

IFRS Adoption Report

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Financial Services Agency

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I. History and purposes of this survey

In June 2009, the Business Accounting Council*¹ issued the “Opinion on the Application of International Financial Reporting Standards (IFRS) in Japan (Interim Report).” Based on this Interim Report, relevant Cabinet Office Ordinances were amended in December 2009, and Japanese companies have been permitted to file their consolidated financial statements prepared in accordance with IFRS as those under the Financial Instruments and Exchange Act from the annual periods ending on or after March 31, 2010.

The Business Accounting Council subsequently issued the “Previous Discussion Summary for the Consideration on the Application of IFRS in Japan” (hereinafter referred to as the “Discussion Summary”) in July 2012 and “The Present Policy on the Application of the International Financial Reporting Standards (IFRS)” (hereinafter referred to as the “Present Policy”) in June 2013, which presented the idea that building up the examples of voluntary applications of IFRS is important. The “Japan Revitalization Strategy (Revised in 2014),” which was decided upon by the Cabinet on June 24, 2014, explicitly stated ‘promotion of an increase in the number of companies voluntarily adopting IFRS’ as a target for the first time as a decision by the Cabinet.

In addition, the “Japan Revitalization Strategy (Revised in 2014)” stated the following. “In addition to the measures already taken, the Government will conduct a fact-finding survey and interviews to ascertain how companies that have voluntarily adopted IFRS overcame any challenges they faced during their transition to IFRS, as well as the advantages brought about by their shift to IFRS. It will then publish its findings from the above in the form of “IFRS Adoption Report (tentative name)” to serve as a useful reference for companies considering adopting IFRS.”

This Report compiles how companies that have voluntarily adopted IFRS overcame any challenges they faced during the transition to IFRS and the advantages that their shift to IFRS has brought about. It is based on the fact-finding survey and interviews undertaken in accordance with the Cabinet decision.

*1 The Business Accounting Council (BAC) is an advisory body established within the Financial Services Agency (FSA). The BAC conducts inquiries into and deliberates on the establishment of business accounting standards and auditing standards, the standardization of cost accounting, the development and improvement of business accounting systems, and other important matters relating to business accounting.

II. Present situation of companies that voluntarily adopt IFRS

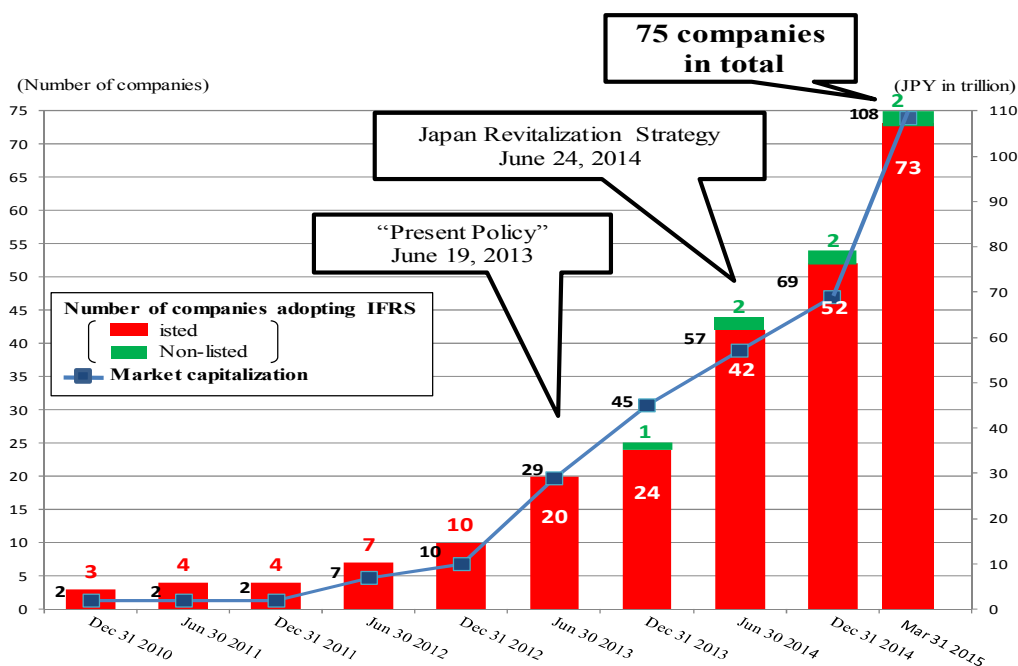
(1) The number of companies voluntarily adopting IFRS (including those that plan to adopt IFRS, which will apply hereinafter) is steadily increasing.

