

V Summary of Articles

## Transferring of Accounting Standards: The Japanese View

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The EU legislation was promulgated in 2002. Starting in 2005, it required companies listed in European securities markets to use IFRSs as adopted by the European Union in their consolidated financial statements. In the period 2005-2020, at the time of EU initiatives toward IFRS development, Japanese accounting literature devoted a lot of effort to discussing mandatory adoption. Since this time, the impact of Japan's stance on accounting setting has been a major issue. In 2023, the voluntary application period passed over a decade.

The symposium aims to debate the issues that will advance our understanding of international accounting standard setting from a broad range of perspectives. We intend to discuss going beyond mandatory adoption. There will be a highlight and a focus on the implications of 'truly voluntary' adoption of IFRS. This is crucial in broadening the relevance of international accounting research in Japan. The symposium considers the questions below:

- What does the globalization mean for research?
- What are the potential benefits of globalization for accounting setters?
- In what ways can (Japanese) accounting scholars and accountants support their colleagues with IFRS implementation projects in Asia?
- Do we still need international standards in

the current environment?

- If so, how can future research in the voluntary adoption field help lead the way?

Outline of symposium is as follows. Firstly, Professor Sadako Inoue look at 'globalization through the application of accounting standards (e.g., IFRS)' and the arguments used to justify or not justify it. Participants hear the key findings that demonstrate Japan's position as well as the issues of the approaches used by the accounting setters. Next, Professor Masako Saito, Asia Fellow of the Japan Foundation, talk about her first-hand experience developing teaching materials for undergraduate courses in Indonesia. This session also discusses what are critical success factors and the achievements (or otherwise) of the IFRS education in emerging countries in general. Mr. Takatsugu Ochi's address is about an analysis of IASB's standards setting process as well as highlighting future research opportunities for Japanese accounting scholars. Professor Tadanori Yosano contributes to the discussion by the panelists.

Note:

Entitled 'Transferring of Accounting Standards', this symposium discusses the transfer of accounting standards and/or technologies from one country to another. Transfer includes mutual activities and movements.

# Sociological Study on Conviviality between IFRS and Local GAAP :

## Focusing on the Concept of *Tabunka Kyosei*<sup>(1)</sup>

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This paper focuses on the Japanese accounting system and clarifies how the multiple accounting standards accepted for application coexist. Therefore, using the *tabunka kyosei* concept in multiculturalism, we construct a *kyosei*<sup>(2)</sup> model of accounting standards and examine the current state of the Japanese accounting system based on it.

As a result, the voluntary application of IFRS in preparing consolidated financial statements is positioned as *kyosei* with domestic standards predominance (Hierarchy type), and the application of US GAAP is considered as *kyosei* with avoidance of foreign standards (Aversive type). Their *kyosei* phases show to be different. In addition, when looking at the various standards required for the preparation of individual financial statements, all of them are local standards, and the application of foreign standards (IFRS for SMEs) is not permitted; in other words, a situation of local standards-oriented *kyosei* (Elimination type). Thus, each foreign standard accepted for application under the Japanese accounting system is in a different phase in terms of its *kyosei* symbiotic relationship with Japanese standards.

Furthermore, because the voluntary application of IFRS is categorized as a *kyosei* with domestic standards predominance, it is changeable into a struggle for survival. Therefore, in the future, if a stable *kyosei*

between IFRS and local GAAP (Japanese standards) is expected to be maintained in Japan, market-based *kyosei* (Conviviality) through competition that does not bring a struggle for survival may be indicated as a future direction (option).

However, in the modern aspect of globalization of accounting standards, it is necessary to carefully consider whether market-based *kyosei* (Conviviality) is the only realistic solution. In that case, it is necessary to carefully consider the direction of system formation with an awareness of the relationship with the capital market, including cases where IFRS is applied by dividing the market (e.g., Switzerland) and specific issues that have already emerged.

### Notes:

- (1) The concept of *tabunka kyosei* in Japan, is a term translated in varied ways into English, including “multicultural co-existence” and “multicultural co-living” (Kashiwazaki[2016], p.1).
- (2) In this paper, *kyosei* is used in a broad sense, including coexistence, co-living, and live-and-let-live systems.

### References:

- Kashiwazaki, C. [2016], “Multicultural Discourse and Policies in Japan: An Assessment of *Tabunka Kyōsei*”, *The Gakushuin Journal of International Studies*, Vol.3, pp.1-15.

# Technology Transfer of Accounting Education: A Potentiality of International Collaboration in Research with Japan and Indonesia

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In international accounting research, one of significant issues is the development of highly sophisticated accounting professionals who play economic activities in the global society. We face new challenges in accounting education through international cooperation rather than that of one country. International accounting standards have been as the single set over the countries. The purpose of this research is to study for the potential for technology transfer of accounting education, applied by the experiences and suggestions on the Indonesian field survey. This research tries to arrange the theories for technology transfer by the two perspectives of “international accounting” and “international cooperation in education,” and then to show you the proposal for the transfer into the Indonesia of accounting education in Japan. The prior researches, such as Bedford [1966] and Parker [1989], indicated that the scope of technology transfer in accounting could historically include the technology itself as well as the concept or the system, through people, over the society and boundary. Japan’s international cooperation in education has been expanded, based on the modernization theory into the developing countries to facilitate the educational environment and technology transfer. In the recent, those

activities have been shifted to the field of higher education, focusing on the “overseas expansion of Japanese-style education.” The two perspectives of “international accounting” and “international cooperation in education,” give us the new phase as the international transfer of accounting education, which will lead to fulfill the accounting education to nurture the new generation. We in Japan as the one nation of developed countries, can cooperate in the effort to foster the future international accounting people through international academic contribution. How can we develop international accounting education in the world? And what is the means or contents of the transfer of Japan’s accounting technology to the developing countries? In the process, we need to keep building close relationships between international collaborative researchers, carrying a series of field studies, and getting the implications. It is expected that our challenge, as exporters of technology transfer in accounting education, in international accounting research, could provide high-quality and proactive support and contribution to higher educational institutions of ASEAN countries including Indonesia, in the mutually beneficial economic relationship with Japan.

