IFRS Adoption Report

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Financial Services Agency

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IFRS Adoption Report (Main Part)

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 ended 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 stated 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.

Furthermore, 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.

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*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

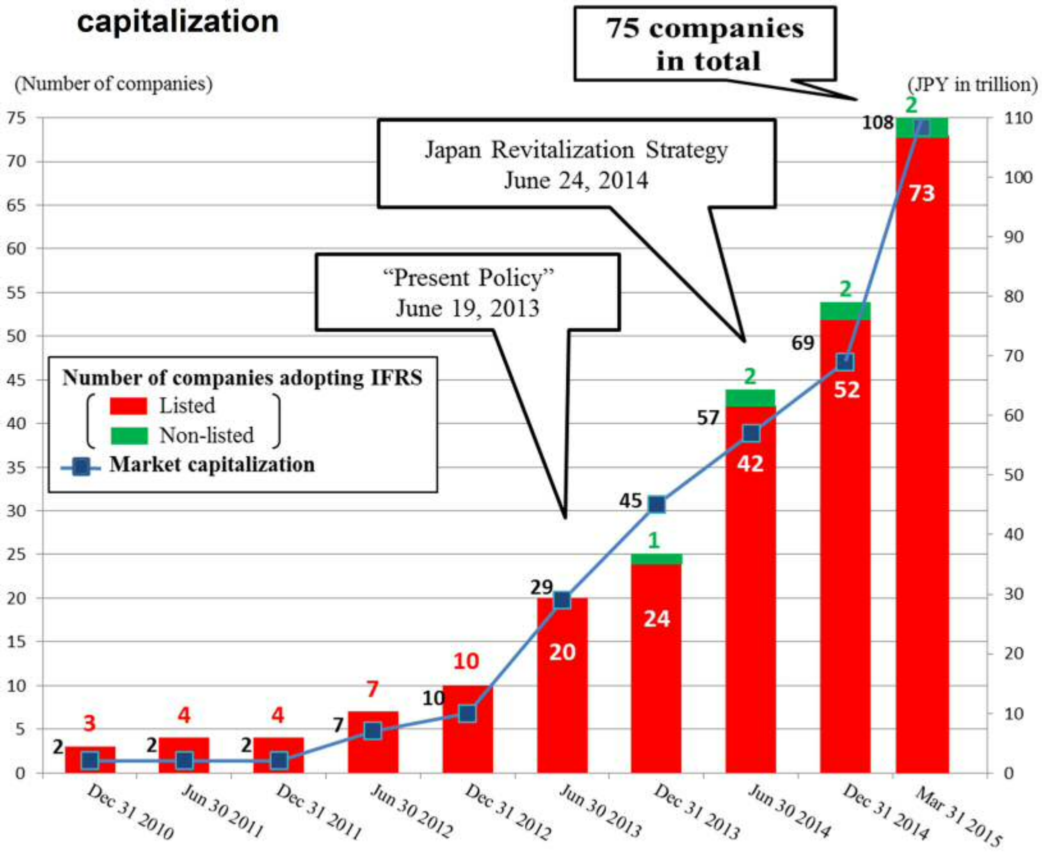
(1) The number of companies voluntarily adopting IFRS (including those that officially announced they would adopt IFRS, which will apply hereinafter) is steadily increasing.

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

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-four (44) 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 seventy-five (75) as of 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 that officially announced they would 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 by the Tokyo Stock Exchange, the seventy-three (73) listed companies that had adopted IFRS as of March 31, 2015 are in 21 industry sectors. The remarkable points are as follows (see [Table 1]):

i) Industry sectors with 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.

* As of October 31, 2015, the number of companies voluntarily adopting IFRS is ninety-five (95), among which ninety-one (91) companies are listed. Industry sectors with many IFRS adopting companies are: Electric Appliances (15), Pharmaceutical (10), Information & Communication (9), Wholesale Trade (8), Services (8), Transportation Equipment (8), and Chemicals (7).

* According to the Tokyo Stock Exchange, an additional twenty-one (21) companies disclosed that they are planning to adopt IFRS in their earnings reports.

[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)Daiichi 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)
Company Name	(31)TOSEI
Market capitalization (A) (JPY in trillion)	0.04
Total market capitalization of the industry (B) (JPY in trillion)	16.4
(A/B)	0.2%

12 Industry sectors with no IFRS adopters and the number of companies in each industry sector.			
Fishery, Agriculture & Forestry	Mining	Construction	Textiles & Apparels
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

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 as of March 31, 2015 and their market capitalizations are also as of March 31, 2015.
(4) '*' indicates the companies that officially announced they would adopt IFRS.

Ⅲ. Scope and method of the survey and interviews

The survey, which utilized questionnaires and interviews, covered sixty-nine (69) companies (including two Japanese non-listed companies) in total. It comprises forty (40) companies that had voluntarily adopted IFRS by February 28, 2015 and twenty-nine (29) companies that had officially announced they would 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 understand the problems (including industry-specific ones) that are faced by companies adopting IFRS.
(Please refer to “Reference Part” pp. 27-31 regarding details of the scope of the survey and the questionnaires.)

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 by reasons for voluntary adoption of IFRS, or 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 that "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:

- The company has many overseas subsidiaries and the same products are manufactured and sold at multiple subsidiaries. Accordingly, it would be impossible to objectively evaluate the business performance of subsidiaries without a single "measure."
- The company's objective for IFRS adoption is to enhance its transparency in corporate finance and governance. The parent company collects the IFRS-based trial balances (accounting record) from subsidiaries in various regions and closes the consolidated accounts as if the whole group companies were the "single entity." This process enables the company to identify business issues based on the data on changes in inventory or cash flows.

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:

- Previously, the company could not effectively control subsidiaries, not only from the viewpoint of global management, but also from the viewpoint of business lines or regional control. The company considers it important to use IFRS to integrate its business management throughout the group from the upper stream to the lower stream, by considering a matrix with business lines being the vertical axis and functions such as accounting, finance and tax matters being the horizontal axis.
- The company started the IFRS implementation project in order to enhance business management by introducing the single measure for its business management, instead of merely changing the financial reports. Thus, the objective of the project

was not a change in accounting standards, but an enhancement of 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 the company's equity share is held by foreign investors. In addition, the company's largest competitors are manufacturers in Europe and other regions. The company's adoption of IFRS will improve the comparability with the competitors not only for investors but also for the company itself.
- The company's domestic competitors shifted to IFRS earlier and other competitors seemed to follow it. Accordingly, market participants expected the company 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 had always provided explanations to foreign investors in consideration of differences between Japanese GAAP and IFRS. It is expected that the shift to IFRS will enable the company to provide explanations to foreign investors more simply by using its financial statements prepared for annual statutory filings in Japan, thereby enhancing convenience.

