

**JAPANESE BUSINESS AND INTERNATIONAL
CONVERGENCE OF ACCOUNTING STANDARDS**

Yasuhiro Uozumi

USJP Occasional Paper 07-13

Program on U.S.-Japan Relations
Harvard University
61 Kirkland Street
Cambridge, MA 02138-2030

2007

ABOUT THE AUTHOR

After earning a B.A. in economics from the University of Tokyo, Mr. Uozumi joined the Japan Business Federation (Nippon Keidanren). Most recently, he served as an associate economist in the Economic Policy Bureau. Mr. Uozumi received his Certificate of Certified Public Accountant (CPA) in 2004 and his MBA from the Said Business School at the University of Oxford in 2006. At Harvard, he researched the Generally Accepted Accounting Principles of the United States (U.S. GAAP), compared them with Japanese accounting standards, and studied the effects these standards have on the behavior of companies.

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ABBREVIATIONS

ASBJ	Accounting Standards Board of Japan
ASSB	Accounting standard setting body
BAC	Business Accounting Council
CESR	Committee of European Securities Regulators
CPA	Certified public accountant
EC	European Commission
EFRAG	European Financial Reporting Advisory Group
EU	European Union
FASB	Financial Accounting Standards Board
FASF	Financial Accounting Standards Foundation
FSAP	Framework for Capital Markets: Action Plan
GAAP	Generally accepted accounting principles
IAS	International accounting standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IASCF	IASC Foundation
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commissions
JFRAG	Japanese Financial Reporting Advisory Group
JFSA	Japanese Financial Services Agency
JGAAP	Japanese generally accepted accounting principles
JICPA	Japanese Institute of Certified Public Accountants
MOU	Memorandum of understanding
SEC	Securities and Exchange Commission
UNICE	Union of Industrial and Employers' Federations of Europe
U.S. GAAP	Generally accepted accounting principles of the U.S.

INTRODUCTION

Given the globalization of capital flows through capital markets, market participants favor the development of a single internationally accepted set of accounting standards that would ensure the comparability of financial statements. The three major capital markets – Europe, the United States, and Japan – currently use different accounting standards.

Since 2005, the consolidated financial statements of listed companies in the European Union (EU) have had to conform to the International Financial Reporting Standards (IFRS) prepared by the International Accounting Standards Board (IASB). In addition, the European Commission (EC) has released directives that require foreign companies fund-raising within EU markets to use IFRS or equivalent standards starting in 2009, and it is now assessing the equivalence of other accounting standards in order to ensure compatibility between financial statements of European and foreign companies.

In the United States, the Financial Accounting Standards Board (FASB) reached a basic agreement with the IASB in 2002 on the future convergence of Generally Accepted Accounting Principles of the United States (U.S. GAAP) and IFRS. In practice, however, U.S. GAAP prescribes the strictest and most detailed rules under the oversight of the Securities and Exchange Commission (SEC), whereas IFRS adopts “principle-based” methods.

In the last decade, Japan has been reviewing accounting standards with an eye to harmonizing them with those in the West. Since the establishment of the Accounting Standards Board of Japan (ASBJ) in 2001, efforts have been made to converge the Japanese generally accepted accounting principles (JGAAP) and IFRS in collaboration with the IASB. The presence of the IASB is growing, and its influence is being felt not only in Japan, but also in many parts of

the world. Some problems, however, that undermine the progress of convergence as well as certain doubts about the notions of convergence pursued by the IASB must be addressed.

This paper will focus on determining the suitable role of each player who participates in developing and refining accounting standards in the current situation in order to appropriately realize global accounting convergence. More precisely, this paper will suggest how specific impediments such as the lack of strategies and human resources in Japan as well as problems related to the IASB itself should be resolved. To answer these questions, the historical development of the IASB and its impact on three regions – Europe, the United States, and Japan – as well as the influence of policy makers on the movement towards accounting convergence will be examined based on a review of the literature, interviews with Japanese market participants, and observations of official meetings. Then, problems that Japan must resolve will be described, and realistic solutions will be proposed. After this, foreign examples will be taken into consideration.

This research has revealed that there is a consensus and common understanding that, in order to satisfy its goals, Japan should not seek a mere “convergence” by revising JGAAP to IFRS without deeper consideration. It is essential to consider what standards are appropriate for the sustainable growth of the Japanese economy, and a superficial convergence will not contribute to this. Therefore, it is necessary for Japanese players to participate in the IASB’s activities more fully in order to realize proper convergence by establishing an independent entity, the Japanese Financial Reporting Advisory Group (JFRAG), to take a central role in the planning strategies, personnel training, and technical advice for IFRS endorsement in Japan.

CHAPTER 1

DEVELOPMENT OF THE INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB) AND ITS IMPACT ON THE EU AND THE UNITED STATES

The Background and History of the IASB

The History of the International Accounting Standards Committee (IASC) and the IASB¹

The purpose of this section is to describe the history and impact of the IASB and those who helped bring it into existence and encouraged its development, since examining these factors will be useful in order to analyze the Japanese situation. It is necessary to consider the unexplored impacts of the IASB on various stakeholders; these influences also need to be considered from the macroeconomic perspective in order to ascertain a realistic method of convergence (Suzuki 2007). In particular, the structure and funding mechanisms of the IASB will be analyzed and compared with those of the ASBJ, and the players who have influenced their activities will be identified.

The formal start of efforts to develop internationally comparable accounting standards dates back to the establishment of the IASC, which was founded in 1973 as the result of an agreement by nine accountancy bodies.² The IASC's objective was to develop international accounting standards (IAS) in order to improve and harmonize financial reporting around the world. In 1981, the IASC agreed with the International Federation of Accountants that the former

¹<http://www.iasb.org/About+Us/About+the+Foundation/History.htm> 6 April 2007.

²Accountancy bodies in Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland, and the United States.

would have full and complete autonomy in setting the IAS and in publishing discussion documents on international accounting issues.

After the International Organization of Securities Commissions (IOSCO) was founded in 1986, the IASC enhanced its presence in the global market. The two bodies cooperate with one another to promote high standards of regulation in order to maintain just, efficient, and sound markets. In 1993, they agreed on a list of “core accounting standards” for financial statements of enterprises involved in cross-border offerings and listings to improve their comparability and comprehensiveness.

Before the “core” project, IAS components were basically developed by compiling the accounting practices of major countries. Because these standards simultaneously stipulated different treatments for one transaction, there was criticism that they impaired comparability. To resolve this problem, the IASC finalized all “core” standards in 1998, and, in 2003, the IOSCO President's Committee endorsed 30 IAS items for the purposes of multinational offerings and cross-border listings.³

Although the committee recommended that IOSCO members permit incoming multinational issuers to use “core” standards for cross-border offerings and listings, each member retained the right to waive certain parts of its standards or require “supplemental treatments” (reconciliation, disclosure, and interpretation) if necessary to address outstanding substantive issues at a national or regional level.

The group added that: “IOSCO’s recommendation assumes that IOSCO will continue to be involved in the IASC work and structure and that the IASC will continue to develop its body of standards. IOSCO strongly urges the IASC in its future work program to address the concerns

³IOSCO (May 2000) “A Resolution on IASC Standards” Passed by the Presidents' Committee.

identified in the Assessment Report, in particular, future projects.” This is evidence of a regulatory initiative to develop accounting standards.

To strengthen its influence, beginning in 1997, the IASC started discussions by forming the Strategy Working Party to consider what the IASC’s strategy and structure should be. In 1998, the Strategy Working Party issued a discussion paper, “Shaping the IASC for the Future.” The fact that, in response, the IASC received 84 letters from various parties indicated a high degree of global concern regarding the organization and the issues.

Shortly thereafter, in 1999, the Strategy Working Party revised its proposal and issued a final report, “Recommendations on Shaping the IASC for the Future.” The IASC Board approved the report immediately and started restructuring. This action seemed to be a giant step for the IASC towards becoming “the global standard setter.”⁴ The IASC took a year to complete the restructuring, mainly to select new board members, and effectively brought the IASB, the new IASC Board, into operation in March 2001. The IASB has taken over from the IASC to develop accounting standards as IFRS.

Structure of the IASB

The composition of the oversight body (the Trustees of the IASCF [International Accounting Standards Committee Foundation], 22 members), the advisory body (the Standards Advisory Council, 40 members and three official observers), and the interpretative body (the International Financial Reporting Interpretations Committee [IFRIC], 12 members and two official observers) represents the wider community by reflecting a diversity of geographical and professional backgrounds. At the same time, the membership of the IASB, 12 full-time and two

⁴IASC Press Release, “Shaping IASC for the Future: IASC Board Approves New Constitution,” 17 March 2000.

part-time members (Figure 1-1), is based on the principles of “technical competence” and “independence.” The IASB also has 28 technical staff members.

Personnel

The principle of the body’s personnel selection, however, has crucial structural defects. Most importantly, “independence” should not be among the principles that required for board members. There are many arguments about what the objectives of accounting standards are and how an accounting standard-setting body (ASSB) should be structured. Some claim that investors need to be protected by regulations since they have less financial information than corporations; thus, accounting standards should play a role in reducing this imbalance. Others argue that accounting standards are determined by the balance between the costs and benefits of management, which are the capital costs and incentives to disclose internal information.

From the perspective that current major capital markets work based on a market mechanism through competition among market participants, accounting standards are developed as *de facto* rules through discussion and practices among the participants to ensure the quality of financial information disclosed by fund-raisers. This is why accounting standards are called “generally accepted accounting principles (GAAP).” The role of an ASSB is to provide a place to determine reasonable voluntary market rules with consensus among market participants. The role of public sectors is to provide enforceability and canonicity as a code of conduct for the rules and to supplement imperfect market competition by regulations (Saito 2002).

“Independence,” therefore, is not necessarily the most essential criterion for a board member. Each board member, of course, must be protected from unreasonable solicitation, but they are required to be able to ascertain the best solution based on cordial deliberation among interested parties. Thus, they should not ignore market views in making their decisions.

Fund-raising

The other problem for the IASB is a weak fiscal base. Since its inception, the IASCF has relied on contributions for most of its revenues. In 2001, the Trustees of the IASCF asked contributors to make five-year pledges; many agreed, while others made three-year pledges or promised to make only a 2001 payment.⁵ Although the Trustees of the IASCF have managed to raise sufficient funds so far, the current funding scheme based on voluntary contributions is not sound for the long-term. And, even though they have not agreed on a workable and sustainable scheme for future funding, they decided to continue in the current way for two more years (2006 and 2007).

There is doubt, however, as to whether they can raise sufficient funds even for these two years. This is because U.S. and Japanese companies that do not adopt IFRS⁶ have contributed a significant portion of the revenue, and they do not directly benefit from the IASB's activities. The IASCF's annual reports indicate that the "big four" accounting firms donated \$1 million per year, and 38 "underwriter companies" provided five-year pledges ranging from \$100,000 to \$200,000 annually. Assuming each underwriter contributed \$150,000 per year on average, the estimated individual contribution of other supporters was about \$55,000 ($1,000 * [56 + 62 + 55 + 58 + 46] / 5$) from 2001 to 2005. Based on this assumption, it is possible to calculate the amounts contributed by individual countries. The EU contributed the most, but the United States had the largest ratio, at 41.6 percent of the total, if the big four contributions are

⁵IASCF Annual Report 2001, 15.

⁶This means that authorities and laws of both countries do not permit home companies to use IFRS for fund-raising in home capital markets as preliminary markets. Both countries accept foreign companies with IFRS in home capital markets as secondary markets on condition of approval of the authorities or of reconciliation of their financial statements.

included. Japan was the third largest contributor. Only three regions contributed more than 10 percent; the others contributed less than 5 percent each (Tables 1-1 and 1-2).

