

Role of Taxonomy and Data users Our workshops activities in Japan

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Objective and Background of Our Workshops

- **Objective**

- In order for the IFRS Financial Statements and IFRS Taxonomy to meet with the users' needs, what is needed? Since various types of users in the market, we also aim to share the discussion on how and what kind of data should be provided and by whom. See next slide

- **initially started as Working Group in CFA JAPAN joined with a voluntary study group of XBRL users (information providers).**

- **“Usage of IFRS data has problems”**

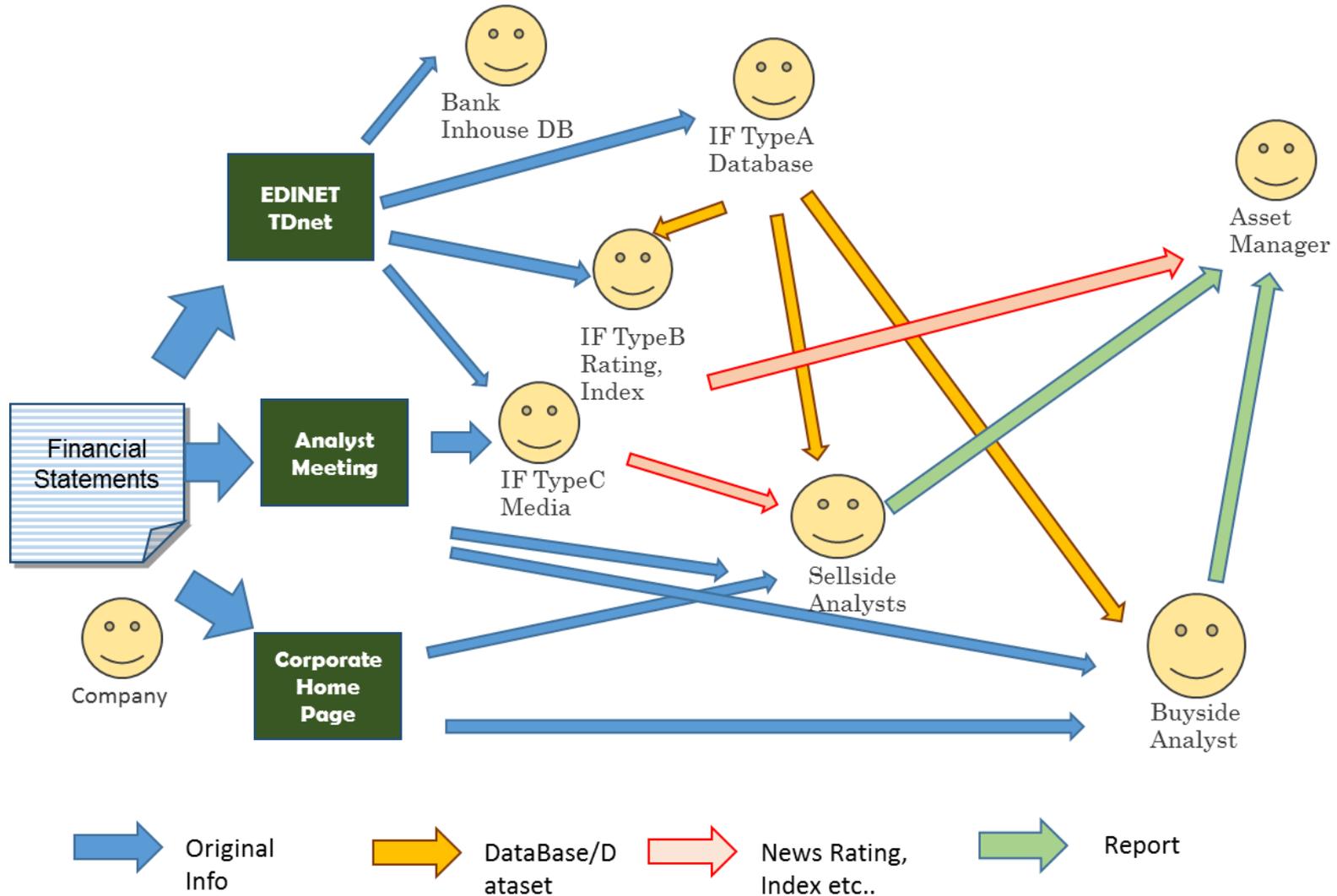
- Currently, various attendees who felt difficult to use IFRS disclosed data have joined, including buy-side (asset manager, analyst, insurance, etc.), sell-side (analyst, strategist), bank (analyst, data manager of in-house database), information providers, media, IR/Finance division of the preparers, CPA, etc.
- Each time, around 35 attendees... number is increasing. 1st-8th total 70-80.

- **Regulators, stock exchanges from Asia etc. are invited (Webex)**

- interest in investor's voice and sharing of difficulties in IFRS disclosure

(cont'd)

Supply chain of IFRS financial information



The 8th workshop, 12th May 2016

Theme (the 8th workshops)

- From previous workshops, We realized that IFRS financial statements are **NOT easy to pick up some useful data.**
- We identify some disclosure which has some problems, consider the reason behind the problems, find the solution and share them with the IASB members and staff.

