

# **Uniform Accounting Standards for Investment Management Business, etc.**

June 21, 1990

Resolution of the Board of Directors

Partially amended on February 27, 1991  
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The following provides for the accounting procedures to be performed by those who are engaged in the business pertaining to discretionary investment contracts (including the accounting procedures to be performed when they are concurrently engaged in the investment advisory and agency business) as part of investment management businesses (hereinafter referred to as “discretionary investment business operator”).

## **1. Contents of the Uniform Accounting Standards for Investment Management Business, etc.**

The contents of the uniform accounting standards for investment management business shall be as per the “Uniform Accounting Standards for Investment Management Business, etc.” (hereinafter referred to as the “Standard”) attached hereto.

This Standard is intended to provide a better description of accounting titles shown in the business report form prescribed in Article 182, paragraph (1) of the Cabinet Office Order on Financial Instruments Business, etc. (hereinafter referred to as the “FIB Cabinet Office Order”) and to establish uniform accounting procedures by allowing users to record only entries that conform to the concept prescribed in the “Contents of accounting titles” herein.

## **2. Applicable business operators**

All discretionary investment business operators shall perform the accounting procedures in accordance with these Standards; provided, however, that this does not apply to a financial instruments business operator who is engaged not only the business pertaining to discretionary

investment contracts but also other businesses and is a discretionary investment business operator who is required to use accounting documents designated in the Appended Form 12. as provided for in the FIB Cabinet Office Order or who uses documents prepared according to the Banking Act, etc. Furthermore, a financial instruments business operator who is engaged in the investment advisory and agency business shall perform its accounting procedures in accordance with this Standard.

## **I Points of Attention When Performing Accounting Procedures**

### **1. Balance sheet**

#### **(1) Allowance for doubtful accounts**

In order to provide for losses arising from irrecoverable monetary claims, allowance for doubtful accounts shall be recorded in accordance with the Accounting Standards for Financial Instruments (January 22, 1999, Business Accounting Council).

#### **(2) Reserve for retirement benefits**

As retirement benefits for employees, reserve for retirement benefits shall be recorded in accordance with the “Accounting Standards for Retirement Benefits” (June 16, 1998, Business Accounting Council).

It shall be noted that reserve for retirement benefits for seconded employees shall be recorded as personnel expenses in accordance with the secondment agreement with their original employers.

### **2. Profit and loss statement**

#### **(1) Basis to recognize revenues and expenses**

In principle, revenues and expenses shall be recognized on an accrual basis.

In cases where the investment management fees and investment advisory fees are billed based on the total market value of contract assets, and if it is unable to determine the accrued amount of fees at the fiscal year end, the amount of revenue corresponding to the number of days elapsed before the company’s account closing date shall be recognized based on the market of value of assets as of the same date. (Refer to the comment from the National Tax Agency.)

<Reference> Response from the National Tax Agency regarding the recognition of accrued income

##### **a. In the case of contracts based on the assets’ book value**

In principle, the amount of revenue corresponding to the number of days elapsed before the company’s account closing date shall be recognized.

##### **b. In the case of contracts based on the assets’ total market value**

The amount of revenue corresponding to the number of days elapsed before the company’s account closing date shall be recognized based on the assets’ total market value as of the same date.

##### **c. In the case of contingent fee-based contracts**

The amount to be recorded as income shall be the amount determined to be received in the

remuneration calculation period most recent to the company's account closing date.

□ **Contents of Accounting Titles**

**1. Balance sheet accounting titles**

Main accounting titles: Accounting titles such as those described in the “business report form” stipulated in Article 182, paragraph (1) of the FIB Cabinet Office Order

Main accounting titles	Constituent items	Details	Remarks
[Current assets]			
Cash and due from banks	Cash		
	Current deposits		When the book balance is shown on the credit side (overdraft) based on an overdraft facility provided for the account, the overdraft shall be classified as a “short-term borrowing.”
	Other deposits		If appropriate, additional titles such as ordinary deposits, deposits at notice, and time deposits may also be set up.
Securities		To account for trading securities, securities maturing within one year, and other securities for short-term holding.	According to “Accounting Standards for Financial Instruments” (January 22, 1999, Business Accounting Council)
Short-term loans receivable		To account for loans to be collected within one year from the account closing date.	

