

EU-JAPAN BUSINESS DIALOGUE ROUND TABLE WORKING PARTY 2: ACCOUNTING AND TAX ISSUES
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1. ACCOUNTING ISSUES

[Adoption of International Accounting Standards]

1.1 Previous recommendations

[To the Government of Japan ('GOJ') and the European Commission ('EC')]

- We support and encourage the efforts being made by the GOJ and the EC to implement IAS.
- In considering the ways in which IAS can be applied at the local level, we believe that the GOJ should seek to cooperate closely with the EU. In particular the implementation of market valuation accounting in full scale without taking into account each country's situation should be carefully discussed at the IASB.
- We believe that open discussion in which opinions are actively exchanged partly between Trustees, Board Members, and Council Members of IASB, with contributions from business people from Japan and the EU within the framework of the EJBDR, will make effective contributions to IASB thinking.

1.2 Assessment

[To GOJ]

- Japan's accounting standards are now becoming substantially the same as international accounting standards such as IAS. Specifically, and considering adoption by the EU of IAS for listed companies with effect from 2005, we note that business opinion in Japan concerning accounting for 'Fixed Asset Impairment' is more and more in favour of compulsory application from the same date. At the moment there is widespread discussion of accounting for 'Business Combination' in business circles in Japan. As for audit standards and systems, a draft substantial revision is being examined in the Corporate Accounting Deliberative Council and elsewhere; it is clear that the Enron affair has had an impact on this work. We welcome this steady progress.
- According to its progress report, the GOJ is studying the application of IAS but we regret that no timetable is given for this period of study nor is mention made of the publication of a report on the conclusion of the study. We reiterate our recommendation that the GOJ should take an early opportunity to commit itself to IAS and to establish a timetable for the adoption of IAS by listed companies in Japan.

[To EC]

- We welcome the recent adoption by Council of a Regulation that will require listed companies to prepare their consolidated accounts in accordance with IAS from 2005 onwards. A Technical Expert Group was established by EFRAG (European Financial Reporting Advisory Group) in June 2001 and is giving advice on the implementation of IAS within the European legal environment. We welcome and support its work. We also take note of efforts made recently by the Commission to address issues raised by the Enron affair, notably through its Recommendation on Auditor independence and its proposal to amend the Accounting Directive.

1.3 Recommendation

[To GOJ and EC]

- We recognise and applaud the progress in adopting IAS but have some concern that investors' needs and the real situations of management may not be fully reflected in the work of IASB. This is especially the case in relation to the treatment for "Performance Reporting" and "Stock Option," about which there is considerable debate not only in Japan but also in the EU. We believe that the GOJ and the EC should be involved actively in the formation of IFRS. This is because accounting standards need to recognise the fact of difference between the affairs of individual countries, including investors' needs, the management style of businesses, international trends and legal systems, and economic conditions as well as in respect of theoretical examination.

TAX ISSUES

2.1 CONSOLIDATED TAX

2.1.1 Previous recommendations

[To GOJ]

- Details of the system to be introduced in Japan are expected to be discussed by the government and business world intensively from the summer until the autumn. The GOJ should begin study of the system now in cooperation with the business world and take sure action to introduce an appropriate consolidated tax system in full in Japan from April 2002.

[To EC]

- Fiscal approximation in the European Community should be promoted and the timing of the necessary steps towards implementation should be made clear.

2.1.2 Assessment

[To GOJ]

- We welcome the fact that a Corporate Reorganization Tax was implemented last year and that "Consolidated Taxation" is to be introduced this year.

[To EC]

- The European Commission proposed a Consolidated Corporate Tax Base throughout the EU, most recently by Commissioner Bolkestein speaking at the European Conference on Company Taxation, which was held in Brussels on 29 and 30 April 2002. After the conference, the Commission intends to follow up the underlying technical issues. We welcome these developments as steps towards fiscal approximation in the European Union.

2.1.3 Recommendation

[To GOJ]

- Introduction of the consolidated tax system in Japan has been agreed but few companies will adopt it because of two percent of "Additional Tax" or Surtax to be imposed. No example of additional taxation on companies adopting the consolidated tax system is seen internationally and the additional tax reduces the merits of the consolidated tax system substantially. The additional tax should not be introduced and there is no need to wait for a review in two years' time as has been proposed.

[To EC]

- The European Commission has committed itself to report in 2003 on developments in the follow up of the underlying technical issues after the conference in Brussels mentioned above. There should be further effort towards the goal of fiscal approximation so as to bring about an internal market devoid of tax obstacles.

[To both public authorities]

- We call on both public authorities to act in their respective spheres of responsibility in such a way as to secure the following outcomes and to do so within a reasonable time span:
 - 1 Consolidation of local corporate taxes
 - 2 A threshold of 50% in place of the limitation of tax consolidation to parent companies and 100% subsidiaries
 - 3 Companies being permitted to terminate consolidation after a period of time (say five years) if they so wish
 - 4 There should be no obligation to re-value the assets or liabilities of consolidated subsidiaries in the event of a parent company deciding to sell after consolidation, with tax being paid if there are gains.

2.2 TRANSFER PRICING

2.2.1 Previous recommendations

[To GOJ and EC]

- OECD should establish guidelines for Advanced Pricing Agreement ('APA') to enable easy calculations with objective information, such as by the Comparable Profit Method, so that countries may be helped to implement APA uniformly.
- The GOJ and the EP should be engaged in the above-mentioned activities at OECD and should take positive actions to promote an APA agreement between Japan and EU.

2.2.2 Assessment

[To GOJ]

- OECD has published "Guidelines for Conducting Advance Pricing Agreement under the Mutual Agreement Procedure" and it also recommended that APA be conducted on a bilateral or multilateral basis rather than a unilateral basis. The GOJ issued "Gist of the Administration and Application of Transfer Pricing" in June 2001 and it also recommended the same direction as that of the Guidelines mentioned above. We welcome this.

[To EC]

- The European Commission is currently establishing "EU Joint Transfer Pricing Forum" (JTPF) and a more uniform application of transfer pricing tax rules within the EU is expected to be discussed. It is hoped that the issues such as "Availability and Standardization of APA Systems" will be given careful attention, considering more extensive introduction in the future.

2.2.3 Recommendation

[To GOJ and EC]

- By enhancing mutual understanding with foreign tax authorities through the OECD and through bilateral consultation and the promotion of common rule making, sound foundations have been built from which there should be progress towards the establishment of international standard rules, our final objective.

2.3 ELECTRONIC COMMERCE TAXATION

2.3.1 Previous recommendations

[To GOJ and EC]

- Discussion at OECD should be further advanced and fair taxation introduced internationally, including in Japan, EU and the US.

2.3.2 Assessment

[To GOJ]

- The report says that the GOJ has been actively participating in OECD discussions and is studying international trends. This is consistent with our recommendations.

[To EC]

- The issues in recognizing the transactions necessary for taxation from professional and technical standpoints are being examined at OECD. We appreciate the fact that the European Commission has been keeping active involvement in OECD, responding to these progresses.

2.3.3 Recommendation

[To GOJ and EC]

- The GOJ and EC should actively keep participating in the discussion in OECD and making efforts to establish the best rules of ensuring maintenance of the principles of neutrality, simplicity, fairness, effectiveness, international harmonization, and consistency.