AGENDA

1. Sharing the knowledges which is necessary for today's discussion.
2. Views on the problematic disclosure cases
 - From analysts and information providers
 - From preparers
3. Discussion

Agenda 1 : 1.Sharing the knowledge *necessary for today's discussion*

1. Usages of financial data by analysts and investors

- **Estimate** company's future performance and **evaluate** the corporate value
- Relative evaluation in the sector, or universe
- **Historical comparison** to find any abnormality/irregularity.

2. Example; Discounted Cash Flow (DCF) method

Free Cash Flow Table

	1 years after	2 years after	3 years after	4 years after	5 years after
Net Sales					
(-) Cost Variable (Net Sales x ratio)					
(-) Cost Fixed					
(+) Depreciation Amortization					
(-) Tax (Net Sales x nn%)					
(-) Increasing Working Capital					
(-) Investment PPT etc					
FCF					

* Increasing Working Capital(WC) = ending balance of WC - beginning balance of WC
 WC = Current Asset - (Current liability - shortterm borrowing)

DCF Method

Current Company Value =

$$\frac{\text{FCF 1 years after}}{1+WACC} + \frac{\text{FCF 2 years after}}{1+WACC} + \frac{\text{FCF 3 years after}}{1+WACC}$$

$$+ \frac{\text{FCF 4 years after}}{1+WACC} + \frac{\text{FCF 5 years after}}{1+WACC} + \frac{\text{Cont}}{1+WACC}$$

*WACC =

* Data which is needed for DCF Method

- ✓ Future cash flows (for 5-10 years) and discount rate (the company's WACC).
- ✓ The first step to estimate future cash flows, is to estimate future revenue, taking into account of operating profits in past years (10-20 years movement) and also the market, economy and industry situation.
- ✓ The second step is to estimate costs which is to be deducted from future revenue. By looking at past 10-20 years' variable costs and fixed costs, the analysts determine the cost ratio (variable and fixed cost ratio) and multiply it with the estimate revenue to get the cost estimation.
- ✓ It is also necessary to estimate future capital investment in order to estimate future cash flow. The analysts look at the past 10-20 years asset and liability (ration of current and non-current ratio), estimate capital investment to be arisen in future and then put those data on the table to compute future cash flows.

Agenda2: Views on problematic disclosure cases

-Discussion seeing sample financial statements

-Summary opinions

1) Problems in analyzing data with DCF or similar model – Views from information providers

- Not possible to get the “current and non-current” ratio when company (except bank) choses the liquidity order for the balance sheet presentation
- Difficult to get the variable and fixed cost ratio when company choses the income statement classification based on their nature rather than their function within the entity.
- While IFRS requires more disclosures in the notes than in the primary financial statements, the information in the notes are not so much comparable with other entities or on the chronological basis as they are classified differently from the primary financial statements or not disclosed in the interim financial statements.

2) Problems in analyzing data with DCF or similar model – Views from analysts

- Difficult to estimate future revenue at the base level (ie sustainable level) without subtracting extraordinary items.
- If extraordinary (or other) income is offset against extraordinary (or other) loss, it would be difficult to see the situation of business.
- Difficult to compute a cost ratio precisely without having detailed information on the cost structure.

3) Problem relation between investors and companies

- If definition of account item (name) is not clear, it is difficult to have effective communication with company.
- IR person sometimes cannot answer to the question, Cause the accounting Standard becomes more difficult.

Agenda 3. Discussion

- Opinion for improvement

- Companies tend not to care (or difficult to consider) whether users are able to understand the financial data easily or not but just care whether standard allows it or not. **It is important for the users and the preparers to share the information regarding the effect on the disclosures** such as a case where users are unable to get the necessary information when the preparers disclose some information on a “net” basis (after offsetting income and expense).
- We understand that the company wants to tell “its own story” but, as analysts are also expected to detect the accounting fraud and make fair valuation of the company, the standard should prescribe more specifically and precisely what accounting items must be disclosed on the notes to the financial statements.
- **It is difficult to have an effective conversation between investors and companies, if the accounting items (account names) are not defined clearly.**

However IFRS is principle based accounting standard. We need different solutions. Such as

- 1) Building **good practice** with sharing tasks between the local regulators and the IASB,
- 2) **Creating detail rules** to be published by the local regulators, or
- 3) Adding detail rules to the IFRS Standard by the IASB.

For better taxonomy...

Good Practice

In Japan, the Japanese FSA issued “IFRS Disclosures Casebook ” at April 2016. (available only in Japanese). One of the strategists (attendees to the Workshop) commented “It is useful. I wish the IASB could make the similar one, as a global version”.

<http://www.fsa.go.jp/news/27/sonota/20160331-5/01.pdf>

The disclosure detail (eg casebook or regulation) needs to be discussed before taxonomy is discussed.

