

V Summary of Articles

## A Way of Thinking about “Integrated” Underlying Integrated Financial Reporting

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Stakeholder will be provided for new approach to corporate financial reporting in a Discussion Paper, called Towards Integrated Reporting -Communicating Value in the 21<sup>st</sup> Century, published by the International Integrated Reporting Committee (IIRC).

Integrated Reporting brings together material financial information and non-financial information by Key Performance Indicator (KPI) and Key Risk Indicator (KRI) about an organization’s strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. This study aims to examine a way of thinking about “integrated” underlying integrated financial reporting.

An Integrated Reporting is becoming an integral part of a financial reporting. It is stated that the clear and concise information about what companies do to assess and manage key business risk of all types will (1) help to ensure the equal treatment of all investors, (2) improve accountability for stewardship, (3) encourage better risk management, (4) reduce the cost of capital, and (5) improve the usefulness of financial reporting, and so on..

It is important to mention that since an Integrated Reporting connects financial information and non-financial information in the integrated risk reporting process, KPI and KRI are very important along with the regulatory guidelines for better Integrated Reporting.

# Envisioning of the Integrated Financial Reporting System

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The recent discussion seeking to promote a transition from traditional financial reporting to integrated reporting, which anticipates the limits of financial statements, is not unrelated to the growing global recognition of narrative information as equal in importance to financial statements information, which is based on the decision-usefulness approach of financial reporting regulation. Narrative information, which originally played a role subordinate and supplementary to financial statements, is now evolving into a more and more complementary relationship which the latter.

Nevertheless, the debate surrounding integrated reporting is likely to be influenced by the financial reporting scope and reporting item disclosure regulations of individual jurisdictions. In other words, the process of shaping integrated reports is expected to take place gradually, rather than as a radical transition to an extremely different next-generation reporting model. Recent developments, therefore, have raised additional issues regarding the boundaries of financial reports including narrative information.

The integration of financial reports, with financial statements as their core, and non-financial reports, such as environmental reports, CSR reports, and sustainability reports, does not mean that financial statements will be in a sense dissolved and absorbed into an integrated report. Financial statements and non-financial reports, having unique roles to play, will maintain their separate existences. In shaping the overall corporate reporting framework, it is conceivable that we will see the formation of a new integrated reporting superstructure in which management commentary, corporate governance and remuneration reporting, environmental and CSR reporting, and financial information reporting silos are integrated to the extent possible in clearly explicated relationships. In that connection, how to position financial statements and the scope of management commentary will be critical issues for the development of integrated reporting systems.

# Assurance on Integrated Reporting

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In recent years, users increasingly demand more disclosure in corporate annual reports. In September 2011, International Integrated Reporting Committee issued a discussion paper – *Toward Integrated Reporting-Communicating Value in the 21<sup>st</sup> Century (Integrated Reporting)* which proposed to disclose management commentary, governance and remuneration information and sustainability information (Other Information) together with finan-

cial statements. *Integrated Reporting* may be one of the possible solutions to fulfill such demand. In this article, the deterioration of assurance level of the financial statements audit, the assurance of Other Information, the consistency checking between financial statements information and Other Information are discussed by proposing new assurance model of *Integrated Reporting*.

# A Holistic Analysis of the Accounting Ecology in Japan

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After 2005 in particular, when International Financial Reporting Standards (IFRS) was adopted mandatorily in the European Union (EU), global convergence of financial reporting has become an essential component of globalization. As a result of this global trend, the optional application of IFRS commenced in Japan from the end of the fiscal year in March 2010 for the consolidated financial statements of listed companies. However, unlike other countries that have adopted IFRS unquestioningly, Japan has adopted the more cautious convergence approach. In fact, Japan has prepared a complete set of accounting standards and conceptual frameworks, which can compete with IFRS.

Although a number of papers have examined various issues concerning IFRS and Japanese convergence approaches, they have largely failed to clarify the reason why Japan has adopted the more cautious convergence approach instead of applying IFRS directly. As such, using the accounting ecology framework developed by Gernon and Wallace (1995), this paper provides a holistic analysis of the accounting

ecology in Japan. In particular, the objective of this paper, using Japan as a case study, is to show that the accounting system and its surrounding infrastructures are embedded in the unique accounting environment of each country.

The results show that it would be futile to adopt IFRS without reforming related facilities and resources because Japan has well-organized infrastructures such as large capital markets, stable financial systems, modernized governance structures, and related laws and ordinances. This paper also shows that functional decompositions have been accelerated so that Japanese standards-setting bodies can revise accounting standards quickly according to the revision of IFRS beyond the restrictions of the Financial Instruments and Exchange Act, the Companies Act, and the Corporation Tax Law. The findings of this study are important in achieving *de facto* convergence because each country has different motivations, policies, and backgrounds for global convergence of financial reporting.

# Parasitic Bird Phenomenon of the Decision regarding the Mandatory Application of IFRSs in Japan

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The Business Accounting Council (BAC) has published a “roadmap” toward IFRSs in Japan: Application of International Financial Reporting Standards (IFRS) in Japan (Interim Report) on 30 June 2009. This Interim Report specified that a decision regarding the mandatory application of IFRSs in consolidated financial statements of all listed companies should be made around 2012. Mandatory application would likely start from 2015 or 2016 if the decision is made in 2012.

On 21 June 2011, the Japanese Minister for Financial Services announced that mandatory application of IFRSs will not take place from the business year ending March 2015 and a sufficient time period of five to seven years will be permitted for preparation if and after mandatory application of IFRSs is decided. He requested BAC members to reconsider fully in light

of recent developments in and outside of Japan and continue discussions around 11 specific items presented at the BAC meeting.

It must be noted that a decision regarding the mandatory application of IFRSs in Japan relies on the sufficient development and application of IFRSs for the U.S. domestic reporting system. This is the same phenomenon as a bird lay its eggs in the nest of another bird (“Parasitic Bird”).

This paper outlines the SEC regulatory actions regarding the potential use of financial statements prepared in accordance with IFRSs by U.S. issuers and surveys the speeches, public statements and the SEC congressional testimonies by the SEC commissioners and SEC staff. With this consideration, the question of the mechanism of the regulatory action in Japan has been brought to the fore.

# Development of the Future of Financial Reporting in the UK

—Based on the UK ASB’s Financial Reporting Exposure Drafts (Draft FRS 100, 101, and 102)—

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Since the EC Regulation 1600/2002, Accounting Standards Board (ASB) in the UK overhauls the financial reporting system based on “UK accounting standards: A strategy for Convergence with IFRS” issued in 2004 and is proposing “the Future of the Financial Reporting in the UK and Republic of Ireland.” ASB issued “Draft FRS 100, 101, and 102” as Financial Reporting Exposure Draft on 30 January 2012, which would replace all extant FRSs, Statements of Standard Accounting Practice and Urgent Issues Task Force Abstracts (current FRSs) in the UK and Republic of Ireland with a single FRS. This paper will find out, then, the feature of the Future of the Financial Reporting in

the UK and Republic of Ireland and the issues of the Financial Reporting in the Japan. The purpose of this paper is to find out the follows:

- (1) whole feature of the latest trend of the Future of the Financial Reporting in the UK
- (2) proposals in draft FRS 100, 101, and 102(3)differences with proposals of FRED 43, 44, and 45(4)outline of present UK FRSs(5)bring out the quality of the Financial Reporting system of UKThe contents are different between a Single FRS of draft FRS 100, 101, and 102 and IFRS for SMEs.