On or after the annual period that ended on March 31, 2010, Japanese companies have been permitted to file the consolidated financial statements prepared in accordance with IFRS as those under the Financial Instruments and Exchange Act. In that first period, the first company voluntarily adopting IFRS appeared.

Since then, the number of companies voluntarily adopting IFRS has continued increasing: The number was seven (7) when the “Discussion Summary” was issued in July 2012, twenty (20) when the “Present Policy” was issued in June 2013, and forty-two (42) when the “Japan Revitalization Strategy (revised in 2014)” was decided by the Cabinet in June 2014.

After the “Japan Revitalization Strategy (revised in 2014)” was decided by the Cabinet, the number of companies adopting IFRS has been increasing more rapidly, and reached 75 as at March 31, 2015 (see Chart 1).

[Chart 1] The number of Japanese companies adopting IFRS and market capitalization



※ Total market capitalization of listed companies adopting IFRS (including those which plan to adopt IFRS) as of March 31, 2015 amounts to 108 trillion JPY, which account for 18.5% of the total market capitalization of listed companies in Japan (581 trillion JPY).

- (2) Among 33 industry sectors classified under the industry classification adopted by the Tokyo Stock Exchange, the 73 listed companies that had adopted IFRS as of March 31, 2015 are found in 21 industry sectors. The remarkable points are as follows (see Table 1):
- i) Industry sectors that have many IFRS adopting companies are: Electric Appliances (11), Pharmaceutical (10), Wholesale Trade (8), Services (7), Information & Communication (7), Transportation Equipment (5), and Chemicals (5).
 - ii) Once a company with larger market capitalization within an industry sector voluntarily adopts IFRS, other companies within that industry sector also tend to do so.

[Table 1] Companies adopting IFRS in Japan (classified by industry)

21 Industry sectors with IFRS adopters				
Industry sector	Pharmaceutical (10 of 62)	Wholesale Trade (8 of 339)	Oil & Coal Products (1 of 13)	Information & Communication (7 of 370)
Company Name	(1)Takeda Pharmaceutical (2)Astellas Pharma (3)Eisai (4)Chugai Pharmaceutical (6)Ono Pharmaceutical (8)Daichi Sankyo (9)Mitsubishi Tanabe Pharma * (12)Santen Pharmaceutical * (33)Sosei Group (38)GNI Group *	(1)Mitsubishi (2)Mitsui (3)ITOCHU (4)Sumitomo (5)Marubeni (7)Hitachi High-Technologies * (14)Sojitz (27)ITOCHU ENEX	(1)JX Holdings *	(3)SoftBank (4)KDDI * (5)Yahoo Japan (11)Nexon (20)KONAMI * (22)ITOCHU Techno-Solutions (180)Hottolink *
Market capitalization (A) (JPY in trillion)	18.7	12.7	1.2	19.7
Total market capitalization of the industry (B) (JPY in trillion)	28.4	23.3	2.8	52.6
(A/B)	66%	55%	41%	37%
Industry sector	Foods (1 of 133)	Precision Instruments (1 of 51)	Services (7 of 372)	Metal Products (1 of 92)
Company Name	(1)Japan Tobacco	(1)HOYA	(2)Rakuten (5)DENTSU * (6)M3 (14)DeNA (19)Cookpad * (37)Technopro Holdings (49)NEXT *	(1)LIXIL Group *
Market capitalization (A) (JPY in trillion)	7.6	2.1	5.8	0.9
Total market capitalization of the industry (B) (JPY in trillion)	26.6	8.3	25.1	4.3
(A/B)	29%	25%	23%	21%
Industry sector	Glass & Ceramics Products (2 of 61)	Chemicals (5 of 216)	Transportation Equipment (5 of 99)	Other Financing Business (2 of 32)
Company Name	(1)Asahi Glass (9)Nippon Sheet Glass	(2)Kao * (7)Nitto Denko (8)Mitsubishi Chemical Holdings* (15)Hitachi Chemical* (61)The Nippon Synthetic Chemical Industry*	(2)Honda Motor * (4)Denso * (28)Keihin (34)F.C.C. * (51)Yutaka Giken *	(2)Japan Exchange Group * (8)Hitachi Capital *
Market capitalization (A) (JPY in trillion)	1.0	6.1	12.2	1.3
Total market capitalization of the industry (B) (JPY in trillion)	5.1	34.2	69.5	7.9
(A/B)	20%	18%	18%	16%

