

Accounting Standards Board of Japan (ASBJ)

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July 29, 2005

Mr. Warren McGregor

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Warren,

Comments on Draft Memorandum of Understanding on the role of Accounting Standard-Setters and their relationships with the International Accounting Standards Board (IASB)

Accounting Standards Board of Japan (ASBJ) is pleased to comment on “Draft Memorandum of Understanding on the role of Accounting Standard-Setters and their relationships with the IASB (the draft MoU).”

In the light of the progress of the relationship between the IASB and accounting standard-setters since the establishment of the IASB in 2001, we respect the effort set out in writing to clarify the role of accounting standard-setters and their relationships with the IASB. However, we have several concerns for the draft MoU.

As a general comment, we believe that the MoU should address the position of the “converging countries” like Japan and the US, where accounting standard-setters develop their own accounting standards and are in the process of converging with the IFRSs. Paragraph 1.1 states “it is particularly relevant to standard-setters in jurisdictions that have adopted or converged with the IFRSs, or are in the process of adopting or converging with the IFRSs.” The ASBJ and the Financial Accounting Standards Board (FASB) seem to fall under the latter category. However, many contents of the draft MoU are subject to the adoption of the IFRSs. Therefore, we suggest that the MoU should specify the paragraphs if they are only applicable to standard-setters in jurisdictions that have already adopted the IFRSs.

Furthermore, it would be helpful if the IASB will make it clear what “responsibilities under the MoU” mean.

We would like to comment on each section in the remaining part.

1. Background

It will be more understandable if the background section of the MoU states more precisely for a preface, for example, about the progress of relationship between the IASB and accounting standard setters.

2. Working with regulators

Paragraph 2.3 describes “Accounting standard-setters should take the prime responsibility for identifying and dealing with domestic regulatory barriers to adopting or converging with the IFRSs.” We believe that solely emphasizing this responsibility is not appropriate as a role of accounting standard-setters. Instead, we suggest describing that accounting standard-setters are expected to contribute to the convergence of accounting standards in cooperation with regulators.

In this context, the phrase “regulatory barriers” would not seem appropriate. In practice, it seems that these “conflicts” arise from the different objectives between accounting standards and other regulatory systems.

It will not be necessary either to include the content of paragraph 2.4 as a role of accounting standard-setters since it is incorporated in aforementioned “cooperation with regulators.”

3. Communication

We believe that contents in paragraph 3.11 should be highlighted in bold italics at the end of the section as a role of national accounting setters. We also believe that accounting standards setters should make the IASB aware of feedbacks from the market in the process of confirming the usefulness of the adopted IFRSs.

Relating to paragraph 3.18, we suggest adding a phrase such as “so that the IASB considers responses from constituents seriously.”

Paragraphs 3.19 and 3.20 together seem to imply that accounting standard-setters, not the

IASB, should be involved in non-technical debate. We do not think it is appropriate to distinguish between the technical and non-technical debate. The IASB should be involved in both debates because they would both affect global standards. In addition, the content of paragraph 3.20 should be elaborated in the preceding paragraphs.

4. Project role

Paragraphs 4.1 and 4.7 state “involvement in a ‘project team’ of national or regional standard-setters on an active project under the direction of IASB staff and/or FASB staff.” However, the draft MoU does not fully explain the reason for the involvement of accounting standard-setters in a project team under the direction of FASB staff. Therefore, we suggest that the fact that the IASB has decided to carry out joint projects with the FASB and the background of the decision should be described more precisely in footnote 6.

5. Comment role on IASB consultative documents

This section states that accounting standard-setters provide comments to the IASB, but does not highlight the responsibility of the IASB. Therefore, we suggest describing that the IASB should take into account the comments on IASB consultative documents from accounting standard-setters as well as those from constituents.

6. Application of standards and 7. Interpretation

As stated at the beginning of our comment, ‘6 Application of standards’ and ‘7 Interpretation’ are contents applicable to standard-setters in jurisdictions that have already adopted the IFRSs. Therefore, we suggest adding a phrase such as “in the case that accounting standard-setters in jurisdictions that have adopted the IFRSs” at the beginning of each section.

We hope that you find the above comments helpful. If you wish to discuss them further, please do not hesitate to contact me.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'Shizuki Saito', with a stylized flourish at the end.

Shizuki Saito

Chairman

Accounting Standards Board of Japan