The interview research for this paper revealed that some Japanese companies have donated to the IASCF because they see these donations as activities of corporate social responsibility even if they have numerous complaints about the IASB. It is quite difficult to ask these companies for permanent and continuous contributions. Trustees need to collect wider contributions with smaller respective amounts from IFRS users that have direct benefits. If they do not, weak funding may impede the IASB's activities.

Canonicity

As the IASB does not have the full backing of governments, IFRS does not work as GAAPs in markets unless they are endorsed by regulatory authorities. Even IFRS adopters such as the EU and Australia, which have fully relied on the IASB's activities, retain rights as to whether they endorse each standard when developed (Tsujiyama 2006).

Regarding the Australian decision on the adoption of IFRS, there was a governmental policy to make the nation's capital markets strong and competitive. It is clear that Australia positively participates in the IASB's activities to influence their policy instead of passively accepting IFRS (Gray 2006). This indicates a critical part of political strategies, and the IASB cannot avoid such influences. These are not a bad thing, however, as long as the IFRS maintains relevant financial information and pursues public interests.

There are some good examples of the problem with canonicity. IOSCO endorsed 30 IASC "core" standards, but has never backed the current full set of IFRS. Nor has the EU supported the full set of IFRS and related interpretations of IFRIC. This indicates that EU

companies use “European IFRS,” which is different from what is adopted in other countries. In the past, the IASB has officially announced that about 100 countries have accepted IFRS. Strictly speaking, though, this is not correct, as Australia and the EU each have their own versions of these standards. There are views within the IASB that IFRS adopters should be prohibited from using the “IFRS” brand if any exceptions are introduced. If accounting practices including audits based on different business customs and laws are considered, however, it is reasonably possible that the details of interpretations would be different, even if all markets used the same standards.

Europe

Unification of the European Market

For the purpose of the facilitation and liberalization of the transnational movement of people, goods, and capital within Europe, the EU has implemented various measures to achieve economic unification. One example is the EC’s 1995, “Accounting Harmonization: A New Strategy vis-à-vis International Harmonization.”⁷ The strategic agreement, “Financial Services Implementing the Framework for Capital Markets: Action Plan (FSAP)”⁸ was released as a turning point by the EC in May 1999. The agreement had 42 action plans based on strategic objectives. One of them was an EC communication updating the EU accounting strategy towards a single set of financial statements for listed companies.

⁷“It emphasizes the importance of increasing Europe’s influence in the international accounting debate, particularly within IASC, and the need to provide the technical working party set up under the Contact Committee with the appropriate means.” <<http://europa.eu/bulletin/en/9606/p103041.htm>> 1 December 2006.

⁸<http://ec.europa.eu/internal_market/finances/docs/actionplan/index/action_en.pdf> 6 April 2007.

In March of the following year, the Presidency Conclusions at the Lisbon European Council⁹ accelerated the action. This special meeting was held to agree on a new strategic goal for the next decade in order to strengthen employment, economic reform, and social cohesion as part of a knowledge-based economy, and it expressed the strong intent of the EU to make its market competitive against globalization led by U.S. markets.

Adoption of IFRS

As a part of unifying market policies, the EC tried to force listed companies to adopt IAS on their consolidated financial statements by issuing the “EU Financial Reporting Strategy: The Way Forward”¹⁰ in June 2000. Ten private sectors welcomed the EC’s proposal and put forth a pragmatic mechanism to adopt IAS. They were composed of users, accounting professionals, and preparers including small and medium-sized enterprises.¹¹

Shortly thereafter, in June 2001, the European Financial Reporting Advisory Group (EFRAG) was formalized. A broad group of organizations representing European market participants including national standard-setters supported its establishment with the following goals: to provide technical expertise to the EC concerning the use of IAS within Europe; to participate in the IASB’s standard-setting process; and to coordinate the development of views within the EU concerning international accounting standards. The EC agreed with this

⁹ <http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/00100-r1.en0.htm> 6 April 2007.

¹⁰<http://eur-lex.europa.eu/LexUriServ/site/en/com/2000/com2000_0359en01.pdf> 6 April 2007.

¹¹ 1) Preparers: UNICE (Union des Confédérations de l’Industrie et des Employeurs d’Europe); EBF (European Banking Federation); ESBG (European Savings Banks Group); GEBC (European Association of Cooperative Banks); and CEA (Comité Européen des Assurances). 2) SMEs: UEAPME (European Association of Craft, Small and Medium-sized Enterprises) and EFAA (European Federation of Accountants and Auditors for SMEs). 3) Users: FESE (Federation of European Securities Exchanges) and EFFAS (European Federation of Financial Analysts Societies). And 4) Accountancy profession: FEE (European Federation of Accountants).

mechanism,¹² and, finally, in May 2002, the EU adopted an “IAS Regulation” requiring listed companies to prepare their consolidated accounts in accordance with the IAS from January 1, 2005¹³ based on EFRAG’s advice (Figure 1-2).

This mechanism represents an important strategy. The EU will not endorse some standards that have disadvantages for the EU markets and economy. An EC press release in September 2003, “European Endorsement of Most Existing IFRS Is Completed,” backs up this claim. The EC’s endorsement confirms that IFRS must be followed under the terms of the general “IAS Regulation.” This covers all existing IASB standards and interpretations, except for IAS Nos. 32 and 39 and related interpretations, which deal with accounting and disclosure of financial instruments.

The reason for these exclusions was strong dissatisfaction from the EU’s financial sectors. Five EU members (Belgium, France, Italy, Portugal, and Spain) expressed strong opposition to IAS No. 39 and to the IASB’s proposed changes in the exposure draft. French president Jacques Chirac joined the debate by requesting a meeting of the Economic and Financial Affairs Council to discuss how to pressure the IASB into eliminating the fair-value reporting requirements for financial instruments altogether. At the Council meeting in July 2003, Chirac stated that adopting IAS Nos. 32 and 39 would be harmful to EU banks and national economies, and he called for the EU to drop the two standards from its endorsement review. When the Accounting Regulatory Committee met the following day, it unanimously recommended adopting the existing IAS except for 32 and 39 and three related interpretations (Brackney and Witmer 2005).

¹²EC Press Release, “Financial Reporting: Commission Welcomes Creation of European Technical Expert Group.” 21 June 2001.

¹³European Parliament and the Council, “Regulation (EC) No.1606/2002 of the European Parliament and the Council of July 19th, 2002 on Application of the International Accounting Standards Brussels.” 27 May 2002.

Another example is IFRIC 3: Emission Rights, released in 2004. As EFRAG believed its application would not always result in relevant financial information, in May 2005, it officially recommended that the EC not endorse IFRIC 3¹⁴ and forced the IASB to withdraw it in June. Although the IASB explained that this was due to a change of situation – that it has become less urgent to develop rules was reduced in the EU¹⁵ – this incident might have given rise to strong doubt about the IASB’s ability to develop standards properly under due process.

The EFRAG mechanism tries to monitor IASB activities to endorse newly developed standards. If some standards cause economic or legal problems for EU markets, it rejects them, because “European IFRS” should promote European public interests. This is a precise reflection of the fundamental defect of the current IASB system. In contrast, EFRAG accomplishes its objective to participate in the IASB’s standard-setting process accordingly.

If the EU’s purpose is only to unify its markets, it should be convenient and quick to adopt not IFRS, but the U.S. GAAP, because it is the most dominant in global markets. This means, however, that the EU would lose control of the standard development process for European interests. The EU’s strategy is aimed at gaining a competitive advantage for Europe over the United States.

Assessment of Equivalence to IFRS

To ensure the enforceability of adoption of IFRS, the EU established the independent Committee of European Securities Regulators (CESR). The main roles of this committee are to improve coordination among securities regulators and to act as an advisory group to assist the EC.

¹⁴<http://www.iasplus.com/efrag/0505ifric3endorsementadvice.pdf> 6 April 2007.

¹⁵IASB Public Statement, “IASB Withdraws IFRIC Interpretation on Emission Rights.” July 2005.

Additionally, in December 2004, the European Council and Parliament approved a new directive on minimum transparency requirements for listed companies to contribute to better investor protection. It should be noted that this directive requires all listed companies to prepare consolidated financial statements in accordance with “European IFRS,” but provides exemptions to adopting “European IFRS” prior to the 2007 financial year for foreign companies that use internationally accepted standards.

Simultaneously, the EC asked the CESR for technical advice on the equivalence of the accounting standards of Canada, Japan, and the United States to “European IFRS” by June 2005, based on the actual performance and numbers of listed companies of these countries in EU markets. Under due process to ensure fairness and transparency of the assessment process, the CESR provided occasions for public comments and held open hearings for interested parties. In February 2005, the CESR released a concept paper to determine the definition of equivalence and mechanisms to assess it. With further responses from third countries, the CESR concluded, as technical advice for the EC, that the GAAPs of Canada, Japan, and the United States are all equivalent as a whole to “European IFRS” with the description of the enforcement mechanism of these countries in July 2005, although this is subject to some “remedies” for each GAAP.¹⁶

At first, it was planned that the EC would conclude an equivalence assessment at the end of 2005. Due to the progress of convergence between the IFRS and the three GAAPs, and the necessity to carefully analyze the implementation and concrete implications of IFRS by European companies, however, in April 2006, the EC proposed postponing the decision for two years and revised its July 2005 proposal. The revision includes two important points: one is that the EU shall continuously accept the historical financial information that is prepared under the

¹⁶CESR “Technical Advice on Equivalence of Certain Third Country GAAP and on Description of Certain Third Countries’ Mechanisms of Enforcement of Functional Information.” 5 July 2005.

three GAAPs without restatement before 2009, and the other is that the EC shall closely monitor the amount of progress in convergence between the IFRS and the three GAAPs. This implies that the EU will reinforce political intervention in the convergence process. Additionally, this equivalence problem had a significant impact on the three countries' strategies about and prospects for convergence.

The United States

The Structure of the FASB

The FASB was founded in 1973 as a private sector organization designed to develop standards of financial accounting and reporting. These standards are officially recognized as authoritative by the SEC¹⁷ and the American Institute of Certified Public Accountants.¹⁸ Under the Securities Exchange Act of 1934, the SEC has statutory authority to develop financial accounting and reporting standards for publicly held companies. The SEC's policy, however, has been to rely on the private sector for this function to the extent that it demonstrates the ability to fulfill the responsibility in the public interest. Since its inception, the FASB has, with one exception, successfully developed the U.S. GAAP.¹⁹

Similar to the IASB, the FASB is one of the components of the Financial Accounting Foundation, which is responsible for: 1) selecting the members of the FASB (seven full-time members); its advisory council, the Financial Accounting Standards Advisory Council (32

¹⁷Financial Reporting Release No. 1, Section 101 and reaffirmed in its April 2003 Policy Statement.

¹⁸Rule 203, Rules of Professional Conduct, as amended May 1973 and May 1979.

¹⁹Statement No. 19: Financial Accounting and Reporting by Oil and Gas Producing Companies developed in 1977 was rescinded and replaced by alternative treatments developed by the Department of Energy for its Financial Reporting System and adopted by the SEC.

members); and the Trustees of the Financial Accounting Foundation (16 members); 2) ensuring adequate funding; and 3) exercising general oversight with the exception of the FASB's resolution of technical issues. The FASB has 68 professional staff members. All of them are selected to collectively represent the diverse backgrounds of market participants. In particular, the Board of Trustees is made up of members from eight constituent organizations²⁰ having interests in financial reporting. This implies that these eight constituents have power through selecting members.