21 Industry sectors with IFRS adopters				
Industry sector	Retail Trade (2 of 348)	Electric Appliances (11 of 270)	Iron & Steel (1 of 49)	Securities & Commodity Futures (2 of 42)
Company Name	(1)FAST RETAILING (23)Skylark	(4)Hitachi Ltd * (11)Toshiba * (12)Fujitsu (18)Ricoh (21)Seiko Epson (23)Konica Minolta * (50)Hitachi Kokusai Electric * (55)Anritsu (64)Clarion * (135)Nihon Dempa Kogyo (160)SUMIDA *	(4)Hitachi Metals *	(3)SBI Holdings (10)Monex Group
Market capitalization (A) (JPY in trillion)	5.2	10.7	0.8	0.4
Total market capitalization of the industry (B) (JPY in trillion)	32.7	70.5	8.2	6.7
(A/B)	16%	15%	10%	6%

Industry sector	Machinery (3 of 231)	Rubber Products (1 of 19)	Nonferrous Metals (1 of 36)	Land Transportation (1 of 65)
Company Name	(13)Hitachi Construction Machinery * (22)DMG MORI SEIKI * (38)Hitachi Koki *	(5)Sumitomo Riko *	(12)Asahi Holdings	(21)Hitachi Transport System*
Market capitalization (A) (JPY in trillion)	0.8	0.1	0.07	0.2
Total market capitalization of the industry (B) (JPY in trillion)	27.8	5.7	4.5	21.8
(A/B)	3%	2%	2%	1%

Industry sector	Real Estate (1 of 116)	12 Industry sectors with no IFRS adopters and the number of companies in each industry sector.			
		Fishery, Agriculture & Forestry	Mining	Construction	Textiles & Apparels
Company Name	(31)TOSEI	12	7	176	56
		Pulp & Paper	Other Products	Electric Power & Gas	Marine Transportation
		26	111	25	15
		Air Transportation	Warehousing & Harbor Transportation Services	Banks	Insurance
		5	41	93	13
Market capitalization (A) (JPY in trillion)	0.04				
Total market capitalization of the industry (B) (JPY in trillion)	16.4				
(A/B)	0.2%				

Note:

- (1) This survey covers listed companies only.
- (2) Numbers to the left of company names show the order of their market capitalization within the industry sector.
- (3) Listed companies adopting IFRS (including those that plan to adopt IFRS) are shown as of March 31, 2015 and their market capitalizations are also shown as of March 31, 2015.
- (4) ‘*’ indicates the companies that plan to adopt IFRS.

III. Scope and method of the survey and interviews

The survey by questionnaire and interviews covered sixty-nine (69) companies (including two Japanese non-listed companies) in total, comprising forty (40) companies that had voluntarily adopted IFRS by February 28, 2015 and twenty-nine (29) companies that had announced plans to voluntarily adopt IFRS by that date in the Japan Exchange Group's Timely Disclosure Network (TDnet).

In conducting this survey, we sent questionnaires to all of sixty-nine (69) companies in advance. Sixty-five (65) companies responded (response rate: 94.2%). We also conducted direct interviews with twenty-eight (28) of the respondents in order to more specifically identify the problems (including industry-specific ones) that are faced by companies adopting IFRS.

IV. Reasons for the voluntary adoption of IFRS or primary merits anticipated before the transition to IFRS

We have conducted a survey on reasons for the voluntary adoption of IFRS or the primary merits anticipated before the transition to IFRS. It was conducted using the following choices and received responses from sixty-five (65) companies. The results are shown below.

[Table 2] Number of companies that cited each of the reasons for voluntary adoption of IFRS, or the primary merits anticipated before the transition to IFRS that were ranked as most important

Items	Number of companies
a. Contributions to business management	29
b. Improved comparability	15
c. Makes explanations to foreign investors easier	6
d. Better reflection of performance	6
e. Smoother finance from abroad	5
f. Others	4

The main points of the survey results are as follows:

(1) The most common answer was “Adoption of IFRS will contribute to business management because the respondent has many overseas subsidiaries”

The greatest number of respondents (29 companies) answered that the main reason for their decision to voluntarily adopt IFRS or the primary merit anticipated before the transition to IFRS was “it will contribute to business management because the respondent has many overseas subsidiaries.”

Their responses highlighted that the companies that cited this reason have a philosophy that is aimed at evaluating their performance on a uniform global-based measure by using IFRS and enhancing transparency in their management accounting:

- Because the company has many overseas subsidiaries and produces and sells the same products at multiple sites, efficiency in their operations cannot be precisely assessed without a common ‘measure’ for their performance.
- The company’s purpose is to enhance its transparency in management accounting and governance by promptly finding out the problems in its business from movements of inventories and cash flows of individual group companies, and by closing the consolidated accounts as if the group as a whole were ‘one company’ and collecting trial balances (as basic data for preparing consolidated financial statements) of subsidiaries in different regions on the basis of IFRS.