Advance payments		To account for amounts that have not been settled and cannot be classified under “prepaid expenses,” such as a partial payment paid for a fixed asset prior to the delivery of the property.	
Prepaid expenses		To account for prices paid for services that shall be rendered continuously under a certain contract but have not been rendered by the date of balance sheet, when it is clear that the prices will be depreciated within one year from the day following the balance sheet date and treated as expenses.	A period-end journal entry (In principle, revenues and expenses shall be recognized on an accrual basis.)
Accounts receivable		To account for temporary receivables generated as a result of sale of fixed assets, etc.	
Accrued income		To account for income that has been earned and accrued prior to the balance sheet date by providing services in accordance with a discretionary investment contract or investment consultant (advisory) contract but has not been paid.	<p>A period-end journal entry (In principle, revenues and expenses shall be recognized on an accrual basis.)</p> <p>To account for accrued investment management fee and accrued investment advisory fee. cf. An accrued interest is classified as “other.”</p>

Deferred tax assets		<p>To account for estimated amounts of taxes paid that are found to be associated with current assets or liabilities and will be reduced when temporary differences between the carrying amounts and the tax basis of assets and liabilities are reversed or eliminated in a future term as a result of calculating the amount of corporate income tax, etc. associated with the temporary differences by appropriately allocating it over terms.</p>	<p>(1) To be recorded after offsetting with the amount of deferred tax liabilities shown in current liabilities.</p> <p>(2) If the amount is not associated with assets or liabilities, it shall be classified as a current asset (liability) when it is expected to be reversed or eliminated in the next term; otherwise, the amount shall be classified as a fixed asset (liability).</p>
Other current assets		<p>To account for current assets that are not classified in the aforementioned accounts.</p>	<p>If the amount of other current assets exceeds 1% of the total amount of assets, it shall be so set down using constituent items with a name that is indicative of relevant assets.</p> <p>Examples: Suspense payments, advances paid, suspense payments of consumption tax, and consumption taxes receivable</p>
Allowance for doubtful accounts		<p>To account for allowances reserved to cover losses caused by uncollectible short-term monetary claims (accrued income, loans receivable, etc.).</p>	<p>As provided for in the “Accounting Standards for Financial Instruments”.</p>

<p>[Fixed assets]</p> <p>*Tangible fixed assets</p>			
	Buildings	Buildings	To account for owned stores, company houses, and other buildings, as well as facilities attached to owned buildings.
	Equipment		To account for pieces of equipment such as owned office equipment, office automation equipment, audio equipment, communication equipment, and signboards.
	Land		To account for areas of land used for owned stores, company houses, and other premises.
	Other tangible fixed assets	Vehicles	To account for owned automobiles and other vehicles.
		Leased assets	Capitalized tangible fixed assets held under finance lease.
			As provided for in the “Accounting Standards for Lease Transactions” (June 17, 1993, Accounting Standards Board of Japan).

	Construction in progress	To account for tangible fixed assets under construction or in production.	If the amount of other tangible fixed assets exceeds 1% of the total amount of assets, it shall be so set down using constituent items with a name that is indicative of relevant assets.
*Intangible fixed assets		To account for assets that are not material goods or properties, but are used for business management purposes over a long period of time and provide competitive advantage in profit-earning efforts.	If appropriate, additional titles such as leasehold interests in buildings, telephone subscription right, and software, may also be set up. cf. Accounting System Committee Report No. 12 “Practical Guidelines on Accounting for Research and Development Costs and Software”
Goodwill		To report goodwill generated as a result of business combination (the amount by which the acquired company’s net asset value and the price paid for the business exceed the net amount allocated to the acquired assets and assumed liabilities).	cf. “Accounting Standards for Business Combinations”  (October 31, 2003, Business Accounting Council)
*Investments and other assets			
Investment securities		To account for securities held for investment purposes.	As provided for in the “Accounting Standards for Financial Instruments”.

