Ⅷ Summary of Articles

A Review of Empirical Research on IFRS Adoption

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This study discusses existing empirical research on the adoption of International Financial Reporting Standards (IFRS). In particular, this study reviews the IFRS literature on how IFRS adoption affects financial reporting quality, capital markets, and contracts. The earlier IFRS literature did not explicitly investigate how country-level institutions and firm-level incentives influence the economic consequences of IFRS adoption. However, more recent research reveals that the implications of adopting IFRS vary depending on countries' institutions and firms' incentives. These results suggest that the benefits of adopting IFRS are joint effects of IFRS adoption itself, country-level institutions, and firm-level incentives. Most previous IFRS studies analyze the (net) benefits of IFRS adoption, and thus evidence on the costs of adopting IFRS is limited. Nowadays, firms downlist or delist to avoid the costs of IFRS compliance and enforcement. Accordingly, more research is required to examine the determinants and consequences of avoiding IFRS adoption in order to enhance our understanding of IFRS effects.

Research on "Judgments" in Accounting and Auditing Issues

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Financial Statements are the results of three main factors, namely, "records", "customs", and "judgments". Nonetheless, we have not focused on the importance of "judgments" in accounting and auditing issue. During 1972 and 2010, only 17 judgment-related papers were published in the top five journals (*Accounting, Organizations and Society*, *Contemporary Accounting Research*, *Journal of Accounting & Economics*, *Journal of Accounting Research*, *The Accounting Review*).

Ball (2006) suggests that "uniform standards [e.g., International Financial Reporting Standards: IFRS] alone will produce uniform financial reporting [*practice*] seems naive" (p.17). This is because "[D]espite increased globalization, most political and economic influences on financial reporting *practice* remain local" (p.15). Even though IFRS have been adopted in many countries, unless IFRS is applied and interpreted consistently among those countries, international comparability of financial reporting *practice* will never improve.

As such, the objective of this study is to review judgement-related literature published in the top five journals from 1972 to 2010 as well as from 2011 to 2018 by focusing on its main topics, samples, methodologies, and findings, in order to suggest the importance of "judgments" in accounting and auditing issues, and thus, to achieve international comparability of financial reporting *practice*.

Comment on the Unification Theme of the 36th Annual Conference

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This article summarizes my comment on the two report at the unification theme of the 36th annual conference. The first report that I comment on is conducted by Masaki Kusano titled as "The overview and future research topics regarding the effect of IFRS adoption literature", and the second report is conducted by Toshitake Miyauchi titled as "The overview and future research topics regarding the goodwill accounting literature". In addition, I commented on the challanges of IFRS research targeting Japanese companies voluntarily adopted IFRS. These three issues are: (1) ensuring internal validity of the results, (2) ensuring external validity of the results, and (3) re-examining the preconditions in previous overseas research.

Corporate Governance Reform and New Role of Financial Accounting and Reporting

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This paper focuses on "governance reform" since setting of the Japanese Corporate Governance Code, and I consider the change of the role of financial accounting and reporting and its challenges through this reform. In the context of corporate governance reform, I point to extend financial accounting and reporting to an information system that can confirm and verify the state of corporate governance, not only the role of information providing, which is currently the mainstream in the world. I also point out the penetration of Non-GAAP indicators into financial reporting and corporate governance mechanisms. In particular, I take the relationship between the executive compensation scheme and Non-GAAP indicators, then I find that the companies reporting Non-GAAP indicators that are significantly higher than the GAAP indicators have higher executive compensation than others. Through these analyses, I raise questions about the adequacy of adopting Non-GAAP measures for executive compensation scheme while applying IFRS to enhance the comparability of financial information internationally. Also, if accounting standards based on the information providing function cause incompatibility with the governance support function, management may have incentives to produce Non-GAAP indicators, and finally their actions could lead to weakness in the accounting system. Based on the above, I think it is time to envision accounting that is useful for corporate governance support functions.

