



## CESR's advice on the equivalence of Chinese, Japanese and US GAAPs

March 2008



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## I. Executive summary

1. CESR provides in this advice details of its work and conclusions concerning the equivalence of certain third country GAAPs in accordance with a mandate from the European Commission.
2. In summary CESR's advice to the Commission is as follows:
3. **US GAAP:** CESR has conducted an assessment of how the FASB and the IASB have addressed the issues identified in its June 2005 advice. CESR concludes that the two boards are addressing the main issues identified in the 2005 advice in their respective work plans, with a tentative goal of achieving substantial elements of convergence by the end of 2008. Details of the differences originally identified by CESR and the progress made by the IASB and the FASB in addressing them can be found in Appendix II.
4. CESR also concludes that the standard setting environment in the US has been radically altered since 2005 as a result of the creation by the FASB and the IASB of a detailed and active work programme for converging US GAAP and IFRS and as a result of the recognition by the SEC of IFRS for use in US domestic markets not only by third country private issuers but also potentially in future for US issuers – a move that in essence would put US GAAP and IFRS on an equal footing as far as US markets are concerned. Consequently CESR draws the following conclusions:
  - The IASB and the FASB have publicly committed to convergence between IFRS and US GAAP;
  - The two Boards are addressing the main differences identified by CESR in its 2005 advice;
  - A mechanism has been set up within the two bodies to ensure that new standards or interpretations issued do not create new differences between the two sets of standards;
  - The two Boards will issue joint standards in the future; and
  - There is concrete evidence of active work between the two standard setters.
5. CESR believes these elements ensure US GAAP and IFRS are converging and will continue to evolve on a combined basis to an extent where they are effectively equivalent to each other and would therefore recommend that the Commission finds US GAAP equivalent to IFRS for use on EU markets.
6. **Japanese GAAP:** CESR has conducted an assessment of how the ASBJ and the IASB have addressed the issues identified in its June 2005 advice. CESR concludes that the ASBJ is addressing the main issues identified in the 2005 advice in its work plan, with a tentative goal of achieving substantial elements of convergence by the end of 2008. Details of the differences originally identified by CESR and the progress made can be found in Appendix III.
7. The IASB and the ASBJ jointly announced in August 2007 an agreement (known as the Tokyo Agreement) to accelerate convergence between Japanese GAAP and International Financial Reporting Standards (IFRSs), a process that was started in March 2005. As part of that agreement the two boards are seeking to eliminate by 2008 major differences between Japanese GAAP and IFRSs as defined by the July 2005 CESR assessment of equivalence, with the remaining differences being removed on or before 30 June 2011.
8. CESR has analysed the work program of the ASBJ supporting this announcement. Removing the differences identified by CESR in its 2005 advice means the issuance of 3 standards by the end of 2007 and the issuance of 8 standards by the end of 2008.
9. CESR does not necessarily believe itself in a position to comment on the programme but has no reason to doubt that the ASBJ may well be able to achieve this objective. It is clear that if the ASBJ is successful in achieving its objectives there is no reason that CESR should not agree to Japanese GAAP being considered equivalent as at that stage all the issues identified in its 2005 advice will have been addressed.



10. Consequently, CESR would recommend that, come June 2008, the Commission should consider Japanese GAAP equivalent, unless there is no adequate evidence of the ASBJ achieving to timetable the objectives set out in the Tokyo Agreement.
11. **Chinese GAAP:** In the given timeframe, CESR has only been able to undertake limited work in relation to Chinese GAAP as most of the information available to it has only come from two sources, namely the IASB and the Chinese Ministry of Finance. From this work, CESR concludes that China's standards (ASBEs) look substantially similar to IFRS mainly as a result of how they have been derived.
12. In CESR's view China is in a different situation to either Japan or the US. Instead of establishing a converging programme between Chinese GAAP (ASBEs) and IFRS, the Chinese authorities have decided to align their legislation with IFRS making some adjustments in order to adapt some standards to local circumstances. On the basis of a technical analysis of the standards alone, CESR would therefore have to conclude that Chinese GAAP could on the surface qualify as equivalent to IFRS as it appears largely to be IFRS.
13. However CESR would point out that the first complete reporting period under the new Chinese standards will only be for 2007 accounting periods (i.e. for companies with 31 December year ends). Consequently there is as yet no evidence available concerning the concrete implementation of the standards by companies and auditors. CESR believes this obvious lack of any objective evidence of adequate implementation of the ASBEs and of any adequate operation of "filters" (as defined in CESR's previous advice to the Commission) over their use, which is an inevitable consequence of the standards only having been in use since 1st January 2007, should not be ignored by the Commission.
14. Consequently, CESR would recommend that the Commission postpones a final decision on Chinese GAAP until there is more information on the issues outlined above, because CESR believes that evidence of adequate implementation is important in the context of an outcome-based definition of equivalence. If the Commission were minded to allow Chinese issuers to use Chinese GAAP when accessing EU markets, CESR would recommend the Commission consider accepting Chinese GAAP according to article 4 of the Commission Regulation on the mechanism until such time as there is adequate evidence to enable a decision to be made under article 2 thereof. In line with some market responses, CESR intends to undertake additional work to assess whether Chinese GAAP has been properly applied by Chinese issuers and will communicate publicly on the outcome of such work at a time when appropriate evidence can be made available to it by the Chinese authorities.

## II. Introduction

### Background

15. The Prospectus Directive and Regulation (“the prospectus regime”)<sup>1</sup> and the Transparency Directive<sup>2</sup> will require the European Commission (“EC or the Commission”) to establish by mid 2008 whether a given third country GAAP is equivalent to IFRS<sup>3</sup>.
16. As a result of the prospectus regime, third country issuers who have their securities admitted to trading on an EU regulated market or who wish to make a public offer of their securities in Europe, are required from 1st January 2007 to publish a prospectus including financial statements prepared on the basis of IFRS adopted pursuant to EC Regulation 1606/2002 or on the basis of a third country’s national accounting standards (“third country GAAP”) equivalent to those standards. From the period 1 January 2007 until 31 December 2008, appropriate transitional arrangements apply under Article 35 of the Commission Regulation on prospectuses.
17. Similarly, under the Transparency Directive, from January 2007 third country issuers whose securities are admitted to trading on an EU-regulated market will also have to provide annual and half-yearly financial statements which should either be prepared in accordance with IFRS adopted pursuant to EC Regulation 1606/2002 or third country GAAP equivalent to those standards. Appropriate transitional arrangements also apply under Article 26 (3) of that Directive.
18. In December 2006 the EC adopted two measures<sup>4</sup> allowing a two-year transitional period (until January 2009) during which third country issuers can prepare their annual financial statements and half-yearly financial statements in accordance with the accounting standards of Canada, Japan or the United States. The aim of these transitional provisions was to give more time to the standard setters and regulators of those countries to continue with their convergence processes. As other countries are also in the process of converging their national GAAPs to IFRS over various periods of time, the Commission considered it appropriate to allow the same two-year transitional period to third country issuers preparing their annual and half-yearly financial statements in accordance with a GAAP that is converging to IFRS, provided certain conditions are met.
19. The abovementioned December 2006 measures envisage a different treatment of third country issuers before and after January 2009:
  - Transitional period until January 2009. During this phase, accounting frameworks other than IFRS, Canadian, Japanese or US GAAP may be used subject to certain conditions<sup>5</sup>. The decision to accept other accounting frameworks is the responsibility

<sup>1</sup> Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC

Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements.

<sup>2</sup> Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC.

<sup>3</sup> The term “IFRS” should be understood in this paper as referring to IFRS as adopted by the EU.

<sup>4</sup> Commission Regulation 1787/2006 of 4 December amending Commission Regulation 809/2004 on prospectuses and Commission Decision 2006/891/EC of 4 December 2006 on the use by third country issuers of securities of information prepared under internationally accepted accounting standards (“the Transparency Decision”).

<sup>5</sup> According to the revised Article 35.5A (c) of the Prospectus Regulation (and the similar provision in the Transparency Decision) these conditions are:

- (i) The third country authority responsible for the national accounting standards in question has made a public commitment, before the start of the financial year in which the prospectus is filed, to converge those standards with IFRS;

of the competent authority, although recitals in the two measures state that *“To ensure consistency within the Community, CESR should co-ordinate the competent authorities’ assessment as to whether those conditions are satisfied in respect of individual third country GAAP”*.

- After the transitional period, a third country’s GAAP will be acceptable only if it has been determined equivalent to IFRS by the European Commission pursuant to their definition of equivalence which they will establish by 1 January 2008. The Commission will consult CESR on the appropriateness of the definition of "equivalence", the "equivalence mechanism" and the actual determination of equivalence.
20. At least six months before 1 January 2009, the Commission shall ensure a determination of the equivalence of the GAAP of third countries, pursuant to a definition of equivalence and an equivalence mechanism that it will have established before 1 January 2008. In order to start the process for determining equivalence, the EC has asked CESR for advice in several phases. In March 2007 CESR submitted to the European Commission its first advice containing a definition of equivalence.
  21. In June 2007, CESR submitted to the European Commission its second advice on a mechanism for determining the equivalence of the GAAPs of third countries. On the basis of this second advice, the Commission has published a “Commission Regulation (EC) N°1569/2007 establishing a mechanism for the determination of equivalence of accounting standards applied by third country issuers of securities pursuant to Directives 2003/71/EC and 2004/109/EC of the European Parliament and of the Council” (“Commission Regulation on the mechanism”). The Regulation lays down the conditions under which the GAAP of a third country may be considered equivalent to IFRS pursuant to a definition of equivalence set in article 2. The Regulation also sets in article 4 the conditions for the acceptance of third country accounting standards for a limited period expiring no later than 31<sup>st</sup> December 2011.
  22. This document now addresses the third element of this process namely preparatory work concerning the decision on the equivalence of the accounting standards of three specific third countries (China, Japan and the USA). CESR intends to consult on other third country GAAP (i.e. Canada and South Korea) as a second step in this process in the second quarter of 2008.
  23. Within CESR, the operational group CESR-Fin chaired by Fernando Restoy, Executive Board Member of the Spanish CNMV, has been charged with fulfilling the EC’s request.
  24. CESR published a consultation paper on 18 December 2007 to seek input from market participants on its proposals. The consultation period finished on 25 February 2008. CESR received 11 responses which can be viewed on its website in the section “Consultation”. In addition to containing advice to the Commission, this paper also contains the main comments raised by the consultation's respondents (see paragraphs 18, 26, 31 and 48) and therefore, CESR did not issue a feedback statement.

