

# Practical issues and challenges for the adoption of the IFRS

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## Keynote lecture

### IFRS and the mission of the Exchange

*By Takafumi Sato, President of Japan Exchange Regulation and Trustee of the IFRS Foundation*

#### **High quality Accounting Standards are an International Public Good**

Financial information that provides the performance on listed companies accurately and in a timely manner is indispensable to the reliable fair price information required for the Exchange. A high quality and clear accounting standard with characteristics such as consistency, comparability and internationality is a “common yardstick”, which is a crucial item of infrastructure to support the credibility of the capital market.

Because foreign investors account for a large portion of the trading volume and of stock holdings in the Tokyo Stock Exchange market, Japan’s market has become internationalised. In addition, when you look around the world, inter-market competition is intensifying and Japan is confronted by the challenge of how to survive this market competition on a global scale. The mid-term management plan of the JPX (Japan Exchange Group) is aimed at becoming ‘the Most Preferred Exchange in the Asian Region’ and includes the promotion of the use of IFRS as an important point. The promotion of the voluntary adoption of IFRS is also specified in the ‘Japan Revitalisation Strategy’ of the government. So, in terms of IFRS, the strategy of JPX and that of the Japanese government are synchronised and there exists a cooperative relationship between them.

JPX has started the calculation of the new stock price index, the JPX-Nikkei Index 400, from January, 2014. JPX has also added the use of IFRS to the criteria for the selection of issuer companies to be included in the index. Being included in those 400 companies will be an incentive to a listed company, because it not only gains prestige but also more buy orders are expected for the stock as an investment target. In addition, JPX has asked the listed companies to state their fundamental policy regarding the selection of accounting standard in the summary of financial statements for the fiscal year ending in March 2015 and later.

Amid the ongoing globalisation of the economy and enhanced cross-border nature of corporate activities, the necessity and the value of IFRS are growing rapidly. A single set of high-quality, global accounting standards can be described as an international public good. If we continue to stick to the Japanese domestic standard alone, we should remember that there will be a risk of isolation and increasing divergence from international accounting practice.

## Discussion 1

### Advantages of applying IFRS from the viewpoint of the CFO

*By Joji Okada, Chief Financial Officer, Senior Executive Managing Officer and Representative Director of Mitsui & Company Limited*

Mitsui & Company Limited formed the Steering Committee on the IFRS in December 2009 and started the introduction of IFRS with the aim of adoption from March 2014. One of the purposes of the adoption is the efficiency of the accounting procedure of consolidated financing reporting. For this purpose, the unification of the accounting language that is used in each affiliate company is absolutely imperative. IFRS, which has already been adopted in more than 100 countries, is familiar to overseas affiliates. Enhanced management of a consolidated group could be achieved by using IFRS as a tool to for intragroup discussions, because those discussions would be based on everyone using the same figures.

This is my personal impression, but IFRS is a strict standard in terms of management. Companies will have to make profits based on capital that is measured at fair value. I think that will be a higher hurdle for the companies. In the case of our company, the ROE and ROA fell as a result of an increase in the Investment account, and, as a result, an increase in the amount of own capital. In other words, IFRS requires self-disciplined, fair value-based management.

## Discussion 2

### Advantages of applying IFRS from the viewpoint of the analyst

*By Goro Kumagai, Senior Fellow of the Strategic Research Department at Mizuho Securities Co. Ltd., an incoming Vice Chair of the IFRS Advisory Council*

The presence of Japanese stocks in the world is waning, while the influence of foreign institutional investors in the stock market of Japan is increasing. In such circumstances, we should be conscious of the disadvantages of not reporting under international financial standards.

From the standpoint of international comparability, the use of IFRS is becoming the overwhelming choice in the main markets of Asia such as Hong Kong and Singapore. According to our preliminary calculations, foreign firms applying IFRS make up 23 per cent of all aggregate market capitalisation of the NY Stock Exchange in the United States, and we cannot ignore the fact that IFRS will become 'de facto standard' for global investment coming from the United States.

## Discussion 3

### Correspondence received on the Standard on Revenue Recognition, and challenges to it

*By Takatsugu Ochi, a member of the IASB, and Kazuo Yuasa, Corporate Executive Officer, Corporate Finance Unit of Fujitsu Limited and a member of the IFRS Interpretations Committee*

**Mr Ochi:**

In the new Standard for revenue recognition, the ‘transfer of control’ concept is used when an entity satisfies a performance obligation, which is a significant change from the previous ‘risks and benefits’ concept. What matters is that the new Standard will be used for concluding various contracts and for conducting business around the world. If you do not know the Standard, you will not be able to fully understand the new actions of your counterparty. Regardless of whether you have adopted IFRS or not, I would like everyone to look through the contents of the new Standard and see how it affects your own business.

IFRS is not something that is created overseas and then imposed upon Japanese users. I would like you to understand that these are Standards that we have played a part in creating.

**Mr Yuasa:**

There have been some negatives comments such as ‘the transition costs are high for switching to IFRS’, or ‘it is not easy to see the advantages of adopting’, but I believe that real benefits can be achieved depending on the approach taken. With such a positive perspective, I hope there will be more companies adopting IFRS at an early stage.

**These speeches were delivered at an [Nikkei Symposium](#) held on 1 December 2014.**