

#### IV Summary of Articles

# Present State and Challenges of the International Integrated Reporting Framework - Principles-Based Approach, Comparability and National Jurisdictions -

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This paper examines the present state and challenges of Integrated Reporting Framework (hereafter “FW”) from three perspectives - the principles-based approach, comparability and jurisdictions with reference to preceding studies and case studies of integrated reports published by airline companies.

When an attempt to shift to a new accounting standard or an information disclosure system occurs, the effects of such transition are limited in the beginning. This is also evident from the fact that the number of companies adopting IFRS was initially small but is growing every year. In the case of the integrated reports discussed in this paper, the effects are also expected to magnify and become more certain as companies improve the contents and methods of disclosure in the process of its adoption.

At the same time, the development process for setting standards can be accelerated by having multiple standard-setting bodies engaged in the standard development process, with bodies involved learning from each other’s accounting standard theories and the actual status of disclosure, it is expected that accounting regulations as a

whole can evolve faster than having a single body handling the development process (i.e. improvement in usefulness).

As far as the history of the establishment of the International Integrated Reporting Council indicates, the relationship of bodies involved in setting accounting standards in the context of international accounting regulations is one of competition and cooperation occurring simultaneously (co-opetition). Although such an environment will allow each country’s systems and FW based on a highly affinitive principles-based approach to manifest the benefits of becoming more easily accessible to cross jurisdictions, this paper notes that the comparability of integrated reports resulting from such benefits may decrease.

The results of the case studies imply that future challenges may include the necessity for quality assurance of integrated reports. Since disclosing optimal information on corporate entities to various stakeholders and securing comparability are subject to a trade-off relationship, it is desirable in the future to improve guidelines for the preparation of FW or integrated reports through the accumulation of best practices.

# Distinction between Liabilities and Equity in IASB

**Jumpei Yamada**

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In this paper, I will discuss how the distinction between liabilities and equity is made in IFRSs and what is the focal point in the distinction.

The distinction between liabilities and equity has long been discussed in IASB. However, it cannot be solved yet. It is not simply the problem of the distinction on balance sheet, but the problem of how much net income is measured on profit and loss statement.

In IFRSs, the distinction between liabilities and equity is made basically by the definition of the components in the conceptual framework. However, the distinction is made exceptionally by the fixed-for-fixed condition and puttable financial instruments condition. These rules

including exceptional rules are complex and difficult to understand, and cannot be easily explained. Therefore, various proposals have been made about the distinction, but there is no efficient solution by now.

Then, I will consider why the distinction cannot be made easily. First, in IFRSs, it is not clear to which classes of investors net income are attributable. When the distinction between liabilities and equity is made, it is important to determine to whom net income is attributable. Second, in IFRSs, the definition of liabilities that the liabilities are the obligation to deliver economic resources is strictly applied. So like puttable financial instruments, there are many exceptional rules.

# A Study on the Development and Convergence of Accounting for Leases

**Jun Hishiyama**

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The purpose of this paper is to (1) describe the development of accounting standards for leases in IASC and IASB, (2) provide an overview of IASB's new leases accounting model referred as a right of use model, (3) clarify the characteristics, and (4) investigate the influence on convergence of the model in Japan.

We arrive at conclusions that;

1. Current accounting model for leases in IASB is criticized for failing to meet the needs of users of financial statements because it doesn't require for lessees to recognize assets and liabilities arising from operating leases.
2. IASB's new leases accounting model referred as a right of use model requires lessees to recognize assets and

liabilities for the rights and obligations created by leases. Though this model will result in a more faithful representation of lessee's assets and liabilities, it slightly leaves a room for arbitrary operation.

3. By analyzing accounting policy of Japanese companies at 1993 accounting standard, it can be concluded that almost all of the companies prefer exception handling which recognizes finance leases as operating leases with arbitrary method. Therefore it is important not to accept an exceptional method as a result of convergence of accounting standard for making the accounting information useful.

# Potential Impact of the IASB's Proposed Conceptual Framework on Accounting for Impairments

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This article discusses accounting for impairments of long-lived assets, including goodwill, from the viewpoint of the proposed conceptual framework issued by the International Accounting Standards Board in May 2015.

I start the discussion with reviewing accounting requirements set forth by IFRS, U.S. GAAP and Japanese GAAP. I also review the concepts described by the proposed conceptual framework in the chapters of objectives of financial reporting, qualitative characteristics of accounting information, elements of financial statement items, and measurements. Based on the

review, I summarize that the proposed conceptual framework tends to be adjusted more for conservatism. Moreover, I discuss the issues of the delayed recognition of impairments and the management's discretion in determining the recognition of impairments, which are found or suggested by academic literature.

Finally, I discussed the opportunities to amend accounting standards for impairment to make them more conservative, based on the proposed conceptual framework and the issues found or suggested by academic literature.

# International Standardization and the Future of Accounting Systems / Research

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Currently, international standardization is pushed forward in many domains of accounting, such as International Financial Reporting Standards (IFRS), International Standards on Auditing (ISA), International Education Standards (IES), International Public Sector Accounting Standards (IPSAS), International Integrated Reporting Standards (IIRS), and Code of Ethics for Professional Accountants (CEPA). Among them, IFRS may be most widely recognized.

It is thought that Japan, whose cultural background greatly differs from that of Europe and the US which produced IFRS, does not or cannot take initiative for the international standardization of accounting standards. Japan changed the posture until now depending on the trends of EU, the US, and the IFRS Foundation, and showed passive correspondence for IFRS. However, under the Growth Strategy of the Abe Administration in particular, Japan takes the active correspondence recently for IFRS by making an effort for the expansion of the voluntary application of IFRS and by announcing original Japan's Modified International Standards (JMIS).

It is vital for Japan to promote the further

expansion of IFRS voluntary application, and to continue contributing for the development of IFRS. In order to have certain number of IFRS applying companies, we must bring up global accountants who can play an active part in accounting practice. And, in order to contribute for accounting research, we must bring up the researchers who can wrestle with the research agenda which IASB shows to promote evidence-informed standard setting.

The global accountants are the persons who have English skills and who can accept different culture, as well as having the technical knowledge of accounting. It is expected that they have the collective strength as the human beings. Tasks for Japan are to struggle straight forward (and by Japan Way) with international standardization and globalization of accounting systems / practice and accounting research, and to bring up the global accountants who can cope with the globalization. If Japan cannot work on these problems, it cannot become a country which is respected by foreign countries (Asian countries in particular) in the times when globalization rapidly and widely advances.