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- (ii) That authority has established a work programme which demonstrates its intention to progress towards convergence before 31 December 2008; and
  - (iii) The issuer provides evidence that satisfies the competent authority that the conditions in (i) and (ii) are met.

### III. EXPLANATION OF THE APPROACH FOR JAPAN AND US

*Extract from the Commission's mandate<sup>6</sup>*

**Description of third country GAAPs with a view to reaching a determination of equivalence**

*The Commission requests the following advice from CESR to enable the Commission Services to present a report to the European Securities Committee (ESC) and the European Parliament (EP) by 1 April 2008 and to satisfy their obligation to ensure before 1 July 2008 a determination of equivalence of the GAAPs of third countries.*

*Preparatory work has to start as early as possible and the necessary input can be divided into two main categories:*

- *The first category consists of the factual assessment of the equivalence of specific third country GAAPs;*
- *[The second category is an assessment of existing convergence- and adoption programmes related to other third country GAAPs].*

*The Commission Services ask CESR to:*

- (a) *For the GAAPs of U.S. and Japan, conduct an assessment on the basis of CESR's 2005 advice and focus primarily and particularly on an assessment of how the standard setters of these two GAAPs have addressed the issues indicated in this advice and highlight the outstanding issues with a view to reaching a conclusion as regards their equivalence by the end of 2008 [...]*

*Furthermore it would be useful if CESR could prioritize the issues which need to be resolved and indicate the points which have to be addressed as a matter of urgency and/or how possible remedies could be achieved.*

25. The European Commission has requested CESR to provide an update of its assessment of the situation regarding proposals to eliminate the differences between Japanese and US GAAP and IFRS identified in its 2005 advice. Ostensibly, such an update would require CESR to reanalyse the standards under those accounting frameworks individually in order to identify which of the original differences had been resolved and which still remain.
26. Furthermore, in order to make such an analysis relevant at today's date, CESR felt it might also be obliged to identify any differences that had arisen as a result of developments in those standards since 2005 as well as to perform a review of differences arising from standards issued within any one of the accounting frameworks since 2005 – a potentially time consuming task.
27. Prior to committing to undertake such a task, CESR has decided to examine the impact of a number of significant changes that have taken place since 2005 within the US and Japanese standard setting environments which could influence whether such a bottom-up approach remains appropriate. Primarily this has led to CESR focusing on developments in the work programmes the Japanese and US standard setters are conducting with the IASB and on changes in legislation concerning reporting obligations within the two countries concerned and the EU which have taken place since CESR published its 2005 advice. The overall conclusion of this review is that the accounting environments in Japan and the US have changed dramatically in the last two years.
28. The first of these significant changes is the issuance of a new Memorandum of Understanding (MoU) between the FASB and the IASB published on 27 February 2006. In that Memorandum, the two boards set down how they intend to achieve convergence between IFRS and US GAAP and agree on the scope that their convergence projects should follow.

<sup>6</sup> Please refer to appendix I for the full mandate from the European Commission

29. Both the FASB and the IASB work plans set out long and short term projects with a tentative goal of achieving substantial elements of convergence by 2008. In order to pursue this goal of convergence, the FASB and IASB decided that where the respective standards were in need of significant improvement, the approach should not be to simply eliminate the differences between the two, but rather to work together to develop a new and better standard.
30. Whilst some of the areas identified in the MoU coincided with those set out in CESR's 2005 advice (at least as far as some of the aspects to be covered by the project are concerned), the FASB and IASB did not base their programmes on CESR's advice. Therefore, some of the differences highlighted by CESR are not specifically covered by the MoU and vice versa but in the main CESR is satisfied that the main areas of difference between the two GAAPs originally identified are being addressed by the work programmes.
31. Furthermore, as stated above, the work programmes do not concentrate purely on eliminating differences but more on finding combined solutions to issues - severely limiting the usefulness of an exercise merely based on mapping attempts to eliminate differences. As a result, CESR believes that to simply follow a format of updating its 2005 advice would not necessarily be productive and it is consequently more practical to rely on the work of the standard setters moving forward.
32. Obviously the impact of the FASB-IASB MoU is not only confined to US GAAP and IFRS. As the IASB modifies or issues new standards in order to implement their work programme with the FASB, other standard setters converging with IFRS will need to adapt their own programmes. The ASBJ is a case in point and consequently the issues discussed and the conclusions drawn in the previous paragraph apply equally to the convergence programme between the ASBJ and the IASB. The ASBJ has refocused their priorities in order to adapt to the new targets resulting from the FASB-IASB agreement and will seek convergence with the solutions arising out of this work. In this respect CESR believes that it is appropriate to treat the work of the FASB and the IASB and the work of the ASBJ and the IASB equally.
33. The second development that has significantly changed the situation that existed in 2005 is the SEC decision, published on 15 November 2007, to approve rule amendments under which financial statements from foreign private issuers in the US will be accepted without reconciliation to US GAAP if they are prepared using IFRS as issued by the IASB. The rule amendments will apply to financial statements covering years ended after 15 November 2007.
34. CESR understands that the SEC decision was not based on an analysis of US GAAP and IFRS on a standard by standard basis to determine whether a specific level of convergence had been achieved. In arriving at its decision to accept financial statements prepared under IFRS, the SEC followed a more holistic approach, considering the main elements supporting its decision amongst other things to be:
  - the robustness of the convergence process between the FASB and the IASB and the commitment of these two bodies to the joint development of high quality standards;
  - the consistent and faithful application of IFRS in practice; and
  - the IASB's sustainability, governance and continued operation as a standard setter in a stand-alone manner.
35. As the IASB, the ASBJ and the FASB will continue working together in future to develop mutually acceptable standards, any detailed assessment of the differences between US GAAP, Japanese GAAP and IFRS at any given moment would be soon out of date. This is the reason why CESR, in its May 2007 advice, recommended the following: *"Each time the local standard setter of an equivalent GAAP or the IASB issues a new standard, the local standard setter will need to submit to the European Commission (with a copy to CESR) an impact assessment of that new standard unless it has been issued jointly with the IASB. Any positive determination of equivalence by the Commission should be conditional on the local standard setter concerned agreeing to provide this information..."*
36. However, the equivalence decision by the European Commission, as envisaged in the Directives and in the Commission Regulation on the mechanism does not contain explicit provisions on a

follow-up or monitoring system. This leads CESR to believe that the equivalence decision may be performed on a one-off basis, without any further monitoring of whether the decision remains appropriate in the light of new standards or interpretations that could be issued in the future because no specific mention is made in the Regulation of any such monitoring. If this is true, this would appear to CESR to be a tacit acceptance in the Commission's decision that the standard setters are being relied on to work together in the future to ensure the GAAPs continue to converge or that any existing level of convergence or equivalence is maintained.

37. Last but not least, a further problem with an approach to equivalence based purely on comparing differences in accounting standards is the difficulty of assessing the actual significance of any differences identified "on the ground" - a decision which can only really be made in the context of an issuer's individual financial statements, as CESR already indicated in its June 2005 advice. Consequently CESR believes that to attempt to generalise on the significance of such issues as requested by the Commission in its mandate would probably prove a meaningless exercise.
38. All these facts combine to call into question the wisdom of basing a decision concerning the acceptance of a foreign GAAP now or in the future on a comparison of individual standards performed at a particular moment in the past.
39. CESR's advice (07-289), published on 25 May 2007, containing a mechanism for determining equivalence, proposed that a decision on the equivalence of a foreign GAAP could be based on an assessment of whether the disclosures, measurement and recognition principles, and financial statement presentation required by the third country GAAP were materially the same as IFRS and a positive decision could still be justified even where there were differences if these differences were rectified at company level by non-complex disclosures. CESR still believes that this approach is a valid mechanism for rendering a GAAP equivalent to IFRS.
40. The Commission's Regulation on the mechanism, as approved by the Member States and the European Parliament only requires (in article 2) that "*...the financial statements drawn up in accordance with the GAAP of the third country concerned enable investors to make a similar assessment of the assets and liabilities, financial position, profit and losses and prospects of the issuer as financial statements drawn up in accordance with IFRS, with the result that investors are likely to make the same decisions about the acquisition, retention or disposal of securities of an issuer*". It is CESR's view that the EU legislators' approach detailed above and reflected in the Commission's Regulation on the mechanism potentially requires a more holistic outcome-based approach to third country GAAP equivalence to be taken rather than an approach based on an analysis of differences in standards and remedying those differences.
41. CESR believes this is to no small extent due to doubts being cast on whether the requirement of remedies (non complex disclosures at company level) to allow a foreign GAAP to be deemed equivalent is in fact a legally acceptable measure. Some market participants have argued that those remedies would conflict with the Prospectus and Transparency Directive which would seem to allow third country issuers to use any foreign GAAP that has been deemed equivalent, without any room for competent authorities to impose any additional requirements on financial statements prepared in accordance with those GAAPs. Additionally, audit firms expressed concerns about their ability to fulfil any requirement to give assurance over any such disclosures to the extent they could be considered "outside of GAAP".
42. Taking all these elements together, CESR now believes that it is best to base a decision on equivalence on an holistic assessment of the ability of investors to make similar decisions on investments irrespective of the existence of potential lingering differences in presentation and measurement, as long as such differences are taken into account in a sensible long-term work programme between the standard setters concerned and the IASB and there is evidence of such programmes being active pursued. This is the approach CESR has taken in arriving at the recommendations contained in this advice and which has been supported by all respondents to CESR's consultation on the matter.

