

Overview of IFRS Adoption Report

9th June 2015

Financial Services Agency, Japan

* This presentation is prepared under the sole responsibility of the presenter. All remarks represent the presenter's own views, and not those of the FSA.

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I. History and purposes of this survey

Japan Revitalization Strategy Revised in 2014

June 24th, 2014
Cabinet Decision

5-2. Stimulating financial and capital markets / Management of public and quasi-public funds, etc.

(3) Specific new measures to be taken

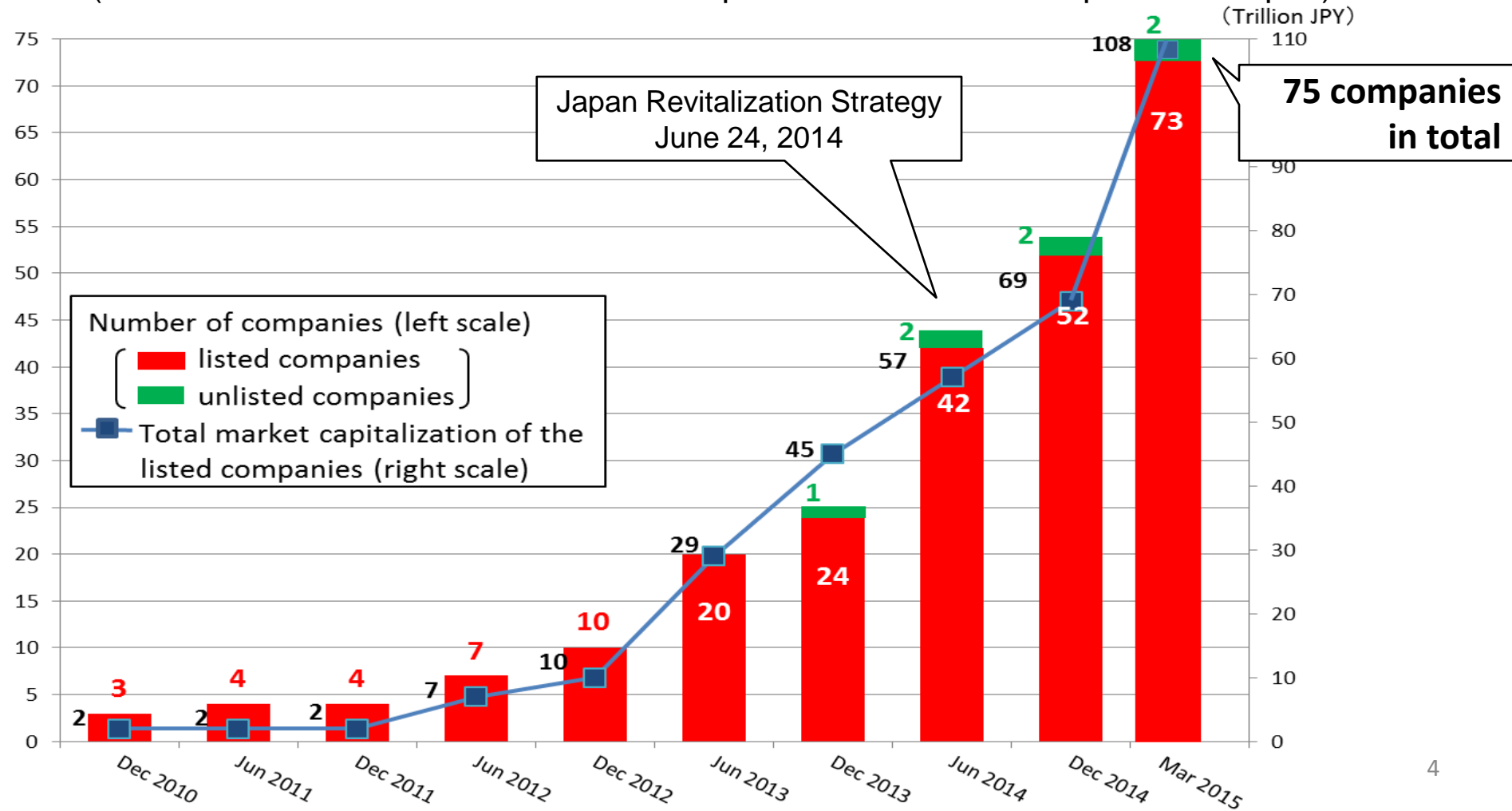
i) Vitalizing financial and capital markets