In addition, numerous responses indicated that many globally expanding Japanese companies came to acknowledge that the effective use of IFRS is important for the sophistication of business management, not just as an action with respect to financial reporting. Typical examples of such responses are:

- The company’s previous management controls over subsidiaries were difficult not only from the viewpoint of controls on a global basis but also from the viewpoint of controls on a business line basis or a regional basis. The company considers it important to use IFRS to integrate its business management throughout the whole process from the upper stream to the lower stream by a matrix with business lines being the vertical axis and functions such as accounting, funding, and tax matters being the horizontal axis.
- The company’s implementation of IFRS started as a project to unify the method to measure the performance of its business management and thereby increase

sophistication in its management system, not just as an action with respect to financial reporting. The final objective of the project was not a change in accounting standards adopted itself, but strengthening its business management.

(2) Many companies aimed at improving comparability with their competitors and facilitating explanations to investors

One of the objectives of the disclosure of financial information is to provide fair and useful information to investors. From this perspective, financial information provided to investors (both domestic and foreign) must be highly comparable and easy to analyze.

With IFRS being adopted by many foreign companies, numerous companies stated that they adopted IFRS from the viewpoint of enhancing comparability with their competitors, both domestic and foreign. Examples of such responses are:

- Approximately 30% of shareholding in the company is held by foreign investors. In addition, the company's largest competitors are manufacturers in Europe, although there are also competitors in other regions. The company's adoption of IFRS will improve comparability with the competitors for analysis conducted by investors and by the company itself.
- Under the situation that one of the company's domestic competitors shifted to IFRS earlier and other competitors seemed to follow it, people in the capital market expected us to disclose financial information that is comparable within the industry sector.

It is considered important that some companies recognized the merits for their business management through improved comparability with other companies. In addition, it should be remarked upon that some companies seek to enjoy the internal merits of enhanced convenience in investor relations (IR) activities while such companies regard communication with investors as important, as shown in the response below:

- The company has always provided explanations to foreign investors in consideration of differences between Japanese GAAP and IFRS. It is expected that our shift to IFRS will enable us to provide explanations to foreign investors more simply by using its financial statements prepared for annual statutory filings in Japan on an as-is basis and thereby enhancing convenience in its IR activities.

V. Process and internal system for the transition to IFRS

According to the responses to the survey, the transition to IFRS is proposed in some companies by the CEO or CFO ('top-down initiative') and in other companies by the accounting department ('bottom-up initiative').

The best of the two approaches depends on the company's perception of the merits of the transition to IFRS as mentioned in IV above.

An example of the cases where management should decide adoption of IFRS as a top management matter is:

- The company's adoption of IFRS was directed by management to achieve financing in the overseas capital market, which was decided by them.

On the other hand, in cases where the companies seek 'sophistication of business management,' the transition to IFRS is sometimes proposed by management, and at other times by the accounting department as a bottom-up initiative.

In either case, a common statement by the respondent companies is that the process of the transition to IFRS needs company-wide involvement not only by top management and the accounting department but also by all business units. A typical response was:

- As working-level staff of some subsidiaries were reluctant to switch the set of accounting standards, we urged them to participate in the project for the transition to IFRS while demonstrating the specific actions to be taken. It is necessary that the project team of the parent company takes the initiative to make the related departments involved in the project.

A typical response about care taken for departments that were reluctant to transition to IFRS was:

- The company recognizes 'in-depth management on a consolidated basis' as one of the top management issues and the project for the transition to IFRS has been positioned as a company-wide project, not one for the accounting department only. It made careful explanations to those who opposed the transition and persuaded the related parties, including some of management.

As shown in the responses mentioned above, a project for the transition to IFRS requires company-wide actions.

Transition projects can be divided into three stages: the 'early stage' where action plans

are developed mainly by the accounting department; the 'middle stage' where alliances with other business units and third parties are made; and the 'late stage' where financial statements in accordance with IFRS are prepared and disclosed.

From the viewpoint of such phasing, work in the 'early stage' of the transition project, such as development of action plans and impact studies, is done by a small number of people in the accounting department. On the other hand, work in the 'middle stage' is carried out in the cross-sectional structure and involves employees from business units and subsidiaries and people responsible for IT systems, in addition to the project staff from the accounting department. Work in the 'middle stage' includes development of accounting policies, preparation of a group accounting policy manual, consideration of the method to collect data, development or modification of IT systems, and preparation of prototype financial statements in accordance with IFRS.