Governance Reform and Management Accounting

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This study examines the framework of corporate governance from the viewpoint of management accounting. The essential purpose of corporate governance is considered to be sustainable corporate value creation. Corporate value creation requires both economic value creation and social/organizational value creation. When considering corporate governance from the viewpoint of management accounting, it can be regarded as a framework to realize corporate value creation by the cycle in which a corporate grasps "needs" of stakeholders, realizes them through strategies, reports the results to outside and inside, and grasps "needs" of stakeholders through dialogue. Corporate governance appears to be converging toward "sophisticated shareholder value model" internationally. Integrated reporting can be cited as one mechanism for realizing corporate value creation through such a corporate governance framework. On the premise of the concepts of Corporate Governance Code and Japanese version of the stewardship code, "triple loop model" can be presented as a framework centering on integrated reporting. In addition, it is possible to point out the problems of governance and management accounting brought about by group management which has become common mainly in large enterprises.

The governance reform and the role of accounting of public institutions
～independent administrative agency as an example～

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The independent administrative agencies were established in 2001, and the review of operations and organizations was carried out by the “Restructuring Program for Independent Administrative Agencies” in 2007, and the “Basic Policy on Reform of Independent Administrative Agencies” was issued in 2013, and it was reconfirmed that restructuring of organizations should be minimized, and the autonomy in the organization and operation and the incentive should be maximized to maximize the function of the organization. In 2017, “Basic guidelines on financial reporting of independent administrative agencies” was issued. In terms of accounting, “Further utilization of financial reporting” was an issue, and information on the outcome of independent administrative agencies and information showing the financial position and fiancé performance was required to be presented, and in the former, the expansion of scope of the business report was necessary, and in the latter, the preparation of administrative cost report was necessary.

The author believes that in the content of “Basic Guidelines on Financial Reporting by Independent Administrative Agencies”, in order to further contribute to the governance reform of an independent administrative agency, it is necessary to (1) improve the disclosure of the future information (2) disclose the service performance report (3) audit. First, the author supports positively disclose non-finance information in the business report, but it is necessary to expand the future information. Next, the author supports that the administrative cost is clearly indicated as financial performance, but disclosure of the service performance report is required. In addition, as for auditing, the business report is to be audited only by the “accounting part” at present, but it is necessary to introduce a system to fully assure both financial information and non-financial information.

Quest for a Single Theory to Explain Managerial Motivations for Sustainability Disclosures: Legitimacy Theory, Stakeholder Theory or Institutional Theory

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While explaining managers' motivations for publishing sustainability information, researchers utilize diversified postulations referring to three fundamental theories, such as legitimacy theory, stakeholder theory and institutional theory. Legitimacy theory claims that firms are selfish and seek for social approval to operate through disclosures; stakeholder theory holds that firms identify 'powerful' stakeholders and configure disclosures for them; institutional theory signifies that firms pursue 'isomorphism', copy various aspects of society and industry field, and sustainability disclosure is one of those aspects. This paper aims to point out a single (suitable) theory from these three, to ease up the said explanation of managerial motivations. This is a literature review-based analysis. Before sealing the 'single theory', all the three theories are compared and each of those is (hypothetically) considered as the 'single theory', i.e., the pros and cons of each theory are analyzed, as if, each were the chosen-one. It is found that institutional theory is the only one that can complement both the stakeholder and legitimacy theories and can explain managerial motivations for sustainability disclosures, in most contexts. However, even if institutional theory is chosen as the 'single-one', in specific scenarios, stakeholder theory or legitimacy theory may turn out to be better than institutional theory. Academics and researchers may draw a conceptual framework—related to the said theories—from this study while understanding, explaining and prescribing sustainability disclosures related issues.

