別紙3-1. 訪問時に用いた資料(英文)

IFRS Survey
- Investors' Responses

December, 2009
Daiwa Institute of Research (DIR)
Corporate Finance and Treasury Association of Japan (CFTAJ)

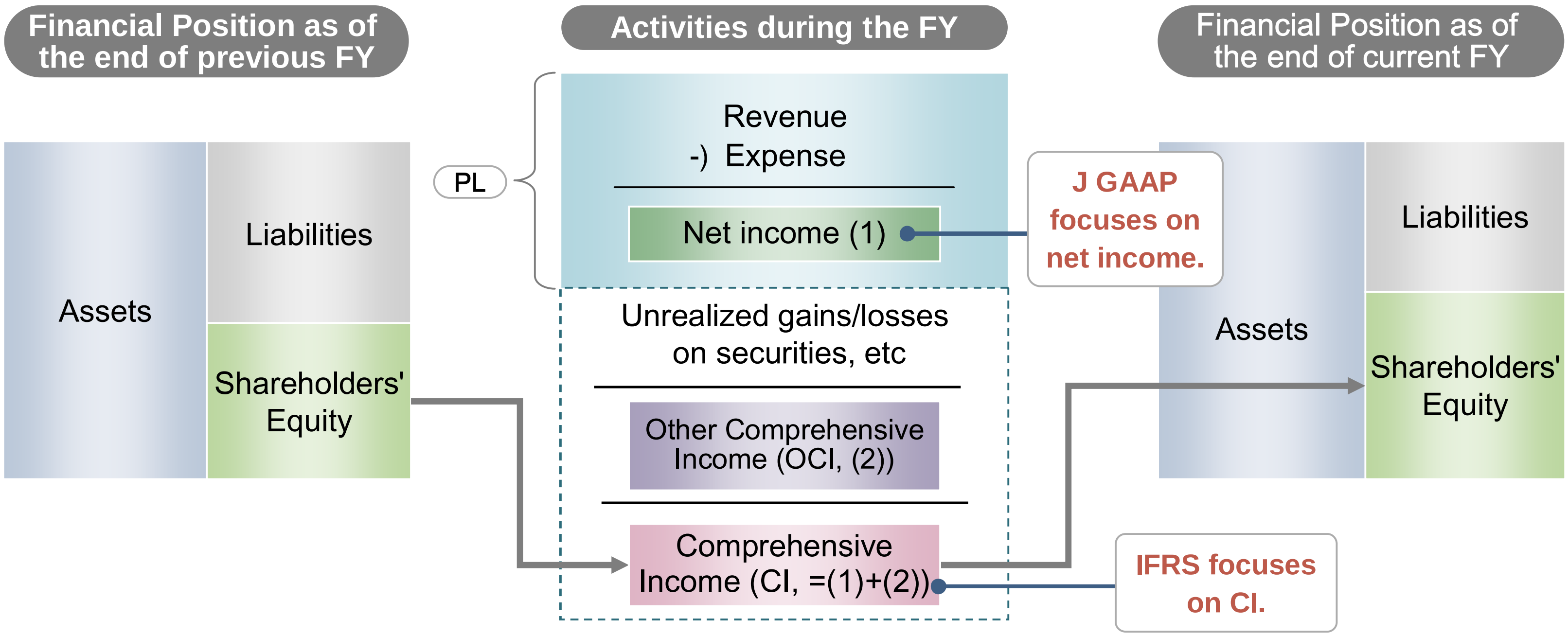
Schedule: Convergence/Adoption

- **Three steps to introduce IFRS for Japanese companies.**
  1. In 2011, Japanese accounting standard (J GAAP) will converge with IFRS.
     - The major projects, which are currently in progress and will be completed by 2011, will change IFRS significantly.
     - New IFRS will become effective around 2013-14.
  2. In 2013-14, J GAAP converges with new IFRS?
  3. In 2015-16, the authority (FSA) adopts IFRS?
- **We focus on the overall direction IFRS is heading toward, rather than each rule and its timing to become effective.**

	Japan	IFRS	US
2009	Voluntary adoption starts.		Voluntary adoption starts.
2011	<u>1st step</u> Convergence with IFRS. ➔ Only the effective rules.	Completes major projects such as financial statement presentation, and port-retirement benefits. ➔ New IFRS become effective in 2013-14?	Decision on mandatory adoption.
2012	Decision on mandatory adoption.		
2013	<u>2nd step</u> Convergence with the new IFRS?	New IFRS, completed by the major projects, become effective?	
2014			Mandatory adoption starts?
2015-16	<u>3rd step</u> Mandatory adoption starts?		

