

<b>WORKING PARTY 2 ACCOUNTING AND TAXATION</b>
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**PART 1  
KEY POINTS OF RECOMMENDATIONS**

**ACCOUNTING ISSUES**

**2 - E - 1**

Accepting that Japanese GAAP is a high quality, internationally recognized accounting standard, we ask that the European Commission consider whether to take steps to encourage Member States to allow Japanese companies to use it after 2007.

**2 - J - 1**

We ask that the Government of Japan promotes wider understanding in the European Commission of the fact that Japanese accounting standards have been developed in recent years and are now broadly consistent with international accounting standards.

**2 - EJ - 1**

We ask that the public authorities in Japan and the European Union make steady progress towards adoption and implementation of IAS.

**2 - EJ - 2**

We ask the public authorities to observe closely the process of rule setting and revision by IASB and, in particular, to have regard for the interests of companies and investors (whether European or Japanese) in the opinions they transmit to the IASB.

**2 - EJ - 3**

Recognising that convergence of international standards of accounting, auditing, and disclosure is a long-term objective, we ask that the public authorities adopt mutual recognition as a short-term target on a course toward convergence in the future.

**TAX ISSUES**

**2 - E - 2**

To promote mutual investments between the EU and Japan, we ask that the European Commission encourage the Member States to revise income tax treaties with the Government of Japan, for example, concerning the reduction of certain withholding taxes and to enter into common agreements with the Government of Japan in order to realise fully the benefits of the single market.

**2 - J - 2**

We ask that the government of Japan quickly reform the consolidated tax system, allowing the carrying forward of tax losses in subsidiaries incurred before the system came into effect, exempting revaluation of subsidiaries at the initiation, and allowing tax deduction of transfers between consolidated entities.

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**PART 2  
ADDITIONAL INFORMATION IN SUPPORT OF RECOMMENDATIONS**

**ACCOUNTING ISSUES**

**2 - E - 1**

We appreciate that the need to examine the question of equivalence between IAS and third party GAAPs such as those of the US and Japan is recognised by many business leaders, technical experts and government officials. In making this recommendation, we wish to add our voice to those of other stakeholders calling for broad-based and urgent discussion of the issue.

The need for this discussion is no less acute in the EU than it is elsewhere. Under current plans, Japanese companies active in the EU will be required to use IAS on the expiry of a transition period lasting for two years from the introduction on 1 January 2005 of IAS for all companies listed in the EU.

It is relevant to recall that European companies active in Japan may use financial statements in accordance with the accounting standards of the Member State in which they are headquartered. It is likely that legislation permitting the use of IAS by European companies in Japan will soon be considered.

We recognise that Member States themselves may decide individually whether or not to accept J-GAAP but we believe that the European Commission has an important role in encouraging them to reach a decision that will not disadvantage Japanese companies operating in Europe.

**2 - J - 1**

We believe that, strengthened by recent reforms, J-GAAP is a high quality accounting standard and that this fact needs to be more widely appreciated internationally. We wish to encourage the Government of Japan to promote this understanding in contacts with the European Commission.

**2 - EJ - 1**

We recognise recent difficulties in the EU in connection with the recognition of IAS 32 and IAS 39 and hope that these can be resolved quickly in order not to delay use of IAS by all listed companies from 1 January 2005

We note that the Accounting Standards Council is examining how financial documents based on IAS are positioned in terms of the Japanese legal system and look forward to early results from this important work.

**2 - EJ - 2**

We welcome and support the progress that has been achieved in adopting IAS. We have registered in earlier recommendations our concern that the opinions of business users of accounting standards, as distinct from those of technical experts and standards setters, do not always appear to be as fully reflected as we should wish, and we reiterate that

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concern here. The recent announcement that IASB is reflecting on its governance is encouraging. We hope that the public authorities will support these developments.

**2 – EJ – 3**

We fully support convergence of standards of accounting, auditing, and disclosure and we recognise that this is a medium term objective that will take some time to achieve because sufficient discussion and building consensus among participants in the market are necessary. To eliminate practical obstacles quickly for smooth capital financing, even at a stage that convergence is not completed, we ask that the public authorities adopt timely mutual recognition as a short-term target on a course toward convergence in the future under the condition that those standards fulfil common minimum standards.

**TAX ISSUES**

**2 – E – 2**

The Governments of the USA and Japan reached agreement in November 2003 to revise the income tax treaty between their two countries. The main feature of the revision is the reduction, or elimination of certain withholding taxes. We welcome this decision and hope that it can be replicated in relations between the GOJ and the EU's Member States.

We believe that the relevant treaties between Japan and the Member States would benefit from renewal. For example, the treaties with Germany, Italy and the UK are over 30 years old.

We recognise that the Member States and not the Commission decide taxation. We ask the Commission to take whatever steps it can to invite the Member States to ensure that there is consistency between new treaties they may agree with the GOJ. The integrity of the single market would be damaged if there were to be significant differences between Member States' treatment of withholding taxes.

**2 – J - 2**

We believe that the GOJ should reform the system because discriminatory treatments of consolidated taxation remain though the 2% surtax was abolished.