

Survey on Accounting Standards

In June 2010, the Securities Analysts Association of Japan conducted an opinion survey of its members regarding accounting issues. A questionnaire was sent by e-mail to 17,363 members who had registered their mailing address. Some 690 responded, making for a 4.0% response ratio. Following are the survey questions and answers.

(In all tables below, plain figures represent number of respondents selecting that particular answer and percentages these numbers as a percentage of total respondents.)

1. Opinions on Accounting Standards and Corporate Disclosure

(1) Have Japan's accounting standards improved compared to five years ago?

A Improved a lot	B Improved a bit	C No change	D Worsened a bit	E Worsened a lot	Total
145	444	78	21	2	690
21.0%	64.3%	11.3%	3.0%	0.3%	100%

(2) Has disclosure by Japan's listed companies improved compared to five years ago?

A Improved a lot	B Improved a bit	C No change	D Worsened a bi	E Worsened a lot	Total
195	419	54	20	2	690
28.3%	60.7%	7.8%	2.9%	0.3%	100%

(3) For those who answered A or B to question (2) above, what are the reasons for the improvement (plural answers possible)?

A Improvement in accounting standards	313	45.4%
B Government/stock exchanges urged changes	152	22.0%
C Corporations changed their attitude	476	69.0%
D Investors became more demanding	161	23.3%
E Other	3	0.4%
Total	690	100%

2. Adopting IFRS

(1) *In general, do you think all countries and regions should adopt a single set of accounting standards?*

A Yes—the globalization of business reduces the importance of domestic-only standards and there is an advantage in making inter-company comparison easy.	340	49.3%
B A cautious approach is necessary as, even after adoption of a single set of standards, differences may remain in implementation including auditing.	278	40.3%
C Not desirable as accounting standards should reflect local business customs.	59	8.6%
D Other	13	1.9%
Total	690	100%

(2) *IFRS adoption*

IFRS, already adopted by the EU, are expected to be adopted by more than 100 countries/regions worldwide. The US will make a decision in 2011 and Japan in 2012. If adopted, Japan will switch to IFRS in 2015 or 2016. What is your opinion of Japan's adoption of IFRS?

A Japan should adopt even if the US decides not to.	404	58.6%
B Japan should adopt if the US does.	182	26.4%
C Japan should not adopt IFRS.	59	8.6%
D Other.	45	6.5%
Total	690	100%

(3) *Concerns in adopting IFRS*

What are your concerns regarding Japan's possible adoption of IFRS (plural answers permitted)?

A Standards that are significantly different from current Japanese ones are being proposed.	334	48.6%
B The IASB will perhaps not be able to maintain political independence and standards will be developed based on the opinions of non-Japanese countries/regions such as the EU and the US.	350	50.7%
C Even after global adoption, significant differences may remain in financial reporting because of divergence in the application of standards and varying auditing level by countries/regions.	350	50.7%

D	No concerns.	51	7.4%
E	Other.	33	4.8%
Total		690	100%

3. On Individual Accounting Issues

(1) Net income and recycling

In Japanese and US GAPP, items recognized in other comprehensive income (OCI), such as valuation gains on available for sale securities, are recognized on the P/L statement when they are realized through sale, etc. This procedure is called recycling or reclassification. Recycling has the advantage of providing a clean surplus relationship (over the life of an entity, total cash flow, net income and comprehensive income should be exactly the same), but some say it has the disadvantage of making net income manipulation possible. The IASB proposes prohibiting the recycling of sales gains and losses relating to OCI equities, actuarial differences in defined benefit pension plans, etc.

In our previous survey five years ago, operating income was rated as the single most important performance indicator. Comprehensive income will soon be shown prominently in Japanese financial statements. What will be desirable characteristics of net income when comprehensive income is prominently displayed?

A	Operating income shows cash flow from business, while comprehensive income shows performance for the period incorporating risks stemming from asset value changes. Net income, which stands between the two indicators, should be the bottom line of realized income for the period before remeasurements. (Requires recycling)	372	53.9%
B	Net income should be the bottom line of sustainable performance. Hence, sales gains and losses on strategic equities and pension actuarial differences etc. should not be included. (Prohibits recycling)	278	40.3%
C	Other.	40	5.8%
Total		690	100%

(2) Minority interests

In IFRS and US GAPP, net income and comprehensive income show gross amounts that include the portion belonging to minority shareholders. A breakdown of parent company and minority shareholders is itemized

below gross amounts. What do you think of this?

A Parent company shareholders' income should be shown as it is information investors need to know.	209	30.3%
B All financial information, including assets, liabilities, revenue, and operating profit are gross numbers that include minority interests. Therefore, income should also be gross numbers with a breakdown itemized below.	441	63.9%
C Other	40	5.8%
Total	690	100%

(3) Leases

The IASB proposes putting all lease transactions on the B/S, abolishing the distinction between finance and operating leases. What do you think of this proposal?