Asset-Liability (AL) Approach and Revenue-Expense (RE) Approach

Framework of Financial Statements (excl. transaction with shareholders)



- IFRS weighs stock information on BS and comprehensive income (= AL approach), while J GAAP weighs flow information on PL and net income (= RE approach).
  ➔ This material focuses on this gap as the most influential factor on valuation practices.
- Accounting scandals, such as Enron, are one of the drivers of the convergence between US GAAP and IFRS.
  ➔ IFRS is expected to prevent window-dressing, such as earning managements and off balance sheet liabilities. ➔ AL approach is preferred, rather than RE approach.

Hypothesis: Valuation under AL approach (1)

Basis

- Comprehensive income (CI);
  - Is not easily manageable.
  - Contains various factors, not only earnings from business
    , but also gains/losses from risk factors such as cross-shareholdings and pension assets.
- In valuation practices, CI should be divided into two components, reflecting the business model of each company, not necessarily subject to accounting standard;
  CI = (a) Earnings from businesses + (b) Gains or losses from risk factors.

Comprehensive Income = (a) Earnings from businesses + (b) Gains or losses from risk factors

Focused by investors.

For example, gains/losses on cross-shareholding and pension assets.

Hypothesis

We propose the below hypothesis, regarding valuation practices based on IFRS-based financial figures:

- **IFRS does not cause any substantial changes in valuation practices**, because:
  - Investors will appropriately divide CI into two components, described above, and focus on the (a) earnings from business.
  - In practice, (a) earnings from business do not differ from the recurring profits, defined by the current J GAAP and referred often by investors.
- Only a possible impact caused by IFRS is the impact from (b), but insignificant.

Hypothesis: Valuation under AL approach (2)

Valuation practices based on PER

J GAAP: Based on net income

	Previous FY	Current FY(f)
Recurring profits	xxx	xxx
Extraordinary gains/losses	xxx	0
Income taxes	xxx	-40%
Net income	xxx	xxx

➡ **PER**

In practice often referred are:
- Forecasted earnings, rather than actual.
- Recurring profits, rather than net income.

IFRS：Based on CI

	Previous FY	Current FY(f)
(a) Earnings from businesses	xxx	xxx
(b) Gains/losses from risk factors	xxx	0
Income taxes	xxx	-40%
Comprehensive income (CI)	xxx	xxx

➡ **PER**

In practice:
- (b) will be assumed zero.
- The impact of IFRS is merely the shift from recurring profits to (a).

Example: Peer group comparison

(a) Earnings from businesses:
Company X = Company Y.

(b) Risk factors:
Company X < Company Y.

➔ The gap between (a) and CI is
Negligible for company X, while
Significant for company Y.

➔ Volatility of CI:
Company X < Company Y.

Company X: No risk-taker

	FY1	FY2	FY3	FY4(f)
(a) Earnings from businesses	100	100	100	100
(b) Gains/losses from risk factors	0	0	0	0
CI	100	100	100	100

Company Y: Large risk-taker

	FY1	FY2	FY3	FY4(f)
(a) Earnings from businesses	100	100	100	100
(b) Gains/losses from risk factors	150	20	-120	0
CI	250	120	-20	100

- PER is calculated based on (a) for both companies.
- The gap between (a) and recurring profits will NOT be significant.