43. However despite taking this approach, CESR has also updated the tables of differences contained in its 2005 advice concerning Japanese and US GAAP because the Commission has asked CESR for this information. The updated tables are attached in appendices II and III together with descriptions of the work programmes between FASB and IASB and between ASBJ and IASB and commentaries on how these programmes have addressed or intend to address the issues identified by CESR in its 2005 advice.

### III.1 US GAAP

#### *Assessment of how the FASB and the IASB have addressed or are addressing the issues indicated in CESR's 2005 advice*

44. In 2002, the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) jointly issued a memorandum of understanding formalising their commitment to the convergence of US and international accounting standards (IAS/IFRS). This announcement was supported by both the SEC and the European Commission.
45. In 2006, the FASB and the IASB published a new Memorandum of Understanding (MOU) that reaffirmed the boards' shared objective of developing high quality, common accounting standards for use in the world's capital markets. The MoU is a further elaboration of the objectives and principles first described in a MoU published in 2002. While the new document does not represent a change in the boards' convergence work programme, it does reflect:
- the context of the US SEC's 'roadmap' for the removal of the reconciliation requirement for non-US companies that use IFRSs and are registered in the United States.
  - the work undertaken by CESR to identify areas for improvement of accounting standards.
46. In this Memorandum of Understanding, the Boards have agreed to converge IFRS and US GAAP in principle and not to attempt convergence on all details which they believed would be an unachievable task. It is therefore likely that not all differences will be eliminated at the end of the process, all the more since IFRS standards are principle-based whereas US standards are more rules-based. Consequently, IFRS will by definition always be less detailed than US GAAP.
47. The two Boards have agreed that, in the future, they will undertake joint projects. They have also decided to set up a mechanism which aims to ensure that the interpretation process within the two Boards does not create new differences between the two GAAPs. At the moment, both Boards are therefore obliged to bear in mind the work performed by the other.
48. The two boards have also agreed that neither the possible future decision by the SEC to accept the use of IFRS without reconciliation to US GAAP for third country issuers nor any decision to allow the use of IFRS by US issuers will change their plans or their work programs. A CESR delegation met with members of the IASB on 9 November 2007 to discuss the progress made by the two Boards on convergence between IFRS and US GAAP. Those discussions gave CESR assurance that at the moment all the main differences identified by CESR between IFRS and US GAAP in its 2005 advice are being addressed by the Boards. A detailed analysis of how the two boards are addressing these issues is disclosed in Appendix II.

#### *Assessment of the equivalence of US GAAP*

49. From the abovementioned information, CESR draws the following conclusions:
- The IASB and the FASB have publicly committed to convergence between IFRS and US GAAP;
  - The two Boards are addressing the main differences identified by CESR in its 2005 advice;
  - A mechanism has been set up within the two bodies to ensure that new standards or interpretations issued do not create new differences between the two sets of standards;
  - The two Boards will issue joint standards in the future
  - There is concrete evidence of active work between the two standard setters.

50. CESR believes these elements ensure US GAAP and IFRS are converging and will continue to evolve on a combined basis to an extent where they are effectively equivalent to each other and would therefore recommend that the Commission finds US GAAP equivalent to IFRS for use on EU markets. All respondents to CESR's consultation on this matter agreed with this conclusion.

### III.2 JAPANESE GAAP

#### *Assessment of how the ASBJ has addressed or is addressing the issues indicated in CESR's 2005 advice*

51. The IASB and the ASBJ jointly announced in August 2007 an agreement (known as the Tokyo Agreement) to accelerate convergence between Japanese GAAP and International Financial Reporting Standards (IFRSs), a process that was started in March 2005. As part of that agreement the two boards are seeking to eliminate by 2008 major differences between Japanese GAAP and IFRSs as defined by the June 2005 CESR assessment of equivalence, with the remaining differences being removed on or before 30 June 2011. However, the target date of 2011 does not apply to any major new IFRSs now being developed that will become effective after 2011.
52. In order to produce an assessment of how the ASBJ has addressed the issues by CESR in its 2005 advice as requested by the Commission, CESR has again updated the table it published in its March 2007 Advice to the European Commission, using the following sources:
- The ASBJ new work program published on the ASBJ's website.
  - A meeting with some IASB members.
- The updated table is available in Appendix III.

53. CESR has analysed the proposed new work program of the ASBJ supporting the recent announcement. Removing the differences identified by CESR in its 2005 advice will mean the issuance of 3 final standards by the end of 2007 and the issuance of 8 new standards by the end of 2008. CESR does not necessarily believe it is in a position to comment on the programme but has no reason to doubt that the ASBJ may well be able to achieve this objective. It is clear that if the ASBJ is successful in achieving its objectives there is no reason that CESR should not agree to Japanese GAAP being considered equivalent as all the issues identified in its 2005 advice will have been addressed. As a consequence, CESR believes that the ASBJ is addressing the main differences identified by CESR in its June 2005 advice.

#### *Assessment of the equivalence of Japanese GAAP*

54. For the reasons set out above in paragraphs 25 to 43, CESR is minded to adopt a stance of relying on the work programme of the standards setters as an important element in making a final decision on equivalence. It is however too early for there to be much actual evidence of progress on the part of the ASBJ with regard to its new timetable at the date of this advice and hence only limited support on which CESR can base any such recommendation on Japanese GAAP in line with paragraph 41 above or with its assessment of US GAAP contained in paragraphs 43 to 49 above.
55. However, CESR would recommend that, come June 2008, the Commission should consider Japanese GAAP equivalent, unless there is no adequate evidence of the ASBJ achieving to timetable the objectives set out in the Tokyo Agreement. On balance, respondents to CESR's consultation on this matter agreed with this conclusion.

#### IV. COUNTRIES THAT HAVE ADOPTED IFRS: CHINA

##### *Extract of the Commission's mandate*

*The Commission Services ask CESR to:*

- a) ...see whether Chinese GAAP could be seen as equivalent under the equivalence mechanism.*

*The Commission Services have selected the GAAPs identified in this request on the basis of two factors: recent factual developments and the current use of specific third country GAAPs in the EU. However, this choice should be treated as preliminary and purely indicative.*

*This also implies that where, as a result of its assessment, CESR concludes that a particular third country GAAP does not fulfil the criteria necessary, for example, for considering it as equivalent to IFRS, CESR should continue to assess whether this GAAP satisfies the conditions of a different category, for example whether it might be eligible for a further transitional exemption on grounds that it is subject to a sound convergence programme.*

##### *Adoption of IFRS-based accounting standards in China*

56. In November 2005, the China Accounting Standards Committee (CASC) and the IASB signed a joint statement declaring that Chinese Accounting Standards for Business Enterprises had realised substantial convergence of Chinese accounting standards with IFRS.
57. On 15 February 2006, the Ministry of Finance of the People's Republic of China, formally announced the issuance of Accounting Standards for Business Enterprises ("ASBEs") which consisted of a new Basic Standard and 38 specific ASBEs. The ASBEs cover nearly all of the topics under the current IFRS literature and became mandatory for Chinese listed companies on 1 January 2007. Other Chinese companies are also encouraged to apply ASBEs. According to the CASC and the IASB, the ASBEs are substantially in line with IFRS, except for certain modifications which are designed to reflect the unique circumstances and environment prevailing in China.
58. In its May 2007 advice, CESR indicated that, in as far as a comparison of measurement principles was concerned it considered it was only necessary that the third country GAAP principles involved be allowed under IFRS for these to be considered acceptable. Consequently, the principles concerned do not need necessarily to be the same as those an IFRS issuer might have chosen in the circumstances. This is in line with the spirit of a GAAP being equivalent not the same as IFRS. CESR therefore considered ASBEs accordingly.
59. In accordance with its May 2007 advice, CESR's first steps were to request that the CASC provide an assessment of the differences between ASBEs and IFRSs. The CASC did in fact supply such an analysis identifying certain differences, and has provided CESR with a list of those differences which is summarised in paragraphs 59 and 60.
60. According to the Ministry of Finance, the two main differences between IFRS and ASBEs are as follows:
- Under ASBEs, any impairment of long-term asset cannot be reversed, in particular any impairment of intangible assets.
  - Under ASBEs state-controlled entities are "related parties" if and only if the two companies have common business transactions or investment transactions, with the consequence that the results of the one company directly affect the results of the other.



The IASB and CASC have discussed these two issues and CESR has been told the following decisions have been made:

- The IASB is working on a revision of IAS 24 to remove the differences with the ASBE regarding stated-controlled entities; and
- The IASB is also discussing a revision of IAS 36 although there is no project timetable at the moment.

61. Other more minor differences were also identified by the Ministry of Finance and examined by CESR. A summary of these more minor differences is as follows:

- Business combinations between entities under common control are not covered by IFRS 3 and are not covered by any other standard whereas they are within the scope of ASBE 20.
- Defined benefit plans are not covered by an ASBE on the basis that there no such plans in China.
- The use of "fair value" is more restricted under ASBEs than it is under IFRS in accounting for investment properties, biological assets, non-monetary asset exchanges and debt restructurings where ASBEs stipulate that only where there is an active market and where a fair value is available and can be reliably measured, can a fair value measurement be adopted. The Ministry of Finance explains this difference as due to China being an emerging market economy where many assets do not have an actively trading market yet. The Ministry accepts that accounting information needs to be recent in nature but believes reliability should not be sacrificed as a result. If the use of "fair value" were to be introduced into China without any restrictions, artificial manipulation of profit would be likely to arise.

