



**The Japanese Institute of
Certified Public Accountants**

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The Committee of European Securities Regulators
11-13 Avenue de Friedland
75008 Paris, France

**Comments from JICPA on the Consultation Paper –
CESR's technical advice on a mechanism for determining the equivalence
of the generally accepted accounting principles of third countries**

Dear Sirs:

We at the Japanese Institute of Certified Public Accountants (the "JICPA") wish to thank CESR for providing us with the opportunity to publicly comment on the Consultation Paper (CESR's technical advice on a mechanism for determining the equivalence of the generally accepted accounting principles of third countries) in spite of the time constraints faced.

Question 1: do you agree that CESR's suggested method for handling applications for equivalence is the best way? In cases where the standard setter is not in a position to initiate and/or substantiate an application, do you have any concrete suggestions as regards the solution of such a situation and in particular, who could undertake the abovementioned assessments?

This Consultation Paper suggests that sufficient audit assurance and enforcement should be prerequisite for any GAAP to be recognized as equivalent. With a view to this suggestion, we consider that applications seeking equivalence status would be best handled not by the setters of the accounting standards, but by security regulators or third country authorities responsible for the national accounting standards, referred to in the Prospectus Regulation and Transparency Decision. We agree, however, that the standard setters perform "honest assessments" as to whether disclosures and measurement principles required by the third country GAAP concerned are materially the same as IFRS and where they are not an assessment of the differences. We also agree that such assessments are included in the application, as described in paragraph 12.

Question 3: Which of the two approaches indicated above (and in the Appendices) do you think is most appropriate? Please provide your reasons.

Given that nearly 100 countries currently require or permit the use of IFRSs, and given that a substantial number countries (including Japan^{*}) implement well-scheduled convergence processes in advance based on adequate and sufficient convergence programs, we believe that the approach indicated in Appendix 2 is more practically feasible. We also believe that the adoption of the approach shown in Appendix 2 will accelerate the progress of the convergence programs implemented by the national accounting standards setters, accelerate the adoption of IFRSs by competent national authorities, and enhance benefits for investors.

Auditor assurance regarding the remedies

We doubt that remedies would be applied to the Japanese GAAP, as we are confident that the Japanese GAAP is equivalent to IFRSs.^{*} However, given that investors can be presumed to require a certain level of assurance for remedies and given that each national security regulator acknowledges those needs, a certain level of assurance for remedies or for "non-complex disclosures" would generally contribute to the protection of investors.

In the meantime, we have trouble clearly understanding what "audits" refer to in this Consultation Paper. We recommend that CESR clarify whether the remedies are to be presented as components of the notes to the financial statements and auditors are to be expected to issue audit opinions of the "present fairly as a whole" as part of the audits of the financial statements, or on the contrary, whether remedies are to be disclosed as information outside the scope of the financial statements and auditors are to be expected to issue other assurance reports for such remedies. Since we should note that the assurance frameworks endorsed by national regulators vary from country to country, the assurance reports to be issued relating to disclosures of accounting differences are treated differently from reports in ordinary audits of financial statements.

Finally, if CESR requires audits or certain assurances to remedies, we would like to reiterate here that guidance and adequate communication with the relevant authorities acting as securities regulators are imperative, as indicated in the details of our comments issued in May 2005 in response to CESR's draft technical advice. Without guidance and adequate communication, the auditor assurances will not be able to achieve the expected objectives.

In closing, we would like to express our appreciation again for this opportunity to comment on this Consultation. We hope that you consider our comments.

Sincerely yours

Tsuguoki (Aki) Fujinuma
Chairman and President
The Japanese Institute of Certified Public Accountants

* The Accounting Standards Board of Japan (ASBJ), a national accounting standard setter in Japan, released a project plan in October 2006 with the objective of eliminating 26 items that the CESR had identified as 'significant differences.' ASBJ's convergence program with the International Accounting Standards Board (IASB) has been on track based on this project plan. Therefore, given that the term "significant differences" often mentioned in this Consultation Paper bears the same meaning as "significant differences" identified by CESR in its technical advice issued in 2005, we are convinced that there are no additional disclosures to be required.