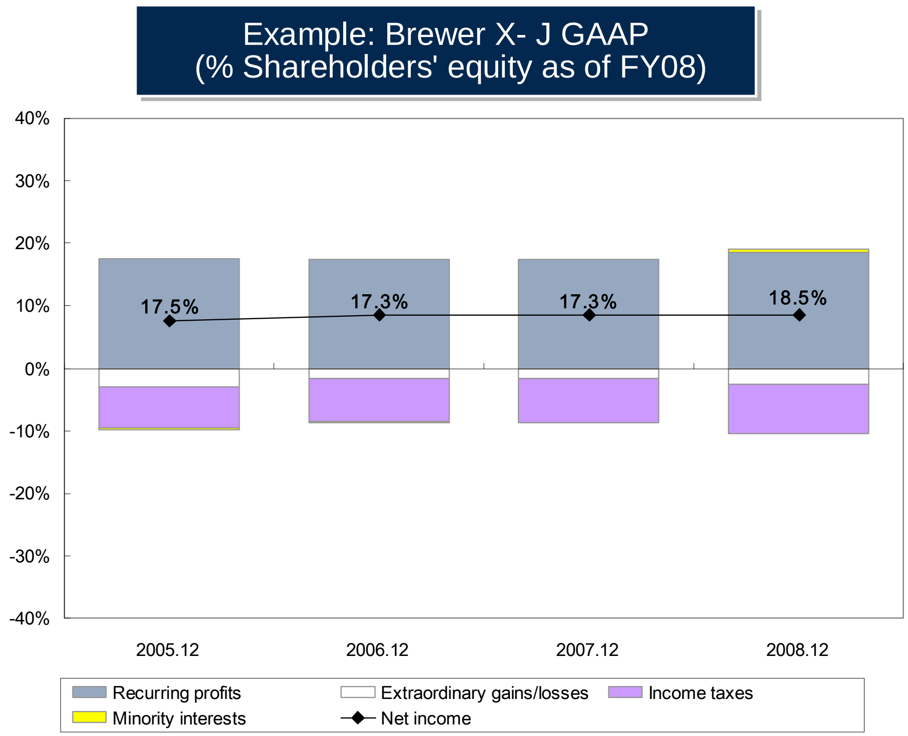
➔ **IFRS will not cause any substantial changes on valuation practices.**

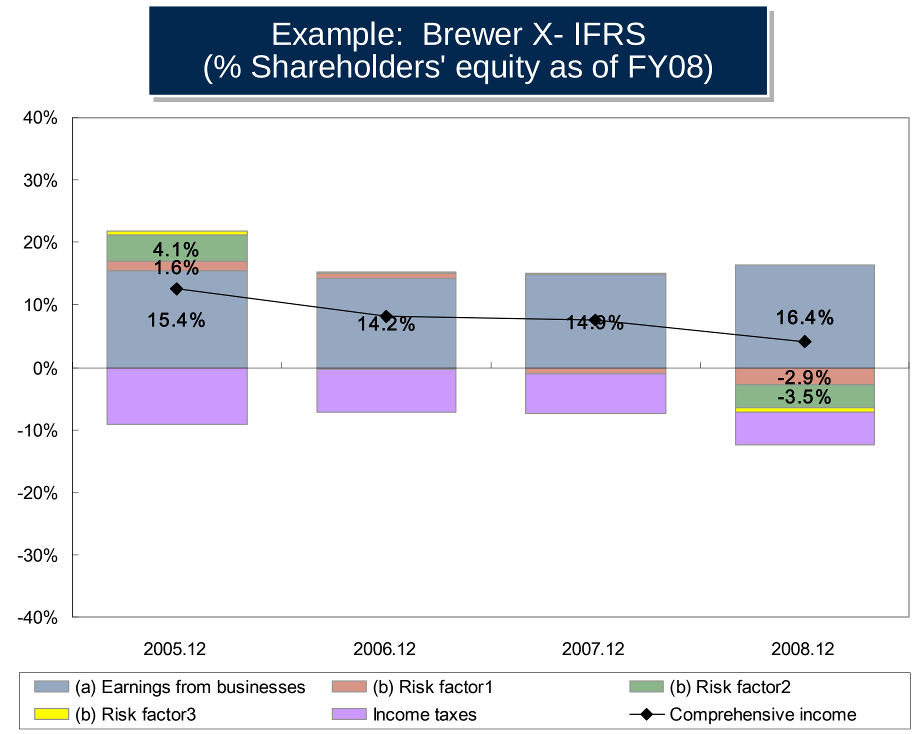
- If investors require risk premium, PER of company Y may be below company X.

➔ Possible, but insignificant.

Example (1)

- CI = (a) Earnings from businesses + (b) Gains or losses from risk factors.
- For typical Japanese companies, (b) includes pension, cross-shareholdings, and currency risk over foreign subsidiaries (currency translation adjustment).