The IASB and the CASC have also discussed these issues but at the moment, they have made no decision on how they were going to address them. The Chinese Ministry of Finance has informed CESR that these points were examples of where they have tried to achieve the objectives of disclosures under IFRS by means suited to the Chinese market. If this statement is true, and only evidence of how the new Chinese Standards have been implemented in China will tell, this would be consistent with CESR's outcome-based approach on equivalence.

62. Appendix IV provides a detailed description of the differences between IFRS as published by the IASB and the Chinese ASBEs as far as they have been notified to CESR. As the table shows, China's standards look substantially similar to IFRS mainly as a result of how the standards have been derived. Instead of establishing a convergence programme between Chinese GAAP and IFRS, the Chinese authorities have decided to incorporate IFRS into their legislation with the scope described above and subject to making some adjustments in order to adapt some standards to local circumstances. In CESR's view this puts China in a different situation to that of either Japan or the US.

63. However, CESR would point out that it has been informed that the first complete reporting period under the new standards will only be for 2007 accounting periods (i.e. for companies with 31 December year ends). Consequently there is as yet no evidence available concerning the concrete implementation of the new Chinese standards by companies, auditors and enforcers. CESR believes evidence of application of new standards should be taken into account.

64. In order to align its assessment of the Chinese accounting environment with that of its assessment of those relating to Japan and the US in its original 2005 advice, CESR has also discussed the standard setting process, the contribution of the Chinese authorities to the development of new IASB standards, and the framework for implementing and enforcing ASBEs with the Ministry of Finance.

65. In order that the Chinese authorities may contribute within the IASB to the development of new standards, several Chinese experts have been appointed to the IASB's governing bodies, such as the SAC and the IASCF. China is represented on the IASB Board, provides staff to the IASB on a regular basis and it is likely that a Chinese representative will join the IFRIC in the near future.

66. The IASB and the Chinese Ministry of Finance have met several times in 2006 and 2007 and they plan to have regular meetings in 2008. As a result of these planned arrangements, the Ministry of Finance will be informed in a timely fashion about any new developments within IFRS. When a new standard is issued by the IASB, the Ministry of Finance will therefore have time to assess and discuss internally the adoption of this standard as an ASBE, if they believe this new standard is applicable in the Chinese environment.
67. According to the Ministry of Finance, 1 400 Chinese companies have begun using ASBEs in 2007. This implementation has been achieved without major disruption to the markets or the reporting cycle. Implementation of ASBEs is being monitored by the Ministry of Finance, through several groups of individual expert in both ASBEs and IFRSs (composed of regulators, state-owned companies, tax-authorities, companies and accountants). These groups provide clarifications and also report to the IASB and to the IFRIC emerging issues they have identified when monitoring the implementation of ASBEs which are relevant also to IFRS.
68. In addition to the monitoring by the Ministry of Finance of the implementation of ASBEs, the Ministry has informed CESR that an appropriate enforcement mechanism has been put in place in China. The China Securities Regulatory Commission is the national enforcer in China and supervises the financial statements of all Chinese listed companies. In cases where an infringement is identified, the CSRC has the power to make the company restate its financial statements. The CSRC has already gone through one enforcement cycle on the half-yearly reports of the 1 400 listed companies mentioned above. No cases concerning abuse of ASBEs have been identified by the Chinese enforcer. It appears however that some companies have misunderstood some standards and the Ministry intends to provide more training on several standards in order to resolve this issue. Currently, no evidence of this enforcement cycle is available but CESR will continue to monitor this situation.

#### *Assessment of the equivalence of Chinese GAAP*

69. For the purpose of making a decision on equivalence or on whether a third country GAAP qualifies for an extension of the existing transitional period, CESR has not been asked by the Commission to assess whether those GAAPs are properly applied. However, CESR has stated in its previous advice to the Commission that it considers that a pre-requisite for any foreign GAAP to be accepted in the EU should be the existence of “filters” at country level, including the appropriate audit of the financial statements concerned.
70. As stated above, on the basis of a technical analysis of the standards alone, CESR believes that Chinese GAAP could on the surface qualify as equivalent to IFRS. However, CESR believes the obvious lack of any objective evidence of adequate implementation which is an inevitable consequence of the standards only having been in use since 1st January 2007 should not be ignored.
71. Consequently, CESR would recommend that the Commission postpone a final decision on Chinese GAAP until there is some evidence of how China is implementing its standards. If the Commission were minded to allow Chinese issuers to use Chinese GAAP when accessing EU markets, CESR would recommend the Commission to consider accepting Chinese GAAP according to article 4 of the Commission Regulation on the mechanism until such time as there is adequate evidence to enable a decision to be made under article 2.
72. Some respondents to CESR's consultation paper suggested that whilst they agreed with CESR's conclusions on Chinese GAAP, they thought that CESR should undertake additional work at an appropriate time in the future to obtain evidence for the adequate implementation of Chinese ASBE's in those areas where CESR feels such evidence is needed. CESR intends to undertake such work to assess whether Chinese GAAP has been properly applied by Chinese issuers and will communicate publicly on the outcome of such work at a time when appropriate evidence can be made available to it by the Chinese authorities.

**V. FINAL CAVEAT IN RELATION TO THIS ADVICE**

73. As touched on in paragraph 66 above, in its May 2007 advice, CESR stated that it considered that a pre-requisite for any GAAP to be recognised as equivalent is that "filters" at the country level, and audit assurance and enforcement at the entity level are sufficient for investors to be able to rely on them. CESR also stated in that advice that for the purposes of establishing equivalence, CESR would also assume that third country GAAPs are properly applied and that the necessary filters for ensuring market confidence are in place for third country issuers using or participating in the EU capital markets.
74. CESR is aware that the Commission is performing work in order to establish the status of third country auditors under the 8th Directive and consequently has not attempted to perform its own assessment of such matters in the context of this advice. This is with the notable but specific exception of Chinese GAAP for which CESR gives detailed reasons above. CESR would however point out that this advice will need to be considered in the light of the results of such work.



VI. Appendices

Appendix I – Request from the European Commission to CESR for technical advice



EUROPEAN COMMISSION  
Internal Market and Services DG  
FREE MOVEMENT OF CAPITAL, COMPANY LAW AND CORPORATE GOVERNANCE  
Director

Brussels, 11.12.07 00004804

Mr. Eddy Wymeersch  
Chairman  
Committee of European Securities  
Regulators  
11-13 Avenue de Friedland – 75008  
PARIS FRANCE

**Subject: Initiation of preparatory work concerning the equivalence of third country GAAPs under the Transparency Directive and Prospectus Regulation**

Dear Mr. Wymeersch,

First of all I would like to thank you for the two pieces of technical advice that CESR provided for the Commission earlier this year<sup>1</sup>. CESR's contributions under sometimes tight deadlines will be very important for the preparatory work the Commission is carrying out in view of the equivalence determinations of third country GAAPs to be made in the course of the year 2008.

The revised Prospectus Regulation<sup>2</sup> and the Decision regarding the Transparency Directive<sup>3</sup> impose a number of obligations on the Commission. First, before 1 April 2007 the Commission needed to report to the European Securities Committee and the European Parliament on the work timetable adopted by the relevant authorities for the convergence of the Canadian, Japanese and US GAAPs with IFRS.

<sup>1</sup> "CESR's advice to the European Commission on the work programmes of the Canadian, Japanese and US standard setters, the definition of equivalence and the list of third country GAAPs currently used on the EU capital markets" of 6 March 2007 and "CESR's technical advice on a mechanism for determining the equivalence of the generally accepted accounting principles of third countries" of 25 May 2007

<sup>2</sup> Revised by the Commission Regulation No 1787/2006 of 4. December 2006, OJ L337/17 from 5.12.2006 (see ANNEX 3).

<sup>3</sup> Commission Decision No 2006/891/EC of 4. December 2006, OJ L343/96 from 8.12.2006 (see Annex 4).

Commission européenne, B-1049 Bruxelles / Europese Commissie, B-1049 Brussel - Belgium.

Telephone: (32-2) 299 11 11.

[http://ec.europa.eu/internal\\_market/](http://ec.europa.eu/internal_market/)

This will be followed by a report by the Commission on the evaluation of the equivalence of GAAPs of third countries, to be provided by the Commission before 1 April 2008.

Secondly, before 1 January 2008 the Commission will be adopting a Regulation which defines equivalence and establishes the mechanism for determining the equivalence of individual third country GAAPs. The proposed Regulation has now received the support of the European Securities Committee and of the European Parliament and is due to be adopted and published in the Official Journal of the EU before the end of this year.

Finally, by 1 July 2008, the Commission must ensure that such determinations are made, in accordance with the definition and equivalence mechanism established by the end of 2007 (as mentioned above).

We acknowledge that the time pressure of this exercise is significant, both for the Commission and for CESR, in order to carry out an adequate analysis of third country GAAPs that must be assessed for equivalence by the end of June 2008.

Let me finish by saying that CESR has in the recent past already provided highly useful comments on the draft proposal and we will be making full use of these wherever appropriate. We greatly appreciate the excellent cooperation between the services of DG MARKT and those of CESR and look forward to it continuing on these challenging files.

In the annex you will find details of our request.

Yours sincerely,

  
Pierre DELSAUX

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J. Hrudová, +32 229 53757

Annex: Initiation of preparatory work concerning the equivalence of third country GAAPs

**Annex: Initiation of preparatory work concerning the equivalence of third country GAAPs**

**Description of third country GAAPs with a view to reaching a determination of equivalence**

The Commission requests the following advice from CESR, to enable the Commission Services to present a report to the European Securities Committee and the European Parliament by 1 April 2008 and to satisfy their obligation to ensure before 1 July 2008 a determination of equivalence of the GAAPs of third countries.

Preparatory work has to start as early as possible and the necessary input can be divided into two main categories:

- The first category consists of the factual assessment of the equivalence of specific third country GAAPs;
- The second category is an assessment of existing convergence and adoption programmes related to other third country GAAPs.