Companies voluntarily adopting IFRS that have many subsidiaries prepare a group accounting policy manual, and make their accounting policies well known to subsidiaries in order to smoothly apply IFRS. The timing of when a group accounting policy manual is prepared depends on the size of each company and the degree to which its IT systems need be modified, as will be discussed later. Some companies prepare it at an early stage and make it known to subsidiaries. Other companies prepare it and make it known when developing the IT systems as they have many subsidiaries and are affected by many accounting standards and thus a wide range of development or modification of the IT systems is needed.

As shown in the examples of responses below, one company prepared a manual as soon as one year after the project started and another company prepared it two years before the actual disclosure of the first IFRS financial statements and updated it subsequently.

- The company prepared a draft of the group accounting policy manual approximately one year after the project started. Presenting the draft to the group members in the early stage enabled us to have a broad picture of practices. We consider this approach to have been effective. Subsequently, the policy manual was completed after having been considered for one year.
- In preparing the group accounting policy manual, the company assigned project members for each subject and prepared it by the date of the transition to IFRS, which was two years before the actual disclosure of the first IFRS financial statements. After the transition date, the company has updated the policy manual in light of feedback from group companies.

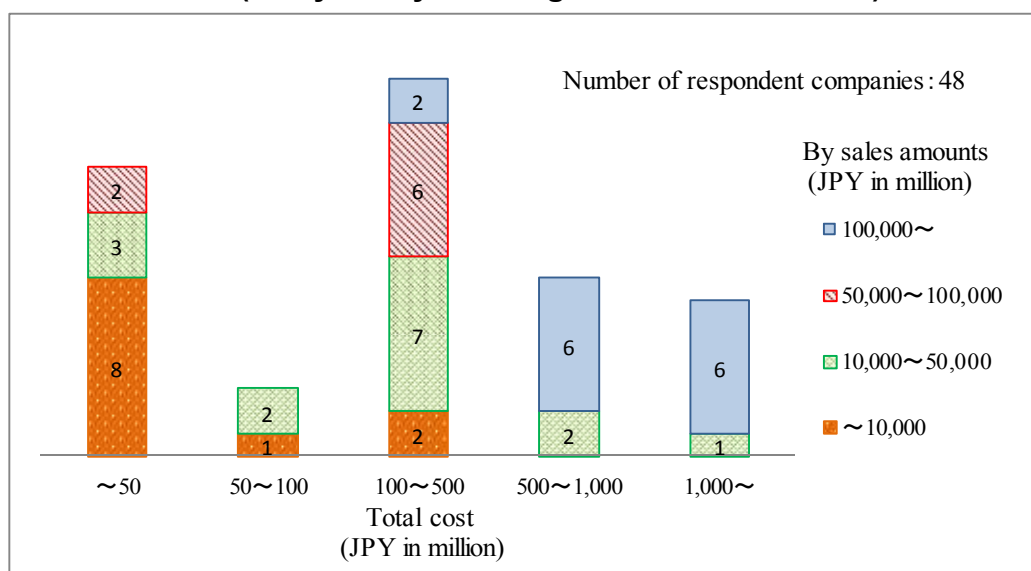
In the process of the transition to IFRS and building up the internal system for handling the transition, it is essential to establish a system to proceed with the project on a company-wide basis that also involves business units and subsidiaries. The following was highlighted. As an approach for the establishment of such system, for example, a group accounting policy manual is prepared and presented to business units and subsidiaries on a timely basis depending on the circumstances of each company.

VI. Transition costs (mainly for development or modification of IT systems)

The issue of costs for the transition to IFRS is one that comes after the decision making process to shift to IFRS and the establishment of the internal structure. It seems that many companies are reluctant to transition to IFRS for fear of the significant costs involved.

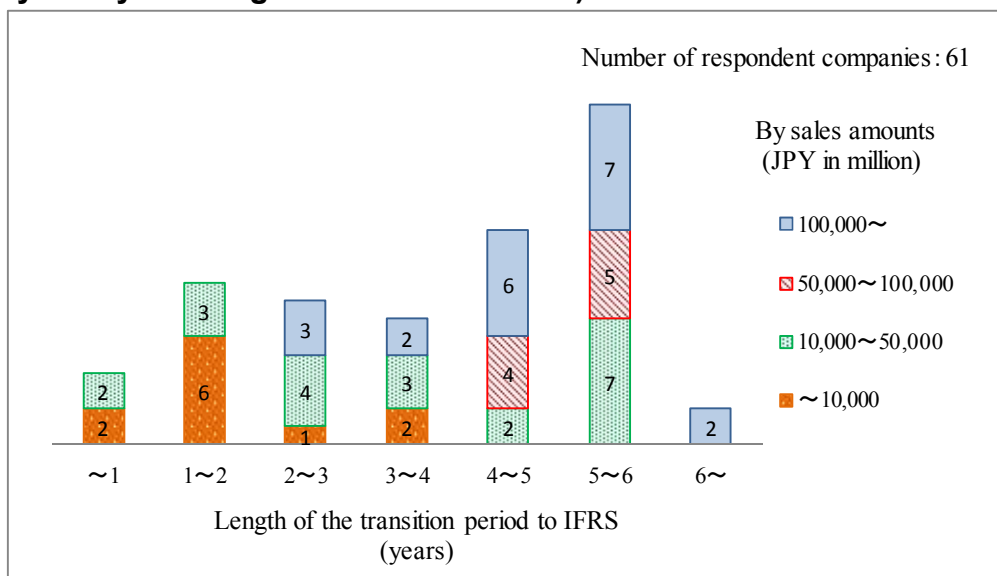
To begin from the conclusion, the significance of costs for the transition to IFRS varies with the company's size and policy for IT system development, as well the company's main aims for the transition to IFRS. Chart 2 below indicates the tendency that the larger the company's sales amount is, the larger the cost for the transition to IFRS is.