Investments in capital		To account for investments in capital in non-stock companies, partnerships, etc.	
Long-term loans receivable		To account for loans receivable with a maturity of more than one year.	
Deferred tax assets		To account for estimated amounts of taxes to be paid that are found to be associated with fixed assets or liabilities and will be reduced when temporary differences between the carrying amounts and the tax basis of assets and liabilities are reversed or eliminated in a future term as a result of calculating the amount of corporate income tax, etc. associated with the temporary differences by appropriately allocating it over terms.	<p>(1) To be recorded after offsetting with the amount of deferred tax liabilities shown in fixed liabilities.</p> <p>(2) If the amount is not associated with assets or liabilities, it shall be classified as a current asset (liability) when it is expected to be reversed or eliminated in the next term; otherwise, the amount shall be classified as a fixed asset (liability).</p>
Other	Long-term guarantee deposits	To account for guarantee deposits with a maturity of over one year from the balance sheet date, such as security deposits or assistance fund receivables paid for buildings, etc.	Long-term securities received as customers' deposits for guarantee deposits and business security deposits may also be recorded.

	Long-term prepaid expenses	To account for prepaid expenses that have not been determined to be charged to expenses within one year.	Accounting for deferred corporate tax assets  cf. Fundamental Directives of Corporation Tax 8-2-3
	Other investments, etc.	To account for other investments that are not classified under the above-mentioned accounts.	If the amount of other investments exceeds 1% of the total amount of assets, it shall be so set down using constituent items with a name that is indicative of relevant assets.
	Allowance for doubtful accounts	To account for allowances reserved for losses caused by uncollectible long-term monetary claims.	As provided for in the “Accounting Standards for Financial Instruments”.
	[Deferred assets]		
Organization expenses		To account for organization expenses.	As provided for in the “Tentative Solution on Accounting for Deferred Assets” (August 11, 2006, Accounting Standards Board of Japan).  If appropriate, additional titles such as stock issuance expenses, (corporate) bond issuance expenses (including expenses related to the issuance of share options), business commencement expenses, and development expenses may also be set up.
[Current liabilities]			

Short-term borrowings		To account for borrowings (including financial bills and overdrafts) that are obtained from financial institutions or others and are due or to be repaid within one year from the day following the balance sheet date.	
Advances received		To account for unsettled amount that are not classified under unearned revenue, including sales proceeds received as a partial payment for a fixed asset prior to the delivery of the asset.	
Unearned revenue		To account for consideration paid in exchange for services that have not been provided as of the balance sheet when such services are to be provided on an ongoing basis according to a discretionary investment contract or investment consultant (advisory) contract.	<p>A period-end journal entry (In principle, revenues and expenses shall be recognized on an accrual basis.)</p> <p>To record unearned investment management fee, etc. cf. Unearned interest, etc. shall be classified as “other.”</p>
Accounts payable		To account for temporary debts other than deposits received, such as dividends payable and advertising fees.	
Accrued expenses		To account for rent expenses on real estate, equipment rent expenses, and other expenses that	A period-end journal entry (In principle, revenues and expenses shall be recognized on an accrual

		have been incurred and expensed for services, etc. provided prior to the balance sheet date in accordance with a certain contract but have not been paid yet.	basis.)
Income taxes payable		To record provisions for the payment of corporate income tax, inhabitants tax, and enterprise tax.	Tax payments for provisional or interim tax returns shall be excluded.
Deferred tax liabilities		To account for estimated amounts of taxes paid that are found to be associated with current assets or liabilities and will be increased when temporary differences between the carrying amounts and the tax basis of assets and liabilities are reversed or eliminated in a future term as a result of calculating the amount of corporate income tax, etc. associated with the temporary differences by appropriately allocating it over terms.	See the description of deferred tax assets (current assets).
Provision for bonuses		To record provisions for the payment of employee bonuses.	cf. "Item of Accrued Employees' Bonuses to Be Reported in Financial Statements" (February 14, 2001, Japanese Institute of Certified Public Accountants)
Other current		To account for other current	If the amount of other current

liabilities		liabilities that are not classified under the above-mentioned accounts.	liabilities exceeds 1% of the total liabilities and net assets, it shall be so set down using constituent items with a name that is indicative of relevant assets. : Examples: Deposits received, suspense receipt, suspense receipt of consumption taxes, accrued consumption tax, lease obligations, and asset retirement obligation
[Fixed liabilities]			
Long-term borrowings		To account for borrowings that are obtained from financial institutions and others and are due after more than one year from the from the day following the balance sheet date.	In principle, borrowings due within one year shall be classified under short-term borrowings in the period-end accounting process.
Deferred tax liabilities		To account for estimated amounts of taxes paid that are found to be associated with fixed assets or liabilities and will be increased when temporary differences between the carrying amounts and the tax basis of assets and liabilities are reversed or eliminated in a future term as a result of calculating the amount of corporate income tax, etc. associated with the temporary differences by appropriately allocating it over terms.	See the description of deferred tax assets (fixed assets).