Regarding funding, the FASB is financially supported through a system prescribed by the Sarbanes-Oxley Act of 2002. This approach has been successful in ensuring the board's independence. The Sarbanes-Oxley Act of 2002 provides FASB funding through compulsory "accounting support fees" that are assessed against security issuers based on their market capitalization. The fees for 2005 totaled \$20,225,000.²¹ Given the fact that the United States has maintained the largest capital market in the world, the FASB's large-scale structure and sound fund-raising functions sustain the market well.

The Norwalk Agreement

Even though the United States leads global markets with its very innovative infrastructure, and the SEC only accepts financial statements of foreign companies prepared according to U.S. GAAP, it cannot ignore the IASB's activities. In this regard, the milestone is the September 2002 "Norwalk Agreement" between the IASB and the FASB. According to the Memorandum of

²⁰1) American Accounting Association, 2) American Institute of Certified Public Accountants, 3) Chartered Financial Analyst Institute, 4) Financial Executives International, 5) Government Finance Officers Association, 6) Institute of Management Accountants, National Association of State Auditors, 7) Comptrollers and Treasurers, and 8) Securities Industry Association.

²¹Financial Accounting Foundation 2005 Annual Report.

Understanding (MOU) published with this agreement in the following month,²² both boards agreed to: 1) undertake a short-term project aimed at removing a variety of individual differences between U.S. GAAP and IFRS; 2) remove other differences between the two standards by 2005; 3) continue work on joint projects; and 4) encourage their respective interpretative bodies to coordinate their activities. Both the SEC and the EC released comments applauding the boards' decision.

No less important is a strong personnel connection between the boards. Robert Herz, who was appointed chairman of the FASB in July 2002, previously served as a part-time IASB Board member. Additionally, before joining the IASB, James Leisenring, a full-time IASB Board member, served as vice-chairman from 1988 and as the first director of international activities starting in 2000 at the FASB. Anthony Cope, a full-time IASB Board member was also a full-time FASB Board member from 1993. It is natural to presume that they played key roles. Under this agreement, considerable progress on convergence has been achieved. Although there is no obvious evidence, from the point of view that the FASB may seek to be the global standard setter, it would be possible to conclude that it is much easier for the FASB to control the IASB if it successfully continues to send its former members to the IASB.

MOU

Political action has also accelerated the progress of convergence. Upon the EC's equivalence assessment, the SEC made a counteroffer in April 2005, before the CESR concluded

²²FASB and IASB Joint Press Release, "U.S. FASB and IASB Agree to Work Together Toward Convergence of Global Accounting Standards." 29 October 2002.

its technical advice. This was a “roadmap”²³ to eliminate, by 2009 at the latest, reconciliation requirements on foreign companies that are listed on U.S. markets with financial statements prepared under the IFRS. It was based on discussions between SEC Chairman William Donaldson and EU Internal Market Commissioner Charles McCreevy. They agreed to work closely, monitor progress on the IASB-FASB convergence project, and meet again during the coming year to review overall developments. It was epoch-making that the SEC changed its stance on the reciprocal use of the U.S. GAAP and IFRS in the U.S. and EU markets from a policy of adhering only to the former standards. In contrast, it clearly shows a tangible step²⁴ towards the EU’s strategic goal of competing against U.S. markets in exchange for extension of the final decision on equivalence assessment.

In response to this event, the IASB and FASB jointly published an MOU that reaffirmed the boards’ shared objective of developing high-quality, common accounting standards for use in the world’s capital markets.²⁵ The MOU reflects the context of the “roadmap” and the equivalence assessment work undertaken by the CESR to identify areas for improvement of accounting standards. Political decisions by both regulatory authorities had a critical impact on the development of accounting standards.

The fact that the SEC officially held the Roundtable on the International Financial Reporting Standards "Roadmap" on March 6, 2007²⁶ indicates the continuous importance of

²³SEC Press Release, “Chairman Donaldson Meets with EU Internal Market Commissioner McCreevy.” 21 April 2005.

²⁴EC Press Release, “Accounting Standards: EU Commissioner McCreevy Sees Agreement with SEC as Progress Toward Equivalence.” 22 April 2005.

²⁵FASB and IASB Joint Press Release, “US FASB and IASB Reaffirm Commitment to Enhance Consistency, Comparability and Efficiency in Global Capital Markets.” 27 February 2006.

²⁶SEC Press Release, “SEC Staff Roundtable on International Financial Reporting Standards ‘Roadmap’ Set for March 6.” 13 February 2007.

political initiatives. At this roundtable, while SEC Chairman Christopher Cox, Donaldson's successor, and EU Commissioner McCreevy as well as 21 U.S. market participants as panelists all welcomed the progress of the convergence between U.S. GAAP and IFRS, the feasibility of elimination of the reconciliation from financial statements under IFRS to those under U.S. GAAP and its effect on the markets were positively discussed. If the EU actively pursues these initiatives, it will be successfully able to achieve the strategic goal of making its markets equally competitive to those in the United States by the co-existence of IFRS and U.S. GAAP models in U.S. capital markets. The SEC will decide whether to eliminate the reconciliation by 2009.

CHAPTER 2

THE ASBJ AND JAPANESE REACTIONS

Various Reactions in Japan

History of Standard-setting in Japan

For several decades after its establishment in 1952, the Business Accounting Council (BAC), which is a public advisory panel of experts to the government, developed the JGAAP. The Japan Financial Services Agency (JFSA), whose functions were part of the Ministry of Finance until 2000, has statutory authority to develop financial accounting and reporting standards for publicly held companies under the Securities Exchange Law and related regulations. The JFSA delegates its authority to BAC. Standards developed by BAC are officially recognized as authoritative by the JFSA under the regulations concerning financial statements. In addition, developing practical interpretations and guidelines for each standard were delegated to the Japan Institute of Certified Public Accountants (JICPA).

Given the immaturity of Japan's capital market in the past, JGAAP was developed by referring and adapting foreign standards through policy initiatives in order to establish a growing market, rather than developed as GAAP based on market practices. Obviously, this played a great role in raising the Japanese market's status to the second in the world.

In the late 1990's, due to rapid market change and the progress of globalization, reform of the existing style became essential. In 1996, Prime Minister Ryutaro Hashimoto propounded a "Financial Big Bang" to make the Japanese market internationally sound, like those in New York and London, through deregulation of the financial system. In response to this policy, BAC had

many items, such as fair value accounting on financial instruments and pension accounting, on its agenda.

Simultaneously, as IASC-led international activities gradually intensified, market participants required prompt response from BAC to international movements. The JFSA, however, had only several high-level officials responsible for developing accounting standards, and the frequency of BAC activity was not sufficient; this is because all of the council's members are part-time. It took several years to develop just one new standard. Lack of ability and speed was the most crucial problem.

Establishment of the ASBJ

Politicians also responded. The dominant Liberal Democratic Party established a Subcommittee on Accounting to discuss what the responsibilities and duties of the ASSB should be. The JFSA itself recognized the necessity of restructuring the existing system, as market participants strongly requested this. In March 2000, the JICPA first proposed the privatization of the ASSB,²⁷ and Keidanren followed suit. Then, the JFSA created a working group composed of high-level preparers, users, auditors, stock exchange members, and the chairman of BAC, and, in June 2000, the group issued a discussion paper to propose the establishment of a privatized ASSB.²⁸ Finally, in March 2001, with support from politicians and regulators, 10 associations²⁹

²⁷http://web.archive.org/web/20040726202241/http://www.jicpa.or.jp/technical_topics_reports/999/999-20000413-01-01.pdf> 6 April 2007.

²⁸http://www.fsa.go.jp/p_mof/jouhou/kinki/20000629a.htm> 6 April 2007).

²⁹ 1) Nippon Keidanren, 2) JICPA, 3) The Tokyo Stock Exchange, 4) The Japan Securities Dealers Association, 5) The Japanese Bankers Association, 6) The Life Insurance Association of Japan, 7) The Marine & Fire Insurance Association of Japan, Inc., 8) The Japan Chamber of Commerce & Industry, 9) The Security Analysts Association of Japan, and 10) The Corporation Finance Research Institute, Japan.

that comprehensively cover market participants co-founded the ASBJ in line with the above-mentioned paper.³⁰

The ASBJ was established to ensure independence, transparency, fairness, balance, full-time membership, promptness, activeness, and internationality. The ASBJ took over the function of developing the accounting standards of BAC and practical guidelines of the JICPA. Technically, standards developed by the ASBJ are not explicitly authoritative, but the co-founders insisted on acceptance of the ASBJ's standards as GAAP, because standards are developed under due process as a consensus of market participants to provide relevant financial information to the market.³¹ Given this fact, the JFSA has automatically endorsed every standard so far. During the first six years of its existence, the ASBJ has actively developed 13 standards, 16 guidelines, and 22 practical solutions. The ability to develop standards has certainly been strengthened.

Structure of the ASBJ

The ASBJ is a component of its oversight body, the Financial Accounting Standards Foundation (FASF). Duties of the FASF include research and development of GAAP and contribution to the improvement of IAS. Fourteen members of the board of directors of the FASF are responsible for selecting the members of ASBJ (two full-time and 11 part-time) and its advisory council, the Theme Advisory Council (16 members). The ASBJ has 25 research staff members. All members are selected to collectively represent the diverse backgrounds of market participants. Additionally, the JFSA, the Ministry of Economy, Trade and Industry, and the Bank

³⁰http://www.asb.or.jp/html_e/fasf/20010727.php > 6 April 2007.

³¹<http://www.asb.or.jp/html/fasf/news/news20020517.php> > 6 April 2007.

of Japan (Japan's central bank) attend ASBJ meetings as official observers. During discussions, these participants can bring up any problems they have with standards under development.

The FASF is also responsible for ensuring funding. Its revenue is mostly derived from "membership fees." As of July 2006, the FASF had 3,039 corporate members including audit firms, banks, securities and insurance companies, and associations, who pay 3,816 units × ¥200,000/unit, and 420 individual members, who pay 424 units × ¥50,000/unit. These contributions amount to \$6,820,870 (¥784,400,000, \$1=¥115) in total. Corporate members comprise 93 percent of the companies listed on the Tokyo Stock Exchange, although they have no obligation to become FASF members. This scheme successfully distributes the burden widely to each market participant and sustains the foundation's independence from financial pressure by contributors. Due to its reliance on voluntariness and a lack of obligation, however, there is a risk of revenue fluctuation during recessions. Therefore, a funding mechanism supported by regulations like those of the FASB is essential to ensure the stability of the FASF.

Additional Reasons for the Establishment of the ASBJ

Another reason for the establishment of the ASBJ was to send Japanese board members to the IASB. There was serious anxiety in Japan that the IASB would not have any such members. This is because, when the IASC Board appointed seven members of a nominating committee that selected the initial Trustees of the IASCF to implement the new structure proposed for the IASC in 1999, the Japanese candidate supported by the JFSA was not selected.

Furthermore, there was a systematic risk in the Japanese capital market triggered by successive bankruptcies of large financial enterprises. As a result, the market's international credibility and attractiveness plunged. A symbolic event, the so-called "legend clause" problem,

occurred in 1999. Audit firms suddenly required Japanese companies to add warning sentences³² and independent auditors' reports voluntarily translated into English to their annual reports, without sufficient explanation and only under the instructions of the big four with whom those firms had formed partnerships. Companies angrily demanded repeal of this discriminatory treatment as if the auditors required it due to the inferiority of the Japanese capital market and because it undermined their credibility. The JFSA, however, did not want to interfere with this issue, recognizing it as a private sector matter, and audit firms did not have any power or intention to resist the big four's demands. Some believe that the handling of this problem showed a lack of strategic cooperation among market participants and increased anxiety in the market.