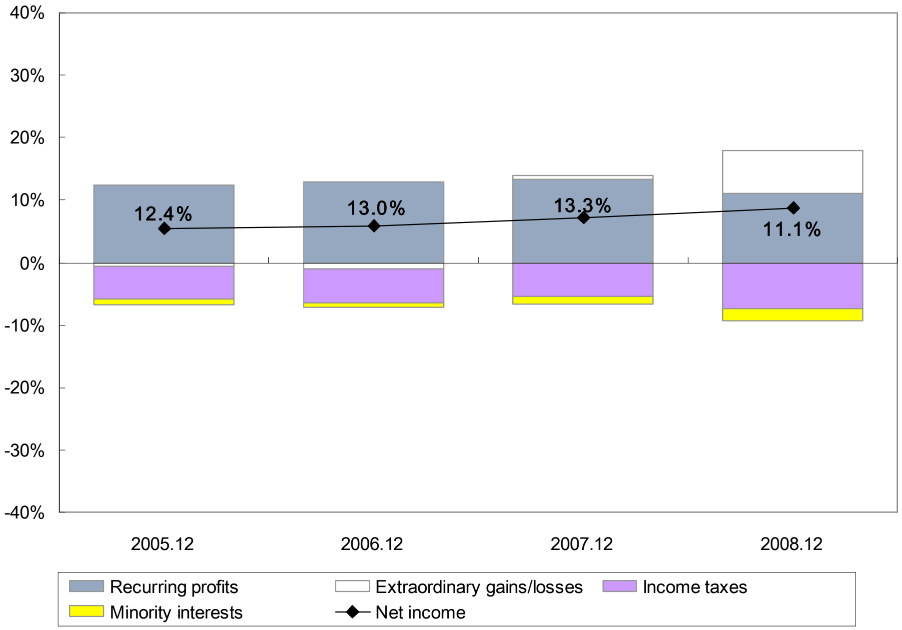


Sources: Company materials, compiled by DIR.
Notes: Risk factor1: Market risks over retirement benefits (pension), including investment returns and actuarial gains/loses on PBO (estimated). Risk factor2: Interest and dividend income plus realized and unrealized gains/losses on available for sale securities. Risk factor3: Changes in currency translation adjustment (currency risks of foreign subsidiaries). Shareholders' equities are adjusted to put unrecognized liabilities of retirement benefits on balance sheet.

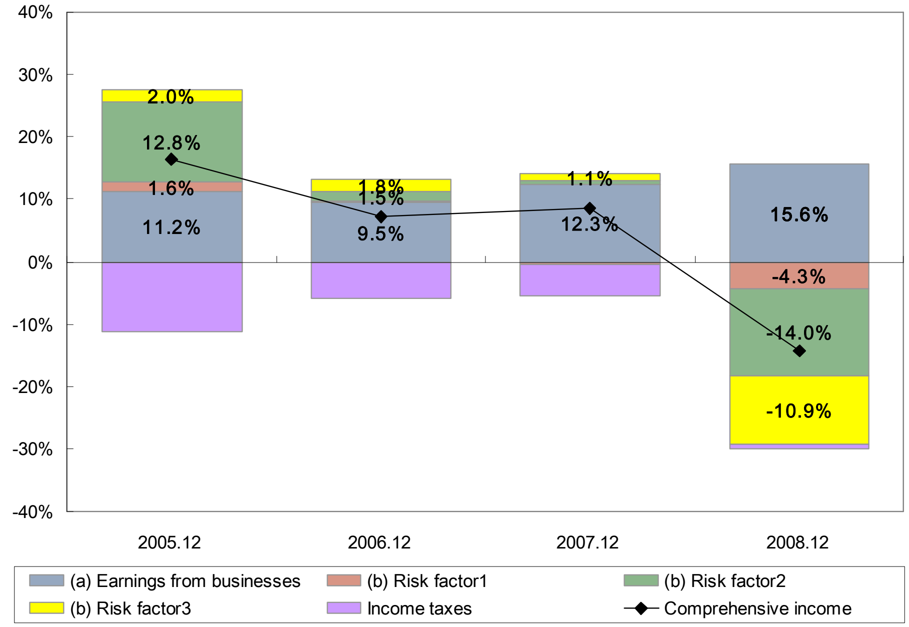
Example (2)

- CI = (a) Earnings from businesses + (b) Gains or losses from risk factors.
- For typical Japanese companies, (b) includes pension, cross-shareholdings, and currency risk over foreign subsidiaries (currency translation adjustment).