(3) In addition, six (6) companies pointed out that "d. Better reflection of performance" would be the primary merit anticipated before the transition to IFRS. Some commented that certain accounting requirements in IFRS, such as non-amortisation of goodwill or accrued vacation pay, would contribute to reflecting their performance more appropriately.

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'). (See "Reference Part" pp. 40-42.)

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 on 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 the staffs of some subsidiaries were reluctant to switch accounting standards, the company urged them to participate in the project for the transition to IFRS, while clarifying the specific actions to be taken. It is necessary that the project team of the parent company takes the initiative to encourage the related departments to be involved in the project.

A typical response about care taken for departments that were reluctant to transition to IFRS was: (See "Reference Part" pp. 43-44.)

- The company recognizes "enhanced business management on a consolidated basis" as one of the top management issues, and the IFRS adoption project has been positioned as a company-wide project, rather than the accounting department's project. It made careful explanations to those who opposed the transition and persuaded the related parties, including some members of the 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" in which the accounting department prepares action plans, the "middle stage" of collaboration with other divisions and external advisors, 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. (See "Reference Part" pp. 55-57.)

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 relevant members of the group to have a broad picture of practices. The company considers that this approach was effective. Subsequently, the policy manual was finalized after an additional year of further revision.

- When preparing the group accounting policy manual, the company assigned project members for each accounting subject and prepared the manual by the IFRS transition date, which was two years before the actual disclosure of the first IFRS financial statements. After the transition date, the company updated the policy manual by reflecting feedback from group companies.

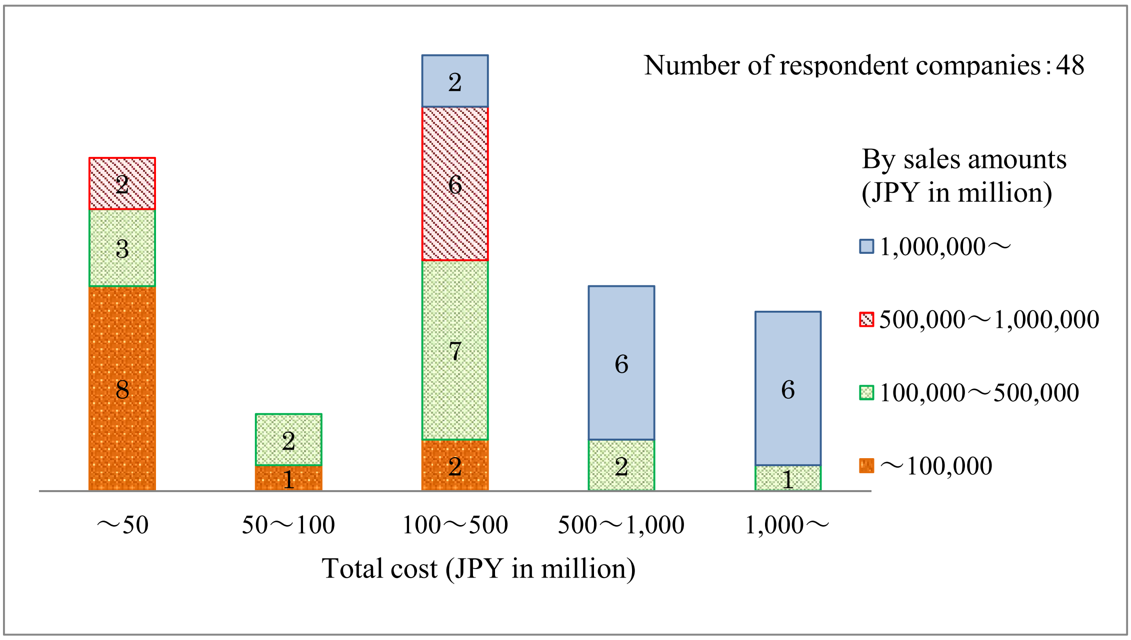
In the process of the transition to IFRS and building up the internal system for handling the transition, it is essential to establish a system to proceed with the project on a company-wide basis that also involves business units and subsidiaries. The following was highlighted. As an approach for the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

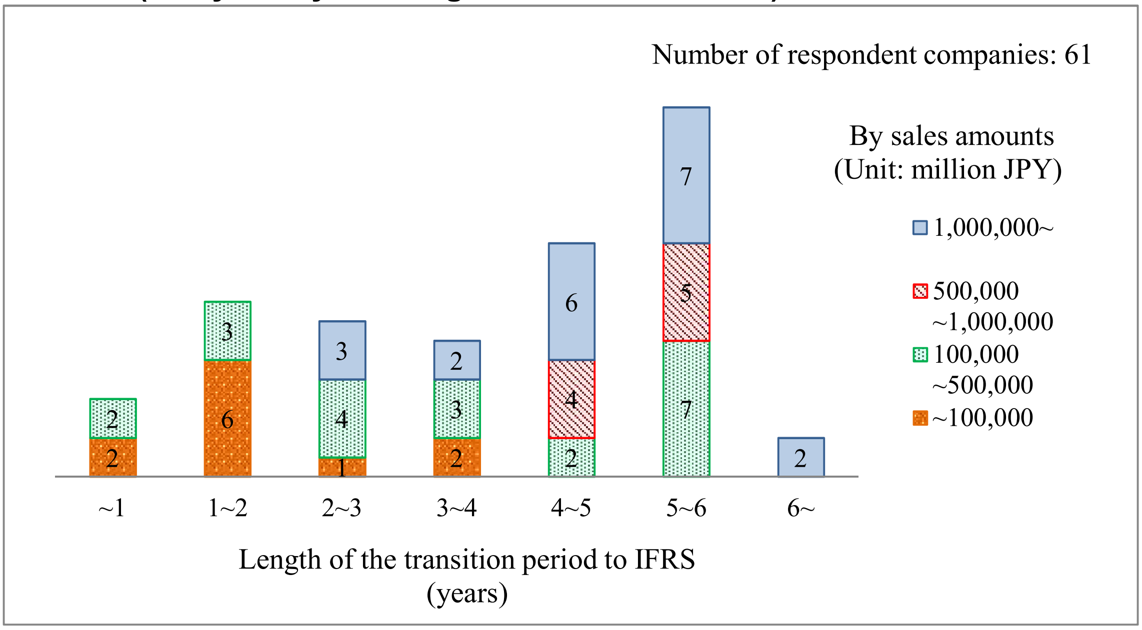
To begin from the conclusion, the significance of costs for the transition to IFRS varies with the company's size and policy for IT system development, as well the company's main aims for the transition to IFRS. [Chart 2] below indicates the tendency that the larger the company's sales amount is, the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

