

# Securities Analysts Journal®

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	<i>Chairman, The Securities Analysts Association of Japan</i>	

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This study provides an overview of ASBJ Statement No. 31 "Accounting Standard for Disclosure of Accounting Estimates" issued by the Accounting Standards Board of Japan (ASBJ) in March 2020 and a summary of discussions about the effects of the novel coronavirus pandemic issued by the same body in April 2020 and revised thereafter. It also discusses the relationship between disclosures prepared in accordance with the two aforementioned sources and observations regarding disclosure by entities for the fiscal year ended March 2021.

<b>Disclosure of Accounting Estimation Uncertainty in Financial Statements and KAMs</b> .....	<i>Sayaka Sumida</i>	17
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In Japan, 'Key Audit Matters' (KAM) started to be applied from the fiscal year ended 31 March 2021. As in other countries where KAMs were applied earlier, most 'matters' are related to accounting estimates, and this is expected to continue to be the case. Items with disclosure of accounting estimation uncertainty in financial statements, which started to be seen at the same time as KAMs, and items relating to estimates selected as KAMs may not necessarily be the same, but they are closely related. From the standpoint of both preparers and auditors, consideration should continue to be given as to how to improve the quality of descriptions that contribute to the understanding of users. For this purpose, feedback from users is important.

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Disclosure of accounting estimates in the notes to financial statements and introduction of KAMs in independent auditor reports are amendments that investors have been waiting for.

Disclosure of accounting estimates makes it possible for investors to reasonably reflect volatility risk inherent in financial information in corporate valuation, and, when understood in conjunction with KAMs, can also be used in assessing corporate governance.

Investors may have the impression of inadequacy overall in light of conditions in the first year of application, but there are some examples of good practice, such as the disclosure of sensitivity analysis. We hope to see expansion of disclosure based on the intent of each requirement.

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The Accounting Standard for Disclosure of Accounting Estimates took effect from the fiscal year ended March 2021. In credit rating activities, information regarding estimation uncertainty is useful. Disclosure of the methods and key assumptions for making accounting estimates, as well as of the impact of such estimates on the following year's financial statements, can be used to prepare prospective medium-term financial statements. The notes on significant accounting estimates companies disclose in their securities reports include valuable information. Companies are encouraged to fully understand the purpose of the standard and proactively disclose information that contributes to judgements about estimation uncertainty.

### **36<sup>th</sup> SAAJ Annual Conference:**

#### ***Role of Corporations and Securities Analysts in Heralding an Era of Post Pandemic: Now is the time for structural reform in Japan***

##### **“Direction of Structural Reforms in an Era of Post Pandemic: Perspectives on Digital Transformation and Decarbonization”**

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<b>The Firm-Employee Relationship and Firm Value: Significant Role of Corporate Pension Plan Policies</b> .....	<i>Shingo Goto / Noriyoshi Yanase</i>	65
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The relationship between the firm-employee relationship and firm value is of particular interest to both academics and practitioners in discussing the ‘Social (S)’ aspect of ‘Environmental, Social, and Governance (ESG)’ investing. Existing studies suggest that a strong firm-employee relationship can improve firm value by helping recruit/retain key employees and by enhancing worker motivation and commitments. This essay focuses on the role of a firm’s corporate pension plan policy in managing the long-run firm-employee relationship as a part of its overall corporate financial strategy. In particular, we discuss how observed pension plan management policies reveal managers’ main ‘motives’ — risk-shifting (internal financing) or risk management — in managing their business model and firm-employee relationship to enhance firm-specific human capital.

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<b>Are Earnings Announcements more Important than other Corporate Information?</b> .....	<i>Junko Jinushi</i>	82
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The purpose of this paper is to determine whether earnings announcements are an important information source compared to other publicly available information (management forecasts, analyst forecasts, securities reports, timely and voluntary disclosure documents, and disclosure documents under the Financial Instruments and Exchange Act). The results indicate that earnings announcements are an important information source for investors and securities analysts because they regularly provide useful information for investment decisions. The results of this paper have implications for the policy evaluation of quarterly disclosure and simplification of earnings announcements.

<b>Impact of Persistent Inflation and COVID-19 Shock on Inflation in Japan</b> .....	<i>Hirofumi Suzuki, CMA · CIIA</i>	93
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This paper analyzes how persistent inflation and the COVID-19 shock have impacted inflation in Japan. Specifically, it first classifies Japanese CPI items into the following categories: persistent and non-persistent inflation, inflation stemming from the COVID-19 shock (COVID-19 Sensitive Inflation), and others. Next, it examines how these categories affect overall CPI. It was found that the COVID-19 shock pushed down overall CPI, and that its effects lasted for the quarter following the shock due to persistent inflation. In addition, the results also indicate that the impact of COVID-19 on inflation in Japan is complex, as changes in supply, demand, and prices varied by item.

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