Example: Brewer Y- J GAAP
(% Shareholders' equity as of FY08)



Example: Brewer Y- IFRS
(% Shareholders' equity as of FY08)



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Interview: Questions- part A

A. Basic Information

1. Asset under management:

Total: ☐ More than USD1 trillion ☐ USD1 trillion -500 billion ☐ USD 500-100 billion

☐ USD 100-50 billion ☐ USD 50-10 billion ☐Less than USD 10 billion

Japanese equity: ☐ More than USD10 billion ☐ USD10 -5 billion ☐ USD 5-1 billion

☐ USD 1 billion- 500 million ☐ Less than USD 500 million

2. Your role:

☐ Fund manager (☐ Japanese equity ☐ Asian equity ☐ Global equity ☐ Other( ))

☐ Analyst (sector:) ☐ Other

3. Your investment style: ☐ Growth ☐ Value ☐ Hybrid ☐ Quantitative ☐ Other( )

4. To what extent do you rely on financial statement analysis in your decision making?

☐ Less than 20% ☐ 20-40% ☐ 40-60% ☐ 60-80% ☐ More than 80%

5. Which materials do you refer to most frequently?

☐ Annual reports ☐ Financial results ☐ Presentation materials ☐ Legal documents

☐ Other( )

6. CURRENTLY, which valuation figures do you weigh the most?

☐ PER ☐ PBR ☐ PCFR ☐ EV/EBITDA ☐ Other( )

7. CURRENTLY, which earning figures do you weigh the most?

☐ Operating profits ☐ Recurring profits ☐ Net income ☐ Comprehensive income

☐ EBITDA ☐ Pro forma ☐ Other( )

Interview: Questions- part B and C

B. Gap of accounting standards

8. CURRENTLY, do you adjust the financial figures to fill the gap, given comparison to the figures of Japanese companies subject to the Japanese standard with those subject to IFRS or US standard?

   i Adjust in most cases.

   ii. Adjust in case the gap causes substantial impacts.

   Iii. No adjustment, because you focus on the figures on which the gap causes no substantial impacts, such as cash flows.

   iv. No adjustment, because of other reasons( ).

9. Does the gap of accounting standards cause any difficulties in financial statement analysis and investment decision making? Have you ever hesitated to invest in Japanese companies due to the local standard?

C. Preparation for IFRS

10. CURRENTLY, how do you prepare for IFRS?

    i. Have understood its overview and completed the preparation.

    ii. Have understood its overview and started the preparation.

    iii. Have not understood its overview yet and started the study.

    iv. Have not understood its overview yet and will start the study soon.

    v. Are not interested.

11. Will IFRS change global capital markets?

☐ Yes. ☐ Yes, particularly Japanese market. ☐ Yes, but other than Japanese market. ☐ No. ☐ Not sure.

Interview: Questions- part D

D. Valuation under IFRS

12. We propose the hypothesis that ‘IFRS does not cause any substantial changes in valuation practices’ because;

- In valuation practices based on IFRS-based financial statements, professional investors will divide the comprehensive income into two components, (a) earnings from their businesses and (b) gains or losses from risk factors.
- For most Japanese companies, the gaps between (a) and their recurring profits will be less significant that IFRS will not cause any significant changes to the valuation practices of their stocks. The impact from (b) will be insignificant.

Do you agree with the hypothesis?

i. Yes, because investors do not care for (b).

ii. Yes, because current valuation practices reflect (b).

iii. Yes, but investors may fail to reasonably divide (a) and (b).

iv. Yes, but (b) may cause some changes.

v. No, because investors will fail to reasonably divide (a) and (b).

vi. No, because (b) will cause significant changes.

vii. No, because of reasons other than above(   ).

13. Do you have any plans to change the valuation/earning figures, mentioned at Q6 and Q7 when IFRS is introduced?

14. The above hypothesis focuses on asset-liability approach and risk factors. Are you interested in any other aspects of IFRS, which may have impacts on valuation practices?
 - Individual rules, which concerns general Japanese companies or specific sectors.
 - Other approaches/aspects.

Interview: Questions- part E

E. Japanese equity investments under IFRS

15. Following are the expected impacts on Japanese equity markets caused by IFRS. Do you agree?
    Impacts of IFRS will be;

    i. Positive because it will facilitate global comparisons.
    ii. Positive because it will enable to analyze financial figures in more detail.
    iii. Positive because it will make performance reporting easier in investor relations.
    iv. Positive because it will increase transparency, which will improve corporate governance.
    v. Neutral because accounting standards do not change the value of companies.
    vi. Negative because of the risk factors presented explicitly under IFRS.
    vii. Negative because stocks held for cross-shareholding or by pension funds are sold.