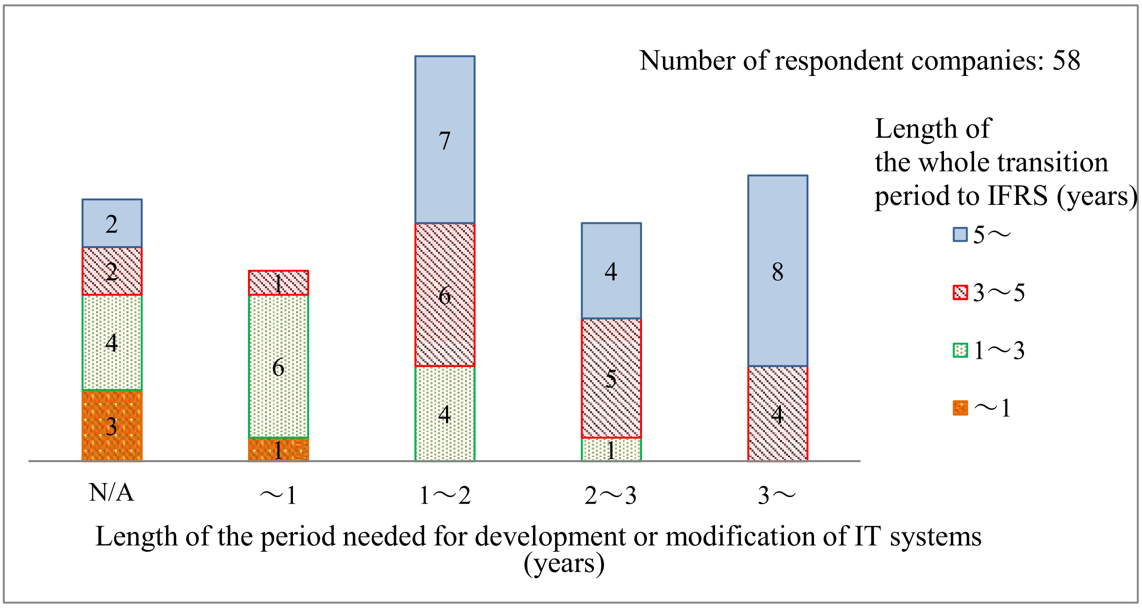


Regarding the length of the period needed for transition, it may be difficult to make a definite conclusion because when the project started might depend on judgment. However, [Chart 3] indicates the trend that the larger the company's sales amount is, the longer the transition period is. [Chart 4] appears 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 implemented an efficient process which enabled the preparation of IFRS financial statements through the use of just one type of spreadsheet software.
- The company's group reporting package was originally based on spreadsheet software, and thus tailoring it 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 company introduced an integrated internal control system for the accounting function (from upper stream to lower stream) controlled by a newly established regional headquarters, rather than having each subsidiary have its own accounting department.
- Previously, the group companies had different accounting systems. The company decided to introduce the integrated accounting systems by taking the opportunity to shift to IFRS.

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:

- The company believes 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 for GAAP adjustment. However, the company does not believe that systemization should be done from the beginning. On the transition to IFRS, it is efficient to aim first at minimizing the IT systems development. It is more efficient to utilize spreadsheet software for the area such as accumulating necessary data to input into a fixed assets system or preparing GAAP adjustments as well as IFRS-based financial statements. Then, the process would be standardized and reflected in a group reporting package. On that basis, a company can develop IT systems if necessary. The company developed an IT system to deal with a particular accounting standard but eventually abandoned it after considering costs and benefits because unexpected cases occurred in relation to the 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 sixty (60) respondents answered a. (Treatments of particular accounting standards) and nine (9) answered b. (Training and securing adequate personnel). (See "Reference Part" p. 63.)

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, the 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. (See "Reference Part" pp. 63-64.)

Specifically, many respondents indicated a view that selection of the depreciation method for the 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 time to resolve how to determine cash generating units and when to recognize impairment, which involved considerable discussion with its auditor.

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, the global headquarters 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 of its global member firm 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 policies 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 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 supporting 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 these 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 external parties, acceptance of staff from overseas subsidiaries applying IFRS, and the hiring of persons experienced in IFRS implementation. (See “Reference Part” pp. 68-69.)

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 sixty (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. (See “Reference Part” pp. 78-79.)

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 significant as anticipated.

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. (See “Reference Part” pp. 89-90.)

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.

IFRS Adoption Report (Reference Part)

I. History and purposes of this survey

In June 2009, the Business Accounting Council 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, including "the Cabinet Office Ordinance on the Disclosure of Corporate Affairs, etc." and "the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements," were amended in December 2009, and Japanese companies that satisfied certain conditions 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 ended on or after March 31, 2010.

Subsequently, the joint meeting of the General Meeting and the Planning Coordination Subcommittee of the Business Accounting Council had exhaustive discussion roughly over a year from June 2011 and 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. In this summary, the Council recommended that consideration should be given to the most suitable way for Japan to respond to IFRS while building up the examples of voluntary application of IFRS as well as paying due attention to the purpose of the application of IFRS and its impact on the Japanese economy and systems.

Furthermore, the Business Accounting Council continuously discussed IFRS adoption in Japan and issued "The Present Policy on the Application of the International Financial Reporting Standards (IFRS)" (hereinafter referred to as the "Present Policy") in June 2013. The present policy stated that the increase in voluntary adoptions of IFRS is important and directed the relaxation of requirements for IFRS voluntary adoption. It also discussed the simplification of the adoption method and the disclosure of non-consolidated (single-entity) financial statements.

The "Japan Revitalization Strategy (Revised in 2014)," which was decided upon by the Cabinet on June 24, 2014, designated "promotion of an increase in the number of companies voluntarily adopting IFRS" as one of several specific new measures for stimulating financial and capital markets. It stated that "[w]ith a view to achieving [']a single set of high-quality accounting standards['], which was prescribed in the G20 Leaders' declaration in 2008, the Government will strive to increase the number of companies voluntarily adopting IFRS." Furthermore, it 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."

Based on this Cabinet decision, the Financial Services Agency (FSA) decided to undertake a fact-finding survey and interviews regarding 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, and to publish the results.

