

## Feature Articles

### This month's focus: **Qualitative Information in Annual Securities Reports**

#### Actual Situation/Future Direction of Qualitative Information Disclosure With Respect to Annual Securities Reports

*Kentaro Noda, CMA*

Contact point: [kenoda@rikkyo.ac.jp](mailto:kenoda@rikkyo.ac.jp)

In annual securities reports, information providers are required to make efforts to convey specific and in-depth information and to coordinate their efforts with disclosure media producing items such as integrated reports. Information users, on the other hand, can gain new insights by capturing diverse analytical perspectives and utilizing rapidly developing language processing technology. Such a trend will be effective in promoting dialog between companies and investors and appealing to a wide range of stakeholders, thereby enhancing corporate value.

#### Influence of Qualitative Information in Annual Reports on Investor Decision Making: An Online Survey Experiment

*Yoshitaka Hirose*

Contact point: [hirose@omu.ac.jp](mailto:hirose@omu.ac.jp)

In this study, I conducted an online survey experiment in which I manipulated the readability (easy-to-read/hard-to-read) of information disclosed by fictitious firms and the information content (good news/bad news) of their performance. The results of the analysis showed that firms with easy-to-read disclosures were valued more highly than those with difficult-to-read disclosures. This was found to be related to processing fluency, the degree to which investors find it easy to process information.

#### Empirical Analysis of Topics in MD&A Information

*Takayuki Nakano / Mirai Igarashi / Daichi Yuasa*

Contact point: [tnakano@hosei.ac.jp](mailto:tnakano@hosei.ac.jp)

In this study, we used a topic model to examine how MD&A descriptions are changing. As a result, we find evidence that recent disclosure reforms have resulted in enhanced description of management strategies and accounting estimates, and management has begun to discuss a wider range of topics. Our findings suggest that recent disclosure reforms have had a significant impact on MD&A disclosure.

## Feature Articles

### Disclosure and Stock Market Liquidity: The Case of Descriptive Qualitative Information

*Kento Tanaka /Yosuke Kimura /Kazuhide Nakata /Kotaro Inoue, CMA*  
Contact point: [inoue.k.aq@m.titech.ac.jp](mailto:inoue.k.aq@m.titech.ac.jp)

This paper uses the rule change to enhance descriptions in annual securities reports, implemented in accordance with "Cabinet Office Order on Disclosure of Corporate Affairs" effective from the fiscal year ended March 2020, to examine how and why companies are responding to the change, and the impact of the enhanced descriptions on stock market liquidity. As a result, we found that the ratio of independent directors and the fact that the audit firm in charge is one of the four majors have an impact on the degree of enriched disclosure. We also found that stock liquidity improved at firms after disclosure of annual reports with a greater degree of description enhancement in fiscal 2020.

## Articles

### Accounting Principles and Expected Return

*Shin-ichiro Ono / Atsushi Shiiba / Katsuhiko Muramiya*  
Contact point: [muramiya@econ.osaka-u.ac.jp](mailto:muramiya@econ.osaka-u.ac.jp)

We present a tentative proposal for new factors (a summary income statement factor and a summary balance sheet factor) inspired by the fundamental idea that accounting numbers are generated under accounting principles that deal with risk. Our findings show that both factors have high explanatory power for cross-sectional stock returns in the Japanese market, and the Fama-French five-factor model cannot fully explain these two factor returns. These results suggest that asset pricing models that explicitly incorporate the impact of accounting principles are promising.

---

### Earnings Management and TSE Reform

*Ritsuko Okada*  
Contact point: [ritsuokada22@gmail.com](mailto:ritsuokada22@gmail.com)

This paper provides evidence that Tokyo Stock Exchange (TSE) reform has incentivized managers to pursue earnings management. More specifically, firms aiming to list on the newly created top-tier Prime Market are required to meet an earnings benchmark, and are thus more likely to engage in earnings management. The old TSE 1st Section firms do not engage in earnings management as an earnings benchmark is not mandatory for them to be in the Prime Market. This study demonstrates that the managerial behavior of firms with a similar earnings level can differ depending on incentives.