16. Will IFRS increase or decrease your investment in Japanese equity?

☐ Increase. ☐ Increase slightly. ☐ Neutral. ☐ Decrease slightly. ☐ Decrease. ☐ Not sure.

Interview: Questions- part F

F. Pros and cons of IFRS

17. Will you positively value the company which adopts IFRS voluntarily before the mandatory adoption?

☐ Yes. ☐ No. ☐ Neutral. ☐ Not sure.

18. Japanese accounting professionals and industries support the dual-information approach, under which both net income and comprehensive income are presented and the former is considered more value-relevant, and often require IASB not to increase the gap between net income and earnings from their businesses, referred as (a) at Q12. Do you agree?

☐ Yes. ☐ No. ☐ Neutral. ☐ Not sure.

19. If Japan decides to withdraw from convergence with or adoption of IFRS, will your investment in Japanese equity increase or decrease?

☐ Yes. ☐ No. ☐ Neutral. ☐ Not sure.

Appendix

IASB project: Financial Statement Presentation

- The project will revise the presentation of financial statements subject to asset liability approach.
- October 2008, IASB released the discussion paper (DP);
  - Cohesiveness; between BS, PL, and CF statement.
- 2010Q1: Exposure Draft (ED) on the presentation of comprehensive income statement will be released.
- 2010Q2: ED on the financial statement presentation will be released.

Working Format presented in the DP

Statement of financial position (current BS)	Comprehensive income statement (current PL)	Cash flow statement
Business Operating assets/liabilities Investing assets/liabilities	**Business** Operating income/expenses Investing incoem/expenses	**Business** Operating CF Investing CF
Financing Financing assets/liabilities	**Financing** Financing income/expenses	**Financing** Financing CF
Income taxes	Income taxes	Income taxes
Discontinued operations	Discontinued operations (net of tax)	Discontinued operations
	Net income	
	Other Comprehensive Income (OCI, net of tax)	
	Comprehensive income	
Equity		Equity

Asset/liabilities are classified into three sections / categories.
→ Identical classification for three statements (Cohesiveness)

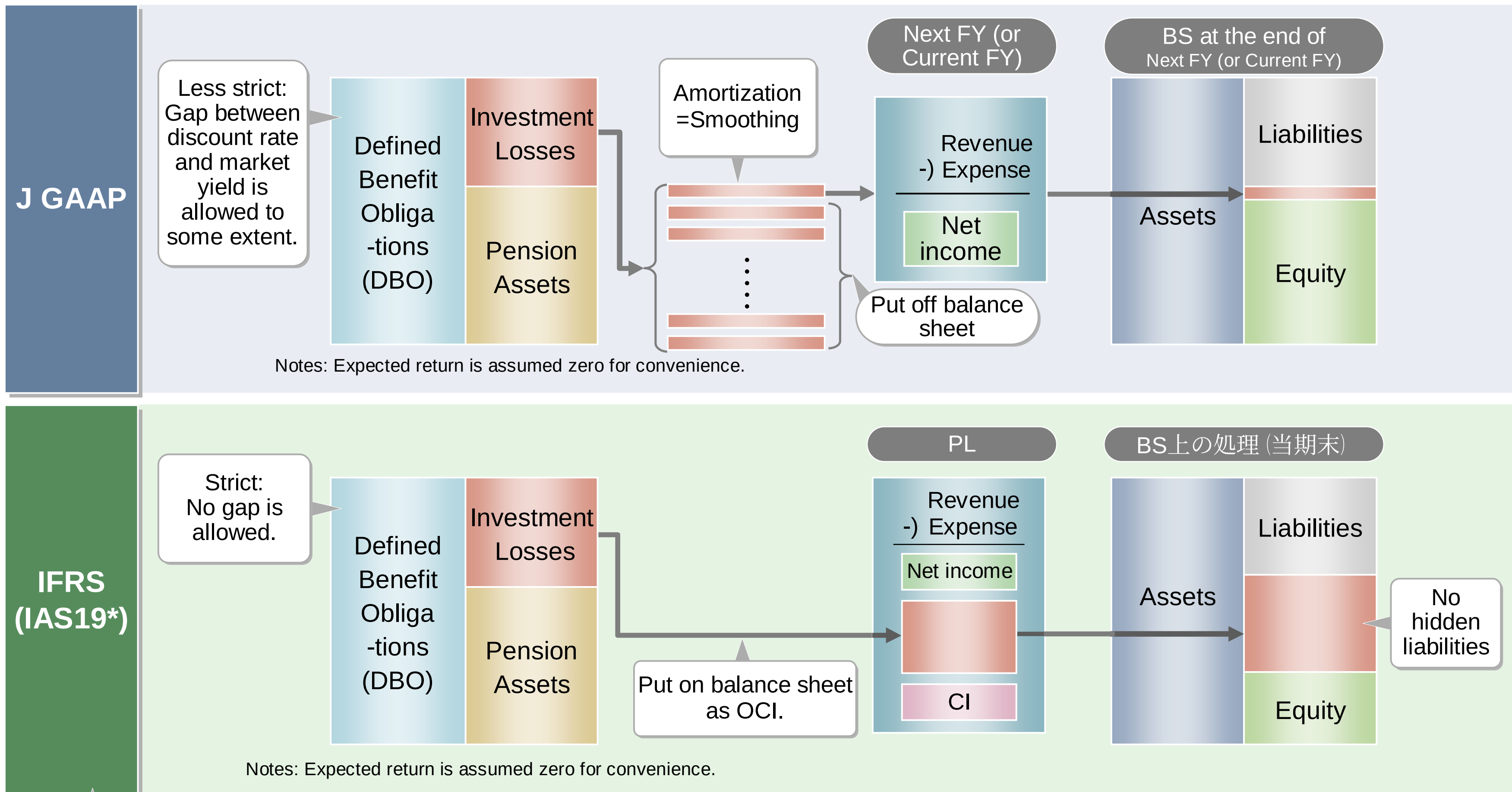
↔ Items included in net income.