Joint Project Between the ASBJ and the IASB

As a result, the Trustees of the IASCF appointed one Japanese accountant as a board member of the IASB. The ASBJ set up the International Issues Standing Committee, which convenes before every IASB Board meeting to contribute to the development of IFRS through the Japanese IASB Board member.

These efforts have resulted in the launch of a joint project between the ASBJ and the IASB. The idea of joint projects was proposed by David Tweedie, chairman of the IASB, when he visited the ASBJ in July 2004, as he recognized that JGAAP does not have significant differences from IFRS (Nishikawa 2004). The ASBJ welcomed his proposal because it thought that it enhanced international assertiveness, and the two boards officially agreed to launch a joint

³²Examples are: 1) "The financial statements are not intended to present the financial position and results of operations in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan" on an annual report, and, 2) "The financial statements are prepared based on accounting principles generally accepted in Japan. Accordingly, the financial statements and the auditors' report are for users familiar with Japanese accounting principles" on an auditors' report.

project to reduce differences between the above-mentioned standards in January 2005.³³ With steady progress by the third meeting in March 2006, they agreed to accelerate convergence by adding items for deliberation and shifting approaches.

This symbolizes the enhanced international presence of Japan and a great achievement by the ASBJ. This is partly due, however, to changes in the international situation and the IASB's strategy caused by the EC's equivalence assessment. When the ASBJ announced its stance on convergence in April 2003,³⁴ the IASB reacted sharply as if the ASBJ were against convergence. While the ASBJ recognized convergence as an "ultimate and desirable goal" and enhanced "harmonization" as a realistic first step, the IASB, whose organizational objectives were to pursue integration of standards as a "single-set," could not accept the ASBJ's stance. As the movement of the EC's equivalence assessment successfully forced a change in the SEC's stance to propose elimination of the reconciliation requirement, however, it influenced the IASB's policy. The priority had to be shifted accordingly for IFRS to be accepted in U.S. markets without reconciliation. The IASB had to recognize the political goal of reciprocal acceptance of IFRS and U.S. GAAP between EU and U.S. markets as a realistic purpose by 2009, even if differences remain between them at that time.

³³ASBJ and IASB Joint Press Release, "ASBJ and IASB Agree to Next Steps in Launching Joint Project for Convergence." 21 January 2005).

³⁴ASBJ "Our Stance on Convergence – Comment on IFAD Report 'GAAP Convergence 2002,'" April 24 2003. It says;

- International integration of capital markets and that of market systems including accounting standards are two sides of the same coin. Market infrastructures will be fully integrated when domestic capital markets are internationally integrated. We agree with such results as the ultimate goal, and in our view, convergence represents such an ultimate and desirable goal. To promote convergence, sufficient discussion and consensus-building among participants in the domestic market are necessary. Therefore, we cannot make a commitment that convergence should always come first even for the matters to which we cannot assent on any terms. However, we think it is also true of the countries that announced the intention of convergence, in particular United States and European countries.
- ASBJ is positively taking part in international discussions and making every effort to improve our own standards, with our mission in our article of organisation, to contribute to development of international accounting standards. ASBJ will continuously make maximum efforts to contribute to convergence of accounting standards and to enhance harmonisation of our own standards with IFRS.

Historically, the IASB has stated that it will undertake discussions with the FASB only on an equal footing by ceasing a liaison relationship with other national standard setters from 2004, and the MOU explicitly supports the IASB's policy.³⁵ As for the contents of standards such as IFRS 5: Non-current Assets Held for Sale and Discontinued Operations, the IASB accepted the U.S. GAAP in its entirety without amendments.³⁶ The IASB is under the political sway of the EC and the SEC and needs to incorporate other countries to influence the discussions with the FASB in order to have an advantage. Japan has enhanced its influence on the IASB and FASB as a by-product of international political movements. This is shown by the IASB chairman's comments in a press release about the third joint project meeting with the ASBJ in March 2006.³⁷ When the FASB chairman visited the ASBJ in May 2006, he also noted in a public speech that the ASBJ could exercise greater influence over discussions with the FASB by participating in IASB projects.

Similarly to the United States, there is an unexpressed consensus that Japan, with the second largest capital market in the world, should develop its own subjective standards for domestic public interests. As opposed to the United States, however, Japan does not have sufficient power to converge IFRS into its own standards. For a country without sufficient market infrastructure, it may cost less to adopt IFRS instead of developing its own standards as it can be a free rider only by translating IFRS into its own language. In contrast, if a country has already established a sound infrastructure, it needs to decide based on the long-term cost-benefit

³⁵IASB Press Release, "International Accounting Standards Board Welcomes US Move To Converge With IFRS." 15 December 2003.

³⁶IASB Press Release, "IASB Moves Towards U.S. GAAP on Asset Disposals and Discontinued Operations." 31 March 2004.

³⁷ASBJ and IASB Joint Press Release, "The ASBJ and the IASB Hold Third Meeting on Joint Project Towards Convergence." It says: "The IASB will be developing standards in these areas over the next few years jointly with the American standard setter (the FASB). The earlier the ASBJ can become involved in the debate on these critical issues, the greater the influence it will have on the final standards." 2 March 2006.

perspective. If the globally accepted standards have the best quality with appropriate relevance for financial reporting, they converge naturally. The differences between business practice and related regulations, however, make the relevance different country by country. The ultimate convergence of accounting standards could be achieved when there is a unified global market infrastructure, including business practices, environment, and regulations.

Additionally, it is necessary to distinguish between the meaning of full adoption and partial adoption of IFRS. Basically, only countries with large capital markets can contribute to convergence or to the development of high-quality standards with relevance, because they can collect proper information from market participants. From this viewpoint, it is clear that the EU, the United States, and Japan should lead the discussion. Full-adopters who lack the mechanism and know-how to develop standards cannot contribute in the near future. If the IASB goes forward on its own and ignores the voices of the three major players in order to pursue its ideal goals, this will lead not to convergence, but to divergence. In contrast, if the three major players seek convergence only to achieve the ideal goal without considering the quality of the standards, the convergence will soon collapse due to market pressure.

Impediments to Convergence

Inconsistency of the JFSA's Policy

The research reveals several problems that are undermining the progress of convergence between JGAAP and IFRS, including structural issues within Japan as well as those of the IASB already described above. One of the major problems is the inconsistency of JFSA policies caused by the government personnel system. Rotation of high-level bureaucrats approximately every

two years accounts for this situation. This also impedes the creation of useful personnel connections with counterparts at the SEC and the EC. Because of the critical impact of regulatory policy on accounting standards, the lack of consistency affects the behavior of other market participants.

To make matters worse, the JFSA did not have clearly documented and specific convergence strategies. Although there was an implicit agreement that it is necessary to make efforts toward the progress of convergence in general, this situation has weakened the ASBJ's actions. Even as the ASBJ tries to revise JGAAP to be in line with IFRS, it cannot develop standards that are in conflict with the JFSA's policy. If there is a conflict between governmental policy and IFRS, as with IAS 39 against European financial policy, it is almost impossible for the ASBJ to solve the problem on its own.

Additionally, the lack of a clear JFSA policy impairs companies' funding activities. The EC's equivalence assessment had a significant impact on Japanese companies that fund-raise in EU markets. The CESR's assessment concluded that JGAAP is equivalent to "European IFRS," but it required 26 "remedies" including three supplementary statements and nine quantitative disclosures.

Although the EC has postponed its final assessment until 2008, Japanese companies want to avoid the uncertainties and additional cost incurred by the "remedies." The number of listed Japanese companies on EU markets dropped to 24 in 2006 from 83 in 2002. Major worldwide companies such as Toshiba, Hitachi, and Matsushita Electric Industries de-listed during this period. The number of companies that issued bonds declined from 182 in 2004 to 156 in 2005. Without the ability to make clear predictions, Japanese companies hesitate to raise funds within EU markets. There are essential problems to be solved: whether the JFSA will permit Japanese

companies to adopt IFRS in the near future; whether the JFSA will accept a full set of IFRS without exceptions in that case; and to what extent the JFSA and the EC can agree on continuous reciprocal use of JGAAP and “European IFRS” after 2009.

Considering these concerns, it is natural for market participants to require that the government create a consistent political strategy. In response to requests from the market, on July 7, 2006, “The Basic Policies for Economic and Fiscal Management and Structural Reform 2006” submitted by the Council on Economic and Fiscal Policy³⁸ included a sentence about the promotion of convergence of international accounting standards by 2009. Following this, meetings of the Planning and Coordination Committee of BAC were held on July 19 and 31, and the Committee issued a policy statement: “Towards the International Convergence of Accounting Standards.” This report outlines future concerns: 1) a more proactive approach to convergence; 2) a time-framed approach to the EU equivalence assessment; 3) more dialogue with foreign securities regulators towards mutual recognition; and 4) more human resources for the international rule-setting process.³⁹

In particular, as a governmental action, the JFSA plans to develop a two-way monitoring framework on convergence progress jointly with the EC to move towards mutual recognition between JGAAP and “European IFRS” within both markets in response to the EU equivalence assessment. The JFSA has another future agenda item – to explore the possibility of mutual recognition with the U.S. GAAP through a dialogue with the SEC.

³⁸A multi-judge organization set up in a Cabinet Office in January 2001 with the aim of strengthening the prime minister’s political leadership on economic and fiscal policies.

³⁹JFSA Press Release, “Towards the International Convergence of Accounting Standards.” 31 July 2006.

Lack of Human Resources

As pointed out in the BAC report, Japan lacks human resources for the international rule-setting process. It is critical for every ASSB to have competent members. Considering the language problem and the physical distance between Japan and the United Kingdom, where the IASB headquarters are located, it is quite difficult for the ASBJ to provide enough talented personnel who are capable of participating in the global standards-setting process.

According to the report, it is noted that the IASB extended an invitation to ASBJ personnel in its convergence programs with the FASB. Currently, the ASBJ has dispatched a technical staff member who is responsible to the IASB for the “Financial Statement Presentation” project, and another to the FASB with the status of an international researcher. Japan should seriously consider the invitation to enhance its involvement in the international standard-setting process. Such cooperation can create personnel connections with members of the IASB and the FASB, and it would facilitate deliberations on convergence. The business sector and accountancy industries are also expected to extend full cooperation in ensuring qualified persons, but this is not an easy task for them. Individuals involved in practical business may not have sufficient experience to be involved in the rule-setting process. The ability to understand the subtlety of the feelings of interested parties and to negotiate strategically is required. Therefore, it is necessary to build those abilities systematically.

Absence of an Entity That Establishes Strategy

There is still the problem of who should establish the convergence strategy. While the JFSA holds the primary responsibility for considering a strategy for what accounting standards should be to serve the Japanese public interests, the ASBJ is the entity that directly develops

standards. The Tokyo Stock Exchange also plays a significant role in providing the proper market conditions. Preparers, users, and auditors, as well as academics, are basic players and have a great influence on accounting standards. To date, there has been no consensus as to who should take the initiative in developing a strategy by representing “Japan” as an aggregation of all market participants.

Given its slow reaction, BAC is not a sufficient strategy-setting body for the future, although it aggregated the views of market participants in July 2006. In 2004⁴⁰ and 2005,⁴¹ the JFSA, the ASBJ, the JICPA, and Nippon Keidanren cooperated to participate in CESR’s open hearings, to explain the equivalence of the JGAAP to IFRS, and to distribute a brochure depicting the equivalence.⁴² This kind of piecemeal approach, however, needs to be improved.