In the current situation and taking into account recent developments in third countries relevant to the determination of equivalence, the Commission Services ask CESR:

- (a) For the GAAPs of U.S. and Japan to conduct an assessment on the basis of CESR's 2005 advice and focus primarily and particularly on an assessment of how the standard setters of these two GAAPs have addressed the issues indicated in this advice and highlight the outstanding issues with a view to reaching a conclusion as regards their equivalence by the end of 2008. It will also be necessary to see whether Chinese GAAP could be seen as equivalent under the equivalence mechanism.

Furthermore it would be useful if CESR could prioritize the issues which need to be resolved and indicate the points which have to be addressed as a matter of urgency and/or how possible remedies could be achieved.

- (b) For the national GAAPs of countries whose national authority responsible for the national accounting standards has established a convergence programme envisaged to be completed before 31 December 2011 and GAAPs of countries which have substantially converged with IFRS or whose national authority has made a public commitment to adopt IFRS before 31 December 2011, to provide an assessment of the existing convergence programmes or programmes to adopt IFRS, focussing especially on whether it is comprehensive and capable of being completed before 31 December 2011.

The Commission Services have selected the GAAPs identified in this request on the basis of two factors: recent factual developments and the current use of specific third

country GAAPs in the EU. However, this choice should be treated as preliminary and purely indicative.

This also implies that where, as a result of its assessment, CESR concludes that a particular third country GAAP does not fulfil the criteria necessary, for example, for considering it as equivalent to IFRS, CESR should continue to assess whether this GAAP satisfies the conditions of a different category, for example whether it might be eligible for a further transitional exemption on grounds that it is subject to a sound convergence programme.

This request will serve as the basis for the assessment exercise, and **other GAAPs** could be added at a later stage. This exercise has to remain open-ended if it is to meet the statutory objectives under the Prospectus regime and the Transparency Directive. For the future, the Commission can initiate further assessments, either on its own initiative or pursuant to a valid and substantiated request from a third party.

**Due:** In view of the overall time-table as set out in the letter, CESR's third advice is sought by Friday **29<sup>th</sup> February 2008**, even if not finally approved following your internal procedures.



Appendix II: IASB / FASB work programs on the convergence between IFRS and US GAAP

Theme	CESR remedy in 2005 advice	Summarised issues	FASB		IASB	
			Current status as of 09/07 on FASB agenda	Prospects 2008	Current status as of 09/07 on IASB agenda	Prospects 2008
Share-based payments (IFRS 2)	N/A anymore with the application of FAS 123R					
Business Combination (IFRS 3)	Disclosure B	<b>Acquisition date</b> - Under US GAAP, the acquisition date is ordinarily the date on which consideration passes and the acquired (net) assets are received (i.e. the date on which the transaction closes). However, if the parties agree in writing that effective control passes to the acquirer at an earlier date then that earlier date is the acquisition date. Under IFRS3 the acquisition date is the date on which the acquirer effectively obtains control of the acquiree. Under US GAAP shares issued as consideration are measured at their market price over a reasonable period of time (a few days) before and after the parties reach an agreement on the purchase price and the transaction is announced.	The FASB and the IASB expect to issue their final business combinations and non controlling interest standards in the 4th quarter of 2007. The standards will come into effect on 1 January 2009, which means that an entity must apply the standards for its first annual reporting period beginning on or after 1 January 2009.			
	Disclosure B	<b>In process R&amp;D</b> - In process R&D is capitalised under IFRS but usually expensed under US GAAP				
	Disclosure B	<b>Negative Goodwill</b> - Under IFRS 3 negative goodwill is recognized immediately as a gain. Under US GAAP it is initially allocated on a pro rata basis against the carrying amounts of certain acquired non-financial assets, with any excess recognized as an extraordinary gain.				
	Disclosure A	<b>Minority interest</b> - Minority interest under IFRS is measured at fair value but under US GAAP it is at historical cost.				

Theme	CESR remedy in 2005 advice	Summarised issues	FASB		IASB	
			Current status as of 09/07 on FASB agenda	Prospects 2008	Current status as of 09/07 on IASB agenda	Prospects 2008
Business Combination (IFRS 3)	Disclosure A	<b>Step acquisitions</b> - Step acquisitions under IFRS 3 require revaluation of previous interests at fair value at each acquisition date. Under US GAAP previous interests are not revalued, resulting in an accumulation of fair values at different dates.	The FASB and the IASB expect to issue their final business combinations and non controlling interest standards in the 4th quarter of 2007. The standards will come into effect on 1 January 2009, which means that an entity must apply the standards for its first annual reporting period beginning on or after 1 January 2009.			
	Disclosure A	<b>Contingent consideration</b> - Under US GAAP, contingent consideration is part of the purchase price when additional consideration is issued or becomes issuable whereas under IFRS 3 it is part of the purchase price at the date of acquisition if payment is probable and can be measured reliably.				
Property, plant & equipment (IAS 16)	Disclosure A (if the option is applied)	<b>Costs of replacing component parts</b> - Costs of replacing component parts of an asset and planned major maintenance activities may be capitalized or expensed. The deferral method which is specified under IFRS is one of four possible methods under US GAAP.	Nothing specific			
Employee benefits (IAS 19)	Disclosure A	US GAAP and IAS 19 have the same objectives and follow the same principles. While there are differences, the fact that there are four broad options for defined benefit schemes available under IAS make it difficult to determine which version would be used as the basis for reconciliation, and against that background a reconciliation would not help investors' decisions. The key point is to have adequate disclosures to enable investors to make decisions	In September 2006, the Board issued Statement No. 158, Employers' Accounting for Defined Benefit Pension and Other Post Retirement Benefit Plans. In February 2007, the Board issued FASB Staff Position FAS 158-1, Conforming Amendments to the Illustrations in FASB Statements No. 87, No. 88, and No. 106 and to the Related Staff Implementation Guides. FSP 158-1 updates the illustrations in those documents to reflect the provisions of Statement 158. With the issuance of Statement 158 and the FSP, the Board completed phase 1 of this project. At its August 29, 2007 meeting, the Board discussed how to conduct the next phase of the project.	No publication for phase 2 is announced	On agenda – No publication yet	A Discussion Paper should be issued in Q1 of 2008



Theme	CESR remedy in 2005 advice	Summarised issues	FASB		IASB	
			Current status as of 09/07 on FASB agenda	Prospects 2008	Current status as of 09/07 on IASB agenda	Prospects 2008
Consolidated & separate financial statements (IAS 27)	Supplementary Statement	Scope of Consolidation. Under IAS 27 and SIC 12, the scope of consolidation is determined by reference to the principle of control defined in general terms as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities (IAS 27.4). Information received from the standard setter and through the consultation indicate that the issue of consolidation of Special Purpose Entities (SPE) in the US is very complex, being based on principles combined with additional guidance that altogether make the US framework close to IFRS in most cases.	The Board has on its agenda a long-term project to develop comprehensive guidance on accounting for affiliations between entities, including reconsideration of ARB No. 51, Consolidated Financial Statements.		On agenda – No publication yet	The IASB project is expected to yield a Discussion Paper in the first quarter of 2008, at which time the FASB will consider whether to issue an Invitation to Comment based on the IASB document.
Investments in associates (IAS 28)	Disclosure B	No requirement to <b>conform accounting policies</b> where associate's policies are different	Nothing specific.			
Impairments of assets (IAS 36)	Disclosure B	Impairment testing. Impairments under US GAAP are based firstly on a comparison of carrying amount to the expected future cash flows to be derived from an asset (or asset group) on an undiscounted basis. If the carrying amount is lower the asset (or asset group) is not impaired, if higher then impairment is measured by comparing the carrying amount to the fair value of the asset (or asset group).	"Impairment" is a topic for short term convergence according to the Roadmap but is not on the agenda of IASB or FASB.			
	Disclosure A	Subsequent reversal of an impairment loss is prohibited under US GAAP				



Theme	CESR remedy in 2005 advice	Summarised issues	FASB		IASB	
			Current status as of 09/07 on FASB agenda	Prospects 2008	Current status as of 09/07 on IASB agenda	Prospects 2008
Provisions (IAS 37)	Disclosure A	Measurement of <b>decommissioning provisions</b> – discount rates are not adjusted under US GAAP	The Board decided that this project should focus on (1) certain non financial liabilities, including liabilities under FASB Statements No. 143, Accounting for Asset Retirement Obligations, and No. 146, Accounting for Costs Associated with Exit or Disposal Activities, and (2) contingencies, including contingencies under Statement 5. At a future meeting, the Board plans to clarify the scope and timing of the project, and to identify potential convergence issues relating to the IASB's project to reconsider the guidance in IAS 37, Provisions, Contingent Liabilities, and Contingent Assets.	At a future meeting and for the comprehensive project focusing on certain non financial liabilities, the Board plans to clarify the scope and identify areas for potential convergence with the IASB's project to reconsider the guidance in IAS 37. The Board also will consider the need for enhanced disclosures for contingencies after the staff obtains and analyzes constituent input.	On the Agenda (ED was issued in June 2005) but the project is not part of the MoU.	An IFRS should be issued in the first semester of 2008.
Intangibles Assets (IAS 38)	Disclosure B	<b>Capitalisation of development costs.</b> Development costs and purchased IPR&D are expensed under US GAAP (with some exceptions)	This potential short-term convergence project is currently in the staff research phase. The staff research consists of identifying existing differences between IFRS and U.S. GAAP relating to accounting for research and development costs and evaluating the feasibility of one or more narrowly scoped projects that would improve financial reporting in the United States while eliminating differences between IFRS and U.S. GAAP. This work will include a review of 20-F filings by foreign private issuers who are applying IAS 38, Intangible Assets (as revised in March 2004), for the first time. At the same time, the IASB staff plans to consider whether IAS 38 could be improved by incorporating aspects of U.S. GAAP, in particular, aspects of FASB Statement No. 86, Accounting for the Costs of Computer.		The draft proposal suggests that, if a broadly scoped recognition-based project is undertaken, given the significance of the possible changes to IAS 38 Intangible Assets that should be considered, it would not be appropriate to move directly to an Exposure Draft. Accordingly, the draft proposal suggests that the project work be focused towards developing a Discussion Paper setting out preliminary views on the issues prior to issuing an Exposure Draft.	