Reserve for retirement benefits	Reserve for retirement benefits	To record provisions for the payment of employee retirement benefits.	To record reserves specified in the "Accounting Standards for Retirement Benefits" (June 16, 1998, Business Accounting Council)
Other fixed liabilities	Negative goodwill	To record goodwill generated as a result of business combination (the amount by which the acquired company's net asset value and the price paid for the business fall short of the net amount allocated to the acquired assets and assumed liabilities).	cf. "Accounting Standards for Business Combinations"
	Other	To account for other fixed liabilities that are not classified under the above-mentioned accounts	If the amount of other fixed liabilities exceeds 1% of the total liabilities and net assets, it shall be so set down using constituent items with a name that is indicative of relevant assets.  Examples: Lease obligations, asset retirement obligation
[Net assets]			cf. "Accounting Standard for the Presentation of Net Assets in the Balance Sheet" (December 9, 2005, Accounting Standards Board of Japan)

Shareholders' equity	Amount of capital:	To record the amount of stated capital pursuant to the provisions of Articles 445, 447, 448 and 450 of the Companies Act.	Foreign companies having a business establishment (branch office) in Japan shall record the amount of brought-in capital registered with the competent Local Financial Bureau. The head office account after the deduction of brought-in capital shall be set down as an independent main accounting title. In such cases, the head office account shall be shown separately from the surplus account.
	Deposits for subscriptions of shares	To record the amount equivalent to that of consideration paid for newly issued shares by the day before the payment date.	
	Capital surplus		
	Capital reserve	To record the amount of capital reserve pursuant to the provisions of Articles 445, 447, 448 and 451 of the Companies Act	cf. "Accounting Standard for Treasury Shares and Reversal of Legal Reserve" (February 21, 2002, Accounting Standards Board of Japan)
	Other capital surplus	To record capital surplus other than capital reserve, such as gain on disposal of treasury shares.	
	Retained earnings		

	Legal retained earnings	To record the amount of capital legal retained earnings pursuant to the provisions of Articles 445, 448, and 451 of the Companies Act.	cf. “Accounting Standard for Treasury Shares and Reversal of Legal Reserve”
	Other retained earnings		
	Reserve fund	To record reserve fund such as voluntary reserve.	With regard to voluntary reserve and other accounts that are created based on the resolution at a General Assembly of the Shareholders or the board of directors, it is desirable to give a title that is indicative of the account’s nature.
	Retained earnings brought forward	To record other retained earnings than reserve fund.	
	Treasury share	To record treasury shares as deductions from shareholders' equity in net assets.	cf. “Accounting Standard for Treasury Shares and Reversal of Legal Reserve”
	Deposits for subscriptions of treasury shares	To record the amount equivalent to that of the consideration received for treasury shares disposed of by the day before the payment date.	cf. “Guidance on Accounting Standard for Treasury Shares and Reversal of Legal Reserve” (February 21, 2002, Accounting Standards Board of Japan)
Valuation and translation	Valuation difference on	To record valuation differences on available-for-sale securities after	cf. “Accounting Standards for Financial Instruments”

adjustments	available-for-sale securities	adjusting for tax effects.	
	Gains or losses on hedges carried forward	To record, after adjusting for tax effects, gains or losses or valuation differences pertaining to hedging instruments that are marked to market and deferred until the gains or losses on hedged items are recorded.	cf. “Accounting Standards for Financial Instruments”
	Land revaluation difference	To record land revaluation differences after adjusting for tax effects.	
Share option		To record the amount equivalent to that of the consideration for outstanding share options before expiry.	cf. “Accounting Standard for Share-based Payment” (December 27, 2005, Accounting Standards Board of Japan)  “Practical Solution on Accounting for Subscription Rights to Shares and for Bonds with Subscription Rights to Shares under Commercial Code” (March 29, 2002, Accounting Standards Board of Japan)

