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This month's focus: **Reconsidering Impairment Accounting of Assets**

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The risk of a large amount of impairment losses being recognized is lower under Japanese GAAP as compared to IFRS—this is because goodwill is amortized under Japanese GAAP and not under IFRS. In addition, impairment losses are less likely to be recognized under Japanese GAAP as compared to IFRS because, under Japanese GAAP, impairment tests are not always required even when there is an indication of impairment. This, in turn, results in a less practical burden on impairment accounting under Japanese GAAP. Furthermore, disclosure requirements under Japanese GAAP are limited as compared to IFRS. Accounting for goodwill has been the subject of much discussion both within and outside Japan.

Recent Trend of Impairment Losses at Japanese Companies	<i>Michiko Idei</i>	15
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Based on impairment losses on PP&E and goodwill reported by Japanese companies in their consolidated financial statements during the last five years until the fiscal year ended 31 March 2017, analysis is conducted to identify trends and features common across industries and within industries. Actual disclosure of impairment losses is also reviewed for the same period, which indicates that current disclosures tend to be boilerplate, even in cases where relatively material losses were reported. Additionally, it is identified that the general requirement under Japanese GAAP to present impairment losses under extraordinary losses may not always be consistent with the actual pattern of losses reported during the period.

Market Reaction and Valuation of Impairment Losses: Empirical evidence from Japan	<i>Akihisa Kimura</i>	24
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This study focuses on market reaction and the valuation of impairment losses at Japanese firms. It finds that impairment losses on goodwill which is amortized are positively associated with abnormal returns, while impairment losses on goodwill which is not amortized and that of property, plant and equipment are not. It also finds that impairment losses on fixed assets, especially goodwill, are negatively associated with stock price. That is, market reaction and the valuation of impairment losses vary by type

of asset that is impaired.

Characteristics of Goodwill Impairments: Cases from firms adopting Japanese GAAP Aki Yamauchi 33

This paper studies TSE1-listed firms that adopt Japanese GAAP by examining the characteristics of goodwill impairments. Using March fiscal-end data during 2014-17, this paper examines differences among firms that report goodwill impairments of relatively significant amounts.

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Employee Satisfaction and Firm Performance Toru Yamada, CMA/Taketo Usui, CMA/Shingo Goto 75

This paper studies the operating and equity performance of Japanese firms that ranked among the most employee-friendly in an employee satisfaction survey conducted by Nikkei, Inc. We wonder if employee-friendly firms are also shareholder-friendly. Firms that ranked among the highest in the survey tend to exhibit higher profitability ratios and stock returns than their peers, and the outperformance persists for a few years following the release of the survey ranking. We also find that a portfolio strategy investing in these employee-friendly firms would have generated significant return outperformance in our sample.

Empirical Study on Managed Futures Yasuhiro Iwanaga 87

In this paper, we compare the time-series momentum in Hurst *et al.* [2013]with the primitive trend-following strategy in Fung and Hsieh [2001] as a factor explaining return on managed futures, and which shows that time series momentum explanatory power is better. Time-series momentum not only has high explanatory power in in-sample, but can

be used to build a replicated portfolio of managed futures. It also suggests that return on managed futures may be predictable by return dispersion.

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