Other Problems

There are criticisms about a lack of global cooperation by each market player. One group is preparers. Nippon Keidanren issued two joint papers with the Union of Industrial and Employers’ Federations of Europe (UNICE): “Concerning International Convergence” in 2004⁴³ and the IASB’s discussion process of the “Financial Statement Presentation” project in 2005. There was another joint letter by 11 leading international companies to express concern about the project in 2005. There is no specific organization, however, that represents preparers globally. Although Nippon Keidanren issued a position paper on its own to fully support the

⁴⁰JFSA Press Release, “Participation in Open Hearing on How CESR Intends to Measure Equivalence Between Third Country GAAP and IAS/IFRS.” 18 November 2004.

⁴¹JFSA Press Release, “Participation in Open Hearing on CESR’s Draft Technical Advice on Equivalence of Certain Third Countries’ GAAP.” 16 May 2005.

⁴²JFSA Press Release, “Evolving Japanese GAAP: High-Quality Accounting Standards.” 19 April 2004.

⁴³UNICE and Nippon Keidanren “Joint Statement on International Accounting Standards.” 19 April 2004.

acceleration of convergence and to seek mutual recognition of standards in Japan, the United States, and the EU in June 2006,⁴⁴ there is a doubt about the impact on the IASB's activities. Given the common way of thinking about financial statements among preparers, a global network must be established to lead preparers internationally.

The other criticisms apply to auditors as well as academics. Academics are expected to present theoretical contributions, but there have been almost no influential academic papers written in English regarding convergence from Japan. From the educators' perspective, they can develop promising people, but the small number of certified public accountants (CPAs) in Japan indicates poor human resources. The United States has around 12,000 listed companies subject to auditing under the Securities Exchange Act of 1934 and around 335,100 CPAs (about 40 percent of registered CPAs are engaged in auditing). As of 2005, on the other hand, Japan had around 10,000 public companies subject to auditing under the Securities Exchange Law and Commercial Code and only 22,600 CPAs (about 53 percent of CPAs and junior CPAs are engaged in auditing).⁴⁵ In 2003, Japan reformed the existing accountant system under the revised Certified Public Accountant Laws for the purpose of enhancing auditor oversight, strengthening auditor independence, and reviewing CPA examinations to increase the number and enhance the quality of CPAs, but this goal will take a quite a long time to reach.

In addition, there is room for improvement among users. The IASB seems to recognize the Chartered Financial Analyst Institute as a global representative of users. Some Japanese analysts, however, argue that the companies that the Institute analyzes are structured completely differently from those that Japanese analysts work with. The Institute primarily analyzes

⁴⁴Nippon Keidanren, "Nippon Keidanren Supports Accelerating the Convergence of Accounting Standards and to Seek Mutual Recognition of Standards in Japan, the United States, and Europe." 20 June 2006.

⁴⁵Discussion materials of the meeting of the Subcommittee on the Certified Public Accountant System of the Financial System Council on 29 May 2006.

financial sector and IT companies, while Japanese analysts mostly work with manufacturers with many foreign subsidiaries. Based on this difference, the impact of accounting standards, such as 1) fair value accounting on financial instruments, 2) treatment of intangible assets, 3) minority interests, and 4) equity adjustment from foreign currency translation, is dramatically different from one company to another. Japanese users need to disseminate accurate information more actively in order to be incorporated into the IASB's discussions.

In the final analysis, there is a fundamental problem due to the lack of the Japanese market's attractiveness. Although foreign investors own about 24 percent of the shares of all public companies in Japan,⁴⁶ only 44 European issuers were listed on the Japanese capital market as of March 2006. If more foreign issuers are listed or want to be listed, they would require both the JFSA and the EC to recognize their accounting standards mutually without any "remedies." Statistics about market value also indicate the reduced importance of the Japanese market. Given the fact that the combined market value of countries that have adopted IFRS accounts for about 30 percent of the world's total, and the United States for about 45 percent, the mere 10 percent that the Japanese market accounts for is much less important for the IASB and the FASB who seek dominant positions as global ASSBs. This is in spite of the fact that Japan has the world's second largest market (Nomura 2006). The best way to enhance the Japanese presence on the global accounting scene is to make the Japanese market more attractive. Otherwise, the IASB and the EC as well as the FASB and the SEC will not concern themselves with Japanese opinions in developing IFRS (Table 2-1).

First of all, any increase of attractiveness and profitability of Japanese companies improves market attractiveness. It is necessary for such firms to continue making efforts so that

⁴⁶ASBJ Press Release, "Statement on Japan's Progress Toward Convergence Between Japanese GAAP and IFRS," in Reference to Technical Advice on Equivalence by CESR, 31 January 2006.

foreign investors want to invest and foreign companies regard Japanese companies as attractive business partners. Given the fact that several accounting frauds, however, involving such firms as Kanebo Ltd. and Nikko Cordial Securities Inc., have occurred in Japan recently, the most urgent task is to recover market credibility. Lack of credibility impairs market attractiveness. Naturally, companies should have the primary responsibility to prepare proper financial statements. Auditors should also have the responsibility to maintain and enhance market credibility. Considering the fact that one of the Japanese big four accounting firms, *Chuo Aoyama Audit Corporation*, which was a global member of PricewaterhouseCoopers, had a hand in these accounting frauds and was forced to disintegrate after these revelations (like Arthur Andersen for Enron), there is huge room for improvement in the governance of accounting firms.

In addition, the development of market infrastructure and removal of some obstacles, such as the language barrier, to be listed on Japanese markets will make it more accessible to foreign companies. There is potential to increase individual investors in Japan by shifting individual financial assets of ¥1,400 trillion (about \$12 trillion, ¥115=\$1) from savings, which account for 54 percent of this amount,⁴⁷ to investment, and this will attract foreign companies who need to raise funds abroad.

⁴⁷<http://www.boj.or.jp/type/exp/seisaku/exphikaku.htm> 6 April 2007.

CHAPTER 3

ROADMAP OF CONVERGENCE

Restructuring the IASB

Convergence can be achieved more rapidly if current conditions, particularly the IASB's structures, change. Under the existing structure, the IASB's Japanese board member cannot represent Japan, because he has been selected based on his individual expertise and has to maintain independence from all interest groups. Other than the government, only the ASBJ can represent Japan, because it can fairly synthesize various views from market participants and consider the Japanese public interest without being biased by any party under due process. Technically, this problem applies to the FASB, too. No IASB board members are sent as delegates from the home country, but are selected by the Trustees of the IASCF.

There are no international organizations with a structure such as that of the IASB anywhere in the world. That is, the current IASB structure does not satisfy important criteria as a genuine international organization. If board members include representatives from national ASSBs or governments, convergence can be achieved smoothly, as each country that sends a delegation has an obligation to endorse the decision by the IASB without curve-out. Therefore, the best way to realize convergence is to solve the canonicity problem by reforming the IASB's structure to consist of representatives of countries that have large capital markets. The constitution of the IASCF, however, which stipulates the IASB's structure, is only reviewed every five years, and the next review is planned in 2011. Consequently, Japanese players need to act under the presumption that current conditions will continue.

Establishment of the JFRAG

To accelerate convergence, all impediments should be removed as soon as possible. First, political decisions based on strategies for long-term Japanese economic growth are crucial, because these determine how each player should act. Although BAC issued a strategic report including directions to the ASBJ to make a “roadmap” of convergence, it only describes general policies and does not include specific action plans. Activating BAC is one possible solution. By creating working groups composed of experts, it can increase the frequency of meetings and respond promptly. Due to restrictions related to the budget and human resources, however, it is difficult to expect any prompt improvement in the JFSA.

With regard to cultivating human resources, the ASBJ can offer good circumstances to train promising personnel. Although the FASF’s objectives include educational activities, the FASF has not sufficiently performed this duty so far. All the technical employees of the ASBJ are now temporarily dispatched for several years from ASBJ’s co-founders. These people will return to their parent bodies after that period and may engage in completely different work from accounting. It is inefficient to transfer the experience and know-how of the standard-setting process to successors. The ASBJ has to increase its personnel by hiring personnel of its own who can engage for a longer term. The ASBJ just started public job recruitment last August. It should continue hiring and training personnel constantly.

There is doubt, however, as to whether the ASBJ has the authority to determine political strategies. If there is a conflict between the ASBJ and the JFSA, it is impossible for the former to resolve the situation by itself. It could be settled if another working body is created as a component of the FASF to discuss this agenda with the attendance of the ASBJ, the JFSA, and other related parties. Moreover, sooner or later, the JFSA has to decide whether Japan will adopt IFRS based on the progress of convergence. If Japan decides to adopt IFRS, the JFSA then needs

to determine to what extent curve-out from full IFRS is necessary, and whether newly developed IFRS should be endorsed. The JFSA can monitor the progress of convergence, but it may not be able to judge the appropriateness of each standard without consultation from market participants. The FASF can offer a place to discuss these issues by creating another body composed of the JFSA and experts from market participants. Technically, however, as the ASBJ and the FASF is the same entity, it is not appropriate for the FASF to take those responsibilities. This is because, if there were a conflict between the views of the ASBJ and the new body about certain IFRS, the FASF could not resolve it.

Given the limitations of the existing situation, the best way is to establish an independent entity, say, JFRAG, like the EFRAG to take the central role in planning strategies, personnel training, and technical advice on IFRS endorsement. Members should consist of the JFSA, the ASBJ, and major market participants as a semi-private standing agency. This mechanism can overcome the weakness of the JFSA, such as fluctuating policy due to personnel rotation and lack of promptness, and can resolve conflicts among members fairly. Considering the imbalance between the Japanese contribution to the IASCF (12.8 percent of its contributed revenue) and its presence in the IASB, some parts of the contribution should be used for JFRAG. Using the contribution for JFRAG instead of the IASCF would be directly effective and beneficial for Japanese contributors, and it can better contribute to the realistic progress of convergence. This would be desirable for the IASB as well, because JFRAG would cultivate competent personnel who could contribute to global standard setting and accelerate IFRS endorsement in Japan.

Other than this idea, there are some actions each player should improve. It is essential to increase the attractiveness of the Japanese market through a variety of financial policies by deregulation and re-regulation. As practice works not only by accounting but also auditing, auditors should advance their abilities by improving knowledge and skills. This would prevent

accounting frauds and lead to the sustenance of a sound and credible market. Preparers and users should propose respective international collaborations on their own initiative. In addition, academics and educators should support others theoretically and cultivate key talents.

There is an implicit understanding among market players that Japan should not seek convergence simply for its own sake, without concern for the benefit of market players. This means that the ASBJ cannot revise JGAAP to IFRS without deeper consideration. If the ASBJ did so only for convergence, it would lose credibility in developing accounting standards, and co-founders would not comply with standards developed by the ASBJ. It is essential to consider which standards are appropriate for bringing sustainable economic growth and enormous benefits to market players including regulators. Superficial convergence does not contribute to this kind of growth. Therefore, it is necessary for Japanese players to participate in the IASB's activities more vigorously in order to realize proper convergence. JFRAG would reasonably facilitate this by establishing clear strategies including action plans such as a "roadmap" and cultivating talented individuals as the key players to implement them.