A Current practices are rational as the nature of finance and operating leases is different.	272	39.4%
B All leased assets should be on the B/S as they are necessary to operate a business regardless of the format of the lease.	380	55.1%
C Other	38	5.5%
Total	690	100%

(4) Depreciation of goodwill

In IFRS and US GAPP, goodwill is not depreciated and only impairments are recognized (non-depreciation/impairment model). On the other hand, the Japanese standard requires mandatory depreciation within a specified period (impairments are also recognized). What are your thoughts on this point?

A Support the Japanese standard. Mandatory depreciation is rational as goodwill will deteriorate with time.	308	44.6%
B Support the non-depreciation/impairment model. Goodwill may not depreciate uniformly with time. Also, the non-depreciation/impairment model has an advantage in terms of international comparability.	340	49.3%
C Other	42	6.1%
Total	690	100%

(5) Capitalization of development outlays

IFRS distinguish between development and research outlays and

development outlays are not expensed but capitalized, to be depreciated later. On the other hand, in Japanese and US GAPP, both development and research outlays are regarded as expenses. Which way do you support?

A Development outlays can be regarded as the cost corresponding to sales revenue in later periods. Therefore, capitalization used in IFRS is rational.	208	30.1%
B Development outlays should be expensed as it is hard to distinguish between development and research outlays, and to determine depreciation periods and commencement.	441	63.9%
C Other	41	5.9%
Total	690	100%

(6) Valuation of financial instruments

The IASB permits using the amortization cost method for certain bonds and loans which are not held for trading purposes. The FASB proposes fair value measurement for these instruments (included in OCI and recycled when realized). Which method do you support, the IASB one or the FASB one?

A Support the IASB method which takes holding purposes into account.	438	63.5%
B Support the FASB method which applies fair value measurement to all financial instruments.	223	32.3%
C Other	29	4.2%
Total	690	100%

(7) Valuation of strategic equities

The IASB proposes measuring strategic equities at fair value (included in OCI, not recycled upon sales). The FASB proposes measuring all equities at fair value and recognizing gains and losses on the P/L statement. Which method do you support, the IASB one or the FASB one?

A Support the IASB method. Recognizing fair value changes in strategic equities on the P/L would make net income too volatile.	264	38.3%
B Basically support the IASB method but sales gains and losses should be recycled to net income.	257	37.2%

C Support the FASB method.	137	19.9%
D Other	32	4.6%
Total	690	100%

(8) Cash flow statement (A)

Currently, most Japanese companies provide indirect method cash flow statements. The IASB and FASB propose mandatory disclosure of direct method cash flow statements. A direct method cash flow statement has the advantage of clearly showing cash flows with clients and vendors. However, many preparers are strongly opposed, saying that it is too costly. Some users prefer indirect method cash flow statements, as they better show changes in working capital and are more suitable for traditional financial analysis. Assuming either a direct or indirect method statement will be disclosed, which do you prefer?

A Direct method cash flow statement.	245	35.5%
B Indirect method cash flow statement.	256	37.1%
C Cannot decide at this moment.	189	27.4%
Total	690	100%

(9) Cash flow statement (B)

The IASB and the FASB not only require a direct method cash flow statement but also ask for indirect method information to be given in a note. Do you think this an improvement in financial reporting?

A Yes, a substantial improvement.	151	21.9%
B Yes, some improvement.	288	41.7%
C No, do not think it is an improvement.	198	28.7%
D Other	53	7.7%
Total	690	100%

(10) Expenses by nature

Income statements typically show expenses by function (i.e. cost of production, sales and administration expenses). The IASB proposes expenses be disclosed by nature (i.e. labor costs, advertising expenses). Do you think disclosure of expenses by nature is an improvement in financial reporting?

A Yes, a substantial improvement.	309	44.8%
B Yes, some improvement.	302	43.8%
C No, do not think it is an improvement.	52	7.5%
D Other	27	3.9%
Total	690	100%

4. Some Details about Yourself

(1) Which best describes your job?

A Analyst—Equity—Buy-side	41	5.9%
B Analyst—Equity—Sell-side	52	7.5%
C Analyst—Bond—Buy-side	15	2.2%
D Analyst—Bond—Sell-side	8	1.2%
E Portfolio manager	52	7.5%
F Economist, strategist, quantitative analyst	18	2.9%
G Other securities investments	65	9.4%
H Corporate loans	29	4.2%
I Other investments (real estate, pensions, consultants)	41	5.9%
J Financial institution, back office	79	11.4%
K Financial institution, corporate sales	65	9.4%
L Financial institution, retail sales	14	2.0%
M Investor relations, corporate finance/accounting	58	8.4%
N Other non-financial institution	40	5.8%
O Public accountant, tax accountant	32	4.6%
P Other	81	11.7%
Total	690	100%

(2) Which best describes your company?

A Securities company	171	24.8%
B Bank	135	19.6%
C Investment management company	92	13.3%
D Insurance company	62	9.0%
E Research institute	17	2.5%
F Consultants, rating agency	36	5.2%
G Pension fund	1	0.1%
H Other financial institution	12	1.7%
I Public accountant, tax accountant	23	3.3%
J Non-financial company	82	11.9%
K Other	59	8.6%
Total	690	100%