II. Present situation of companies that voluntarily adopt IFRS

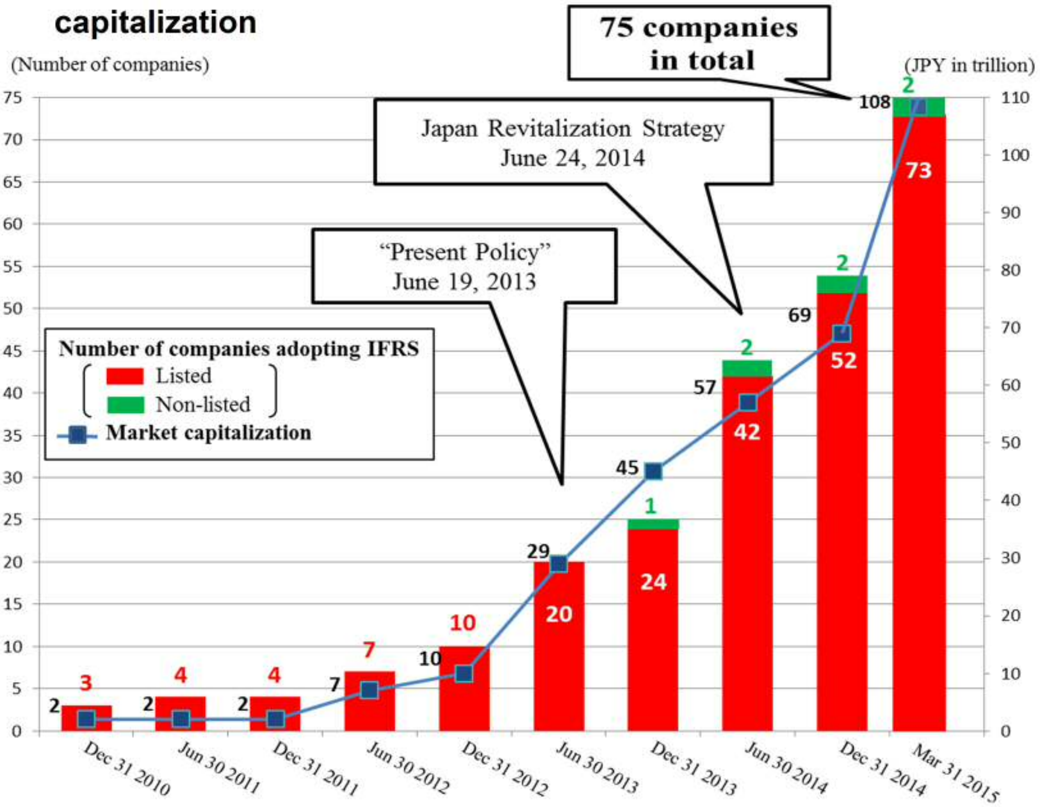
(1) The number of companies voluntarily adopting IFRS (including those that officially announced they would adopt IFRS, which will apply hereinafter) is steadily increasing.

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

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-four (44) 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 seventy-five (75) as of 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 that officially announced they would 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 by the Tokyo Stock Exchange, the seventy-three (73) listed companies that had adopted IFRS as of March 31, 2015 are in 21 industry sectors. The remarkable points are as follows (see [Table 1]):

i) Industry sectors with 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.

* As of October 31, 2015, the number of companies voluntarily adopting IFRS is ninety-five (95), among which ninety-one (91) companies are listed. Industry sectors with many IFRS adopting companies are: Electric Appliances (15), Pharmaceutical (10), Information & Communication (9), Wholesale Trade (8), Services (8), Transportation Equipment (8), and Chemicals (7).

* According to the Tokyo Stock Exchange, an additional twenty-one (21) companies disclosed that they are planning to adopt IFRS in their earnings reports.

[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) Daiichi 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)
Company Name	(31)TOSEI
Market capitalization (A) (JPY in trillion)	0.04
Total market capitalization of the industry (B) (JPY in trillion)	16.4
(A/B)	0.2%

12 Industry sectors with no IFRS adopters and the number of companies in each industry sector.			
Fishery, Agriculture & Forestry	Mining	Construction	Textiles & Apparels
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

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 as of March 31, 2015 and their market capitalizations are also as of March 31, 2015.
(4) '*' indicates the companies that officially announced they would adopt IFRS.

III. Scope and method of the survey and interviews

This survey covered sixty-nine (69) companies (including two Japanese non-listed companies) in total. It comprises forty (40) companies that had voluntarily adopted IFRS by February 28, 2015 and twenty-nine (29) companies that had officially announced they would 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 understand the problems (including industry-specific ones) that are faced by companies adopting IFRS.

This survey was conducted with the cooperation of the Financial Accounting Standards Foundation.

Breakdown of 65 Companies by Industry Sector

Industry Sector	Number of Companies
Electric Appliances	11
Pharmaceutical	9
Wholesale Trade	8
Services	7
Chemicals	5
Information & Communication	5
Machinery	3
Glass & Ceramics Products	2
Securities & Commodity Futures	2
Other Financing Business	2
Foods	1
Rubber Products	1
Iron & Steel	1
Metal Products	1
Transportation Equipment	1
Precision Instruments	1
Land Transportation	1
Real Estate	1
Retail Trade	1
Japanese Non-Listed Companies	2

The industry sectors are in accordance with the classification by the Tokyo Stock Exchange, which consists of 33 industry sectors.

List of companies that responded (in the order of adoption)

[Listed companies] 63 companies in total

Nihon Dempa Kogyo Co., Ltd. (annual period ending on March 31, 2010)
Hoya Corporation (annual period ending on March 31, 2011)
Sumitomo Corporation (annual period ending on March 31, 2011)
Nippon Sheet Glass Co., Ltd. (first quarter of the annual period ending on March 31, 2012)
Japan Tobacco, Inc. (annual period ending on March 31, 2012)
SBI Holdings, Inc. (first quarter of the annual period ending on March 31, 2013)
Anritsu Corporation (first quarter of the annual period ending on March 31, 2013)
DeNA Co., Ltd. (first quarter of the annual period ending on March 31, 2013)
Tosei Corporation (first quarter of the annual period ending on November 30, 2013)
Chugai Pharmaceutical Co., Ltd. (first quarter of the annual period ending on December 31, 2013)
NEXON Co., Ltd. (first quarter of the annual period ending on December 31, 2013)
Rakuten, Inc. (first quarter of the annual period ending on December 31, 2013)
Sojitz Corporation (annual period ending on March 31, 2013)
Monex Group, Inc. (annual period ending on March 31, 2013)
SoftBank Corp. (first quarter of the annual period ending on March 31, 2014)
Marubeni Corporation (first quarter of the annual period ending on March 31, 2014)
Asahi Glass Co., Ltd. (annual period ending on December 31, 2013)
SKYLARK CO., LTD (annual period ending on December 31, 2013)
Astellas Pharma, Inc. (annual period ending on March 31, 2014)
ITOCHU Corporation (annual period ending on March 31, 2014)
ITOCHU ENEX CO., LTD. (annual period ending on March 31, 2014)
ONO PHARMACEUTICAL CO., LTD. (annual period ending on March 31, 2014)
Sosei Group Corporation (annual period ending on March 31, 2014)
DAIICHI SANKYO COMPANY, LIMITED (annual period ending on March 31, 2014)
Takeda Pharmaceutical Company Limited (annual period ending on March 31, 2014)
MITSUI & CO., LTD. (annual period ending on March 31, 2014)
Mitsubishi Corporation (annual period ending on March 31, 2014)
Ricoh Company, Ltd. (annual period ending on March 31, 2014)
ITOCHU Techno-Solutions Corporation (first quarter of the annual period ending on March 31, 2015)
Eisai Co., Ltd. (first quarter of the annual period ending on March 31, 2015)
M3, Inc. (first quarter of the annual period ending on March 31, 2015)
SEIKO EPSON CORPORATION (first quarter of the annual period ending on March 31, 2015)
Nitto Denko Corporation (first quarter of the annual period ending on March 31, 2015)