Most importantly, the JFSA should strengthen the ability to monitor the IASB's activities by cooperating with foreign regulators in order to prohibit the IASB from advancing divergence based on its theoretical preference. Dialogues the JFSA regularly holds with the EC and the SEC should be further tightened. Considering the importance of the elements that accelerate debates and dialogue between the European Commissioner and the SEC chairman, top level personnel such as the Minister and Commissioner of the JFSA should communicate with their counterparts more frequently by visiting them directly and inviting them to Japan. And they should issue joint statements to show mutual cooperation as soon as possible.

Simultaneously, the ASBJ should dispatch more technical personnel to the IASB and the FASB, and continue to put forth sound arguments to persuade not only them, but also other

global market players by improving negotiation techniques. Effective PR activities through the media, especially foreign vehicles, are also important to enhance the presence of Japan. Due to lack of Japanese market attractiveness, global players might not want to know about Japanese opinions. Efforts to persuade them directly with visible evidence are vital.

Moreover, considering the potential of Asian markets, Japan should lead collaborations among Asian countries and represent their voices. The aggregated value of Asian markets accounts for 22.7 percent of the world's total and will certainly grow more in the future. Although China has decided to adopt Accounting Standards for Business Enterprises covering nearly all topics under the current IFRS literature for listed enterprises from 2007, China has the same problem as Japan, i.e., how to converge Accounting Standards for Business Enterprises with IFRS. The ASBJ, the China Accounting Standards Committee, and the Korea Accounting Standards Board hold regular joint meetings every year, and they have reached a consensus that convergence is not equal to being identical. The ASBJ should tighten its relationship with them by increasing the frequency of meetings and promoting mutual personnel exchanges. As Korea has decided to adopt IFRS for listed companies starting in 2009,⁴⁸ the experience of the Korean government and companies in adopting IFRS will be useful for discussions among the three countries. On that basis, the JFSA should support their activities explicitly by realizing governmental cooperation with their counterparts. A strategy on how to lead Asian markets holds the key to success on the global accounting scene.

⁴⁸IASB Press Release, "IASB Welcomes Korea's Roadmap for Adoption of IFRS." 15 March 2007.

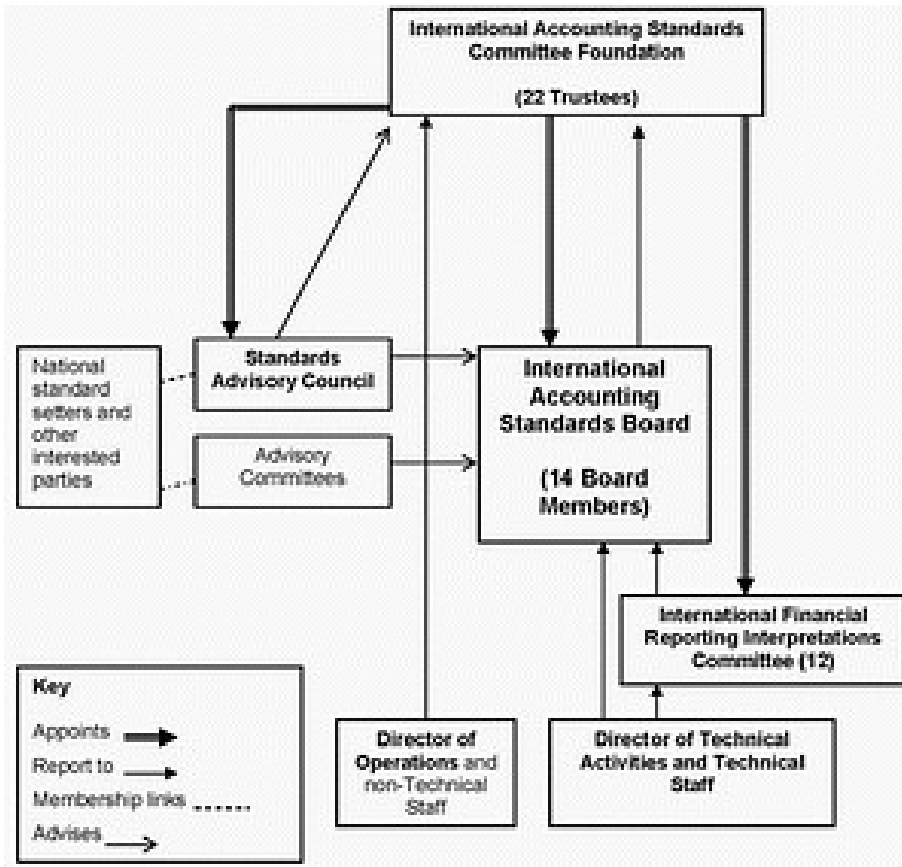
CONCLUSION

This paper has surveyed the key players who have the power to realize appropriate convergence between JGAAP and IFRS in the existing environment. Furthermore, it clearly illustrates problems caused by lack of strategies and human resources. While nobody knows the exact number of talented personnel they need, all players understand the necessity of ensuring sufficient human resources. The JFSA and the ASBJ should estimate the extent to which they need to increase the number of high-level staff members, and how many JFRAG should cultivate per year to constantly provide sufficient and key manpower. Based on concrete numbers, a strategy for how the Japanese delegation should enter into and build a solid position in the global standard-setting process should be established and implemented, much like EFRAG's success. At this moment, even communication between the ASBJ and the JFSA is not adequate. Establishment of an official place where they can regularly discuss Japanese strategies for sustainable future economic growth can contribute to proper convergence.

Due to time limitations, this current study was not able to entirely cover every individual market participant. Alternative research methods such as a quantitative analysis through an online survey not only of a few leading companies, but also of all listed companies, could contribute to scrutinizing the true views of all enterprises, because there might be different views on accounting convergence between leading firms and others. In addition, referring to examples of global standardization that have succeeded and failed in other fields, such as agricultural or industrial rule setting, could be useful in devising an effective international policymaking process. Future tasks include the need to analyze responses to the above proposals from each player and to further deepen the concepts for adequate actions by Japanese participants in global political accounting affairs.

TABLES AND FIGURES

Figure 1-1. Diagram of IASB Structure⁴⁹



⁴⁹<http://www.iasb.org/About+Us/About+Us.htm> 6 April 2007.

Table 1-1. Fiscal Facts of IASCF

Fiscal facts of IASCF	2005	2004	2003	2002	2001
Operating Revenues (thousand GBP)					
Contributions	9,374	9,318	9,680	11,675	12,830
Revenues from publications and related activities	4,514	4,154	2,957	2,303	1,966
Interest income	534	460	348	278	206
Other income	27	46	22	50	13
Less direct cost of sales	-2,753	-2,924	-1,398	-1,272	-675
Total operating revenues	11,696	11,054	11,609	13,034	14,340
Total operating expenses	11,483	11,317	10,887	10,234	8,353
Trustees' cost	541	649	493	487	408
Total expenses	12,024	11,966	11,380	10,721	8,761
Expense (Revenue) in excess of revenues (expenses)	-328	-912	229	2,313	5,579

(data from IASCF's Annual Reports of 2001-2005)

Table 1-2. Contributions to IASCF

Contributions of each country						
Country	2005	2004	2003	2002	2001	Average
EU	30.7%	30.6%	30.7%	28.9%	29.5%	30.1%
Big4	24.8%	22.5%	23.2%	26.6%	26.8%	24.8%
US	18.2%	17.5%	16.7%	16.7%	14.9%	16.8%
Japan	11.0%	12.4%	12.4%	12.6%	14.3%	12.5%
Brasil	3.3%	3.3%	3.0%	2.9%	2.8%	3.1%
Swiss	3.1%	3.2%	3.2%	3.4%	3.0%	3.2%
Canada	2.3%	3.3%	2.5%	2.3%	2.7%	2.6%
China	1.2%	1.3%	2.2%	0.7%	0.6%	1.2%
Australia	0.9%	1.0%	1.0%	0.7%	0.6%	0.8%
S. Africa	0.9%	1.0%	1.0%	1.0%	0.9%	0.9%
Mexico	0.3%	0.3%	0.6%	0.7%	0.6%	0.5%
International	1.4%	1.6%	1.6%	1.7%	1.5%	1.6%
Others	2.0%	2.0%	1.9%	2.0%	1.8%	1.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

(data from IASCF's Annual Reports of 2001-2005)