**2. Profit and loss statement items**

Main accounting titles	Constituent items	Details	Remarks
[Operating revenue]			Basis to account for revenues and expenses [cf. Note 3 (1)] In principle, the accrual basis shall be used (according to the Corporate Accounting Principles).
Investment management fee		To account for investment management fees received under a discretionary investment contract (the amount of investment management fees described in the Appended Form 12. "Status of Business Pertaining to Discretionary Investment Contract")	In principle, the amount of revenue corresponding to the number of days elapsed before the company's account closing date shall be recognized. In the case of a contingent fee-based contract, the following method, the following shall apply in principle:
Investment advisory fee		To account for investment advisory fees received under an investment advisory contract. (the amount of investment advisory fee described in the Appended Form 12. "Status of Investment Advisory Business")	Basic fee: The amount of revenue corresponding to the number of days elapsed before the company's account closing date shall be recognized.  Contingent fee: The amount of revenue earned by the settlement date shall be recorded.
Other operating revenue		To account for revenues other than those classified under the above-mentioned accounts.	
[Operating expenses]			

Advertising expenses		<p><u>Concept of advertising expenses</u></p> <p>Expenses to be paid for advertising activities such as fees for ads on newspapers, magazines, etc., signboard advertising fees, manuscript fees for advertising, planning and designing fees, leaflets and other advertising materials to be distributed to a large number of people.</p>	
Research expenses		<p>Concept of research expenses</p> <p>To account for expenses associated with the information collection using information-processing equipment and business management systems, and other expenses associated with research and study that are directly and exclusively necessary for the execution of business</p> <p>(specifically, information usage fee, research fee, commissioned research fee, book-purchasing expenses, online system usage fee, fee for audio-visual media services, lease/rental expense associated with information-processing equipment, system-related expenses including consignment fee, and education and training cost that are directly and exclusively associated with</p>	<p>With regard to expenses associated with the information collection using information-processing equipment and business management systems, and other expenses associated with research and study that are directly or indirectly necessary for the execution of business, it is not allowed to record research expenses independently for the purpose of applying the “special exemption for corporate income taxes in such cases where there is an increase in the amount of research and study expenses” provision under Article 42-4 of the Act on Special Measures Concerning Taxation.</p>

		<p>the research and study function; Research expenses shall be distinguished from other expenses to be classified under other accounting titles based on their primary purpose of use.)</p> <p>System development costs shall be distinguished from program development costs, etc. that shall be classified as intangible fixed assets.</p>	
	Research expenses	To account for the cost of collecting various types of information using methods other than information-processing equipment and commissioned research fees incurred by outsourcing a research to a third party.	<p>cf. Accounting System Committee Report No. 12</p> <p>"Practical Guidelines on Accounting for Research and Development Costs and Software"</p>
	Information-processing equipment related expenses	To account for expenses associated with the information collection using information-processing equipment and business management systems and fees for online-exclusive lines that are used for the research and study function and information collection.	Fees for online-exclusive lines: Fees for online-exclusive lines that are used for the research and study function and information collection shall be distinguished from other expenses (telegraph and telephone charges) based on their primary purpose of use.
	Outsourcing expenses	To account for outsourced investment management fees	

Operating miscellaneous expenses		payable and outsourced investment advisory fees payable.	
	Other research expenses	To account for the cost of education and training, newspaper and books, viewing fees (fees for receiving broadcasts from TV stations, etc.), and the like.	
	Communication expenses	To account for postage, telephone and telegraph charges, etc.	
	Print expenses	To account for expenses for the preparation of investment reports, marketing materials, etc.	
	Association fee	To account for expenses for associations in which membership is retained.	
	Membership fee	To account for membership fees for organizations in which membership is retained.	
[General and administrative expenses]	Other	To account for expenses incurred in the course of executing business.	