Theme	CESR remedy in 2005 advice	Summarised issues	FASB		IASB	
			Current status as of 09/07 on FASB agenda	Prospects 2008	Current status as of 09/07 on IASB agenda	Prospects 2008
Financial instruments (IAS 39)	Disclosure A	Key differences that could affect investors decisions are: <ul style="list-style-type: none"> <li>• Derecognition of securitizations</li> <li>• Split accounting on convertible bonds</li> <li>• Reversal of impairments on debt securities</li> </ul>	On research agenda and working established	A initial discussion paper should be issued in the first quarter of 2008.	On research agenda and working group established.	A DP should be issued in the first Q of 2008.
Investment Property (IAS 40)	Disclosure A	US GAAP does not permit property to be measured at <b>fair value</b> . A cost based method of accounting is generally required	Considered by the FASB as part of the fair value option project		Nothing specific	See Fair value project
Agriculture (IAS 41)	Disclosure B	Differences in fair value of specific agriculture items	Nothing specific			
Subsequent events (IAS 10)		Not in the advice	The Board voted to continue with its previous plans to develop standards that reflect the principles underpinning current subsequent events guidance in existing accounting standards, while considering whether certain minor differences between U.S. GAAP and the corresponding IAS 10, Events after the Balance Sheet Date, could be eliminated or minimized. The Board further decided that the project would not address inconsistencies or differences between U.S. GAAP and IFRS in the following areas: 1/ Refinancing of short-term obligations and 2/ Curing breaches of borrowing covenants.		Not on the agenda.	
Income tax (IAS 12)	No	<b>Not significant</b> - Various differences in detail exist between US GAAP and IFRS as mentioned in the detailed response from FASB. Basics and objectives of the standards are the same in both frameworks.	The Board expects to complete deliberation of remaining issues in the third quarter of 2007. The more significant of those issues include (1) how the decision to measure deferred taxes at the undistributed rate would affect certain entities such as real estate investment trusts, cooperatives, and other similar types of entities and (2) whether to adopt proposals of the IASB relating to the definition of and accounting for special deductions.	The Board plans to issue an Exposure Draft for public comment in the 1st quarter of 2008.	On the agenda - no publication yet	Exposure Drafts are expected to be published by the IASB early in 2008. The current project plan envisages that a final standard will be issued in 2009.



Theme	CESR remedy in 2005 advice	Summarised issues	FASB		IASB	
			Current status as of 09/07 on FASB agenda	Prospects 2008	Current status as of 09/07 on IASB agenda	Prospects 2008
Leases (IAS 17)	No	<b>Not significant</b> - IAS 17 and US GAAP have the same objective – to require leases that effectively transfer ownership of assets (usually called finance leases) to be capitalised. Differences of detail, between the standards may give rise to different treatment of the same leases under the two GAAPs, but a reasonably knowledgeable investor could be expected to understand that the lease terms would have been written differently if the other framework had been used.	Pre-agenda research underway	The staff are working towards a discussion paper to be issued jointly by the IASB and FASB, in the second quarter of 2008.	On the agenda (led by a national standard-setter)	The staff is working towards a discussion paper to be issued jointly by the IASB and FASB, in the second quarter of 2008.
Revenue recognition (IAS 18)	No	<b>Not significant</b> - General principles are consistent between the two GAAPs, but there are some differences of detail which are unlikely to affect investors' decision making as long as there is full disclosure of accounting policies and sufficient information provided under US GAAP.	In the Joint IASB/FASB meeting in October, the staff will provide an overview of both revenue models— now referred to as the Measurement model (formerly Fair Value) and the Allocation model (formerly Customer Consideration). Based on the Boards' feedback, the staff will make changes to the draft chapters of the due process document and present those chapters to the Boards in early 2008.	The staff plans to publish a due process document by the first quarter of 2008.	Currently the staff is working with two small groups of Board advisers to develop further and illustrate the two models. The Board plans to begin considering the more developed models in the fourth quarter.	The Board plans to issue a Discussion Paper (jointly with the FASB) for consultation in the first quarter of 2008.
Government grants (IAS 20)	No	<b>Not significant</b> - Under US GAAP, non-monetary government grants must be fair valued and recognised. Non-monetary government grants are rare. In any case, disclosure of grants received would be sufficient.	Nothing specific		To be examined the IASB.	Work on the IAS 20 project is expected to resume towards the end of 2007.
Joint-ventures	No	<b>No significant differences</b>	Nothing specific		The IASB issued an Exposure Draft in September 2007. The Exposure Draft is open for public comment until 11 January 2008.	An IFRS, "Joint Arrangements", is expected to be published in the second half of 2008.



Theme	CESR remedy in 2005 advice	Summarised issues	FASB		IASB	
			Current status as of 09/07 on FASB agenda	Prospects 2008	Current status as of 09/07 on IASB agenda	Prospects 2008
Fair Value measurement guidance	No	Nothing specific	Statement 157 was issued in Sept 06. Not on the agenda anymore.		On agenda – deliberations in process	During the first half of 2008 the Board plans to hold round-table discussions with constituents. Responses to the discussion paper and the feedback received during the round-table discussions will be valuable to the IASB in developing an exposure draft of an IFRS on fair value measurement guidance, which it aims to publish in the first half of 2009.
Financial Statements Presentation	No	Nothing specific	The FASB decided that it would not publish a separate Exposure Draft on Phase A of the project. Rather, it will expose its Phase A decisions along with its Phase B decisions.	The initial output for Phase B is a discussion document (similar to a Preliminary Views (FASB) that is expected to be published in the first quarter of 2008.	Phase A is finalised with the approval of a final revised IAS 1. Phase A was undertaken by the IASB and addressed what constitutes a complete set of financial statements and requirements to present comparative information. Phase B is currently being undertaken. Phase C has not started.	The publication of a Discussion Paper (Preliminary Views document - FASB) is expected to be published in the first quarter of 2008.



Appendix III: ASBJ work programs on the convergence between IFRS and Japanese GAAP

Theme	CESR remedy in 2005 advice	Summarised issues	Current status as of 11/07 on the ASBJ Agenda	Prospects in 2008
Share-based payments (IFRS 2)	Disclosure B	<p><b>Expense recognition + explanatory notes:</b> Remaining differences between Japanese GAAP and IFRS 2 are considered not significant. However, to the extent that Japanese GAAP does not provide information for investors to be able to compare the basis of the expense, Disclosure A should be required as a remedy.</p>	<p>Accounting standards and guidance were released in December 2005. Requisite disclosure is also defined therein. (See No.13, “Share-based payments - explanatory notes”)</p>	<p>Accounting standards and guidance have been implemented since May 2006 (effective of new Company Act).</p>
	Disclosure A			
Business Combination (IFRS 3)	Supplementary Statement	<p><b>Pooling of interest method</b> - The basics of accounting for business combinations in Japanese GAAP and IFRS are the same. However the required application of the pooling-of-interest method in each case would create differences in financial reporting, which by no means available to the investor could create comparable information on the financial position and performance of the merged entity</p>	<p>A Project Team was launched in December 2006 and submitted the Research Report in October 2007 to the Board. A Discussion Paper is expected to be published for public comment in December 2007. The Discussion Paper will address how to account for the pooling-of-interest method which is one of the major differences on business combinations, and also will set forth future direction as to whether the pooling-of-interest method would be eliminated.</p>	<p>An Exposure Draft is expected to be published in the middle of 2008 considering the responses from market participants to the Discussion Paper. The Exposure Draft will cover various issues on business combinations, including areas identified by the CESR as mentioned. The final standard is expected to be published by the end of 2008.</p>
	Disclosure B	<p><b>Date of exchange</b> - Under Japanese GAAP shares issued as consideration are measured at their market price over a reasonable period of time (a few days) before the parties reach an agreement on the purchase price and the transaction is announced. Under IFRS 3 shares issued as consideration are measured at their fair value on the date of the exchange transaction.</p>		
	Disclosure A	<p><b>Minority interests at historical cost</b> - Under Japanese GAAP, minority interest can be measured the same way as IFRS or as the minority’s portion of the pre-acquisition historical book value of the identifiable net assets acquired.</p>		



Theme	CESR remedy in 2005 advice	Summarised issues	Current status as of 11/07 on the ASBJ Agenda	Prospects in 2008
Business Combination (IFRS 3)	Disclosure A	<b>Step acquisitions</b> - Step acquisitions under IFRS 3 require revaluation of previous interests at fair value at each acquisition date. Under Japanese GAAP previous interests are not revalued, resulting in an accumulation of fair values at different dates	A Project Team was launched in December 2006 and submitted the Research Report in October 2007 to the Board. A Discussion Paper is expected to be published for the public comment in December 2007. The Discussion Paper will address how to account for the pooling-of-interest method which is one of the major differences on business combinations, and also will set forth future direction as to that the pooling-of-interest method would be eliminated.	An Exposure Draft is expected to be published in the middle of 2008 considering the responses from market participants to the Discussion Paper. The Exposure Draft will cover various issues on business combinations, including areas identified by the CESR as mentioned. The final standard is expected to be published by the end of 2008.
	Disclosure B	<b>Negative goodwill</b> - Japanese GAAP recognises negative goodwill as a liability and requires amortisation on a straight-line basis within 20 years.		
	Disclosure B	<b>In process R&amp;D</b> - Under Japanese GAAP, in process R&D is expensed when incurred.		
Insurance (IFRS 4)	Disclosure A	<b>Catastrophe provisions</b> - Japanese GAAP requires insurance companies to make catastrophe provisions. The degree of disclosure in relation to these provisions varies in practice. It is to be noted that the amount of catastrophe provisions is not systematically disclosed.	The industry targeted for application is limited to the insurance industry and the IASB is currently discussing the phase II.	
Inventories (IAS 2)	Disclosure B	<b>LIFO</b> - Japanese GAAP permits the use of LIFO stock valuation. However, in practise the usage of LIFO by Japanese entities is rare.	The ASBJ launched a project team in January 2007 to discuss the convergence items related to LIFO method for inventories. The Technical Committee of the ASBJ aims to determine whether the LIFO method, which has been permitted under the existing Japanese Standard, should be eliminated.	It is expected that the ASBJ will publish the Exposure Draft in the first quarter of 2008.
	Disclosure B	<b>Lower of cost or market method</b> - The cost method is allowed under Japanese GAAP as an alternative to lower of cost or market	An accounting standard was released in July 2006. In this standard, only the lower of cost or market value method should be adopted as the sole permitted measurement basis.	The new Accounting standard applies to entities for the fiscal year beginning on or after April 1, 2008 This Standard may also be applied to fiscal years prior to April 1, 2008.



