

## Accounting and Tax Issues

### 2 - EJ - 1

#### KEY POINTS OF RECOMMENDATION

The European Commission's decision regarding the US has facilitated the EU efforts in pressing for reciprocal rights. To accelerate progress towards convergence, we ask the European Commission to ensure that all parties engaged with this matter in the EU, the US and Japan will engage in mutually beneficial dialogue.

### 2 – E – 1

#### KEY POINTS OF RECOMMENDATION

1 January 2005 marked the start of the European Union's Emissions Trading Scheme ('ETS'). One and a half years into the scheme, we ask the Commission to urge IASB to speed up revision of IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) and work on IAS 20 (Government Grants) so as to be able to address the issue of emission rights as soon as possible.

### 2 – E – 2

#### KEY POINTS OF RECOMMENDATION

We ask the public authorities to ensure that, in their dialogue with accounting standards setters, standards for business combination are seen in light of the need to take into consideration the intelligibility and soundness for corporate management, and the possibility of applying accounting treatments which requires preparers to perform amortization and impairment of goodwill.

### 2 – E – 3

#### KEY POINTS OF RECOMMENDATION

We ask the public authorities to be careful in introducing fair value measurement in IFRS. Fair value measurement can create misleading volatility in financial statements to the detriment of economic stability and growth. There is a need for a thorough conceptual discussion in IASB before further enhancement of the fair value dimension in IFRS is decided.

### 2 – E - 4

#### KEY POINTS OF RECOMMENDATION

We ask that the standard resulting from the IASB's financial statement presentation project (formerly called the performance reporting project) be published after prudent deliberation because of the particular interest of companies and investors (whether European or Japanese) in the matter.

### 2 – EJ – 2

#### KEY POINTS OF RECOMMENDATION

Research on the introduction of reports on internal control over financial reporting is

now being examined. We ask that the public authorities discuss the function of internal control fully and thoroughly consult stakeholders before endorsing internal control systems, paying careful attention to the balance of benefits and costs and interaction between the audit of an internal control and the audit of the financial statement.

## **2 – EJ – 3**

### **KEY POINTS OF RECOMMENDATION**

We ask that public authorities provide opportunities for companies to contribute to international rule setting and revision on capital markets to increase the transparency of the rule-setting process, thereby reducing costs for market participants and burdens on regulators alike.

### **TAX ISSUES**

## **2 – EJ – 4**

### **KEY POINTS OF RECOMMENDATION**

We hope that the EU Member States will enter into common agreements on tax issues with the Government of Japan to enjoy fully the benefits of the single market.

## **2 – J – 1**

### **KEY POINTS OF RECOMMENDATION**

We repeatedly ask last year that the Government of Japan quickly reforms the consolidated tax system to allow the carrying forward of tax losses in subsidiaries incurred before the system came into effect, exempting revaluation of subsidiaries at the initiation, and allowing inclusion of donation between consolidated corporations in expenses.

## **2 – EJ – 5**

### **KEY POINTS OF RECOMMENDATION**

We ask the public authorities to ensure significant reduction in source country withholding taxes (dividends, interest, and royalties) similar to the Japan-US Taxation Treaty and taking into account the close economic relationship between Japan and the EU's Member States actively to promote mutual investment between the EU and Japan.

## **2 – EJ – 6**

### **KEY POINTS OF RECOMMENDATION**

We ask that the tax administration of Japan, before taxes are assessed, reaches a common understanding with the tax administration of the second jurisdiction in which an associated enterprise operates in order for taxpayers in Japan to avoid the excessive burden of transfer price taxation (that is, to avoid double taxation).

**2 – J – 2**

**KEY POINTS OF RECOMMENDATION**

Given the progress of convergence, as new deviations arise between corporate accounting and tax practice, we ask that the Government of Japan respond flexibly.

**2 – J – 3**

**KEY POINTS OF RECOMMENDATION**

We ask the tax administration of Japan to review the tax haven rules. We suggest that Japan's tax authority reviews the criteria rate for tax haven regulation, or expand the exemptions, such that companies in countries with tax treaties with Japan can be exempted from tax haven regulations.