FUJITSU LIMITED (first quarter of the annual period ending on March 31, 2015)
TechnoPro Holdings, Inc. (annual period ending on June 30, 2014)
DMG MORI SEIKI CO., LTD. (first quarter of the annual period ending on December 31, 2015)
COOKPAD, Inc. (first quarter of the annual period ending on December 31, 2015)
Clarion Co., Ltd. (annual period ending on March 31, 2015)
KONAMI CORPORATION (annual period ending on March 31, 2015)
KONICA MINOLTA, INC. (annual period ending on March 31, 2015)
Santen Pharmaceutical Co., Ltd. (annual period ending on March 31, 2015)
DENSO CORPORATION (annual period ending on March 31, 2015)
DENTSU, INC. (annual period ending on March 31, 2015)
Japan Exchange Group, Inc. (annual period ending on March 31, 2015)
Hitachi, Ltd. (annual period ending on March 31, 2015)
Hitachi Chemical Company, Ltd. (annual period ending on March 31, 2015)
Hitachi Capital Corporation (annual period ending on March 31, 2015)
Hitachi Metals, Ltd. (annual period ending on March 31, 2015)
Hitachi Construction Machinery Co., Ltd. (annual period ending on March 31, 2015)
Hitachi Koki Co., Ltd. (annual period ending on March 31, 2015)
Hitachi Kokusai Electric Inc. (annual period ending on March 31, 2015)
Hitachi High-Technologies Corporation (annual period ending on March 31, 2015)
Hitachi Transport System, Ltd. (annual period ending on March 31, 2015)
Kao Corporation (first quarter of the annual period ending on December 31, 2016)
Sumitomo Riko Company Limited (first quarter of the annual period ending on March 31, 2016)
Hotto Link, Inc. (annual period ending on December 31, 2015)
NEXT Co., Ltd. (annual period ending on March 31, 2016)
LIXIL Group Corporation (annual period ending on March 31, 2016)
Mitsubishi Tanabe Pharma Corporation (first quarter of the annual period ending on March 31, 2017)
The Nippon Synthetic Chemical Industry Co., Ltd. (first quarter of the annual period ending on March 31, 2017)
Mitsubishi Chemical Holdings Corporation (first quarter of the annual period ending on March 31, 2017)
SUMIDA CORPORATION (first quarter of the annual period ending on December 31, 2017)
TOSHIBA CORPORATION (annual period ending on March 31, 2017)

[Non-listed companies] 2 companies in total

DYNAM JAPAN HOLDINGS Co., Ltd.
SBI AXES Co., Ltd.

Questions in the Questionnaire

1. Reasons and background for deciding on the voluntary adoption of IFRS

(1) Reasons for the voluntary adoption of IFRS or primary merits anticipated before the transition to IFRS

i) It will contribute to business management, because the respondent has many overseas subsidiaries

ii) It will improve comparability with other companies in the same industry sector

iii) It will make finance from abroad easier

iv) IFRS will reflect the company's performance more appropriately compared to other accounting standards

v) It will make explanations to foreign investors easier

vi) Others

(2) Key figures in financial statements that the respondent considers important (e.g., net income, comprehensive income)

(3) Reasons for choosing i) to vi) in (1) above

(4) Person/division that specifically proposed the IFRS adoption (e.g., CEO, department, etc.)

(5) Whether there were oppositions to the IFRS adoption. If so, who opposed for what reasons

(6) Having considered (4) and (5) above, how the decision was made to adopt IFRS

2. Preparation for and costs of the transition to IFRS

(1) The approximate period needed for the "transition to IFRS" (from the internal kickoff meeting to the statutory filing of the financial statements)

(2) The approximate period needed for each step below

i) Analysis of GAAP differences

ii) Development or modification of IT systems

iii) Preparation of a set of financial statements (testing phase)

iv) Establishment of internal controls

v) Others

(3) Internal structures established for the "transition to IFRS" (e.g., working group, IFRS transition team)

Overview of the transition process in the company such as the "early stage" in which the accounting department prepares action plans, the "middle stage" of collaboration with other divisions and external advisors, and the "late stage" where financial statements in accordance with IFRS are prepared and disclosed, etc.

(4) Use of external advisors (e.g., other auditor, consulting firms) (Firm's name and nature of the service provided)
(5) Total costs directly needed for the "transition to IFRS"
i) External advisors (e.g., other auditor, consulting firms)
ii) Auditor (excluding the ordinary audit fee)
iii) Introduction or updating of accounting systems
iv) Others
(6) Nature and amount of total running costs after the transition period. In addition, difference of nature and amount of these costs between before and after the IFRS transition (e.g., costs for external advisors, audit firm, maintenance / modification of IT systems, etc.)

3. How the respondent overcame challenges during the transition to IFRS

(1) Primary challenges faced during the transition to IFRS
i) Treatments of particular accounting standards
ii) Introduction or updating of accounting systems
iii) Establishment of internal controls
iv) Training and securing of adequate personnel
v) Others
(2) Challenges chosen from i) to v) in (1) above, and measures taken to overcome the challenges

4. Auditing

With regard to the financial statements audit in IFRS, compared with the accounting standards used before the transition to IFRS:
(1) Nature of the challenges and measures taken to overcome the challenges, if any
(2) Better aspects noted, if any

5. Merits of IFRS experienced by the respondent after adopting IFRS

(1) Primary merits of using IFRS
i) It has contributed to business management, because the respondent has many overseas subsidiaries
ii) It has improved comparability with other companies in the same industry sector
iii) It has made finance from abroad easier
iv) IFRS has reflected the company's performance more appropriately compared to other accounting standards
v) It has made explanations to foreign investors easier

vi) Others

(2) Merits chosen from i) to vi) of (1) above and description of the merit

6. Demerits of IFRS experienced by the respondent after adopting IFRS

(1) Whether there were actual demerits of the transition to IFRS. Nature of demerits if any.

