Ⅲ Summary of Articles

Current Situation and Series of Responses to the Adoption of IFRS in Japan since 2009

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In this article, series of responses to adopting International Financial Reporting Standards (IFRS) by Japanese Government (Business Accounting Council: BAC) have been explained, together with issues related to the needs for human resources who have adequate knowledge and experiences of IFRS and can deal with practical issues that arise from implementation of IFRS. These two main issues are addressed in this article.

In order to expand application of IFRS by Japanese listed companies, the BAC interim report, issued in June 2009, proposed the following;

(a) A voluntary application by Japanese companies should be allowed from the fiscal year ended March 2010.

(b) Whether a compulsory application should be required will be determined in 2012 and, if it is required, it should be effective in 2015 or 2016.

However, there had not been much progress from 2011 to 2013 until the BAC issued its report in June 2013. This BAC report includes proposals that reduce restrictions in order to expand voluntary application, which is a change of the policy by the BAC. In addition, the report proposes a creation of Japanese version of IFRS, which is now called the Japan's Modified International Standards (JMIS). The number of the companies which have already applied and will apply IFRS is now 90, and this trend is expected to increase.

In order to implement IFRS smoothly in Japan, human resources with deep knowledge and experiences are needed. Some systematic training and education are needed to have such human resources.

Ethics Standards Applicable to Audit Firms

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Global ethics standard for professional accountants, the Code of Ethics for Professional Accountants, is set by the International Ethics Standards Board for Accountants (IESBA) which is one of four standard setting bodies of the International Federation of Accountants (IFAC). I am presently a board member of IESBA. This Code is applicable to all professional accountants regardless where he/she is working for (e.g. audit firm, individual practitioner, profit private company, educational organization, nonprofit public entity) and nature of business (e.g. audit, non-audit service, consulting, tax, internal audit, company's employee, academic teacher). However, I will discuss the ethics standard applicable only to audit firms as requested by the organizer of this panel discussion about the following matters;

- Relationship between global ethics standards and Japanese ethics rules
- Ethics standards applicable to audit firms
- Global movements regarding ethics standards applicable to audit firms
- Topics need to be considered

The Influence of Heath's Cash Flow Accounting Theory on IASB's Financial Statement Presentation Project

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Loyd C. Heath set a high value on evaluation of solvency as well as evaluation of profitability and recommended the followings.

(1) The statements of cash flows, financing activities and investing activities should be prepared.

(2) The statement of cash flows should report all cash receipts and payments.

(3) The statement of financing activities should report all changes in the capital structure.

(4) The statement of investing activities should report all increases and decreases in long-term investments.

(5) Current-noncurrent classification of assets and liabilities should be discontinued.

(6) Liabilities should be classified into operating liabilities, tax liabilities and financing liabilities.

(7) A schedule of receivables and payables should be prepared.

FAS95, *Statement of Cash Flows* requires an entity to provide a statement of cash flows which classifies cash receipts and payments into the activity categories and related disclosures. It also encourages an entity to use the direct method. On the other hand [Draft], *IFRS X Financial Statement Presentation* requires that an entity shall classify items into the activity sections, categories and subcategory in the statements of financial position, comprehensive income and cash flows in a manner that is consistent across those three statements. It also requires that an entity shall present short-term items and long-term items separately in each category within its statement of financial position. Besides, it requires that entity shall use the direct method. As mentioned above, [Draft] substantially accepts the majority of Heath's recommendations, thereby improves financial statements. It also solves some confusion on the classification of the cash flow items in FAS95.

Change of the Basic Thought over the Definition and Recognition of Components of Financial Statements, and Change of Function of the Conceptual Framework
-With a Focus on the IASB's Conceptual Framework Project-

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In this paper, I discuss the change of the basic thought over the definition and recognition of components of financial statements, and the change of a function of the conceptual framework, based on the current IASB conceptual framework and the on-going IASB conceptual framework project.

IASB initially was trying to strengthen the function of the conceptual framework as a meta-standard, in its conceptual framework project. Currently, however, probability and reliable measurement in the current conceptual framework are deleted in IASB 2015 exposure draft *Conceptual Framework for Financial Reporting*, as a result, the function of conceptual framework is deteriorated related to recognition. Moreover, many issues, such as uncertainty, derecognition, and liability-equity distinction, are issues of standard-setting level. In these issues, the conceptual framework is not so much functional.

Then, I discuss that the function of the conceptual framework as a meta-standard is reduced, and that IASB's discretion in standard setting is increasing. As that background, I point out a change of attitude toward standard-setting by the alternation of IASB chairman. Finally, I insist that the function of conceptual framework as a meta-standard should be strengthened, and point out that the conceptual framework which is not so much functional as a meta-standard is meaningless.

Characteristics and Implication of Approaches to Profit or Loss and Recycling Proposed by IASB

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IASB published discussion paper “A Review of Conceptual Framework for Financial Reporting” in 2013 and staff paper in 2014. The DP and staff paper show IASB’s preliminary view that Conceptual Framework should require presentation of profit or loss as total or subtotal and that also results, or could result, in some items of income or expense being recycled. It represents a shift from previous positon of IASB.

However IASB does not give full support to profit or loss and recycling. We have to continue to watch discussion by IASB.

To consider development and direction of discussion on profit concepts under IFRS, this paper shows outline, characteristics, and implication of approaches to profit or loss and recycling by IASB.

Standards-setting Strategy and its Activity of International Accounting Standards Board from 2011 to 2013

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Since July 2011, the IASB diminished the published standards; and the contents were intended to reduce preparation costs of companies' financial statements, for example, guiding or simplifying existing accounting techniques, and providing exemptions, instead of fulfilling quality and quantity of accounting information for investors. To make clear the factors which caused the IASB to change its standard-setting activities, I at first conducted text analysis for descriptions of Annual Reports with an intention of confirming how the IASB recognized its standard-setting environment. According to the results, the Board changed its recognition from the technical development for gaining the trusts of investors to the review of existing rules and the coordination for interests of a wide range of stakeholders who were influenced by these rules. The underlying reasons for this change could be the strong supports from European actors and the rapid approaches to some actors inside the international network for financial regulations since the financial crisis. Next, I confirmed what kind of organization the IASB constructed using social network analysis. The results showed the following two points. The first is the shift of core actors inside the IASB from accounting professions to international organizations and preparers. The second is the change of geographical balance from Europe and Asia/Oceania. In sum, the IASB built up the organization in which much broader range of actors, in the sense of geographically and occupationally, were embedded than ever. Therefore, it seems that the IASB recognized the necessity for enhancing the partnerships with international organizations and a wide range of stakeholders geographically and occupationally; to do so, it built up the organization in which these actors were embedded and performed its cautious standards-setting activities to satisfy with their needs at the sacrifice of investors' ones.