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# Progress and Challenges in Comparability of Financial and Descriptive Information: The introduction by chairperson

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The uniformity theme of the 38th Annual Meeting of the Japanese Association of International Accounting Studies (JAIAS) was “Progress and Challenges in Comparability of Financial and Descriptive Information”. Since the establishment of the IASB, the international convergence of accounting standards and the global comparability of financial information, especially focusing on IFRS, have improved, but there are still issues to be considered. On the other hand, recently, there is a strong need to improve the comparability of descriptive information (non-financial information) including sustainability information, and in Japan, policy discussions are now underway to include such information in statutory disclosures. With the above situation in mind, this session

aimed to share academic research and practical knowledge on the comparability of financial and descriptive information, as well as to discuss prospects for future research issues and disclosure systems. With the growing importance of descriptive information, how to establish a disclosure system that organically links financial information and descriptive information will be a major issue to be considered in the future. Through the presentations and discussions, we confirmed that the subjects discussed in this session can provide various promising and challenging research opportunities for accounting researchers, both institutional and empirical, and new challenging opportunities for practitioners, and that we are now at the starting point.

# A Study on the Boundary Between Financial Statements and Narrative Reporting : From the Viewpoints of Rebuilding the Conceptual Framework for *Management Commentary*.

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As opposed to GAAP earnings, which are calculated in accordance with generally accepted accounting principles (GAAP), non-GAAP financial measures or alternative performance measures (APM) are typical financial key performance indicators (KPI). In Japan at present, the disclosure of APM is not enforced, of course, but on the other hand, its use in public disclosure is not restricted either.

Take into account that a framework for financial reporting exists, this paper explains interrelationship of financial statements and APM disclosure, exist in the narrative reporting such as management commentary, based on the recent IASB's two Exposure Draft, *Management Commentary* and *General Presentation and Disclosures*.

While the optimal placement for the disclosure APM has not yet been specified, APM disclosure regulation are gradually beginning to be strengthened. Giving that financial statements are the main standards of corporate performance, then there are now an increasing need for a consistent financial reporting framework for linking and integrated financial statements and disclosure APM.

This paper will be the focus of attention on issues that the management commentary is within the boundaries of financial reporting and how it can share a similar conceptual framework with financial statements through review of the latest IASB's discussion about ESG or sustainability matters and management performance measures.

# Empirical Evidence on Comparability of Financial Reporting

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This study focuses on GAAP and non-GAAP earnings as financial information and aims to examine the usefulness of these information from the viewpoint of comparability. Through a review of prior studies, I find that when the comparability of GAAP earnings is high, it has a positive effect on investor decision-making, management monitoring, and corporate investment behavior.

Unlike GAAP earnings, the literature provides two competing views on non-GAAP earnings. One view is that non-GAAP earnings can be misleading investors. Another view is that non-GAAP earnings faithfully represent economic events and provide useful information to investors. This study explains which view

has descriptive validity under the various research setting. In addition, previous studies report that non-GAAP earnings are more comparable than GAAP earnings based on the De Franco et al. (2011) measure, although there are variations in the non-GAAP reporting formation or definition.

In sum, through consideration of these previous studies, I find that both earnings are informative for investors. Furthermore, in order to prevent management from misusing non-GAAP earnings, prior studies suggest that it is necessary to improve disclosure regulation on non-GAAP reporting for increasing comparability.

# Key Issues in Enhancing Usefulness and Trust in Corporate Disclosure – Establishing Sustainable Value Creation Cycle through Interaction between Disclosure and Governance –

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The Japanese Institute Of Certified Public Accountants

In recent years, the importance of disclosure of non-financial information, such as ESG, by companies has increased, and measures are being taken to enhance disclosure of narrative information not only in voluntary disclosure but also in Annual Securities Reports, which are corporate disclosure system.

Internationally, the movement to unify standards for sustainability reporting is accelerating, and the ISSB (International Sustainability Standards Board) will be established at the IFRS Foundation as a new board to develop sustainability reporting standards, along with the IASB, and the VRF (Value Reporting Foundation, which were established through the integration of the IIRC and the SASB) and CDSB will be integrated.

In Japan, in order to respond to investors' needs for corporate disclosure, companies are proactively promoting disclosure practice by publishing the Integrated Reports in addition to the Annual Securities Reports and are continuing efforts to appropriately reflect efforts for sustainable value creation

based on corporate management policies in disclosure.

The Japanese Institute of Certified Public Accountants (JICPA) has established the Special Committee on Corporate Disclosure and Governance, and with the participation of external experts including investors and independent directors of public companies, has discussed the direction of identifying and responding to issues to improve the usefulness and reliability of corporate disclosure. This discussion is based on the belief that corporate disclosure should enhance the usefulness and reliability of corporate disclosure in the capital market, and that it is important for corporate disclosure to lead to sustainable value creation through an organic connectivity with corporate governance. The Committee also discussed the role of Certified Public Accountants in supporting corporate disclosure. In this paper, I introduce the contents of the Special Committee's Report and describe the advance of corporate disclosure and the assurance of reliability, considering recent movements.