(2) Demerits of (1) that were not anticipated before the transition

(3) Demerits of (1) that were not as significant as anticipated before the transition

(4) Measures taken to mitigate such demerits

7. Requests

Requests related to IFRS

(1) Requests to the IASB and the ASBJ in relation to IFRS

(2) Requests to the FSA regarding the disclosure rules under the Financial Instruments and Exchange Act

(3) Requests to auditors

(4) Requests to users of financial statements, such as analysts

(5) Others

8. Others

Advice to companies considering voluntary adoption of IFRS (e.g., collaborating with peer companies in the same industry sector, etc.)

IV. Survey results

The responses to the questionnaire and results of the interviews are as follows:

1. Reasons and background for deciding on the voluntary adoption of IFRS

(1) Reasons for the voluntary adoption of IFRS or primary merits anticipated before the transition to IFRS

In this question, we asked reasons for the voluntary adoption of IFRS or primary merits anticipated before the transition to IFRS, to the companies that voluntarily adopted IFRS. We asked companies to choose their reasons from the following list, rank the reasons, and describe their reasons.

a. It will contribute to business management, because the respondent has many overseas subsidiaries
b. It will improve comparability with other companies in the same industry sector
c. It will make finance from abroad easier
d. IFRS will reflect the company's performance more appropriately compared to other accounting standards
e. It will make explanations to foreign investors easier
f. Others

We received responses from sixty-five (65) companies with regard to this question.

[Table 2] below shows the number of companies that chose each reason as the top reason for voluntary adoption of IFRS, or the most anticipated merit before the transition to IFRS.

[Table 2] Number of companies by reasons for voluntary adoption of IFRS, or 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

a. Contributions to business management

As to reasons for the voluntary adoption of IFRS or primary merits anticipated before the transition to IFRS, companies that chose "contributions to business management" noted that the adoption of IFRS would contribute to proper management resource allocation and performance assessment. It is because the adoption of IFRS would provide a common "measure" for business management across the corporate group, including overseas subsidiaries, and enables the company to accurately measure and compare business performance of business segment and regional segment. These responses were heard from companies in a wide range of industries. They tend to operate globally with many overseas subsidiaries.

The main comments with regard to this point are as follows:

- ✓ The company has many overseas subsidiaries and the same products are manufactured and sold at multiple subsidiaries. Accordingly, it would be impossible to objectively evaluate the business performance of subsidiaries without a single "measure." (Precision Instruments)
- ✓ The company's objective for IFRS adoption is to enhance its transparency in corporate finance and governance. The parent company collects the IFRS-based trial balances (accounting record) from subsidiaries in various regions and closes the consolidated accounts as if the whole group companies were the "single entity." This process enables the company to identify business issues based on the data on changes in inventory or cash flows. The purpose of the transition to IFRS is to strengthen the competitiveness of the company, which is in line with the idea of "earning power" presented in Abenomics. (Electric Appliances)
- ✓ While the company has many overseas subsidiaries, the company used financial figures based on the various local accounting standards as management figures. The company therefore anticipated having a common "measure" for business management as a merit of the IFRS adoption. (Electric Appliances)
- ✓ The company has many overseas subsidiaries and other affiliates, about half of which exist in countries that allow use of IFRS. Given that IFRS had already been used in over 100 countries and had been establishing its status as the global accounting standards at that time, it was natural for the company to choose IFRS. The company considers the most important merit of adopting IFRS the fact that it enables the company to manage the company's entire operation based on a common "measure," both at the subsidiary level and the consolidated level. (Wholesale Trade (Trading Company))

- ✓ Before the IFRS adoption, the company had asked its overseas subsidiaries to consult with the headquarters when considering accounting processes. However, there was inconsistency within the group's accounting practices, because most subsidiaries in fact consulted with local audit firms. The company also did not feel that comparison of accounting figures within the group was meaningful because different subsidiaries prepared accounting figures on a different basis, such as the useful life of depreciable assets. The company began to consider IFRS adoption in order to clarify and overcome these challenges in business management. (Electric Appliances)
- ✓ Before the IFRS adoption, each subsidiary had applied different accounting standards and resulted in differences such as depreciation methods of fixed assets or timing of recognizing reserves / allowances. The top management had voiced great concern about this issue at monthly performance review meetings and other occasions and the company tried to apply the uniform accounting policy as much as possible based on Japanese GAAP. Therefore, as soon as discussion began on voluntary adoption of IFRS in Japan, the company started considering the option. (Glass & Ceramics Products)
- ✓ The company has around 200 subsidiaries worldwide and had a need to integrate business management on a consolidated basis. Before the transition to IFRS, the company had prepared the consolidated financial statements by making minimum adjustments to comply with Japanese GAAP based on each subsidiary's financial statements prepared according to local accounting standards. The IFRS adoption enables the company to measure its business performance with a common "measure" when comparing business sectors or regions in management accounting. (Transportation Equipment)

Several respondents stated that they have the aim of achieving more effective business management through the transition to IFRS. Specifically, their comments were as follows:

- ✓ Previously, the company could not effectively control subsidiaries, not only from the viewpoint of global management, but also from the viewpoint of business lines or regional control. The company considers it important to use IFRS to integrate its business management throughout the group from the upper stream to the lower stream, by considering a matrix with business lines being the vertical axis and functions such as accounting, finance and tax matters being the horizontal axis. (Electric Appliances)

- ✓ The company started the IFRS implementation project in order to enhance business management by introducing the single measure for its business management, instead of merely changing the financial reports. Thus, the objective of the project was not a change in accounting standards, but an enhancement of its business management. (Precision Instruments, Transportation Equipment)
- ✓ The company wishes to further sophisticate its business management through transition to IFRS. One example is treatment of returned goods. IFRS requires companies to estimate the goods expected to be returned and deduct it from sales. In theory, companies should aim at eliminating returns. This change will improve the precision of sales in the supply chain, thereby contributing to the company's business management. (Chemicals)
- ✓ From the business management point of view, the company had particular concerns about business performance evaluation based on financial figures prepared by different accounting standards and differences of fiscal year ends among the group companies. The company considered the IFRS adoption as a chance to strengthen business management. The company will shift to the group-wide business management based primarily on IFRS and plans to manage budgets on the IFRS basis. (Metal Products)
- ✓ When the parent company and subsidiaries comply with different accounting standards, problems can occur with group-level decision making and assessment of business performance of each subsidiary.