# Limitations of Mandatory Adoption of IFRS Accounting Standards and Meaning of Voluntary Adoption

**Takatsugu OCHI**

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More than 10 years have passed since Japan started voluntary adoption of IFRS Accounting Standards in 2009, and the market capitalization of companies adopting them now accounts for a majority of the companies in the JPX-Nikkei 400 index. Rather than mandatorily adopting IFRS Accounting Standards, Japan has adopted a unique measure of voluntary adoption that allows companies to freely choose between Japanese GAAP and IFRS accounting standards. However, the meaning of such a measure is not always clear. This paper summarizes the current use of IFRS Accounting Standards around the world and analyze voluntary adoption in Japan. With such analysis, this paper explored the meaning of voluntary adoption of IFRS Accounting Standards in Japan based on findings from previous research.

As a result, it was confirmed that (1) mandatory adoption of IFRS Accounting Standards has spread to more than 140

jurisdictions, but covers only half by jurisdictional GDP basis, (2) consistent application of IFRS accounting standards while maintaining its quality is a difficult task to balance with mandatory adoption to major domestic companies in each jurisdiction, and (3) market participants' perceptions of voluntary adoption in Japan are positive.

It was concluded that, in order to maintain the quality of IFRS accounting standards and achieve consistent adoption, voluntary adoption can also be evaluated positively in that global companies engaged in cross-border transactions that require strict comparability can freely choose IFRS Accounting standards and adapt them to the global operating environment. Now, more than 10 years after voluntary adoption of IFRS Accounting Standards in Japan, we believe it is necessary to correctly assess the meaning of voluntary adoption of IFRS Accounting Standards in Japan and to send a clear message to the international market.

# An Analysis of the Transition of the Theoretical Foundation of Pension Accounting and the Adequacy of Fair Value Accounting: A Focus on Japanese Regulation and IAS 19

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In response to the demand for enhanced information disclosure following the “Financial Big Bang” and the convergence with International Financial Reporting Standards (IFRS), Japanese pension accounting was newly established and has been considerably revised. This study clarifies the significant changes in accounting treatments and the transition of the theoretical foundation in Japanese pension accounting. This study also identifies the main differences between current Japanese regulation and the International Accounting Standard (IAS) No. 19 and the difference in theoretical foundations of them.

The *Accounting Standard for Retirement Benefits* issued in 1998 was based on historical cost accounting, emphasizing the principles of delayed recognition, smoothing, and matching of revenues with expenses. In contrast, the revised standard issued in 2012 has incorporated some concepts of fair value accounting, such as the immediate recognition

of actuarial gains and losses in the financial statements. Despite such a shift in the theoretical foundation, the current Japanese regulation tends to emphasize more on historical cost accounting, while IAS 19 puts more weight on fair value accounting.

It is nonobvious that fair value accounting is the best approach to reporting retirement benefits. This study examines the adequacy of fair value accounting by applying the five principles developed by Nissim and Penman (2008): the one-to-one principle, the matching principle, the information conservation principle, the no-arbitrage estimation principle, and the truing-up principle. The results indicate that none of the five principles is satisfied. This suggests that fair value accounting-oriented pension accounting may not be adequate to achieve the objective of reporting to shareholders. In contrast, historical cost accounting may fulfill a necessary function to achieve that objective.

# Initiatives Regarding Sustainability Disclosure Standards in Japan

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Sustainability Standards Board of Japan

This paper provides an overview of international developments in sustainability disclosure standards as well as an overview of Japanese developments of sustainability disclosure standards. Regarding international developments, this paper summarizes the establishment of the ISSB and its main features, followed by a summary of the proposals made by the ISSB, the proposals in the United States and the proposals in Europe. Regarding Japanese developments,

this paper summarizes the establishment of the SSBJ and its main features, followed by a discussion of how the SSBJ is likely to develop sustainability disclosure standards in the future. This paper is based on the presentation made at the 39<sup>th</sup> Annual Conference of the Japanese Association of International Accounting Studies but has been updated to reflect developments made after the Conference.

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

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

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**Shigeho NAKAYAMA** (Aichi Gakuin University)

**Xinyun MIAO** (Sugiyama Jogakuen University)

**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 factors that affect accounting practices 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 accounting Big Bang 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 a Final Report, entitled “The Historical Development and Challenges of Japanese Accounting Standards and its Related Systems” at the 39th Annual Meeting

of the Japanese Association for International Accounting Studies (Nihon University, October 9, 2022). As mentioned in the Final 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 relationship between disclosure on Sustainability and ESG evaluation, the effects of recognition versus disclosure of pension liabilities on market participants’ decision-making, incremental value relevance of IFRS to Japanese GAAP in individual accounting standards, and the effect of voluntary adoption of IFRS on corporate dividend behavior are examined. Finally, to provide in-depth evidence, the effect of foreign language on the ethical judgments, and the information content of key audit matters (KAM) are surveyed using experimental research design and comprehensive textual analysis, respectively.