Ⅵ Summary of Articles

Sustainability of an Organization and Evolution of Financial Reporting Under Global Economy

Tatsumi Yamada
Partner, KPMG AZSA LLC

The title of the discussion is "Sustainability of an Organization and Evolution of Financial Reporting Under Global Economy," which provides three points to be considered in order to understand the implications of the title. They are;

(a) Globalization of economic and social activities of entities
(b) Sustainability of an entity
(c) Evolution of financial reporting in response to the changes in needs of stakeholders

Regarding the first point, the globalization of economies requires common standards that depict entities' activities both in financial results and non-financial results. For non-financial activities, an integrated report that is in conformity with the IIRC Framework could be a main stream of such non-financial information reporting.

Regarding the sustainability of an entity, it is important to meet the needs of not only investors but also various kinds of stakeholders in order for the entity to be sustainable. A notion that the entity's obligations must be expanded to meet various stakeholders' expectations such as reducing the greenhouse gas emissions and investing money for training of human resources, which is called as "creation of values for stakeholders and society at large" in addition to creation of value for investors.

Regarding evolution of financial reporting in response to the changes in needs of stakeholders, it is important to know that focus of information needs of the stakeholders is shifting from the financial information to non-financial information because stakeholders want to know how an entity meets expectations expressed by various stakeholders which are not limited to financial information. An importance of a notion of "corporate reporting", which is consisted of financial and non-financial information, should be emphasized and developed further to balance the needs of both information. It might be useful to create a new standards-setter that has responsibility over both financial and non-financial information disclosures.

The Realities and Subjects of Integrated Reports in Japan

Hiroaki Jindo

National Graduate Institute For Policy Studies

Integrated Reports in Japan are voluntary disclosure method, but the number of them is gradually increasing. It is said to be probably 200 in 2015, and over 300 in 2016. Nevertheless, the details of Integrated Reports are not always clear.

This paper shows the realities and subjects of Integrated Reports in Japan based on the present results of the research project “The Reform of Economy, Management and Accounting as a whole in terms of Integrated Thinking” by Research Institute of Capital Formation, Development Bank of Japan Inc. and the interim report of Questionnaires related to Integrated Reports in Japan.

Integrated Reporting is an effective communication tool for other important stakeholders than investors in response to each management strategy by firm, but it is just from now on that Japanese firms take for improvement in quality related to the contents of Integrated Reports seriously.

Integrated Disclosure of Sustainability –Risk Information

Noriyuki Konishi
Aoyama Gakuin University

Risk information is fundamental to financial reporting users assessing and predicting about the future cash flow of an entity. It is generally accepted that risk information is critical to understanding the financial and non-financial performance of an entity. It is also accepted that a better understanding of sustainability would be beneficial by stakeholders. Measuring an organization's economic, social and environmental performances is often referred to as the triple bottom line.

In this paper, I try to (1) integrate information among the sustainability of business, (2) integrate information among the risks of business, and (3) integrate sustainability information and risk information.

As the result of these consideration I can explain that it is possible to disclose integrated sustainability–risk information of business. Because the integrate of sustainability–risk associated with economic, social and environmental performances has made sustainability a strategic priority for companies as part of their overall business strategy. So the integrating risk assessment processes and the risk disclosure by risk management can change sustainability report into integrated report.

It is stated that enhanced integrated information about what companies do to assess and manage sustainability–risk will (i) encourage better risk management, (ii) improve accountability and corporate accountability of management, (iii) help to ensure the equal treatment of stakeholders, (iv) provide practical forward-looking information, (v) improve the usefulness of financial reporting.

Accounting for Impairment of Financial Instruments: Recognition, Deduction, and Reversal

Ryohei Negishi
Waseda University

This paper outlines the International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) Standards, and elucidates the changes and problems associated with the impairment of financial instruments. It also examines the accounting for impairment of financial instruments, especially recognition, deduction, and reversal.

Unlike conventional accounting practices, the new methods of accounting for impairment of financial instruments proposed by the IASB and FASB eliminate qualitative criterion to recognize impairment losses for most of the financial instruments, and adopts allowance approach (indirect deduction through allowances) that allows for the reversals of impairment losses.

However, amid these changes, the impairment concept of financial instruments in the new accounting methods proposed by the IASB and FASB is ambiguous. Because the criterion to determine whether a financial asset is impaired is not consistent with the timing of impairment loss recognition, and especially in the case of available-for-sale securities, the reversal in allowance approach may involve not only credit risk factors but also other market factors.

To make the impairment concept clear, this paper proposes that different methods of accounting be adopted on the basis of the collectability of financial instruments.