  The company considered that using IFRS was more appropriate for making decisions on M&A transactions and setting of budget and business goals, because the use of the same measure would allow all concerned parties to evaluate those matters on the same basis. (Electric Appliances)

One of the respondents commented that the IFRS adoption strengthened the company's internal controls, because the company needed to understand the business of its subsidiaries thoroughly. The company commented as follows:

- ✓ The company needed to understand subsidiaries' business and transactions thoroughly by interviewing at the local subsidiaries in order to implement uniform accounting policy among the group companies. The company considers that this process improved the parent company's monitoring of its subsidiaries and strengthened the company's internal control system. Under Japanese GAAP, the company did not perform such in-depth analysis. (Securities & Commodity Futures)

Furthermore, the companies that had previously adopted U.S. GAAP expressed their expectations to streamline financial reporting process and shorten the time needed to report to management, as a result of the IFRS adoption. Specifically, their headquarters previously had a heavy workload because subsidiaries' financial figures based on local standards had to be adjusted to U.S. GAAP. As a result, it took time for the head offices to report to management. Following the transition to IFRS, however, the companies expected that the workload at their headquarters would be reduced and, accordingly, the time taken in reporting to management would be shortened, as each subsidiary prepares financial figures based on IFRS and reports them to the headquarters. The main comments with regard to this point were as follows:

- ✓ Reporting to management after the end of the fiscal period took a long time, as the headquarters had to go through a complicated process to adjust the figures to comply with U.S. GAAP. The company expected that this process would be shortened. (Electric Appliances)
- ✓ The headquarters used to adjust financial figures obtained from subsidiaries and other affiliates into the U.S. GAAP, to prepare the consolidated financial statements. Streamlining this troublesome process was the main reason for the transition to IFRS. (Wholesale Trade (Trading Company))

b. Improved comparability

There were two types of companies that pointed to "improved comparability": (a) companies aiming to improve comparability with foreign competitors and (b) companies aiming to improve comparability with domestic competitors.

As for (a) companies aiming to improve comparability with foreign competitors, they were in industries such as Foods, Pharmaceutical, and Services. The main comments were as follows:

- ✓ Approximately 30% of the company's equity share is held by foreign investors. In addition, the company's largest competitors are manufacturers in Europe and other regions. The company's adoption of IFRS will improve the comparability with the competitors not only for investors but also for the company itself. (Transportation Equipment)
- ✓ The company's major competitors all exist in Europe and the United States and they adopted IFRS or U.S. GAAP. In this situation, the company considers it very important to ensure comparability of financial statements with its competitors. (Foods)

- ✓ The company has expanded overseas and has large overseas sales. The company therefore considered it advantageous to transition to IFRS, for example in terms of improving comparability with foreign competitors. The company worked on the transition to IFRS by exchanging information with domestic peer companies in the same industry. (Pharmaceutical)

Meanwhile, (b) companies aiming to improve comparability with domestic competitors were in industries such as Wholesale Trade (Trading Company) and Pharmaceutical. The main comment is as follows:

- ✓ The company's domestic competitors shifted to IFRS earlier and other competitors seemed to follow it. Accordingly, market participants expected the company to disclose financial information that is comparable within the industry sector. (Wholesale Trade (Trading Company))

c. Makes explanations to foreign investors easier

The companies that pointed to "makes explanations to foreign investors easier" commented as follows.

- ✓ The company had consumed significant time in providing explanations to foreign investors about differences between Japanese GAAP and IFRS before the IFRS adoption. For instance, it was difficult for the company to explain off-balance sheet transactions such as factoring of receivables to foreign investors. Furthermore, foreign investors tended to suspect that there were more GAAP differences when they found one GAAP difference. (Information & Communication)
- ✓ The company had always provided explanations to foreign investors in consideration of differences between Japanese GAAP and IFRS. It is expected that the shift to IFRS will enable the company to provide explanations to foreign investors more simply by using its financial statements prepared for annual statutory filings in Japan, thereby enhancing convenience. (Securities & Commodity Futures)
- ✓ The company has a high proportion of foreign shareholders. In providing explanations to foreign investors, a person in charge of IR expressed an opinion that transition to IFRS was desirable and the company began to consider IFRS adoption. (Services)

d. Better reflection of performance

Some of the companies that pointed to "better reflection of performance" commented that IFRS more appropriately reflects their performance in terms of accounting of goodwill, revenue recognition, and accrued vacation pay. The main comments were as follows:

- ✓ The company actively engages in M&A. It was difficult for the top management to understand that amortization of goodwill had to be booked immediately after the M&A transaction, even though the purchase price was properly valued based on fair value. The company considers that accounting for goodwill under IFRS (non-amortization and only impairment) more appropriately reflects the actual state of M&A, given that the company conducts a strict impairment test in each fiscal period with proper understanding of subsidiaries' business and up-to-date situation rather than amortizing of goodwill. (Information & Communication, Securities & Commodity Futures)
- ✓ The company felt the IFRS adoption appropriately reflected the company's performance, because it results in proper calculation of periodic profit or loss. Examples include revenue recognition over the lease periods including free-rent periods, capitalization of borrowing costs in inventory assets, and expense recognition of borrowing fees over the borrowing period. (Real Estate)
- ✓ The company's business is temporary staff service and has a large number of employees in comparison with the company's scale. Therefore accrued vacation pay has a great impact on the financial conditions and operating results. IFRS enabled the company to appropriately reflect the group companies' financial conditions and operating results by recording accrued vacation pay on the financial statements. (Services)

e. Smoother finance from abroad

The main comments from the companies that pointed to "smoother finance from abroad" were as follows.

- ✓ The company considered that the adoption of IFRS would result in reduction in financing cost. This is because the company can efficiently seek overseas financing by using financial statements prepared for regulatory filing. In addition, the IFRS adoption broadens financing opportunities as financial statements become more reliable to foreign investors. (Securities & Commodity Futures)
- ✓ The adoption of IFRS makes it easier to finance in the overseas markets by using

financial statements prepared for regulatory filing. It will reduce additional steps needed and enable more flexible financing. Furthermore, the use of IFRS will broaden investor base in the international capital markets compared to the use of Japanese GAAP and therefore will expand financing opportunities. The use of IFRS diversifies not only the capital markets to access but also the investor base. The company, in fact, was able to issue U.S. dollar-denominated bonds in the foreign bond market by using IFRS-based financial statements similar to those used for statutory filing. (Foods)

Three (3) of the respondents made an initial public offering on the exchanges in Singapore, Hong Kong and South Korea by filing IFRS-based financial statements.