4) Promotion of an increase in the number of companies voluntarily adopting IFRS

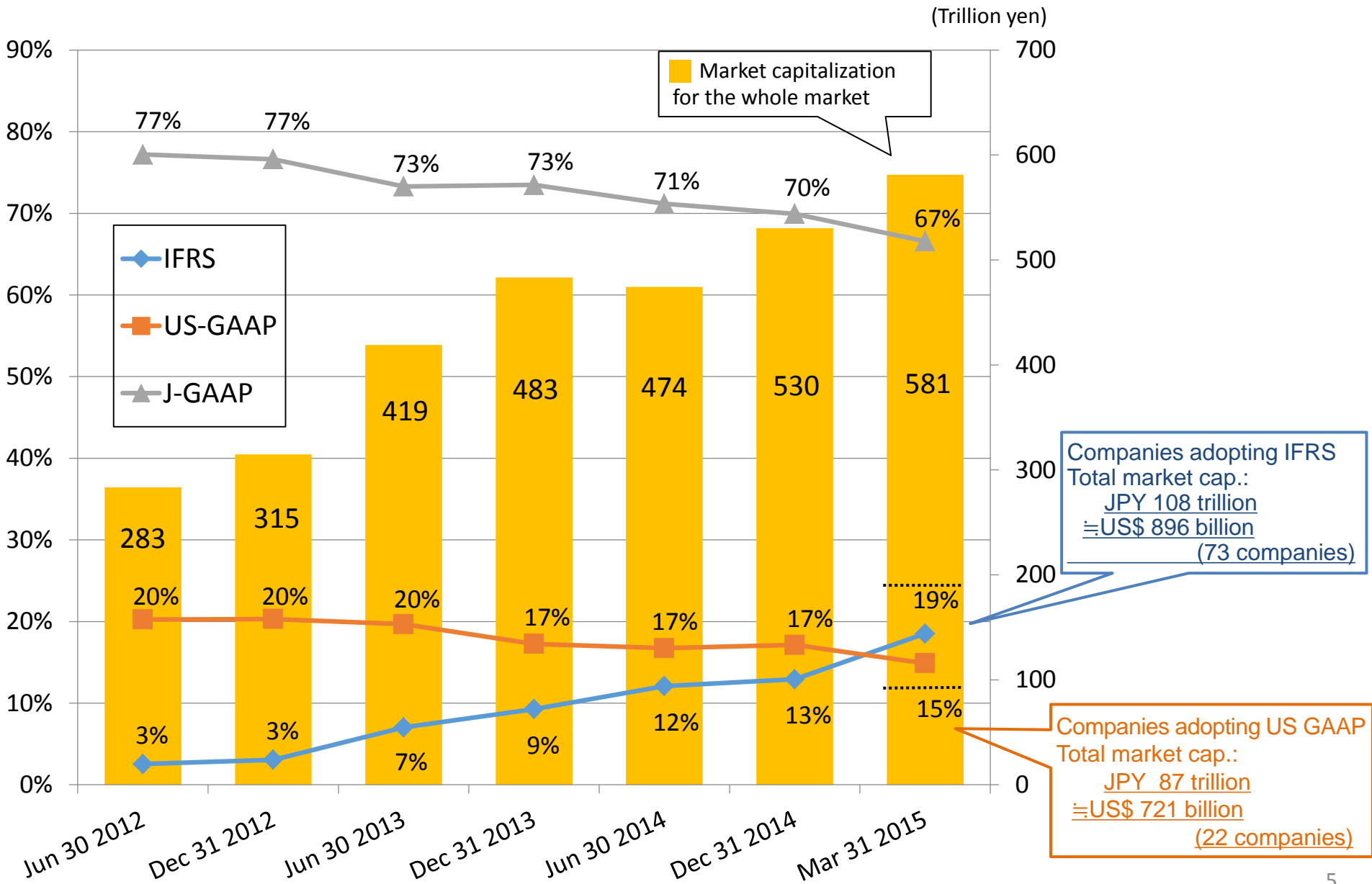
- the Government will conduct a fact-finding survey and interviews.
- It publishes its findings in the form of “IFRS Adoption Report.”

II. Present situation of companies adopting IFRS ①

- Japanese companies have been allowed to voluntarily adopt IFRS since the year to March 2010.
- The increase has accelerated particularly since June 24, 2014.
- Total Market Cap. : JPY 108 trillion≒US\$ 896 billion
(accounts for 18.5% of the total market capitalization of listed companies in Japan)



II. Present situation of companies adopting IFRS ②



II. Present situation of companies adopting IFRS ③

○ Companies voluntarily adopting IFRS cover 21 industry sectors.