Keywords: Sustainability disclosures, Managerial motivations, Legitimacy theory, Stakeholder theory, Institutional theory

The Convergence towards IFRS in China: A process from historical cost accounting to fair value accounting

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Up until October 20, 2019, 157 jurisdictions have required or permitted domestic listed companies and/or financial institutions to apply IFRS. The accounting systems are deeply rooted in the unique socio-economic environment of each country, and are interdependent with surrounding systems. Given that divergences in the socio-economic environments among countries still exist, it has been criticized that IFRS is not necessarily compatible with country-specific legal and regulatory systems. Moreover, even if mandatory adoption of IFRS is required, without the establishment of surrounding systems, such as sound enforcement system and auditing, IFRS may not be consistently implemented, and thus may not lead to high-quality financial reporting. As such, despite the globalization of accounting standards, the diversity of accounting systems (including accounting standards, accounting practices and surrounding systems) may still exist among countries.

In this paper, we examine the process of convergence with IFRS since 1979 in China by applying the accounting change framework developed by Harrison and McKinnon (1986). We divide the process into four stages. For each stage, we investigate following issues: why accounting system reforms occurred, what reforms were implemented, and what reactions and conflicts occurred in the reforms. In addition, we clarify how surrounding systems, including auditing, enforcement system, corporate governance, and education for accounting professionals, have been developed to keep their compatibility with the implementation of IFRS.

An analysis of the case of China shows how the variations in initial conditions for applying IFRS limit the convergence towards IFRS, and how accounting interacts with surrounding systems. The findings would be conducive to better understanding of the diversity in accounting systems.

An Examination of Vietnamese Accounting as a Social System

Norimasa Ito
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Considering the Vietnamese accounting system historically, it can be divided into the following five stages. The first stage 1961-1970 “Chinese accounting model period”. The second stage 1970-1985 “Soviet accounting model period”. The third stage 1986-1994 “Doi Moi capitalist accounting model period”. The forth stage 1994-2001 “Vietnamese accounting system period”. The fifth stage 2001-Present “Accounting Law / Accounting Standard period”.

The era of change by Schlesinger’s cycle theory can be summarized as follows. The first change era (1960s): the change to a communist accounting model by establishing a communist state. The second change era (around 1990): the change to capitalist accounting model by Doi Moi policy. The third change era (2000s): the change to an accounting system with accounting laws and standards for the invitation of foreign capital.

According to Parsons, a social system is defined as a system that arises from the process of some interaction between two or more actors at the social-cultural level. Until the third era, Vietnamese accounting was not a social system. With the third change, it became the stage of accounting as a social system institutionally. However, Vietnamese awareness of accounting as a social system is low. Vietnam has the power of society to change itself, but has not yet had the power and skills to build up its contents. In the future, accounting as a social system is expected to mature. I can expect the fourth era of change in Vietnamese accounting will come in the 2030s.

Trends in Global Accounting Standards and Disclosure Regulations

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The convergence of accounting standards has made progress across the world as a result of the growing recognition of International Financial Reporting Standards (IFRS) as a set of global accounting standards since 2001. After the financial crisis in 2008, International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) started discussion on the convergence of accounting standards, including those for financial instruments. However, they could not reach consensus and announced postponement of the convergence as a result. Japan has taken measures to increase the number of voluntary adoptions of IFRS since 2013, while enhancing the quality of Japanese Generally Accepted Accounting Standards (GAAP) and communicating Japanese opinions to the IFRS community.

As for the Japanese GAAP, the convergences of accounting standards for fair value measurement and revenue recognition with IFRS have been completed, and discussion is underway on developing the standards for leases and financial instruments. However, there are still differences in accounting standards for goodwill and recycling between the Japanese GAAP and IFRS.

The IFRS foundation has recently expressed interest in the following four areas: (1) consistent application, (2) complexity in financial reporting, (3) non-financial information, and (4) technology.

With regard to the communicating Japanese opinions on IFRS, representatives from Japan actively participate in various forums within the IFRS Foundation, such as the IFRS Trustees and the IASB. In addition, Japan Financial Services Agency (FSA) and Accounting Standards Board of Japan (ASBJ) respectively participate in the Monitoring Board and the Accounting Standards Advisory Forum (ASAF), and thus contribute to the development of IFRS and the activities of the IFRS Foundation, including its Asia-Oceania Office in Tokyo.