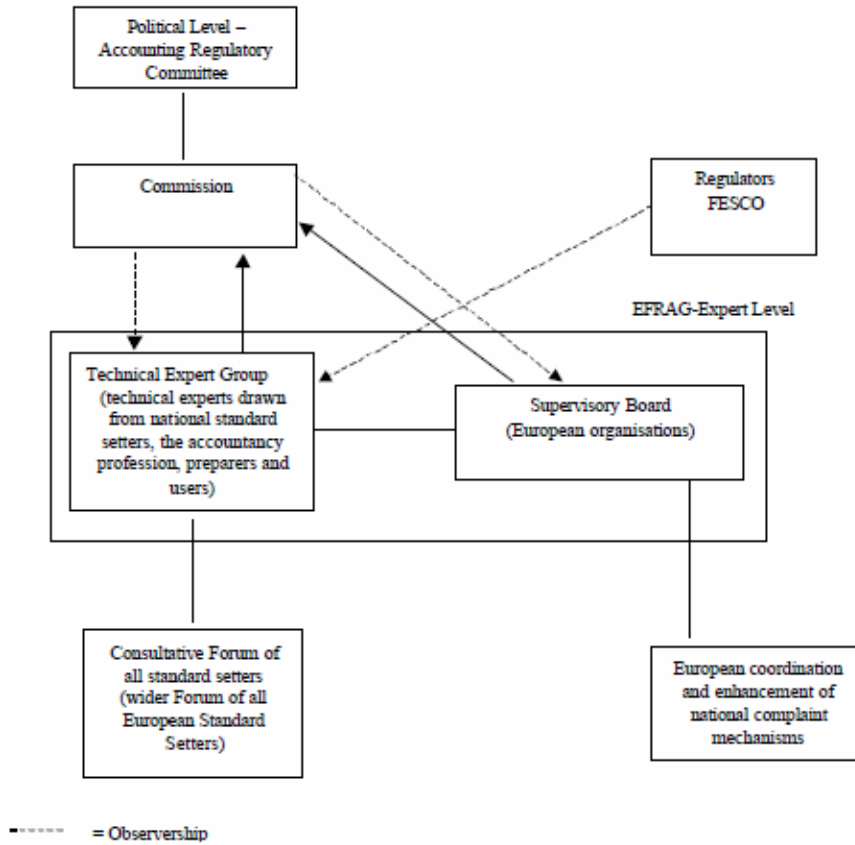
Contributors	Country	2005	2004	2003	2002	2001					
ACCOUNTING FIRMS (\$1,000,000 per year)		4	4	4	5	5					
1 Andersen	US				1	1					
2 Deloitte Touche Tohmatsu	US	1	1	1	1	1					
3 Ernst & Young	US	1	1	1	1	1					
4 KPMG	US	1	1	1	1	1					
5 PricewaterhouseCoopers	US	1	24.8%	1	22.5%	1	23.2%	1	26.6%	1	26.8%
Sub-total		4,000	4,000	4,000	5,000	5,000					
UNDERWRITER COMPANIES²		38	38	38	38	38					
1 Banco Bradesco S/A	Brasil	1	1	1	1	1					
2 Banco Itau S/A	Brasil	1	1.9%	1	1.7%	1	1.6%	1	1.6%		
3 Allianz AG ³	EU	1	1	1	1	1					
4 Amvescap	EU	1	1	1	1	1					
5 BASF AG	EU	1	1	1	1	1					
6 Bayer AG	EU	1	1	1	1	1					
7 BMW AG	EU	1	1	1	1	1					
8 BP plc	EU	1	1	1	1	1					
9 DaimlerChrysler AG	EU	1	1	1	1	1					
10 Deutsche Bank Stiftungsfonds	EU	1	1	1	1	1					
11 E.ON AG	EU	1	1	1	1	1					
12 Fortis SA/NV	EU	1	1	1	1	1					
13 HSBC Holdings plc	EU	1	1	1	1	1					
14 ING Group NV	EU	1	1	1	1	1					
15 L'Oréal	EU	1	1	1	1	1					
16 Royal Philips Electronics NV	EU	1	1	1	1	1					
17 RWE AG	EU	1	1	1	1	1					
18 Sanofi -Aventis	EU	1	1	1	1	1					
19 Shell International Ltd.	EU	1	1	1	1	1					
20 Siemens AG	EU	1	1	1	1	1					
21 Telecom Italia S.p.A.	EU	1	1	1	1	1					
22 Total S.A.	EU	1	18.6%	1	16.9%	1	17.4%	1	16.0%	1	16.1%
23 Nestlé S.A.	Swiss	1	1	1	1	1					
24 Swiss Reinsurance Company	Swiss	1	1	1	1	1					
25 UBS AG	Swiss	1	2.8%	1	2.5%	1	2.6%	1	2.4%	1	2.4%
26 Bank of America Corporation	US	1	1	1	1	1					
27 Bear Stearns & Co.	US	1	1	1	1	1					
28 Citigroup Foundation	US	1	1	1	1	1					
29 JP Morgan Chase Bank	US	1	1	1	1	1					
30 Lehman Brothers Inc.	US	1	1	1	1	1					
31 Merrill Lynch & Co., Inc.	US	1	1	1	1	1					
32 Morgan Stanley	US	1	1	1	1	1					
33 New York Stock Exchange, Inc.	US	1	1	1	1	1					
34 Pfizer Inc.	US	1	1	1	1	1					
35 Prudential Financial, Inc.	US	1	1	1	1	1					
36 State Farm Insurance Companies	US	1	1	1	1	1					
37 The Goldman Sachs Group, Inc.	US	1	1	1	1	1					
38 TIAA-CREF	US	1	12.1%	1	11.0%	1	11.3%	1	10.4%	1	10.4%
Sub-total (estimated by the average amount of \$150,000+)		5,700	5,700	5,700	5,700	5,700					
SUPPORTERS		93	96	94	87	99					
1 BHP Billiton Ltd.	Australia	1	0.3%	1	0.3%	1	0.3%	1	0.3%		
2 BOVESPA	Brasil	1									
3 Companhia Brasileira de Distribuição (CBD)	Brasil	1	1	1	1	1					
4 Companhia Vale do Rio Doce (CVRD)	Brasil	1	1	1	1	1					
5 Petróleo Brasileiro S.A.	Brasil	1	1	1	1	1					
6 Unibanco	Brasil	1	1.4%	1	1.6%	1	1.3%	1	1.3%	1	1.2%
7 Alcan Inc.	Canada	1	1	1							
8 Bombardier Inc.	Canada	1		1	1	1					
9 Manulife Financial	Canada	1	1								
10 Nortel	Canada	1	1	1	1	1					
11 Power Corporation of Canada	Canada	1	1								
12 Royal Bank of Canada	Canada	1	1	1	1	1					
13 TD Bank Financial Group	Canada	1	1	1	1	1					
14 The Bank of Nova Scotia	Canada					1					
15 The Toronto Stock Exchange Inc.	Canada			1	1	1					
16 TSX Group, Inc.	Canada	1	1.7%	1	2.6%		1.9%		1.7%		2.1%
17 China Mobile (Hong Kong) Ltd.	China			1							
18 China National Offshore Oil Company Ltd.	China			1							
19 China Unicom Limited	China			1							
20 Hong Kong Exchanges & Clearing Ltd.	China	1	1	1	1	1					
21 PetroChina Company Ltd.	China		0.3%	1	0.7%	1	1.6%		0.3%		0.3%
22 ABN Amro Bank N.V.	EU	1	1	1	1	1					
23 Aegon Group N.V.	EU	1	1	1	1	1					
24 Alcatel	EU			1	1	1					
25 Alitana AG	EU	1	1	1							
26 Anglo American plc	EU	1	1	1	1	1					
27 Assicurazioni Generali S.p.A.	EU	1	1	1	1	1					
28 AstraZeneca PLC	EU	1	1	1	1	1					
29 Aviva plc (CGNU plc)	EU	1	1	1	1	1					
30 AXA	EU	1	1	1	1	1					
31 BDO International N.V.	EU	1	1								
32 British Telecommunications plc	EU				1	1					
33 Commerzbank AG	EU	1	1	1	1	1					
34 Deutsche Post AG	EU	1	1								

35	Deutsche Telekom AG	EU	1	1	1	1	1	1				
36	Dresdner Bank AG	EU	1	1	1	1	1	1				
37	DSM N.V.	EU	1	1	1	1	1	1				
38	Euronext N.V.	EU	1	1	1	1	1	1				
39	FIAT S.p.A.	EU	1	1	1	1	1	1				
40	GlaxoSmithKline	EU	1	1	1	1	1	1				
41	Henkel KGaA	EU	1	1	1	1	1	1				
42	HypoVereinsbank (HVB Group) AG	EU	1	1	1	1	1	1				
43	Investec plc	EU	1	1	1	1	1	1				
44	Legal & General Group plc	EU	1	1	1	1	1	1				
45	London Stock Exchange plc	EU	1	1	1	1	1	1				
46	Mazars	EU	1	1	1	1	1	1				
47	Montedison Spa	EU	1	1	1	1	1	1				
48	Munich Re Group	EU	1	1	1	1	1	1				
49	Old Mutual plc	EU	1	1	1	1	1	1				
50	Pharmacia Corporation	EU	1	1	1	1	1	1				
51	Pirelli S.p.A.	EU	1	1	1	1	1	1				
52	Rio Tinto plc	EU	1	1	1	1	1	1				
53	Royal Ahold N.V.	EU	1	1	1	1	1	1				
54	Ruhrigas AG	EU	1	1	1	1	1	1				
55	SABMiller plc.	EU	1	1	1	1	1	1				
56	SAP AG	EU	1	1	1	1	1	1				
57	Schering AG	EU	1	1	1	1	1	1				
58	ThyssenKrupp AG	EU	1	1	1	1	1	1				
59	Unilever N.V.	EU	1	1	1	1	1	1				
60	Vodafone Group Services Limited	EU	1	1	1	1	1	1				
61	Volkswagen AG	EU	1	8.4%	1	9.5%	1	8.9%	1	8.0%	1	9.0%
62	AZSA & Co. (Asahi & Co.)	Japan	1	1	1	1	1	1	1	1	1	
63	Canon Inc.	Japan	1	1	1	1	1	1	1	1	1	
64	Chuo Aoyama Audit Corporation	Japan	1	1	1	1	1	1	1	1	1	
65	Fujitsu Limited	Japan	1	1	1	1	1	1	1	1	1	
66	Hitachi, Ltd.	Japan	1	1	1	1	1	1	1	1	1	
67	Honda Motor Co., Ltd	Japan	1	1	1	1	1	1	1	1	1	
68	ITOCHU Corporation	Japan	1	1	1	1	1	1	1	1	1	
69	Ito-Yokado Co., Ltd.	Japan	1	1	1	1	1	1	1	1	1	
70	Komatsu Ltd.	Japan	1	1	1	1	1	1	1	1	1	
71	Marubeni Corporation	Japan	1	1	1	1	1	1	1	1	1	
72	Matsushita Electric Industrial Co., Ltd.	Japan	1	1	1	1	1	1	1	1	1	
73	Mitsubishi Chemical Corporation	Japan	1	1	1	1	1	1	1	1	1	
74	Mitsubishi Corporation	Japan	1	1	1	1	1	1	1	1	1	
75	Mitsubishi Electric Corp.	Japan	1	1	1	1	1	1	1	1	1	
76	Mitsubishi Estate Co., Ltd	Japan	1	1	1	1	1	1	1	1	1	
77	Mitsubishi Heavy Industries, Ltd.	Japan	1	1	1	1	1	1	1	1	1	
78	Mitsui & Co., Ltd.	Japan	1	1	1	1	1	1	1	1	1	
79	Mitsui Fudosan Co.	Japan	1	1	1	1	1	1	1	1	1	
80	NEC Corporation	Japan	1	1	1	1	1	1	1	1	1	
81	Nippon Steel Corp.	Japan	1	1	1	1	1	1	1	1	1	
82	Nippon Telegraph & Telephone Corporation	Japan	1	1	1	1	1	1	1	1	1	
83	Nippon Unipac Holding	Japan	1	1	1	1	1	1	1	1	1	
84	Nissan Motor Co., Ltd.	Japan	1	1	1	1	1	1	1	1	1	
85	ORIX Corporation	Japan	1	1	1	1	1	1	1	1	1	
86	Osaka Securities Exchange Co., Ltd.	Japan	1	1	1	1	1	1	1	1	1	
87	Shin Nihon & Co. (Century Ota Showa & Co.)	Japan	1	1	1	1	1	1	1	1	1	
88	Shiseido Co., Ltd.	Japan	1	1	1	1	1	1	1	1	1	
89	Sumitomo Chemical Company, Ltd.	Japan	1	1	1	1	1	1	1	1	1	
90	Sumitomo Corporation	Japan	1	1	1	1	1	1	1	1	1	
91	Sumitomo Electric Industries, Ltd	Japan	1	1	1	1	1	1	1	1	1	
92	Takeda Chemical Industries, Ltd	Japan	1	1	1	1	1	1	1	1	1	
93	The Kansai Electric Power Co., Inc.	Japan	1	1	1	1	1	1	1	1	1	
94	Tohatsu & Co.	Japan	1	1	1	1	1	1	1	1	1	
95	Tokyo Electric Power Company	Japan	1	1	1	1	1	1	1	1	1	
96	Tokyo Gas Co., Ltd	Japan	1	1	1	1	1	1	1	1	1	
97	Tokyo Stock Exchange, Inc.	Japan	1	1	1	1	1	1	1	1	1	
98	Toray Industries, Inc.	Japan	1	1	1	1	1	1	1	1	1	
99	Toshiba Corporation	Japan	1	1	1	1	1	1	1	1	1	
100	Toyota Motor Corporation	Japan	1	8.4%	1	9.5%	1	9.5%	1	9.6%	1	11.6%
101	Cemex	Mexico	1	0.0%	1	0.0%	1	0.3%	1	0.3%	1	0.3%
102	Barlworld Limited	S. Africa	1	1	1	1	1	1	1	1	1	
103	South African Breweries plc	S. Africa	1	1	1	1	1	1	1	1	1	
104	Telkom SA Limited	S. Africa	1	0.6%	1	0.7%	1	0.6%	1	0.7%	1	0.6%
105	Credit Suisse Group	Swiss	1	1	1	1	1	1	1	1	1	
106	E.I. Du Pont de Nemours and Company	Swiss	1	0.0%	1	0.3%	1	0.3%	1	0.7%	1	0.3%
107	Abbott Laboratories	US	1	1	1	1	1	1	1	1	1	
108	American International Group, Inc.	US	1	1	1	1	1	1	1	1	1	
109	AT&T	US	1	1	1	1	1	1	1	1	1	
110	Bristol-Myers Squibb Company	US	1	1	1	1	1	1	1	1	1	
111	Capital Research and Management	US	1	1	1	1	1	1	1	1	1	
112	Conoco, Inc.	US	1	1	1	1	1	1	1	1	1	
113	Eli Lilly and Company	US	1	1	1	1	1	1	1	1	1	
114	Exxon Mobil Corporation	US	1	1	1	1	1	1	1	1	1	
115	Fitch Ratings	US	1	1	1	1	1	1	1	1	1	
116	General Electric Company	US	1	1	1	1	1	1	1	1	1	
117	General Motors Corporation	US	1	1	1	1	1	1	1	1	1	