[Chart 2] Number of companies by total costs directly needed for the transition to IFRS (analyzed by the ranges of sales amounts)

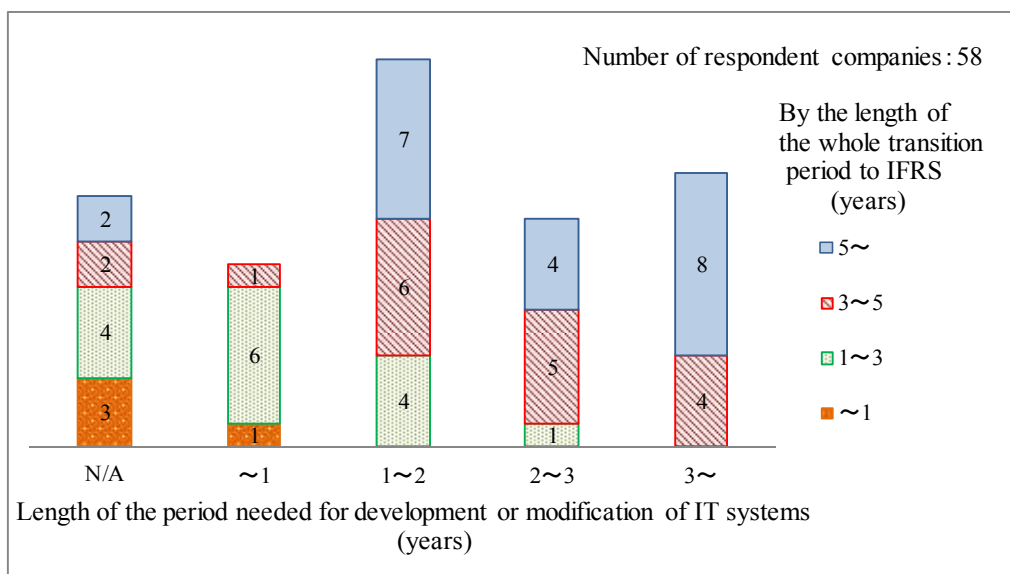


Regarding the length of the period needed for transition, it may be difficult to make a definite conclusion because when the project started might depend on judgment. However, Chart 3 indicates the trend that the larger the company's sales amount is, the longer the transition period is. Chart 4 appears to indicate that the length of the transition period is largely affected by the length of the period needed for the development or modification of IT systems.

[Chart 3] Number of companies by length of the transition period to IFRS (analyzed by the ranges of sales amounts)



[Chart 4] Number of companies by length of the period needed for development or modification of IT systems (analyzed by the ranges of the length of the whole transition period to IFRS)



However, costs for the transition to IFRS are also affected by the company's main aims for the transition to IFRS. That is, when 'sophistication of business management' is the company's primary purpose for adopting IFRS, it would trigger full upgrades of its IT systems to achieve the purpose. In contrast, when the company's primary purpose of adopting IFRS is 'comparability with competitors' or 'facilitating explanations to investors,' changes to its IT systems would focus on tailoring consolidation entries. Total costs would depend on which approach is taken.

Specifically, companies that focused mainly on tailoring consolidation entries replied as follows:

- No exceptional upgrade to the IT systems was made because the company established a system to efficiently prepare IFRS financial statements by using spreadsheet software.
- The company's consolidation accounting was originally conducted on a spreadsheet basis and thus tailoring for IFRS adoption was achieved through the changes to particular items on the spreadsheet.

As indicated in the responses above, some companies of relatively small size and a single business line were able to adopt IFRS at very low costs.