↔ (dotted) Items included in other comprehensive income.

Sources: IASB/FASB.

IASB project: Post Employment Benefits(1)

Current rule of actuarial gains/losses*



J GAAP converge with this on 2011?

* IAS19 defines three alternatives. The above is most frequently adopted by companies included in FTSE EUROTOP 100.

IASB project: Post Employment Benefits(2)

- March 2008, IASB released DP and presents three approaches for the presentation of benefit costs.
- Treatment of remeasurement ((market) risks of DBO and pension assets) is focused.
  - ➔ ED will be released on 2010Q1.

Presentation of benefit costs

			Approach1(DP)	Approach2(DP)	Approach3(DP)	Tentative agreement*
Current Actuarial gains/losses	Discount rate	DBO	○	●	●	● (Remeasurement)
	Mortality, etc		○	○	○	● (Remeasurement)
Current Prior service credit	Plan amendments		○	○	○	○
	Interest costs		○	●	○	○ (Financing)
	Service costs		○	○	○	○ (Operating)
	DBO		—	—	—	—
Current Expected return + Actual return	Capital gains	**Pension Assets**	○	●	●	● (Remeasurement)
	Income gains		○	●	○	● (Remeasurement)
	Pension Assets		—	—	—	—
	End of precious FY	End of current FY	All	Only rewards	Excluding re-measurement	All

○ : Net income ● : OCI

* Source: The summaries of the IASB Board meeting held on last November.

IASB project: Financial Instruments(1)

- Late 90's, the development of IAS39 "IAS 39 Financial Instruments: Recognition and Measurement" came to a deadlock.
  - ➔ Tentatively, imported US GAAP.
- Financial turmoil triggered the criticism over fair value (FV) accounting.
  - ➔ G20(April 2009) directed IASB to decrease the complexity of IAS39.
  - ➔ The project to replace IAS39 started with three phases.
  - ((i) Classification and measurement, (ii) Impairment, and (iii) Hedge.
- At phase (i), US GAAP may diverge from IFRS.
  - ➔ IFRS and FASB agreed on core principles and schedule.

Current IAS39

- Imitates US GAAP principally.
  ➔ Focuses on the objective to hold the instruments.
  - A)Loans and receivable, held-to-maturity (HTM): Amortized costs.
  - B)Available for sale: FV (Unrealized gains/losses are treated as OCI.)
  - C) Trading, derivatives: FV
- Impairments on A) and B).
  ➔ Permits reversal, excluding equities.
- For B), impairment losses and realized gains and losses are recycled.

