

Report on our visit to the EU and our position on IFRS in Japan
(Executive Summary)
(A translation of the original in Japanese)

September 2008

The Japanese Institute of Certified Public Accountants

1. Background information and objectives

Entities whose securities are listed on securities exchanges in the EU have been required to comply with International Financial Reporting Standards (IFRS) for consolidated financial statements since 2005. Now IFRS are used in over a hundred jurisdictions, including the EU and Australia, and they are scheduled to be adopted by Canada, India, and Korea, etc., beginning from 2011 and, therefore IFRS are widely recognized as the single global accounting standards.

In November 2007, the U.S. Securities and Exchange Commission (SEC) decided to eliminate the requirement for reconciling IFRS-based financial statements with U.S. GAAP, which foreign registrants previously had to prepare, if their financial statements were to comply with IFRS published by the International Accounting Standards Board (IASB). Moreover, on August 27 this year, the SEC announced a proposed roadmap that would permit voluntary adoption of IFRS by certain U.S. issuers for fiscal years ending on or after December 15, 2009, followed by mandatory adoption beginning in 2014.

In Japan, meanwhile, the IASB and the Accounting Standards Board of Japan (ASBJ) concluded the Tokyo Agreement in August 2007, paving the way for accelerated convergence with IFRS. Given the global environment described above, we believe that there is now an urgent need to seriously consider ways to adopt IFRS also in Japan.

The Japanese Institute of Certified Public Accountants (JICPA) has visited various organizations in Europe, where IFRS have been implemented for three fiscal years, to explore their experiences in the shift to IFRS and the challenges they are now encountering. These visits should contribute to the specific measures JICPA will be implementing going forward.

2. Visit itinerary

Duration: July 1 (Tue) — July 4 (Fri), 2008

Visited: International Accounting Standards Board (IASB)

European Financial Reporting Advisory Group (EFRAG)

The Federation of European Accountants (FEE)

Institute of Chartered Accountants in England and Wales (ICAEW)

Ernst & Young in Paris

KPMG in London

3. Key Findings

- The implementation of IFRS in the EU has generally been evaluated as “challenging but successful”, yet audit firms and audit clients alike experience a significant cost and time burden.
- While IFRS are permitted for application to non-consolidated financial statements in the UK, they are not permitted in France. This restriction is a result of requirements under national tax laws and the determination of distributable income.
- IFRS interpretation was initially a significant concern even in Europe. Preparers and accountants are still in a learning process, reviewing the financial disclosures of industry peers and sharing experiences with them.
- Audit firms and professional accounting bodies are addressing the situation through enhanced training materials using case studies and case examples.
- ICAEW in fiscal year 2003 assigned the highest strategic priority to IFRS issues with the implementation of various policies, and further steps are being prepared.
- Preparers need to keep in mind that the transition to IFRS is not only a technical accounting issue. Often system changes are needed, and time and expenses may also be required. The key to a successful transition to IFRS is early implementation as a company-level project.
- The large audit firms deal with IFRS as initiatives at the global level, implementing measures related to quality control as well as training and accreditation programs.
- The database of IFRS enforcement decisions published by the Committee of European Securities Regulators (CESR) has been found to be valuable, though some of the information is already obsolete.
- To obtain further improved standards, the EU has shifted its approach to focus even more on a proactive approach of involvement in the development of the standard from an earlier stage to exert its influence more effectively.

4. Issues to be addressed in Japan

- In view of the international competitiveness of Japanese companies and capital markets, we believe it would be appropriate, considering the practices in European countries, to give listed companies the option of using IFRS only for their consolidated financial statements, while Japanese GAAP remain to be used for non-consolidated financial statements.
- An IFRS implementation roadmap for Japan should be drafted based on discussions among constituencies and promulgated to the public. The roadmap should include, but not limited to, what are the obstacles, what measures are to be taken, who makes the decisions, timelines, and how those measures are to be implemented.
- We also believe that improved and enhanced education and training on IFRS are indispensable for the accountancy profession, for students, and, most importantly, for

members of the business community as the entities responsible for preparing financial statements. Concerted efforts, deliberation, and implementation are required by those involved, particularly by the business community, academia, the accountancy profession, and Government authorities, with regard to a comprehensive reform of accounting education and training. Reform of the CPA examination regime, of the practical training in pre-qualification programs for those who have passed the CPA examination, and of undergraduate education and accounting education at the Graduate School of Professional Accountancy and other educational institutions are to be included.

- We believe it is essential for Japan to seek more involvement in standard setting by the IASB, and to establish various channels for such involvement. Further, we believe that IFRS adoption is a prerequisite condition to be met if Japan is to become involved and wield influence.
- As specific steps for IFRS implementation, the JICPA is now considering the following measures in the expectation of developing them as its roadmap going forward.
 - (1) Study and deliberation on measures to address issues in auditing expected to arise from the application of the principles-based IFRS.
 - (2) Education and training (partly implemented already).
 - IFRS seminar.
 - Articles on IFRS regularly published in institutional journals.
 - Preparation of IFRS guidebooks.
 - IFRS training for the preparers and users of financial statements.
 - Collaborative efforts with educational institutions, including universities and the Graduate School of Professional Accountancy.
 - (3) Establishment of an “IFRS desk”.
 - (4) Request for a review of the examination subjects of the certified public accountants’ examination. Active involvement in preparations for necessary changes.
 - (5) Working with relevant parties to seek IFRS adoption in Japan. Active involvement in the drafting of an IFRS roadmap for Japan.

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