※() shows the number of companies

- | | | |
|----------------------------------|-------------------------------------|--------------------------------|
| ▪ Electric Appliances(11) | ▪ Pharmaceutical(10) | ▪ Wholesale Trade(8) |
| ▪ Information & Communication(7) | ▪ Services(7) | ▪ Chemicals(5) |
| ▪ Transportation Equipment(5) | ▪ Machinery(3) | ▪ Glass & Ceramics Products(2) |
| ▪ Retail Trade(2) | ▪ Securities & Commodity Futures(2) | ▪ Other Financing Business(2) |
| ▪ Foods(1) | ▪ Oil & Coal Products(1) | ▪ Rubber Products(1) |
| ▪ Iron & Steel(1) | ▪ Nonferrous Metals(1) | ▪ Metal Products(1) |
| ▪ Precision Instruments(1) | ▪ Land Transportation(1) | ▪ Real Estate(1) |

○ There are 12 industry sectors with no IFRS adopters.

- | | | |
|--|-------------------------|----------------------|
| ▪ Fishery, Agriculture & Forestry | ▪ Mining | ▪ Construction |
| ▪ Textiles & Apparels | ▪ Pulp & Paper | ▪ Other Products |
| ▪ Electric Power & Gas | ▪ Marine Transportation | ▪ Air Transportation |
| ▪ Warehousing & Harbor Transportation Services | ▪ Banks | ▪ Insurance |

Note:

*1 This survey covers listed companies only. In addition to the above, two unlisted firms have adopted IFRS.

*2 The Tokyo Stock Exchange's industry sector categorization (33 sectors) is used here.

II. Present situation of companies adopting IFRS ④

75 in total as of end of March, 2015

● 73 Listed Companies

◆ Companies adopting IFRSs (38 Companies)

- | | | |
|--------------------------------|---|---------------------------|
| • JAPAN TOBACCO INC. | • SoftBank Corp | • Yahoo Japan Corporation |
| • FUJITSU LIMITED | • Rakuten, Inc. | • Mitsubishi Corporation |
| • MITSUI & CO., LTD. | • DeNA Co., Ltd. | • SBI Holdings, Inc. |
| • FAST RETAILING CO., LTD. | • SKYLARK CO., LTD | |
| • Monex Group, Inc. | • SEIKO EPSON CORPORATION | |
| • Asahi Glass Company, Limited | • Takeda Pharmaceutical Company Limited | ... |

◆ Companies publicly announced their decision to adopt IFRSs (35 Companies)

- | | | |
|---------------------------------|--|------------------------------|
| • HONDA MOTOR CO., LTD. | • TOSHIBA CORPORATION | • Hitachi, Ltd. |
| • DENTSU INC. | • DENSO CORPORATION | • LIXIL Group Corporation |
| • KDDI CORPORATION | • COOKPAD Inc. | • Japan Exchange Group, Inc. |
| • KONAMI CORPORATION | • KONICA MINOLTA, INC. | |
| • Sumitomo Riko Company Limited | • Mitsubishi Tanabe Pharma Corporation | |
| • Kao Corporation | • JX Holdings, Inc. | ... |

● Unlisted companies that are adopting IFRSs (2 Companies)

III. Scope and method of the survey and interviews

○ Survey targets

- Companies adopting IFRS : 40 companies
- Companies planning to adopt IFRS: 29 companies

Total: 69 companies
(as of February 28, 2015)

○ Survey methods

- Questionnaire survey
 - ⇒ Questionnaires were sent to all 69 companies (of which 65 sent back responses)
- Interviews
 - ⇒ Direct interviews with 28 of the 65 responding companies

IV. Primary merits of adoption of IFRS

1 “Sophistication of business management”

〔the most common reason, cited by **29 companies**:
44.6% of respondents〕

2 “Improved comparability with domestic and foreign competitors”

“Makes explanations to foreign investors easier”

〔cited by **21 companies**: **32.3%** of respondents〕

3 “Better reflection of performance”

〔cited by **6 companies**: **9.2%** of respondents〕

V. Process and internal system for the transition to IFRS

○ Various parties take initiative in transition to IFRS

➤ “Top-down initiative”

CEO or CFO was directly involved

➤ “Bottom-up initiative”

Accounting department launched a project for the transition to IFRS.

○ Company-wide involvement in the transition to IFRS

➤ A parent company takes the initiative to transition to IFRS.

➤ Management recognizes accounting issues as “a company-wide project”.