In contrast, when large-sized companies that have many subsidiaries and a wide range of business lines fully upgrade their IT systems for 'sophistication of business management' in adopting IFRS, the costs for the transition to IFRS are relatively significant in amount and the period needed for transition tends to be longer.

Examples of the cases of full upgrades of IT systems are indicated in the following responses:

- In order to prepare financial statements as if the consolidated group as a whole were 'one company,' globally unified IT systems were introduced and the accounting function came to be consistently (from upper stream to lower stream) controlled by a newly established regional headquarters, rather than having each subsidiary have its own accounting department.
- Although group companies had used different IT systems for accounting, taking the opportunity of adopting IFRS, the company established unified IT systems for accounting.

With regard to cost factors related mainly to IT systems, when the company fully upgrades its IT systems through the adoption of IFRS, the costs would be relatively larger. However, some companies consider that from a long-term perspective, sophistication of business management would reduce costs in the long run. On the other hand, some companies consider it advantageous to introduce, with relatively lower costs, IT systems that are limited to disclosure on a consolidated basis using IFRS. There are a wide range of alternatives for the costs for IT systems.

The length of the period needed for the transition to IFRS is also considered to depend on factors such as the company's size and its purposes for adopting IFRS.

With regard to the above, it should be noted that a company expressed an opinion that systemization should be proceeded with in proper order in light of the established accounting policies, and that systemization itself should not be an objective, even though it is desirable that people responsible for IT systems participate in the project team from the early stage. It stated:

- We believe that the IT team should be involved from the early stage and engaged in designing an overall architecture that includes consideration of how to collect the data about differences between Japanese GAAP and IFRS and the resultant reconciling items. However, we do not consider that systemization itself is necessary from the beginning. On the transition to IFRS, it is efficient to aim first at establishing the minimum IT systems by preparing with spreadsheets the basic data for the system for fixed assets, and adjusting entries and disclosure data for IFRS reporting. After that, based on standardized know-how gained in that process, we could efficiently develop necessary systems. The company developed a system to deal with a particular accounting standard but eventually abandoned it from the viewpoint of costs and benefits because unexpected situations occurred in that system.

In addition, it was noted that the establishment of IT systems should keep pace with the project as a whole.

VII. Treatments of particular accounting standards, auditing issues, and personnel training

We asked the respondent companies which of the following challenges in the transition to IFRS was the most significant for them:

- a. Treatments of particular accounting standards
- b. Training and securing adequate personnel
- c. Introduction or updating of accounting systems
- d. Establishment of internal controls
- e. Others

As a result, forty-three (43) of 60 respondents answered a. (Treatments of particular accounting standards) and nine (9) answered b. (Training and securing adequate personnel).

Accounting issues listed as items of ‘treatments of particular accounting standards’ included: (i) selection of the depreciation method for, and estimates of useful life of, property, plant, and equipment; (ii) revenue recognition; (iii) capitalization of internally generated development costs; (iv) impairment of assets; and (v) fair value measurement of financial instruments.

Specifically, many respondents indicated a view that selection of the depreciation method for property, plant, and equipment and revenue recognition are big issues involving burdensome system issues and practical issues. However, they are burdensome only until the determination of accounting policies, and once a practice has been established, discussion with auditors becomes smooth.

In contrast, with respect to accounting issues involving high degrees of estimates such as estimates of useful life, capitalization of internally generated development costs, and impairment of assets, it was noted that discussion with audit firms often takes a long time to conclude, partly due to inflexible reactions by audit firms and shortages of accounting personnel within the company. An example of such responses was:

- The company had great difficulties in establishing the process for impairment testing because IFRS requires annual impairment testing of goodwill even when there is no indication of impairment. In particular, it took a year to resolve how to determine cash generating units and when to recognize impairment, which involved considerable discussion with the audit firm.

In regard to how audit firms address those accounting issues, there were many responses from companies asking for flexible interpretations in conformity with the situations of the company and establishment of a timely and smooth auditing process.

Examples of such responses were:

- The audit firm often presents inflexible interpretations on the grounds that similar cases are rare, which causes trouble for the company.
- Although the audit firm often asked the headquarters of its global member firm about accounting treatments, they seemed not to have an understanding of the business practices in the company's industry sector in Japan and their answers often seemed inflexible.
- The audit firm often asks the headquarters of its global member firm for confirmation when the company consults it about newly acknowledged issues. Responses from the headquarters take two weeks at the earliest and sometimes take a few months.

However, there were some responses that such problems are being improved because of the increase of cases of IFRS adoption in Japan.

There were also many responses stating that companies need to make a careful study of their accounting policy based on their own business models in light of the principle-based nature of IFRS, and that auditing is becoming smooth as a result of close communication with auditors through early conveyance of the company's views.

