

AGENDA PAPER

IFRS Advisory Council Meeting

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Agenda ref 2

TOPIC *Update on IFRS application in Japan*

PRESENTER Mariko Takenaka

CONTACT Mariko Takenaka,
Financial Services Agency, Government of Japan

This paper has been prepared for discussion at a public meeting of the IFRS Advisory Council. The views expressed in this paper are those of the authors. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS.

1. The presentation of recent developments regarding use of IFRS in Japan is attached.

Recent Developments regarding use of IFRS in Japan

14, October, 2013

**** This presentation is prepared under the sole responsibility of the presenter. All remarks represent the presenter's own views, and not those of the FSA.***

The Present Policy on the Application of IFRS (June 2013)

- ✓ From March 2013 to June 2013, the Business Accounting Council (BAC) deliberated on the application of IFRS in Japan.
- ✓ In June 2013, BAC published the Present Policy on the Application of IFRS.
- ✓ The report reiterates Japan's commitment to the goal of a single set of high quality global accounting standards and includes three recommendations.

Three recommendations in the Present Policy

1. To encourage further application of IFRS in Japan, eliminate existing two requirements (being a listed company and having a subsidiary of material size abroad) limiting companies eligible to use the IFRS
2. While continuing to allow the use of the IFRS as issued by the IASB, introduce an additional set of standards identical to IFRS with limited modifications
3. Simplify disclosure requirements on the non-consolidated single-entity financial statements

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1-1. Three requirements for eligibility to voluntary application of IFRS (Before June 2013)

There were three requirements for eligibility to voluntary application of IFRS

- (1) Being a listed company in Japan,
- (2) Having established an appropriate internal framework for IFRS-based consolidated financial reporting, and
- (3) Conducting financial or business activities internationally (such as having an overseas subsidiary with two billion yen or more of paid-in-capital)

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1-2. Eliminating existing two requirements

Eliminating existing two requirements ((1) and (3))
because ...

- There has been a growing need for enhancing the international comparability of consolidated financial statements with global competitors within same industries.
- There are companies that receive extensive investment from overseas and some of them do not meet all of the three requirements.
- It will increase the number of companies which are eligible to use IFRS from 621 to 4,061.

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1-3. Expected number of companies applying IFRS

- ◆ Companies that voluntarily applied or intend to apply IFRS are 21 in total (As of September 2013)
- ◆ About 60 companies have applied or are likely to apply IFRS according to Keidanren (Japanese Business Federation)
- ◆ Total market value of these 60 companies
= about 75 trillion JPY (As of March 2013)
- ◆ About 40% of the companies in the top 50 by the total market value, either announces or considers the application of IFRS

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2-1. Introducing an additional set of standards identical to IFRS with limited modifications

- Introducing endorsement process (process to incorporate IFRS into the national standards)
- Introducing an additional set of standards identical to IFRS with limited modifications.
- *Items that are deleted and revised should be limited to a range that can be reasonably explained to the global community, with the purpose of achieving a single set of high quality accounting standards.*

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2-2. Going Forward

- Introducing an additional set of standards identical to IFRS with limited modifications is intended to be an intermediate step in the dynamism of the convergence of accounting standards.

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3. Simplifying disclosure requirements on the non-consolidated single-entity financial statements.

Listed companies are required to prepare two sets of financial reports:

- The Financial Instruments Exchange Act(FIEA)
- The Companies Act

Act	Consolidated Financial Statements	Non-consolidated Financial Statements
FIEA	Principal Financial Statements	Secondary Financial Statements ← Simplification
Companies Act	<ul style="list-style-type: none"> • Large companies • Companies that are subject to the FIEA 	All companies

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4. In conclusion

1. Relaxing requirements for voluntary application of IFRS
⇒To increase the number of Japanese companies that apply IFRS on a voluntary basis
2. Coexistence of four standards(introduce an additional set of standards identical to IFRS with limited modifications)
⇒An intermediate step for achieving the goal of a single set of high quality global accounting standards
3. Simplifying disclosure requirements
⇒Reducing the burden on preparing financial statements

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Thank You!

Mariko TAKENAKA
Financial Services Agency
Government of Japan