Schedule

		IFRS	US GAAP
July 2009	(i) Classification and measurement	ED was released.	
Nov 2009	(ii) Impairment	ED was released.	
	(i) Classification and measurement	IFRS9(financial assets only) was released.	
2010Q1	(iii) Hedge	ED will be released.	
	(i) Classification and measurement	New proposal on financial liabilites will be released.	
	(i) (ii) (iii)		Comprehensive proposal will be released.
2010Q2	(i) Classification and measurement	Review the companies which adopted IFRS9.	
2010Q4	(i) (ii) (iii)	Final standard will be released.	Final standard will be released.

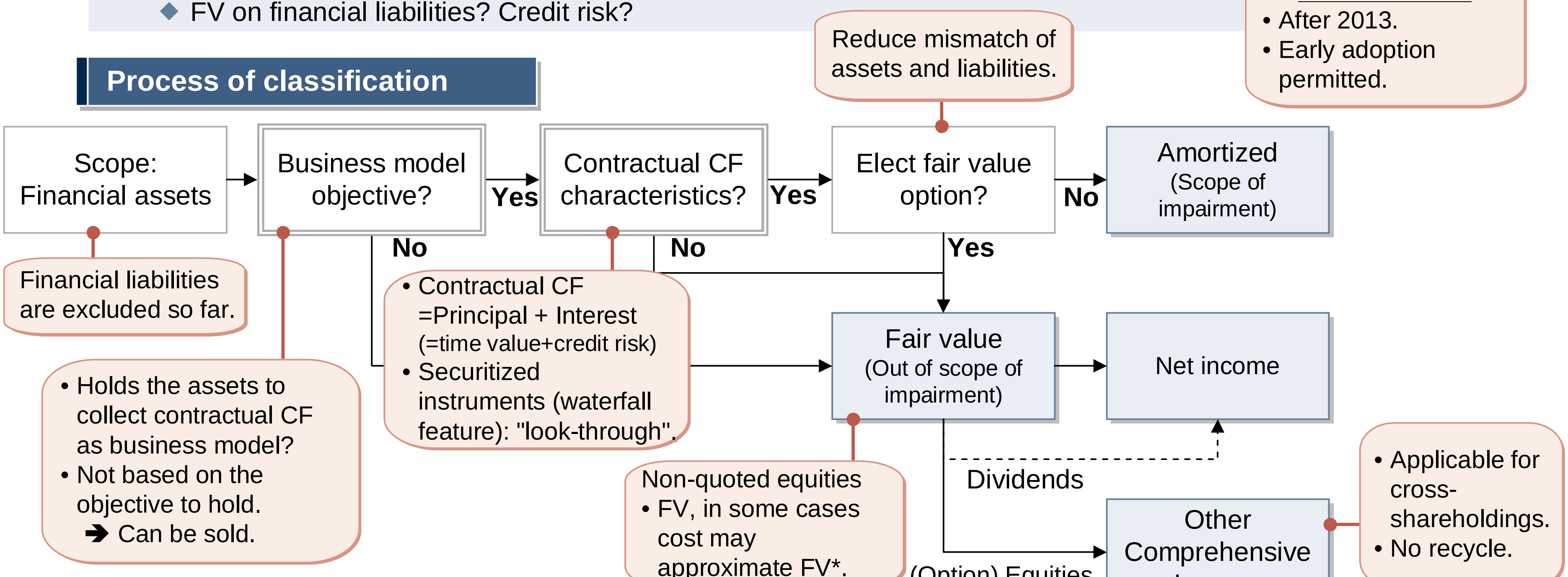
IASB project: Financial Instruments(2)

IFRS9：Financial instruments

- Replaces current IAS39, focusing on classification and measurement on financial assets so far.
  ➔ IASB withdraws from "Full FV" to "FV or amortized costs".
- Points at issue.
  - Definition of the classification, FV or amortized costs.
    - Lesson from the turmoil: Objective is not appropriate.
    - Structured finances: Legal structure (receivables, loans, and bonds) is not appropriate.
  - Impairments of equities.
  - FV on financial liabilities? Credit risk?

Effective dates
- After 2013.
- Early adoption permitted.

Process of classification



* Guidance will be released.
(Deliberated at 'Fair value measurement' project.)