VI. Transition costs

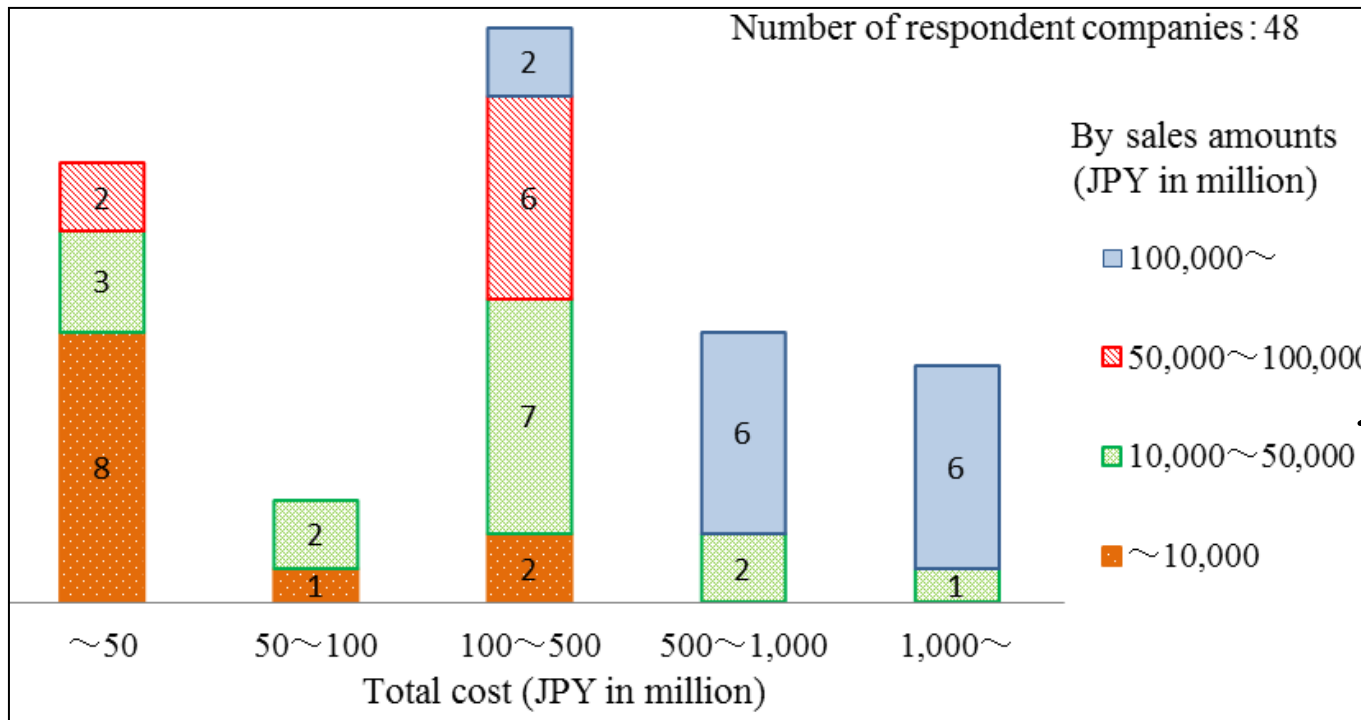
○ Costs for the transition to IFRS vary depending on various situations.

➤ **Company Size**

- Large with a great number of subsidiaries ⇒ relatively high
- Small, a single industrial category ⇒ low

➤ **Objective or merits of IFRS introduction**

- comparability with competitors } ⇒ Cost can be dramatically low.
- Facilitating explanation to investors } ⇒ Only system modification for tailoring accounting entries is required.



Number of companies by total costs needed for transition to IFRS

VII. Other challenges in adoption of IFRS

- **Treatments of particular accounting standards**
- **Training and securing adequate personnel**
- **Introduction or updating of accounting systems**
- **Establishment of internal controls**



Solutions

develop and bring up IFRS experts

- ✓ in-house training
- ✓ on-the-job training
- ✓ acceptance of employees from IFRS-adopting overseas subsidiaries

VIII. Conclusion

- **Merits of the adoption of IFRS**
 - sophistication of business management
 - improved comparability
 - makes explanations to foreign investor easier
 - better reflection of performance

- **Costs for adopting IFRS**
 - size of companies
 - primary reason for adopting IFRS

- **Enlarging the number of accounting experts**

- **Enrich connections with other companies**
 - analysis/utilization of other companies' cases

Thank you!

Financial Services Agency
Government of Japan

<http://www.fsa.go.jp/en/index.html>