Some topics for future discussion on accounting standards are as follows: (1) increasing the number of voluntary adoptions of IFRS in Japan, (2) strengthening opinions on IFRS, (3) enhancing the quality of Japanese GAAP, and (4) fostering human resources in the international accounting space. As for disclosure regulations, it is important to respond to the growing need for non-financial information. Furthermore, it is necessary to consider the effects of emerging technology, such as artificial intelligence, when we consider future visions of accounting standards and disclosure regulation.

Significance of Historical French Accounting Study in Japan ; Code Savary in 1673 to Plan Comptable in 1982

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The first Commercial Decree of France known as Code Savary was published by Jacques Savary in 1673. Code Savary became the first basic foundation for all present accounting rules of France with depth of following studying by professionals in the past decades. We focus on the study of the history of French accounting from 17th to 20th century and the significance and importance of studying French accounting for Japanese accounting.

(1) The Basic Principals of Code Savary in 1673

Code Savary defines inventory of properties as most important accounting document on commercial book. Inventory of properties focuses on two purposes, process and impact of outcome. The process of bookkeeping Inventory of properties is followed by in the instruction of Code Savary in 1673. The impact of outcome of Code Savary has 3 main purposes, a certainty of business accounting transaction, fraud prevention for businessperson, and security of business trades. Those 3 purposes need to be strictly followed under Compliance of accounting rules.

(2) Internationalization in Europe

In 1973, United Kingdom became a member of European Community (EC). After adapting EC Directive into French law, France concluded to consider UK's "True and Faire View" rules as "Faithful View" on Plan Comptable in 1982. While adapting EC Directive, France applied aspects of Regularity, Sincerity and Prudence to the accounting document for their domestic culture rules on a declaration.

(3) Departure Regulation

The draft of EC Directive Article2, item(4), had only Regularity for compliance function and Sincerity for note function. Importantly, however, the draft of EC Directive did not include departure function. Current EC Directive Article2, item(4) has departure function on "True and Faire View." France applied the concept of Regularity and Sincerity into "True and Faire View" on EC Directive item(4), in order for them to operate "True and Faire View" in replacement of "Faithful View." Domestically France has spent a lot of time on discussing about securing accounting order and adjusting accounting rules with EC Directive.

While advancing internalization, France adopted UK's "True and Faire View" in replacement of "Faithful View." Without simply adopting new view, France kept their own concepts into the new idea in order to adapt to a new rule. We believe this is the way for France to adopt Internalization.

International Comparative Research regarding the Forced Application of IFRS

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Our study group delivered our final report at the conference in the fiscal year 2019 (held on August 31, 2019 at Ichigaya Campus of Hosei University). Initially, our study group planned to merely conduct an international comparative study of the conditions and institutional measures of the major foreign countries that embarked on the mandatory application of IFRS. However, through two years of research, our outcomes exceeded by far the initial plan. The concrete research outcomes are the following three.

Firstly, we conducted a comprehensive survey of the empirical studies on mandatory application of IFRS ((1) The quality and comparability of financial reporting, (2) Impact on the capital market, and (3) Stewardship responsibility and contractual relationship). Secondly, we clarified the states of the countries (IASB, Germany, France, UK, Australia, Canada, Malaysia, and South Korea) that implemented the mandatory application of IFRS before the implementation and the changes that occurred after it mainly from a qualitative viewpoint. Thirdly, we conducted an empirical analysis of the Japanese companies that apply IFRS voluntarily, providing academic evidence for the voluntary application of IFRS in Japan.

As a nation's choice of accounting standards is an important issue that could shake its economy, it is crucial that discussions are based on evidence, not intuition. Hence, this study's main aim is not to discuss the ideal application of IFRS in a normative way, but to portray the observed changes due to the application of IFRS as comprehensively and neutrally as possible from the standpoint of researchers in an attempt to provide evidence that could contribute to the discussions of policymakers.