118	Georgia-Pacific Corporation	US	1	1	1	1						
119	Grant Thornton	US	1	1								
120	IBM Corporation	US							1			
121	Johnson & Johnson	US	1	1	1	1	1	1	1			
122	Lockheed Martin	US	1	1	1	1	1	1	1			
123	Mellon Financial Corporation	US	1	1	1	1	1	1	1			
124	Merck & Co., Inc.	US	1	1	1	1	1	1	1			
125	Moody's Foundation	US	1	1								
126	NASD Regulation	US	1	1	1	1	1	1	1			
127	NASDAQ Stock Market, Inc.	US	1	1	1	1	1	1	1			
128	Prudential plc	US	1	1	1	1	1	1	1			
129	State Street Corporation	US	1	1	1	1	1	1	1			
130	The Boeing Company	US	1	1	1	1	1	1	1			
131	The McGraw-Hill Companies	US	1	5.8%	6.2%	5.1%	6.0%	3.9%				
	Sub-total		4,321	5,565	5,157	5,418	5,520					
CENTRAL BANKS & GOVERNMENT ENTITIES												
			30	29	30	30	29					
1	Reserve Bank of Australia	Australia	1	0.3%	1	0.3%	1	0.3%	1	0.3%		
2	Bank of Canada	Canada	1	1	1	1	1	1	1			
3	Office of the Superintendent of Financial Institutions Canada	Canada	1	0.6%	1	0.7%	1	0.6%	1	0.6%		
4	China Development Bank	China	1	1								
5	Hong Kong Monetary Authority	China	1	1	1	1	1	1	1			
6	Ministry of Finance, People's Republic of China	China	1	0.9%	0.7%	0.6%	0.3%	0.3%	0.3%			
7	Banca d'Italia	EU	1	1	1	1	1	1	1			
8	Banco de España	EU	1	1	1	1	1	1	1			
9	Bank of England	EU	1	1	1	1	1	1	1			
10	Bank of Greece	EU	1	1	1	1	1	1	1			
11	Banque de France	EU	1	1	1	1	1	1	1			
12	Central Bank & Financial Services Authority of Ireland	EU	1	1	1	1	1	1	1			
13	Corporation of London	EU			1	1	1	1	1			
14	Czech National Bank	EU	1	1	1	1	1	1	1			
15	De Nederlandsche Bank	EU	1	1	1	1	1	1	1			
16	Deutsche Bundesbank	EU	1	1	1	1	1	1	1			
17	European Central Bank	EU	1	1	1	1	1	1	1			
18	National Bank of Hungary	EU	1	1	1	1	1	1	1			
19	National Bank of Poland	EU	1	1	1	1	1	1	1			
20	National Bank of Slovakia	EU	1	1	1	1	1	1	1			
21	Oesterreichische Nationalbank	EU		3.7%	4.2%	4.4%	1	5.0%	1	4.2%		
22	Bank of Japan	Japan	1	0.3%	1	0.3%	1	0.3%	1	0.3%		
23	Banco de México	Mexico	1	0.3%	1	0.3%	1	0.3%	1	0.3%		
24	Bank Negara Malaysia	Others	1	1	1	1	1	1	1			
25	Bank of Korea	Others	1	1	1	1	1	1	1			
26	Central Bank of the Russian Federation	Others	1	1	1	1	1	1	1			
27	Monetary Authority of Singapore	Others	1	1	1	1	1	1	1			
28	Reserve Bank of India	Others	1	1	1	1	1	1	1			
29	Saudi Arabian Monetary Authority	Others	1	1.7%	1	2.0%	1	1.9%	1	2.0%	1	1.8%
30	South African Reserve Bank	S. Africa	1	0.3%	1	0.3%	1	0.3%	1	0.3%	1	0.3%
31	Swiss National Bank	Swiss	1	0.3%	1	0.3%	1	0.3%	1	0.3%	1	0.3%
32	Board of Governors of the Federal Reserve System	US	1	0.3%	1	0.3%	1	0.3%	1	0.3%	1	0.3%
	Sub-total		1,394	1,681	1,646	1,868	1,617					
OTHER OFFICIAL ORGANISATIONS AND ASSOCIATIONS												
			15	14	14	13	15					
1	Financial Reporting Council of Australia *	Australia	1	0.3%	1	0.3%	1	0.3%		0.0%	0.0%	0.0%
2	ACTEO (Association pour la participation des entreprises françaises à l'harmonisation comptable internationale)	EU		0.0%	0.0%	0.0%		0.0%	1	0.3%		
3	Bank for International Settlements	Intl	1	1	1	1	1	1	1	1	1	1
4	Financial Executives International	Intl	1	1	1	1	1	1	1	1	1	1
5	Inter-American Development Bank	Intl										1
6	International Bank for Reconstruction and Development (World Bank)	Intl	1	1	1	1	1	1	1	1	1	1
7	International Monetary Fund	Intl	1	1	1	1	1	1	1	1	1	1
8	The CFA Institute (2005 & 2006) (AIMR (Association for Investment Management and Research))	Intl	1	1.4%	1	1.6%	1	1.6%	1	1.7%	1	1.5%
9	Council for Better Corporate Citizenship (Nippon Keidanren)	Japan	1	1	1	1	1	1	1	1	1	1
10	Japan Securities Dealers Association	Japan	1	1	1	1	1	1	1	1	1	1
11	The General Insurance Association of Japan	Japan	1	1	1	1	1	1	1	1	1	1
12	The Japanese Institute of Certified Public Accountants	Japan	1	1	1	1	1	1	1	1	1	1
13	The Life Insurance Association of Japan	Japan	1	1	1	1	1	1	1	1	1	1
14	The Security Analysts Association of Japan	Japan	1	1	1	1	1	1	1	1	1	1
15	The Tokyo Bankers Association, Inc.	Japan	1	1	1	1	1	1	1	1	1	1
16	Trust Companies Association of Japan	Japan	1	2.3%	1	2.6%	1	2.5%	1	2.7%	1	2.4%
17	Accounting Standards Review Board (New Zealand)	Others	1	0.3%	0.0%	0.0%	0.0%	0.0%		0.0%		0.0%
18	The Business Roundtable	US		0.0%	0.0%	0.0%		0.0%	1	0.3%		
	Sub-total		697	812	768	810	836					
Total number of contributors												
			224	180	181	180	173	186				
Total amount of contributions (GBP)												
			9,374	9,318	9,680	11,675	12,830					
	Translated USD rate of 1 GBP in Annual Report of IASCF		1,7188	1,9058	1,7842	1,6099	1,4554					
Total amount of contributions (USD)												
			16,112	100.0%	17,758	100.0%	17,271	100.0%	18,796	100.0%	18,673	100.0%
	Estimated contribution amount per contributor other than accounting firms and underwriter companies (USD)		46		58		55		62		56	
* Total of 182 financial supporters, including 38 Underwriters and about 40 Japanese donors paying through the Japanese Council for Better Corporate Citizenship, of which 2, 3, and 1 organisations are not listed in 2005, 2003, and 2001 respectively because they prefer to remain unnamed.												
* Underwriter companies provided five-year pledges and ranging from \$100,000 to \$200,000 per year, in accordance with levels prescribed by a formula based on market capitalisation.												
* All contributions from Germany were channelled through the Deutsches Rechnungslegungs Standards Committee (DRSC) e.V.												
* The Australian Financial Reporting Council made its contribution on behalf of private and public sector stakeholders in the Australian accounting standard-setting process.												

(data from IASCF's Annual Reports of 2001-2005)

Figure 1-2. Proposed Structure and Context of EFRAG⁵⁰



⁵⁰FEE et al. (31 March 2000) Joint Proposals, “Expert Level of the Endorsement Mechanism – The Establishment of the ‘European Financial Reporting Advisory Group’ (EFRAG).”

Table 2-1. Domestic Market Capitalization

Exchange	End 2005		End 2004		End 2003	
	\$ million	%	\$ million	%	\$ million	%
Americas						
Nasdaq	3,603,984.9	8.8%	3,532,912.0	9.6%	2,844,192.6	9.2%
NYSE	13,310,591.6	32.5%	12,707,578.3	34.5%	11,328,953.1	36.6%
Sao Paulo SE	474,646.9	1.2%	330,346.6	0.9%	226,357.7	0.7%
TSX Group	1,482,184.6	3.6%	1,177,517.6	3.2%	888,677.7	2.9%
Others	586,264.9	1.4%	457,526.9	1.2%	367,980.8	1.2%
<i>Sub-total</i>	19,457,672.8	47.5%	18,205,881.4	49.4%	15,656,161.8	50.6%
Asia - Pacific						
Australian SE	804,014.8	2.0%	776,402.8	2.1%	585,431.0	1.9%
Bombay SE	553,073.7	1.3%	386,321.1	1.0%	278,662.8	0.9%
Hong Kong Exchanges	1,054,999.3	2.6%	861,462.9	2.3%	714,597.4	2.3%
Korea Exchange	718,010.7	1.8%	389,473.4	1.1%	293,874.2	0.9%
National Stock Exchange India	515,972.5	1.3%	363,276.0	1.0%	252,893.4	0.8%
Osaka SE	2,969,814.6	7.2%	2,287,047.8	6.2%	1,951,518.7	6.3%
Shanghai SE	286,190.3	0.7%	314,315.7	0.9%	360,106.3	1.2%
Taiwan SE Corp.	476,018.0	1.2%	441,435.8	1.2%	379,060.4	1.2%
Tokyo SE	4,572,901.0	11.2%	3,557,674.4	9.7%	2,953,098.3	9.5%
Others	844,963.5	2.1%	797,277.5	2.2%	720,287.4	2.3%
<i>Sub-total</i>	9,310,171.3	22.7%	7,524,363.6	20.4%	6,285,117.7	20.3%
Europe - Africa - Middle East						
BME Spanish Exchanges	959,910.4	2.3%	940,672.9	2.6%	726,243.4	2.3%
Borsa Italiana	798,072.9	1.9%	789,562.6	2.1%	614,841.6	2.0%
Deutsche Börse	1,221,106.1	3.0%	1,194,516.8	3.2%	1,079,026.2	3.5%
Euronext	2,706,803.5	6.6%	2,441,261.4	6.6%	2,076,410.2	6.7%
JSE	549,310.3	1.3%	442,525.5	1.2%	260,749.1	0.8%
London SE	3,058,182.4	7.5%	2,865,243.2	7.8%	2,460,064.0	7.9%
OMX	802,561.4	2.0%	728,769.2	2.0%	289,877.1	0.9%
Swiss Exchange	935,448.3	2.3%	826,040.8	2.2%	727,103.0	2.3%
Others	1,174,868.5	2.9%	904,490.3	2.5%	779,116.6	2.5%
<i>Sub-total</i>	12,206,263.7	29.8%	11,133,082.6	30.2%	9,013,431.2	29.1%
Total	40,974,107.8	100.0%	36,863,327.6	100.0%	30,954,710.7	100.0%
Sub-total of Asia-Pacific excludes Osaka and NSE India to avoid double counting with Tokyo SE and Bombay SE respectively. (data from statistics of World Federation of Exchanges)						

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