

**NIPPON KEIDANREN**  
**《Japan Business Federation》**

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January 30, 2004

Mr. Richard Brearley  
The Financial Services Authority  
25 The North Colonnade  
Canary Wharf  
London E14 5HS  
United Kingdom

Re: Nippon Keidanren's response to "Review of the Listing Regime"

Dear Mr. Brearley:

Nippon Keidanren is a broad-based economic organization whose members include 1,584 major Japanese corporations (including 79 foreign-owned corporations), 126 industry organizations, and 47 regional economic organizations. This letter reflects the views both of Nippon Keidanren as an organization and as a representative of 25 Japanese companies that have keen interest in capital markets in UK and Europe to "Consultation Paper 203 Review of the Listing Regime" (CP203).

CP203, which is scheduled to take effect in summer 2005, would require that the financials of companies with primary listings on UK stock exchanges be reported in either IFRS/IAS (hereinafter "IAS") or US GAAP (Paragraphs 7.9 and 7.10).

In addition, CP203 would require that, to be consistent with the rule proposed for primary listings, consideration be given to having companies with secondary listings on UK stock exchanges report their financials in either IAS or US GAAP (Paragraph 7.18)

These proposals would raise significant problems, as set forth below:

1. For the reasons stated below, it would be desirable to allow foreign companies to report their financials in local GAAP in principle.
  - 1.1 If financials must be reported in either IAS or US GAAP, listed foreign companies will need to do so in both local GAAP and in IAS or US GAAP. The burden of doing so would, in the final analysis, be borne by shareholders and investors to their disadvantage.
  - 1.2 This additional burden would not only increase fund raising costs for companies but would distort optimum capital allocation on a global basis and would have negative consequences for the world economy.
  - 1.3 Such a rule would also impede the opportunities of UK investors in investing in the world's major corporations and would risk damaging the reputation of the

London Stock Exchange as the exchange listing the most foreign companies.

1.4 As noted in CP203, UK stock exchanges have until now accepted the financials of foreign companies reported in local GAAP, and there have been no harmful effects of any significance.

1.5 As a reason for requiring foreign companies to report their financials in IAS or US GAAP, CP203 contends that investors would benefit from the use of consistent accounting standards. In spite of efforts for convergence, however, inconsistency between IAS and US GAAP still remains and IAS and US standards permit the selection of accounting standards under individual accounting standards.

2. We believe that Japanese companies should be allowed to report their financials according to Japanese standards for the following reasons.

2.1 Since 1997 Japan has promoted the reform of financial and capital markets under the slogan of “free, fair, and global.” With regard to the corporate accounting and auditing regime, which is the infrastructure of capital markets, new standards have been formulated and implemented in succession to pursue international consistency. The remaining issue – business combination accounting – is scheduled to become a mandatory standard in fiscal 2006. Asset impairment accounting became a voluntary standard in fiscal 2003 and will become a mandatory standard in fiscal 2005. Regarding the issue of improving the quality of auditors, the Certified Public Accountant Law was revised in 2003 to secure the independence of certified public accountants and to strengthen competition. Therefore, the quality of Japanese standards is in no way less rigorous than IAS/ISAs (International Standards on Auditing) or US standards and is equivalent to these of them.

Without giving specific reasons, CP203 accepts financials reported in US standards. It can be imagined that financials conforming to US standards were accepted after relevant study based on certain criteria. We believe that these criteria for eligibility should be made public to avoid the discriminatory treatment of local standards.

2.2 Many Japanese companies are listed on the London Stock Exchange, exceeded only by the number of UK and North American companies. In addition, the number of companies making new public offerings is considerable. As this should indicate, Japanese companies benefit UK capital markets and investors.

3. The EU has already adopted a Prospectus Directive under which prospectuses containing financials reported in local GAAP are accepted only when the GAAP is equivalent to IAS. It is difficult to understand or to accept the UK’s revision of its listing regime before the particular implementation of this Directive is decided.

We would very much appreciate your serious consideration of these views of the Japanese business community.

Sincerely yours,

Yoshiki Yagi  
Chairman of Sub-committee on Accounting  
Nippon Keidanren (Japan Business Federation)  
Executive Vice President and Director  
Hitachi, Ltd.

Supporting Companies:

All Nippon Airways Co., Ltd.  
AUTOBACS SEVEN Co., Ltd.  
Daiwa Securities Group Inc.  
Fujitsu Limited  
Honda Motor Co., Ltd.  
Kajima Corporation  
Kirin Brewery Co., Ltd.  
Kobe Steel, Ltd.  
Konami Corporation  
Maruwa Co., Ltd.  
Mitsubishi Corporation  
Mitsubishi Tokyo Financial Group, Inc.  
Mitsubishi Electric Corporation  
Mizuho Financial Group, Inc.  
NEC Corporation  
NIPPON TELEGRAPH AND TELEPHONE CORPORATION  
NTT DoCoMo, Inc.  
Sony Corporation  
TDK Corporation  
The Sumitomo Trust & Banking Co., Ltd.  
The Tokyo Electric Power Company, Inc.  
Toray Industries, Inc.  
Toshiba Corporation  
Toyota Motor Corporation  
UFJ Holdings, Inc.