# Comparability of Financial Data and ESG Data: Through Exploratory Global Data Analyses

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This study aims to explore the comparability of financial data and ESG (environmental, social and governance) data through exploratory global data analyses from the perspective of data analysis comparability. This analysis is based on the world-scale accounting data, Osiris, of all listed firms from 154 countries and FTSE Russell ESG Ratings, and uses data analysis environment, namely, R and R packages (readr, dplyr, ggplot2, GGally, car,

rgl). All these process are based on reproducible research. The results reveal that financial data has more comparability than ESG data. This study also highlights the coefficient of determination of financial data and ESG data toward firm value. The results can facilitate a new perspective the issues of ESG data comparability and facilitate a collaborative discussion between laymen and professionals using objective evidence.

# The Historical Development and Challenges of Japanese Accounting Standards and its Related Systems

Chairperson: **Noriyuki TSUNOGAYA** (Hitotsubashi University)

Members: **Takashi ASANO** (Tokyo Metropolitan University)

**Noriaki OKAMOTO** (Rikkyo University)

**Jonghoon KIM** (Senshu University)

**Masaki KUSANO** (Kyoto University)

**Satoshi SUGAHARA** (Kwansei Gakuin University)

**Shigeho NAKAYAMA** (Aichi Gakuin University)

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**Toshitake MIYAUCHI** (Otemon Gakuin University)

**Kenichi YAZAWA** (Aoyama Gakuin University)

It is often argued that the quality and comparability of accounting information would be improved if accounting standards and its related systems were converged worldwide. However, global standards (including IFRS) guarantee the best practices neither for all countries nor for all companies within the country. This is because almost all of economic and political environments that affect accounting practice are regulated locally.

The main objective of this study group is to explore the historical development and challenges of Japanese accounting standards and its related systems from the post-World War II period to the present-day. By integrating different perspectives found by various methodologies, such as descriptive, empirical and qualitative methods, we would suggest that the significance of local standards (including Japanese GAAP) would not impair no matter how the adaptation to globalization of economic and accounting systems is inevitable.

We presented an Interim Report, entitled “The Historical Development and Challenges

of Japanese Accounting Standards and its Related Systems” at the 38th Annual Meeting of the Japanese Association for International Accounting Studies (Kwansei Gakuin University, October 10, 2021). As mentioned in the Interim Report, to provide new findings regarding historical and theoretical perspectives, issues related to the relationships and interactions between local cross-shareholdings and global financialization, conceptual frameworks prepared by the ASBJ and IASB, and significant accounting reforms and management behaviors are investigated. In addition, to provide empirical evidence, the complexity of Japanese accounting systems, managerial opportunistic behavior in the context of recognition versus disclosure of retirement benefits, and incremental value relevance of IFRS to Japanese GAAP in individual accounting standards are examined. Finally, to provide in-depth evidence, the information content of key audit matters (KAM) is surveyed using comprehensive textual analysis.

# The IASB's ongoing and future work plans

**Rika SUZUKI**

The International Accounting Standards Board

This paper describes the International Accounting Standards Board (IASB)'s ongoing developments of the International Financial Reporting Standards (IFRS) and the outlook for the future work plan for the five years starting in 2022. It summarises my presentation for the commemorative session at the 38th Annual Meeting of the Japanese Association for International Accounting Studies.

First, the paper explains the status of three major IASB projects. Regarding Management Commentary Project, the IASB published the Exposure Draft IFRS Practice Statement 1 Management Commentary in May 2021. It proposes a comprehensive framework aligned with the recent innovations in narrative reporting and the Conceptual Framework for Financial Reporting revised in 2018. Regarding goodwill and impairment project, the IASB aims to improve the information companies provide to investors, at a reasonable cost, about the acquisitions those companies make. Better information should help investors hold a company's management more effectively to account for its acquisition decisions. The IASB tentatively decided to continue aiming at the above objective. Regarding the Primary Financial Statements project, we continue our redeliberation intending to improve how

information is communicated in the financial statements, focusing on information in the statement of profit or loss.

Second, the paper introduced the outlook of the future work plan for the IASB. The IASB undertakes public consultation on its activities and work plan every five years to determine the strategic direction and balance of the IASB's activities and identify new financial reporting issues that the IASB should prioritise in its work plan. To gather public stakeholders' views, the IASB published a request for information on the Third Agenda Consultation in March 2021. In the IASB's standard-setting activities for 2022 to 2026, the post-implementation reviews of the significant IFRS accounting standards such as IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers, and IFRS 16 Leases will be the critical components for the future work plan. The IASB considers that the academic literature provides valuable evidence for its deliberation throughout a whole process of the post-application review of each standard. Therefore, this paper offers the illustrations of some topics for academic research and analysis beneficial for the IASB's post-implementation review for those three standards.