Salaries	Remuneration for directors (and other officers)	To account for remunerations and allowances for directors and other officers.	Bonuses are included in remuneration for directors and other officers, but may be shown as a separate constituent item.
	Salaries and allowances	To account for employees' basic salaries, family allowances, vacant home allowances, commuting allowances, administrative leave allowances, overtime allowances, and other allowances.	Employee allowances for employee-directors shall be accounted for in this account.
	Bonuses	To account for employees' bonuses.	Employee allowances for employee-directors shall be accounted for in this account.
	Provision for bonuses	To record provisions reserved for bonuses.	Provisions for employee bonuses and those for officers' bonuses may be shown separately or in total.
	Other remunerations and salaries	To account for the amount equivalent to that of personnel expenses to be paid to temporary/part-time office workers and temporary staffing agencies.	
	Legal welfare expenses	To account for social insurance premiums (such as health insurance premiums, employees' pension insurance premiums, employment insurance	

		premiums, and workers' accident compensation insurance premiums) paid for employees, etc.	
	Other welfare expenses	To account for welfare expenses such as group insurance premiums paid by the company, medical and hygiene expenses, clothing expenses, school lunch fees, congratulatory/condolence expenses, company recreation trip expenses, running costs for company houses and recreational facilities, membership fees paid to welfare associations and other organizations aimed at providing welfare, subsidies for social gatherings organized by employees, etc. and other expenses paid for welfare.	
	Other		
Entertainment expenses		To account for expenses for entertainment, gifts, and other similar activities for persons who are involved in the business, etc.	
Donations		To account for monetary and other assets provided free of charge.	
Travel and transportation		To account for business travel expenses, transfer expenses, etc.	Taxi and chauffeur-driven hired car fare paid for entertainment

expenses		(including daily allowances and accommodation fees). To account for transportation expenses such as train fare, bus fare, hire taxi fare, chauffeur-driven hired car fare, parking fee, and highway toll.	purposes shall be classified as entertainment expenses.
Taxes and dues		To account for national taxes such as stamp duty and registration and license tax, local taxes such as business tax, automobile tax, fixed asset tax imposed on non-real property items, and the pro forma portion of corporate enterprise tax based on the size of business.	cf. ASBJ PITF No. 12 “Practical Solution on Profit and Loss Statement Presentation of Pro Forma Portion of Corporate Enterprise Tax” (February 13, 2004)
Expenses pertaining to real properties	Rent expenses on real estate	To account for rent expenses on land and buildings used for business (including company house rent borne by the company).	The amount of company house rent borne by individuals is reversed by creating an opposite entry.
	Other real estate expenses	To account for fixed asset tax on real estate used for business, building repair expenses and fire insurance premiums, and costs required for the maintenance and management of a building (common service fee, cleaning cost, utility cost, and other expenses that have a nature similar to that of common service charge).	Expenditures to increase building’s values shall not be classified as repair expenses; they shall be recorded under the “other” account of the “sundry expenses” (main accounting title) as expenses that do not have a nature similar to that of common service charge.

Retirement benefit expenses		To account for retirement benefit expenses that are recognized as incurred during the current period.	As provided for in the “Accounting Standards for Retirement Benefits”.  If a retirement benefit system for directors and other officers is in place, a separate account shall be set up and provisions for retirement benefits for directors and other officers shall be recorded to the account.
Provision of allowance for doubtful accounts		To record provisions reserved for allowances for doubtful accounts.	To be set off with reversal of allowance for doubtful accounts.
Depreciation of fixed assets		To record depreciation of fixed assets.	Tangible fixed assets shall be depreciated using the declining balance method or straight-line method. cf. = cf. Small depreciable assets may be accounted for as tax deductibles.
Sundry expenses	Outsourcing expenses	To account for expenses paid for outsourced operations such as calculation and shipping to other companies, remuneration, salaries and allowances paid to certified accountants, lawyers, tax accountants, etc., and other similar expenses.	Fees paid to temporary staffing companies (those separate from the amount equivalent to that of personnel expenses) shall be recorded to this account.  Online system usage fees related to operations such as calculation and shipping shall be distinguished from research expenses based on their primary purpose of use.

	Supplies expenses	To account for the purchase price of office consumables such as ballpoint pens, erasers, envelopes, notebooks, photosensitive paper, abacuses, staplers, and other consumables.	
	Furniture and fixtures	To account for offices and office fixtures that are not capitalized.	
	Other		If appropriate, additional titles such as utilities expenses and transportation costs may also be set up.
[Non-operating income]			
Dividend income		To account for dividends or surplus distributions received for owned shares or contributions.	
Interest on securities		To account for interest received on securities.	
Interest income		To account for interest income associated with deposits, etc. in financial institutions, etc., and interest income associated with loans, etc.	