Theme	CESR remedy in 2005 advice	Summarised issues	Current status as of 11/07 on the ASBJ Agenda	Prospects in 2008
Property, plant & equipment (IAS 16)	Disclosure A	<b>Asset retirement obligations</b> - Estimated costs for asset retirement obligations, such as dismantling and removal costs and site restoration costs, are not commonly capitalized at initial measurement under Japanese GAAP. Recognition of restoration costs (under the definition of IAS 37 for the recognition of provisions) is required under IFRS, whereas recognition is limited to certain industries only, under Japanese GAAP.	A Technical Committee was set up in November 2006 to discuss how to account for asset retirement obligations and their costs, the scope of asset retirement obligations and their measurement techniques. The outcomes for the above issues might not always be consistent with the basic idea underlying the existing accounting treatments. The Discussion Paper for AROs was published for the public comment in May 2007.	An Exposure Draft and a new standard are expected to be published in December 2007 and in the first quarter of 2008, respectively.
Employee benefits (IAS 19)	Disclosure A	Pensions, Post Retirement Benefits ( <b>including the discount rate to be used for calculating retirement benefits obligations</b> )	The ASBJ launched a project team in January 2007 to discuss the convergence items related to retirement benefits. In particular, the Technical Committee discusses the discount rate issues suggested by the CESR. i.e., currently, the standard requires the current discount rate at the year end in principle but allows the average rate of certain period as an alternative.	
Effects of changes in foreign exchange rates (IAS 21)	Disclosure A	<b>Translation of goodwill</b> - Under Japanese GAAP goodwill is translated by using the historical rate at the time of initial consolidation.	To be considered in conjunction with “Business combinations (pooling-of-interest method)”.	See “Business combinations, pooling-of-interest method”



Theme	CESR remedy in 2005 advice	Summarised issues	Current status as of 11/07 on the ASBJ Agenda	Prospects in 2008
Consolidated & separate financial statements (IAS 27)	Supplementary Statement	<p><b>Qualified special purpose entities</b> - In Japanese GAAP, the status of Qualifying SPEs (QSPEs) is slightly different to IFRS as it is essentially addressed by reference to the provisions on derecognition of assets. Exemptions provided in this context for QSPEs could lead, res sic stantibus to their possible exclusion from consolidated balance sheets and income statements.</p>	<p>The ASBJ divided this project in to two phases, short term project phase and long term project phase, considering the fact that the ASBJ needs to respond to the urgent need to enhance disclosures on transactions using SPEs and the ASBJ might be expected to provide comments to the IASB and FASB in relation to their deliberations. The short term project started in June 2006 which focuses on the enhancement of disclosures on transactions using SPEs, and practical guidance was published in March 2007.</p>	<p>As for the long-term project, the ASBJ has been discussing issues concurrently with deliberations by the IASB and FASB as identified by their MOU. It is expected that the ASBJ will publish a Discussion Paper in the first quarter of 2008 for public comment in step with the issuance of the Discussion Paper by the IASB and FASB.</p>
		<p><b>Uniformity of accounting policies in overseas subsidiaries</b> - Japanese GAAP permits the use of financial statements prepared in accordance with the local GAAP of foreign subsidiaries, unless differences in accounting policies would lead to unreasonable consequences.</p>	<p>With the release of Practical Issues Task Force (PITF) (May 2006), accounting policies applicable to foreign subsidiaries will be unified substantially with those applicable to parent companies. (Furthermore, consolidation of financial statements using IFRS or U.S. GAAP is now permitted in Japan subject to certain adjustments.)</p>	
Investments in associates (IAS 28)	Disclosure B	<p><b>Uniformity of accounting policies of associates</b> - In principle there is the requirement for unification of accounting policies, however reference is made to the previous aspect mentioned under IAS 27 B, although having a different impact on the investors' decision</p>	<p>In November 2007, an Exposure Draft was published which requires uniformity of accounting policies for investing companies and their affiliates. In addition, the Exposure Draft for Practical Issues Task Force (PITF), which is similar to PITF No.18 (May 2006), was released which, for practical reasons, permits foreign affiliates to use IFRS or U.S. GAAP as their accounting policies given that certain adjustments are made to their financial statements in applying the equity method of accounting. The Exposure Drafts are expected to result in substantial uniformity of accounting treatments (policies) with those applicable to investing companies.</p>	<p>The ASBJ plans to issue the final standard and PITF in second quarter of 2008.</p>



Theme	CESR remedy in 2005 advice	Summarised issues	Current status as of 11/07 on the ASBJ Agenda	Prospects in 2008
Financial instruments : disclosure & presentation (IAS 32)	Disclosure A	<b>Disclosure of financial instruments at fair value</b> - Under Japanese GAAP, the fair values of derivatives and investments in securities shall be disclosed alongside their carrying amounts. Disclosure of the fair values of derivative instruments which are used for hedging purposes is not required.	In July 2007, the ASBJ published the Exposure Draft of Proposed Amendments to Accounting Standard for Financial Instruments (Exposure Draft of Statement No.19) and the Exposure Draft of Proposed Implementation Guidance on Disclosures about Fair Value of Financial Instruments (Exposure Draft of Guidance No.23) in July 2007.	A new standard is expected to be published by the end of 2007.
Impairments of assets (IAS 36)	Disclosure B	<b>Impairment tests</b> - When the levels of undiscounted future cash flows from long-lived assets are less than their carrying amounts, the difference between the carrying amounts and the recoverable amounts are recognised as impairment losses.	Since 2005, the accounting standard for impairment of fixed assets has been applied effectively. The project team planned to publish a research report and submit it to the Board reflecting the progress of the joint discussion between the IASB and FASB. That is to say, the ASBJ aims to consider the issues which might be discussed between the IASB and FASB because two issues identified by CESR are the same as those related to existing U.S. GAAP. This implies that existing differences between the Japanese standard and IFRS on accounting for impairment of fixed assets would be eliminated once the existing IFRS is converged with U.S. GAAP. Although these issues are identified as short term project issues in the MoU between the IASB and FASB, discussion has not started yet. Therefore, the project team whose members currently undertake other projects concurrently is monitoring how the boards deliberate the issues, rather than making any report.	The ASBJ are going to deliberate the issues considering the trend of discussion between the IASB and FASB.
	Disclosure A	<b>Reversal of impairment losses</b> - Reversal of impairment losses is prohibited under Japanese GAAP. Reversal of impairment loss on goodwill is prohibited under both standards.		



Theme	CESR remedy in 2005 advice	Summarised issues	Current status as of 11/07 on the ASBJ Agenda	Prospects in 2008
Provisions (IAS 37)	Disclosure A	<b>Scrapping costs</b> - Estimated costs arising from asset retirement obligations, such as dismantling and removal costs and site restoration costs, are not commonly capitalized at initial measurement under Japanese GAAP. Recognition of restoration costs (in line with the stipulations of IAS 37 relating to the recognition of provisions) is required under IFRS, whereas recognition is limited to certain industries only, under Japanese GAAP.	Will be examined in conjunction with “Asset retirement obligations”	Provisions (IAS 37)
Intangibles Assets (IAS 38)	Disclosure B	<b>Capitalisation of development costs</b> - Under Japanese GAAP, costs incurred during a product development phase should be expensed when incurred. The total R&D expenditure itself is disclosed, but there is no requirement for detailed disclosure.	In May 2007, the ASBJ set up a Technical Committee to deliberate the issues on intangible assets, which had previously been discussed in the Working Group. The Technical Committee has focused its deliberations on accounting treatments for Research and Development cost, which areas are identified as major convergence issues between Japanese and other international standards, and has also carried out an overall survey based on the research in the Working Group.	The ASBJ expects to issue a Discussion Paper by the end of 2007. Thereafter, the ASBJ will reconsider responses to the Discussion Paper and discuss this issue concurrently with deliberations by the IASB and FASB as identified as a short term project issues in their MOU.
Financial instruments (IAS 39)	Disclosure A	<b>Financial instruments</b> - CESR needs more information to determine whether the identified differences do in fact influence investors’ decisions.	Financial instruments: to replace existing standards is a topic in the MOU announced in February 2006 between the IASB and the FASB. As a progress expected to be achieved by 2008, one or more due process documents relating to accounting for financial instruments will be issued. The ASBJ monitors this discussion.	Possible other amendments to Japanese GAAP will be undertaken taking into consideration the progress in discussions between the IASB and the FASB.
Investment Properties (IAS 40)	Disclosure A	<b>Fair value</b> - Fair values for investment properties are not required to be disclosed.	A Technical Committee will be set up in December 2007 to discuss fair values disclosure for investment properties.	The ASBJ plans to issue the Exposure Draft in the middle of 2008.
Agriculture (IAS 41)	Disclosure B	<b>Agriculture</b> - Differences in fair value of specific agriculture items. There is no specific standard for agriculture under Japanese GAAP	Taking into consideration of the business scale in this area, it is not necessary at this stage to make a particular accounting standard.	N/A