Tax Saving Motivation of Multinational Corporations in China

Liu Gong Ping
Kwansei Gakuin University

This paper investigates whether multinational corporations (MNCs) in China take advantage of the difference between their overseas parent companies' tax rate to reduce their overall tax burden as a group. If the MNCs in China do have this tax saving motivation, it is the most common way of shifting their taxable income by using artificial transfer prices in related parties transactions to achieve this objective. This paper aims to argue that the existence of manipulation transfer pricing behaviors among MNCs in China. There is a lot of evidence from other capital markets that MNCs take advantage of the difference between their overseas parent companies' tax rate to reduce their overall tax burden as a group, but only limit to existing empirical literatures on the China capital market. Therefore, it is necessary to make this issue clear by providing more empirical evidence. This paper investigates the effect of overseas parent companies' tax rate on the MNCs' pretax profits to sales ratio, return on assets, tax payment to sales ratio in China by using firm-level financial data from 2008 to 2012. We assume that if the MNCs in China do have tax saving motivation, their overseas parent companies' tax rate would produce a significant effect on the three indices aforementioned. We employed an one-way analysis of variance (ANOVA) to test this assumption and we found the result supports our hypothesis.

The Choice of Local GAAP in European Stock Market - The Case of Germany -

Tomomi Shiosaki
Kyushu University

This paper examines the standard choice and application of local GAAP by European companies after the adoption of the International Financial Reporting Standards (IFRS). In the EU, the IFRS have applied for consolidated accounts of European companies listed on the regulated market on and after 2005. However, the local GAAP is still available for registered companies on the exchange-regulated market in Germany and France. For example, Frankfurt regulated markets require complying with the IFRS under European and German laws, but the exchange-regulated market, Entry Standard, requires compliance with either the German standard or the IFRS in preparing consolidated accounts. We analyze the standard choice of European companies using Database Osiris, especially focused on German companies to evaluate companies' motivation to use local GAAP. As a result, we found that about 60 percent of German companies chose local GAAP on the Entry Standard and that Frankfurter stock market structurally changed after adoption of the IFRS because the Entry Standard has grown since 2005.

Standardization Efforts of Accounting Data, Data Analytics as Future Prospects of the Accounting Audit, and the Impact to Integrated Report

Akinori Kimura
Certified Public Accountant

Seen many advances of technology that causes a large change in the future of the economy and society and industry, can occur impact on the profession, including audit professionals. Moreover, progress in this technology, if replaced by another words, the data to be processed by the computer can be said to be that play an important role. It can be said Data Centric Economy of the era has arrived. This paper is introduced, we look back at the history of accounting audit from times like these circumstances, standardization efforts of accounting data, data analytics as future prospects of the accounting audit, and the impact to integrated report.

Future Possibility of Assurance on Integrated Reporting - Credibility Enhancement on Business Reporting in the Age of Globalization -

Yuichi Torikai

Toyo University

International Integrated Reporting Council issued “Assurance on <IR>: an Exploration of Issues” in July 2014. Currently the discussion on integrated reporting is extended from its disclosures to the assurance on integrated reporting.

If the integrated reporting is utilized for the communication with community, the mechanism providing credibility is required. The need for assurance is recognized in this context. However, there are a lot of issues to be solved in order to provide the assurance on integrated reporting.

After confirming the objective of integrated reporting, this paper studies how to apply the assurance mechanism to integrated reporting based on “Assurance on <IR>: an Exploration of Issues”. More precisely, the paper clarifies the definition of assurance engagement, identifies subject matter in the integrated reporting, and finally explores the future possibility and the challenging area, including how to handle non financial information and apply materiality concept.

Since the integrated reporting is expected to be assured by the assurance of general purpose reporting targeted to the wide range of stakeholders, I believe that the framework for disclosures should be established based on the agreement with community. With the expansion of voluntary disclosures of integrated reporting, it is expected that the framework is going to be established in due course.

The Interim Report of Study Group: The Conceptual Framework on the International Financial Reporting Standards

Isamu Iwasaki

Kyushu University

The purpose of the study group is to clarify the features and problems of the International Accounting Standards Board's conceptual framework. The themes done by the study group in this year are in the text of this report. In this paper, we will examine and clarify the features of the IASB's conceptual framework. As to the analytical perspectives, firstly we will analyze how the conceptual framework has changed as the result of the joint working group with the US Financial Accounting Standards Board, and secondly we will show the arrival point of the structure of financial accounting in the framework.

IIRC Integrated Reporting Framework and Integrated Reports

Osamu Furusho
Nihon University

The theme of this research group is to examine various subjects on IIRC Integrated Reporting Framework and Integrated Report from several viewpoints, such as difference from conceptual framework for financial reporting, business model and risk disclosure, implication of intellectual capital, human capital and natural capital as well as financial capital, a problem of materiality concept between IIRC Framework and GRI Guideline, appreciation of value-added statement, credibility and external assurance with the process of shaping integrated reporting, new trend of public disclosure regulations of individual jurisdictions, and clarification of the actual conditions and classification of common characteristics according to type.

As a point of comparison in examining conditions in Japan, this research group highlights attention paid to problems concerning the formation of a new integrated reporting superstructure and in which financial and non-financial reporting are systematically integrated to the extent possible in clearly explicated relationships. This research group raises additional issues for institutionalization of integrated reporting based on the “Comply or Explain” approach within the larger framework of the overall integrated financial reporting system.