Gain on sales (redemption) of securities		To account for gains on sales (including gains from redemption, etc.) of securities, gains on revaluation of trading securities, etc.	
Other	Foreign exchange gains	To account for gains generated through the translation of monetary receivables and payables in foreign currencies, etc.	To be set off with foreign exchange losses.
	Miscellaneous gains	To record non-operating incomes that are not classified under other non-operating income accounts.	If a business adopts the simplified consumption tax system (tax-excluding method) and has a remaining balance after the tax payment, it may use this account to account for the balance.
[Non-operating expenses]			
Interest expenses		To account for interest to be paid on borrowings, etc.	
( )		( )	
Loss on sales (redemption) of securities		To account for losses on sales (including losses from redemption, etc.) of securities, losses on revaluation of trading securities, etc.	To be set off gains on sales of trading securities, etc., with losses on the same.
	Loss on valuation of securities	To record any reduction in the book value of owned securities as a result of revaluation.	When the loss is large and temporary, it shall be accounted for as an extraordinary loss.

Other	Foreign exchange losses	To account for losses generated through the translation of monetary receivables and payables in foreign currencies, etc.	To be set off with foreign exchange gains.
	Amortization of deferred assets	To record amortization expense pertaining to deferred assets.	Expenses pertaining to the business shall be recorded under the operating expenses account.
	Miscellaneous loss	To account for non-operating expenses that are not classified under the non-operating expenses account.	
[Extraordinary income]	To account for extraordinary incomes such as gains on sale of fixed assets.		
[Extraordinary loss]	To account for extraordinary losses such as losses on sales of fixed assets.		
Corporation tax, inhabitant's tax, and enterprise tax		To record income tax, inhabitant tax, and enterprise tax.	
Deferred corporation tax, etc.		To record deferred corporation tax, etc. associated with deferred tax assets or liabilities.	To record a net increase or decrease in the ending amount compared to the beginning amount of difference between deferred tax assets and deferred

			tax liabilities.
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### 3. Matters to be stated in notes

Notes to the financial statements shall be stated appropriately in accordance with laws or regulations. The following shows some examples.

(1) Notes on significant accounting policies

Notes to financial statements shall present information on significant accounting policies regarding the preparation of the balance sheet and profit and loss statement.

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| a. Valuation basis and valuation method for securities   | Examples Trading securities: Fair value method<br><br>Held-to-maturity securities: Amortized cost method<br><br>Shares in subsidiaries and affiliated companies:<br>Moving average cost method<br><br>Others: Fair value method<br><br>(Securities without market values are evaluated based on the moving average cost method.) |
| b. Depreciation method for fixed assets  | Tangible fixed assets are depreciated by the declining balance method or the straight-line method.   |
| c. Accounting for deferred assets  | Deferred assets are charged to expenses as incurred as non-recurring items or deferred and amortized.  |
| d. Basis for the translation of foreign currency-denominated assets and liabilities into Japanese yen currency | Foreign currency-dominated assets and liabilities are translated into Japanese currency based on the Accounting Practice Standard for Foreign Currency-denominated Transactions, etc.  |
| e. Allowance recognition method  | a. Allowance for doubtful accounts: In the case of general claims, an estimated uncollectible amount is  |

determined based on the historical loan loss ratio; in the case of claims with a possibility of default, the amount is determined by considering the collectivity on an individual basis.

b. Reserve for retirement benefits: Reserve for retirement benefits is provided for future retirement benefits to employees based on actuarial retirement benefits and plan assets as of the end of the current fiscal year. (or the amount required for voluntary resignations). Any differences arising from a change in accounting standards are expensed equally over XX years. Actuarial gains and losses are recorded as income or expenses from the following fiscal year under the straight-line method over XX years (within the average remaining service period of employees).

f. Basis to recognize revenues and expenses      Accrual basis

g. Accounting for lease transactions      In addition to the total amount of future lease payments, the following statement shall be provided: Financing leases other than those for which the ownership of the leased property transfers to the lessee are accounted for as ordinary rental transactions.

h. Accounting for consumption tax      Consumption tax is accounted for by the tax-excluded method (or tax-included method).