Theme	CESR remedy in 2005 advice	Summarised issues	Current status as of 11/07 on the ASBJ Agenda	Prospects in 2008
Segment reporting (IAS 14)	No	<b>Not significant</b>	In September 2007, the ASBJ released for public comment the Exposure Draft of Accounting Standard for Disclosures about Segments of an Enterprise and Related information (Exposure Draft of Statement No.21) and the Exposure Draft of Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related information (Exposure Draft of Guidance No.26).	By the middle of 2008, a new standard will be released.
Leases (IAS 17)	No	<b>Nothing specific</b>	Accounting standard No.13 and application guidance (G-16) were issued in March 2007	N/A
Related party disclosure (IAS 24)	No	<b>Not significant</b> - Directors and other officers' compensation is disclosed as total amounts as required by other reporting regulations in Japan, outside the scope of financial statements. Information on related party transactions is by nature relevant for investors and such disclosure can be considered significant. However, such information is expected to be provided elsewhere in the annual report, or should be identifiable from notifications to be made pursuant to EU Transparency requirements on major shareholdings.	Accounting Standard No.11 was issued in October 2006.	N/A
Retrospective restatements	No	<b>Nothing specific</b>	A Discussion papers were released in July 2007.	Based upon feedback from markets participant to the Discussion Paper, the ASBJ is deliberating this issue.
Quarterly financial reporting	No	<b>Nothing specific</b>	Accounting standard No.12 and application guidance (G-14) were issued in March 2007	N/A

**Appendix IV: DIFFERENCES BETWEEN CHINESE ASBE AND IFRS**

ASBE	IAS/IFRS Equivalent	Differences
Basic Standard	IAS 1	ASBE - states the use of prudence. IAS - states the importance of fair presentation.
ASBE 2 - Long term Equity Investments	IAS 27	<b>Separate financial statements of the Parent:</b> ASBE 2 requires subsidiaries to be stated at cost. ASBE 2 requires use of equity method when taking into account associates and jointly controlled entities in the parent's separate financial statements. IAS 27 - account for subsidiaries, associates or JCEs to be stated at cost, and then carried using equity method or in accordance with IAS 39 (fair value). ASBE 2 does not address the accounting treatment for jointly controlled assets. <b>Consolidation:</b> ASBE only allows the equity method to account for a jointly controlled entity. <b>Jointly controlled operations/assets:</b> ASBE 2 does not recognise the accounting treatment for jointly controlled operations/assets
ASBE 3 - Investment Property	IAS 40	IAS 40 has a greater scope and states that uniformity of accounting treatment be used. Land use rights held for rental purposes can be classified using cost model or fair value.
ASBE 4 - Fixed Assets	IAS 16	ASBE only allows for the cost model, not the revaluation model. IAS 16 allows for either cost or revaluation model.
ASBE 5 - Biological Assets	IAS 41	ASBE 5 states that the cost model should be used, unless there is evidence that the fair value can reliably obtained continually. IAS 41 states that the fair value be used unless it is clearly unreliable.
ASBE 6 - Intangible Assets	IAS 38	ASBE 6 only allows for cost model whereas IAS 38 allows for cost or revaluation model (where fair value can be determined by pricing in an active market)
ASBE 7 - Exchange of non-monetary assets	IAS 16, IAS 38	Exchanges of non monetary assets are dealt with in IAS 16 (PPE) and 38 (intangible assets) as the need to create a separate accounting standard was not seen as important. Whilst the exchange of similar non monetary assets in IAS 16 and 38 is similar to ASBE 7 (for the assets to be recognised at fair value, they require the commercial substance test to be applied), this is not extended to IAS 18, which only recognises fair value on exchange of dissimilar non monetary assets.
ASBE 8 - Asset Impairment	IAS 36	IAS 36 prohibits reversal of impairment loss for goodwill, but ASBE 8 prohibits reversal of all impairment loss



ASBE	IAS/IFRS Equivalent	Differences
ASBE 9 - Employee Benefits	IAS 19	Does not recognise a defined benefit liability and the resulting expense throughout the service period of related employees
ASBE 10 - Enterprise Annuity Fund	IAS 26	ASBE 10 does not recognise defined benefit plans because they do not exist in China.
ASBE 11 - Share based payment	IFRS 2	ASBE 11 only covers accounting for share-based payment transactions for services, whereas IFRS 2 covers services and goods. Equity settled with cash alternatives are not addressed in ASBE 11.
ASBE 12 - Debt Restructuring	IAS 39	IAS 39 is broadly similar to ASBE 12. However, IAS 39 states that financial assets (including debts) should be derecognised when: a) the contractual rights to the cash flows from the debt expire b) an issuer transfers the debt and transfers in substance the risks and rewards of the debt. ASBE 12 does not cover the above derecognition requirements nor the principles behind it.
ASBE - 13 Contingencies	IAS 37	No significant difference
ASBE - 14 Revenue	IAS 18	No significant difference
ASBE 15 - Construction Contracts	IAS 11	IAS 11 allows the inclusion of direct costs in securing a construction contract as Contract Costs if such costs can be reliably measured and separately identified. ASBE 15 requires these to be expensed as incurred.
ASBE 16 - Government Grants	IAS 20	ASBE 16 only allows deferred income presentation method of recognising the grant. It does not allow the recognition of the carrying amount of the asset less the grant and a reduced depreciation charge.
ASBE 17 - Borrowing Costs	IAS 23	No significant difference
ASBE 18 - Income Taxes	IAS 12	No significant difference
ASBE - 19 Foreign Currency Translation	IAS 21	Chinese Law requires the presentation of all financial statements to be made in RMB, although ASBE 19 is silent on the issue, the law would take precedence.



ASBE	IAS/IFRS Equivalent	Differences
ASBE 20 - Business Combinations	IFRS 3	ASBE 20 includes accounting for enterprises under common control e.g. - 2 subsidiaries of a parent combining, which is not considered in IFRS 3. Reverse acquisitions are covered in IFRS 3 but not in ASBE 20.
ASBE - 21 Leases	IAS 17	IAS 17 states that certain criteria must be met (in accordance with IAS 40) for a property interest or a leasehold interest in land held under an operating lease to be recognised as an investment property. ASBE 6 states leasehold interests in land are to be accounted for as intangible assets unless they meet criteria for them to qualify as investment properties in accordance with ASBE 3.
ASBE 22 - Recognition and measurement of Financial Instruments	IAS 39	No significant difference
ASBE 23 - Transfer of Financial Assets	IAS 39	No significant difference
ASBE 24 - Hedging	IAS 39	No significant difference
ASBE 25 - Direct Insurance Contracts	IFRS 4	ASBE 25 has specific requirements applying to recognition of income, reserves and costs, whereas IFRS 4 allows insurers to use existing accounting practice. IFRS 4 has additional guidance surrounding unbundling. It also clarifies that an insurer need not account for an embedded derivative separately at fair value if the embedded derivative meets the definition of an insurance contract. IFRS 4 also requires an insurer to unbundle (that is, to account separately for) deposit components of some insurance contracts, to avoid the omission of assets and liabilities from its balance sheet.
ASBE 26 - Reinsurance Contracts	IFRS 4	No significant difference
ASBE 27 - Extraction of Petroleum and Natural Gas	IFRS 6	IFRS 6 covers all extractive industry and thus is wider in scope than just petroleum and natural gas, which are the only industries covered by ASBE 27. ASBE 27 only allows subsequent measurement using the cost model (and thus is consistent with the ASBEs on tangible and intangible assets) and states that any costs other than exploratory drilling costs must be expensed. IFRS 6 provides a much more extensive but non exhaustive list of expenses which under certain circumstances can be capitalised. ASBE 27 is more prescriptive in its use and timing of impairment testing on proved reserves.
ASBE 28 - Accounting Policies, Changes in Accounting Estimates and Correction of Errors	IAS 8	No significant difference



ASBE	IAS/IFRS Equivalent	Differences
ASBE 29 - Events after the Balance Sheet Date	IAS 10	No significant difference
ASBE 30 - Presentation of Financial Statements	IAS 1	ASBE 30 is more prescriptive, only allowing expenses to be analysed by function, rather than nature of expenses or function.
ASBE 31 - Cash Flow Statements	IAS 7	ASBE 31 only allows the direct method of reporting cash from operating activities, whilst IAS allows both direct and indirect.
ASBE 32 - Interim Financial Reporting	IAS 34	Unlike IAS 34, ASBE 32 does not require a statement of changes in equity to be presented, but the interim balance sheet, income statement and cash-flow statement must be presented in a form compliant with that of annual financial statements, as opposed to the condensed version allowed by IAS 34.
ASBE 33 - Consolidated Financial Statements	IAS 27	ASBE 33 states that reporting periods of the parent and subsidiaries must be the same, whereas IAS 27 allows the reporting date of subsidiaries and parent to be up to 3 months apart.
ASBE 34 - Earnings per share	IAS 33	ASBE 34 requires an EPS calculation only to be made from net profit or loss for the current period. In addition, IAS 33 requires basic and diluted EPS to be calculated on profit for continuing and discontinuing operations.
ASBE 35 - Segmental Reporting	IAS 14	No significant difference
ASBE 36 - Related Party Disclosures	IAS 24	State controlled entities are not exempted from being a related party under IAS 24. Under ASBE 36, state-controlled entities are “related parties” if and only if the 2 companies have common business transactions or investment transactions, therefore if the result of one company directly affects the result of the other company.
ASBE 37 - Presentation of Financial Instruments	IAS 32, IFRS 7	No significant difference
ASBE 38 - First time adoption of ASBEs	IFRS 1	No significant difference
	IFRS 5	No equivalent standard
	IAS 29	No equivalent standard