The standard defines the accounting items clearly and separately the disclosure rules or good practice should determines how they should be presented and disclosed in the financial statements.

- ✓ Depends on how accounting items are grouped, the disclosure on net basis looks as if it is on gross basis. As this would lead to misunderstanding of financial data, the standard should prescribe it more strictly.
- ✓ Temporary (non-recurring) profit / loss item must be disclosed in the primary financial statements but, even if they are disclosed in the notes, they must not be omitted. We need such kind of rules.

Without those discussions, Digital reporting won't work efficiently.

Appendix1) Sample IFRS financial statements issued by Japan FRS

IFRSに基づく連結財務諸表の開示例

2016年3月31日
金 融 庁

Cover page.
Total is XX page

PL

II. 連結財務諸表本表 ○○株式会社

連結財政状態計算書

(単位: 百万円)

注記	2015年3月31日	2016年3月31日
資産		
流動資産		
現金及び現金同等物	8	
営業債権及びその他の債権	9	
棚卸資産	10	
その他の金融資産	11	
その他の流動資産		
(小計)		
売却目的で保有する資産	12	
流動資産合計		
非流動資産		
有形固定資産	13	
のれん	14	
無形資産	14	
投資不動産	15	
持分法で会計処理されている投資	16	
その他の金融資産	11	
繰延税金資産	17	
その他の非流動資産		
非流動資産合計		
資産合計		

(続く)

Left: BS asset,
Right : Equity and
Liabilities

II. 連結財務諸表本表 ○○株式会社

連結財政状態計算書 (続き)

(単位: 百万円)

注記	2015年3月31日	2016年3月31日
負債及び資本		
負債		
流動負債		
営業債務及びその他の債務	18	
社債及び借入金	19	
その他の金融負債	20	
未払法人所得税等		
引当金	21	
その他の流動負債		
(小計)		
売却目的で保有する資産に直接関 連する負債	12	
流動負債合計		
非流動負債		
社債及び借入金	19	
その他の金融負債	20	
退職給付に係る負債	22	
引当金	21	
繰延税金負債	17	
その他の非流動負債		
非流動負債合計		
負債合計		
資本		
資本金	23	
資本剰余金	23	
利益剰余金		
自己株式	23	
その他の資本の構成要素		
親会社の所有者に帰属する持分合計		
非支配持分		
資本合計		

PL Notes
Other revenue

II. 連結財務諸表本表 ○○株式会社

連結損益計算書

(単位: 百万円)

注記	自 2014年4月1日 至 2015年3月31日	自 2015年4月1日 至 2016年3月31日
売上収益	6,25	
売上原価		
売上総利益		
販売費及び一般管理費	26	
その他の収益	27	
その他の費用	27	
営業利益		
金融収益	28	
金融費用	28	
持分法による投資利益	16	
税引前利益		
法人所得税費用	17	
当期利益		
当期利益の帰属		
親会社の所有者		
非支配持分		
当期利益		
1株当たり親会社の普通株主に帰属する 当期利益	30	
基本的1株当たり利益 (円)		
希薄化後1株当たり利益 (円)		

その他の収益

(単位: 百万円)

	自 2014年4月1日 至 2015年3月31日	自 2015年4月1日 至 2016年3月31日
受取賃貸料		
補助金収入		
固定資産売却益		
その他		
合計		

その他の費用

(単位: 百万円)

	自 2014年4月1日 至 2015年3月31日	自 2015年4月1日 至 2016年3月31日
減損損失		
固定資産除却損		
その他		
合計		

Opinion from attendees, What expects for the IASB?

Companies, service providers for company and auditors

- Interesting
- I was able to understand how data user feel
- I like to hear various data user's voice.
- I hope to hear foreign investor's opinions.
- Communication between company and investors is important.

Investors and analysts

- We would like to communicate the users' opinions to the IASB?
- We believe that "Disclosure" is more important than "Standard". How other domestic users think about it?
- Classification current /non-current and net disclosure are different level discussion, so the IASB may feel it "skip topic".

What we expect for the IASB..

- We hope IASB to make a similar disclosure casebook like the one published by the Japanese FSA.
- I wish the IASB to continue providing this kind of opportunity to communicate between investors and companies.

Appendix) XBRL in Japan for Capital market

System	Purpose	Scope of XBRL		Main user
		2008	2014	
TSE TDnet	Earning digest Simple summary Corporate actions etc	Summary by TSE taxonomy PFS by FSA taxonomy	Only technological change. Inline XBRL and dimension	
FSA EDINET	Security reports (after audit) Large volume reports , TOB reports, registration etc...	PFS = Primary Financial Statements	All security reports (PFS, Notes, segment information, MD&A governance...)	

XBRL generation	Purpose of use
2008-- Summary / PFS Traditional instance, no dimension	A substitute of manual input Speediness Accuracy
2014--- Full XBRL (Only FSA) Non financial information	To access additional Information
Future?	