

Tokyo International Conference
May 19, 2006

On behalf of my fellow Board member Michael Crooch, our Director of Major Projects, Sue Bielstein, and myself, let me say how wonderful it is to be here. It is emblematic of our commitment to work with other standard setters around the world to both converge and improve accounting and reporting standards. And certainly we view the ASBJ as a key accounting standard setter given the importance of your economy and capital markets.

I had the good fortune to visit Tokyo a little over four years ago when the IASB first met jointly with the ASBJ. The ASBJ has come a long way since then, having issued 10 standards (8 new and 2 revised), 15 implementation guidance (12 new and 3 revised), and approximately 20 practical solutions (17 new and 3 revised) and having made significant progress towards international convergence.

I congratulate Professor Saito and Mr. Nishikawa, the rest of the Board, Advisors, and the staff of the ASBJ on these many accomplishments.

Yesterday, we had the opportunity to exchange views with members and staff of the ASBJ on a variety of key issues such as accounting for business combinations, our respective conceptual frameworks, financial statement presentation, fair value measurements, and accounting for investment properties. These exchanges were very instructive and helpful and also provided us with a better understanding of the structure of financial reporting in Japan, the differences between Japanese GAAP and US GAAP, and the ASBJ's convergence efforts. It is clear that we share a common goal of contributing to development of high-quality global accounting standards. We look forward to continuing this dialogue through periodic meetings between members of the FASB and the ASBJ and other meetings in which we both participate, such as those hosted by the IASB.

While I believe the case for international convergence of accounting and reporting is increasingly understood by many, let me try to emphasize a few points. First, consistent, comparable, and understandable financial information is the lifeblood of commerce and investing. But while business activity, investment, and capital flows have become increasingly global, financial reporting has largely remained bounded by national borders. That is, until recently, companies domiciled in different countries produced financial reports using very different accounting standards that largely reflect local requirements.

Second, considerable costs and complexity result from having to prepare, audit, use, and explain the current hodge-podge of financial information produced internationally. Moreover, financial reporting differences can create friction and act as a barrier to the efficient formation and allocation of capital on an international basis, adding to the overall cost of capital.

In summary, I believe there has been a disconnect between the needs of the global marketplace and the financial reporting products currently serving that market. Therefore, it should not surprise anyone that there is a growing demand for a single set of high quality international accounting standards that would provide a foundation for common financial reporting across the major business and capital markets of the world.

There are, however, different possible routes to achieving the goal of high quality common standards. One path has been for governments and securities regulators to mandate the use of a single set of standards. This is the route increasingly taken around the world with IFRS now being used in some 100 countries.

Another path, one which both we in the US and you in Japan have embarked on, involves a structured process for improving and converging our respective standards with IFRS. And, indeed, while IFRS are now increasingly used in many countries, we will not have reached truly global standards until two of the world's largest economies and capital markets, the U.S. and Japan, are part of that system.

That's why it is vital that both of us work diligently, systematically, and collaboratively with the IASB and with each other to improve and converge our respective standards. It's a daunting task that will not be accomplished overnight as there are many areas of difference between the various sets of standards, including very significant differences in the format, content, level of detail, specificity, and coverage. Those differences often reflect the very different cultural, institutional, and legal environments in which we operate.

Moreover, by its nature, convergence will require change on all sides. We can certainly learn from each other. Convergence is not easy because experience in my country, in yours, and elsewhere shows that many people are often reluctant to embrace change and sometimes will resist it, even when it may be clearly in the public interest.

So I believe we have a responsibility to ensure that the path taken is not an exercise in convergence just for the sake of convergence. By actively involving our constituents in a careful, thorough, and open process, I believe we can develop high quality converged standards that also improve financial reporting domestically and around the world, while allowing participants in the reporting system sufficient time to absorb and implement new requirements. And, for us in the United States, convergence also provides the opportunity and mechanism to simplify what is, quite admittedly, a very detailed and often complex set of accounting standards, rules, and regulations.

Just as the ASBJ has made progress converging Japanese GAAP with IFRS, so too we have made progress in converging U.S. GAAP and IFRS. For example, major differences in the areas of accounting for business combinations and for share-based payments have been eliminated by improving the underlying standards. The IASB has amended many of its standards and the FASB is modifying some of our standards to reduce differences in a number of areas. And we continue to work together in many other areas. Indeed, in one of our very key projects with the IASB, on financial statement

presentation, ASBJ staff are active working members of the team. Mike Crooch will talk about some of these projects in a few minutes.

Looking forward, we recently jointly published a Memorandum of Understanding (or MOU) with the IASB that affirms our Boards' shared objective of developing high quality, common accounting standards for use in all the world's capital markets. Both Boards believe that a common set of high quality accounting standards will enhance the consistency, comparability, and efficiency of financial reporting, enabling global markets to operate with less friction.

The MOU does not express new ideas, rather, it elaborates on the objectives and principles first described in our October 2002 Norwalk Agreement with the IASB by describing our planned convergence work in the context of the so-called "roadmap" agreed to by the SEC and the European Commission for mutual recognition of financial reports, including the potential removal of the SEC's reconciliation requirement for non-US companies that use IFRSs and are registered in the United States. It also reflects work by the SEC and by the Committee of European Securities Regulators (CESR) regarding areas for improvement of accounting standards.

The MOU sets forth our work programs with regard to major projects including business combinations, consolidations, fair value measurement, liabilities and equity distinctions, financial statement presentation, post retirement benefits including pensions, and revenue recognition. Work to converge standards in more narrow areas will focus on subjects such as income taxes, investment properties and subsequent events.

Clearly our work at the FASB on convergence will benefit greatly by our continuing dialogue with the ASBJ. For convergence is both a journey and a destination, that destination being improved global reporting built on a platform of common standards based on the best thinking from different parts of the world. And despite the many issues and challenges inherent in an undertaking this massive, participants in the global capital markets are increasingly demanding that we move toward that destination. In this way

we are taking a cue from the many companies and industries that continuously strive to develop new and improved products that better meet customer and market needs.

While international convergence will mean some “pain” for just about everyone, we believe it promises significant long-term “gain” in the form of better and more comparable financial information across international capital markets that can be produced at lower cost. We look forward to continuing our ongoing dialogue and relationship with the ASBJ as we both journey toward this important destination.

Again, many thanks for the hospitality you have shown us this week and congratulations on reaching this fifth anniversary milestone in the history of your organization.