Examples of such responses are:

- Because IFRS is principle-based and therefore the policies and assertions of the company are important, in consulting the audit firm, the company now confirms the background basis for its accounting treatments more carefully than it did before. In addition, it now consults the audit firm earlier than it did before.
- The transition to IFRS gives rise to new auditing procedures in which various data are needed. The company considers it important to adequately arrange how to submit documents and data to the auditor in order to make its auditing process as smooth as possible. This would reduce the man-hours spent by the auditor and lead to promptly obtaining conclusions from the auditor.

In order to make the best use of the merits of adopting IFRS, as noted above, companies need to provide high quality assertions to audit firms based on their analysis of their

own business models and both companies and audit firms need to enlarge the population of accounting experts familiar with IFRS. Such improvements are considered to bring further sophistication of accounting practice and smoother auditing.

For those purposes, companies are conducting a wide range of actions, including internal training sessions, briefing sessions for group companies, on-the-job training on account closing procedures, participation in seminars conducted by third parties, acceptance of staff from overseas subsidiaries applying IFRS, and the hiring of persons experienced in IFRS implementation.

Through these actions, it is expected that companies and audit firms will continuously seek to enlarge the number of said accounting experts in order to achieve further sophistication of accounting practice and smoother auditing.

VIII. Conclusions

We conducted a survey on the actual merits of the transition to IFRS in the form of ranking the six items in the same way used in section IV. The result was that fifty-four (54) of 60 respondent companies replied that the ranking of actual merits are all the same as those merits anticipated before voluntarily adopting IFRS. This appears to indicate that many of the companies that voluntarily adopted IFRS enjoy the merits they anticipated before the transition to IFRS.

With regard to the demerits of the transition to IFRS, there were responses that almost no demerits have been found except for those anticipated before transition or that burdens such as reclassification from the Japanese GAAP basis to IFRS basis and keeping multiple books were not as troublesome as expected.

Thus, respondent companies seem to have succeeded in enjoying most of the anticipated merits. Also, as cases of the voluntary adoption of IFRS in Japan increase, improvements are found on the issues of ‘treatments of particular accounting standards’ and ‘training and securing adequate personnel,’ which are perceived as the main challenges of the transition to IFRS (including auditing issues).

In summary, the following four remarkable points are noted for companies that are considering voluntarily adopting IFRS in the future.

1. Many companies consider ‘contribution to business management (sophistication of business management)’ as the largest merit of adoption of IFRS

This seems to mean that many companies acknowledge that it is important to consider adoption of IFRS not only from the viewpoint of a change of a set of accounting standards but also from the wider perspective that sophistication of the company’s business management would “contribute to enhancing ‘earning power,’ which is emphasized in the Abenomics strategy as reinforcement of competitiveness.” This was stated in a response from a respondent company.

2. Costs for adopting IFRS vary with the company’s size and the main purpose of adoption

Next to ‘contributions to business management,’ many companies cited ‘improved comparability with competitors’ and ‘making explanations to investors easier’ as a merit of the transition to IFRS. In the cases of those companies, development or modification of IT systems could focus on tailoring consolidation accounting entries, and some companies that only have a small number of subsidiaries and a single business line were able to adopt IFRS at very low costs. It is expected that companies adopting IFRS in the future will seek an efficient and flexible approach to the transition to IFRS in consideration of costs according to their size and purposes.

3. The need to enlarge the number of accounting experts

As a challenge to the transition to IFRS, the greatest number of respondent companies cited ‘treatment of particular accounting standards,’ in particular those involving high degrees of estimates. Many companies pointed out: (i) that actions by audit firms are not timely and smooth; (ii) that companies themselves also lack expertise in judgment of how their own business models should be accounted for under the principle-based IFRS; and (iii) that they have problems with securing personnel capable of understanding IFRS. These problems are expected to be resolved as the number of companies applying IFRS in Japan increases. Also, further efforts are desired for enlarging the population of accounting experts.

4. The need to make use of connections with other companies and analyses of other companies’ cases in the transition process to IFRS

Many companies that have adopted IFRS advise companies that will consider adopting IFRS in the future. Communication and cooperation with other companies and analysis

of the cases of other companies are important.

It is suggested that cases of other companies that have adopted IFRS give good reference in all aspects, including analysis of differences between IFRS and Japanese GAAP, establishment of internal systems, internal discussion on accounting issues to integrate various views, and treatments of auditing issues and the development or modification of IT systems, as well as the fact that communication and cooperation with other companies lead to an effective and smooth transition process.

We hope that the examples of companies that have adopted IFRS presented in this report will serve as good references for companies that are considering adopting IFRS in the future.