## (2) Notes on changes in accounting policies and presentation method

If there is a change in the accounting policies on, or the presentation method of, the balance sheet or profit and loss statement, a statement to that effect, the reason therefor, and the amount of increase or decrease due to the change shall be stated in the notes to the balance sheet or profit and loss statement.

Other

(i) Notes to balance sheet

In order to help readers understand the contents of the balance sheet and assess the financial position accurately, it is desirable to make notes to the following items:

- a. Monetary claims receivable from, and monetary debts payable to, subsidiary companies and controlling shareholders
  - b. Accumulated depreciation for tangible fixed assets (When the direct deduction method is adopted.)
  - c. Any changes to the amortization period or residual value of fixed assets
  - d. Fixed assets used through a lease contract
  - e. Fixed assets whose ownership is reserved (installment sales, etc.)
  - f. Monetary claims receivable from, and monetary debts payable to, directors, etc.
  - g. Significant foreign currency-denominated assets and liabilities
  - h. Assets pledged as collateral
  - i. Contingent liabilities such as guarantee obligations
- Other

(ii) Notes to profit and loss statement

In order to help readers make an accurate assessment of the results of operations, it is desirable to make notes to the following:

- a. Volume of transactions with subsidiary companies and controlling shareholders
  - b. Net income or loss per share
- Other

## **(Reference)**

### **(1) Relationship with Corporate Accounting Principles**

Individual operators of the discretionary investment business have different circumstances that led to the incorporation and different management policies. They vary in the size of business and are situated in different economic environment. In this context, they have performed accounting procedures in a manner appropriate to their respective circumstances. However, in view of the objectives of these Standards, the ideal situation is one where respective operators are required to perform accounting procedures as uniform as possible, leaving no room for individual interpretation and discretion.

Under the Corporate Accounting Principles, businesses have the discretion to make their own decisions; they are provided with several sets of generally accepted accounting standards to apply to specific accounting facts and are allowed to choose one from these alternatives. On the other hand, these Standards are primarily intended to ensure the comparability of financial statements by clearly defining accounting standards that discretionary investment business operators shall basically adopt, within the framework of the Corporate Accounting Principles.

However, if it may prevent respective operators from presenting their economic substance appropriately, they may choose the option of applying alternative standards as an exceptional case.

In other words, the inclusion of the “in principle” phrase in the description “constituent items” indicates that operators are generally required to comply with the principles, and only when there are exceptional circumstances, they are allowed not to follow the described procedures.

Furthermore, the word “desirable” is used intentionally to distinguish the cases where the uniform accounting procedure shall in principle be used from those where alternative accounting procedures are already in practice and an adoption of a uniform procedure is not necessarily expedient in view of the volume of work required to achieve the uniformity and the level of need for such a uniform procedure.

When a discretionary investment business operator is also engaged in the securities business or other businesses and needs an account that is not listed in the “Main accounting titles” column, it is an acceptable practice for the operator to establish a new account.

### **(2) Accounting titles**

Under these Standards, accounting titles described in the business report form stipulated in Article 182, paragraph (1) of the FIB Cabinet Office Order are defined as “Main accounting titles” and listed with descriptions about the items to be accounted for under the title.

The “Constituent items” column is used to provide an explanation about the items listed as appropriate. It is only for the purpose of illustrating items to be accounted for under those titles,

and is not intended to require business operators to include these accounts in their financial statements.

With regard to the constituent items, only representative ones are shown herein; accordingly, if an item is considered appropriate to be reported under a main accounting title, it would be an appropriate practice to establish a new constituent item.

**Objectives of Establishing Uniform Accounting Standards for Investment Advisory Business (Resolution of the Board of Directors on June 21, 1990)**

Today, the Japan Investment Advisers Association announced that it established the “Uniform Accounting Standards for Investment Advisory Business,” in response to the need for establishing uniform accounting procedures to be performed by authorized discretionary investment business operators (hereinafter referred to as “discretionary investment business operators”), against the backdrop that the disclosure of individual business operators’ business performance (including financial status) has become a routine practice by the investment advisory industry and the banking, securities, and other industries have also established their own accounting standards.

The establishment will enable the discretionary investment business operators to develop management indicators and reasonably compare their business performance with peer companies, contributing to the sound development of management capability.