 17 focusing on:

- 1) Feature Article 1: Announcement of New Project Plan
- 2) Feature Article 2: Round-table Talk “Towards Introduction of Retrospective Application”
- 3) Explanation of Released Standards: Accounting Standard for Construction

Contracts and Guidance on Accounting Standard for Construction Contracts, etc.

- 4) Information on International Affairs: Report on 7th Three Countries (China, Japan and Korea) Accounting Standard Setters Meeting, etc.

Please consider subscribing to the journal. To subscribe, [click here](#). (we are sorry but the information is available in Japanese only)

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