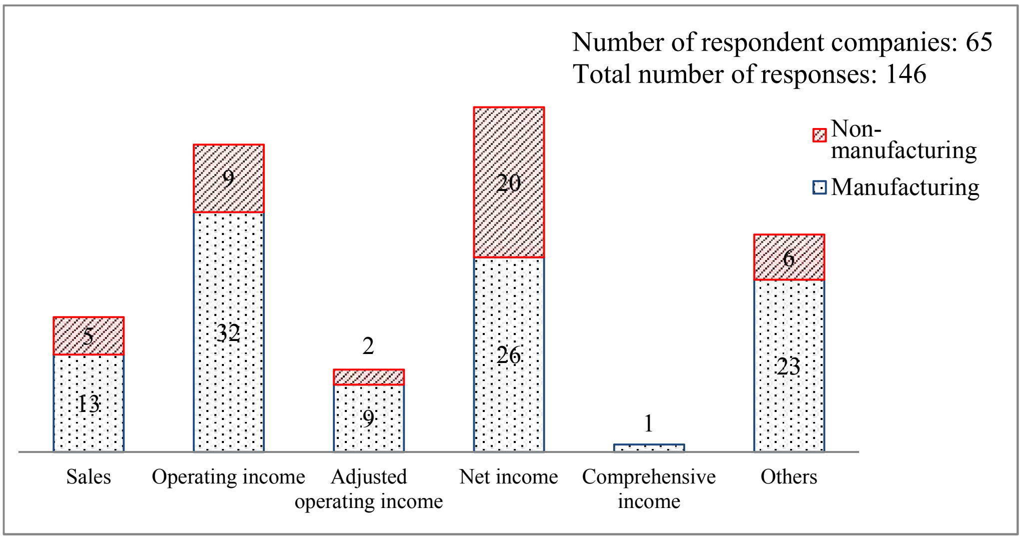
f. Others

Other than a. to e. above, four (4) companies pointed to "enhanced international credibility," "eliminates redundant financial reporting process as the parent of a company that adopted IFRS earlier," and other reasons.

(2) Key figures in financial statements that the respondent considers important

In this question, we asked respondents for key financial figures (indicators) that they consider important in financial statements prepared on the basis of IFRS. It was an open response question and allowed multiple answers. [Chart 2] below represents answers from the respondents.

[Chart 2] Key figures in IFRS-based financial statements that the respondent considers important



Irrespective of industry sector, all companies consider that the major line item(s) on statements of profit or loss are important. Among the responses, the largest number of companies considered that net income is important. One (1) company responded that comprehensive income is important and the company also stated that sales and net income are important.

Furthermore, eleven (11) companies mentioned that, in terms of business management, they consider that operating income after certain adjustments (adjusted operating income) are important, rather than non-adjusted operating income recorded on the financial statements. As for adjusted operating income, some companies focused on EBITDA (earnings before interest, taxes, depreciation, and amortization) while some others focused on income with adjustment of non-recurring items or operating income with adjustment to amortization expenses for intangible assets for acquisitions.

Some pointed to other items relating to cash flow, such as free cash flow and operating cash flow, as well as return on equity (ROE) and return on asset (ROA).

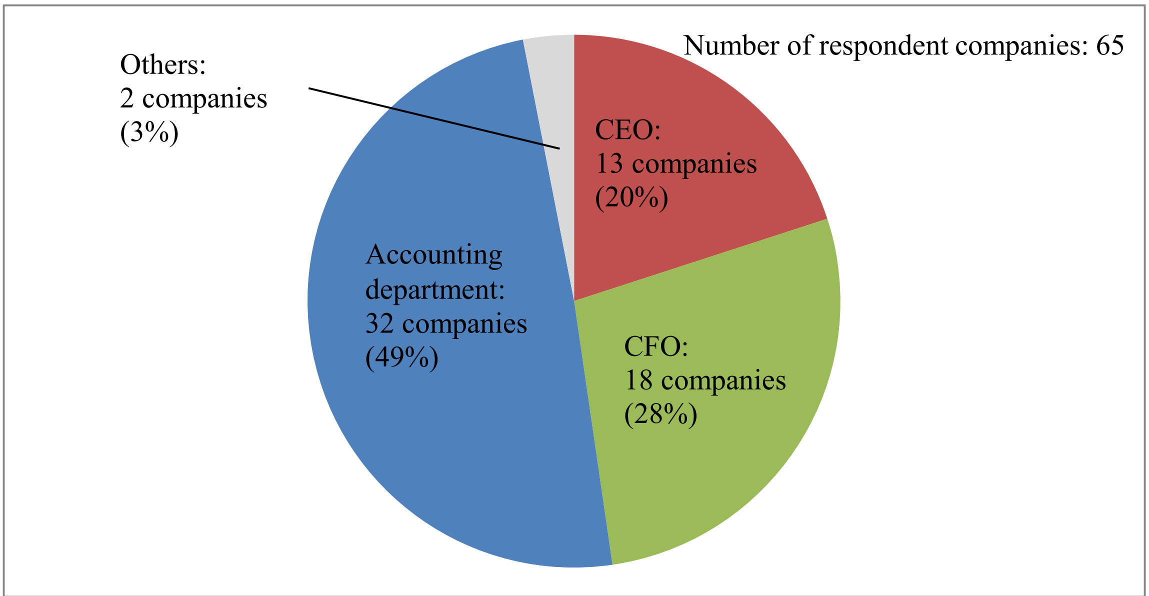
Generally, IFRS is said to place importance on balance sheets and comprehensive income. Most of the companies that adopt IFRS, however, seem to, in fact, focus on items on statements of profit or loss (particularly net income).

(3) Process of the transition to IFRS

In this question, we asked about the person/division that specifically proposed the IFRS adoption, whether there was opposition to the IFRS adoption, and what the reasons were for the opposition.

We received answers from sixty-five (65) companies with regard to the question above. [Chart 3] below represents answers from the companies.

[Chart 3] Person/division that specifically proposed the IFRS adoption



With regard to the determination of the IFRS adoption, there was approximately the same number of top-down initiatives by the CEO or CFO and bottom-up initiatives by the accounting department.

Several companies commented that top management involvement is important in the adoption of IFRS.

- ✓ The company's adoption of IFRS was directed by management to achieve financing in the overseas capital market, which was decided by them. (Real Estate)
- ✓ There was some difficulty in involving members in subsidiaries, but it was important that a top-down initiative was taken by management in proceeding with IFRS adoption. (Pharmaceutical)
- ✓ Although different companies have different circumstances and management styles, etc., sufficient management involvement and a top-down approach are essential in order for a company to shift to IFRS as efficiently as possible. (Glass & Ceramics Products)

The companies that adopted IFRS with a bottom-up initiative by the accounting department gave the following comments.

- ✓ The accounting department proposed the transition to IFRS at executive meetings and management meetings, and the board of directors, including external directors and external auditors, ultimately approved the idea. (Chemicals)
- ✓ The accounting department proposed the transition to IFRS to management and obtained approval. Management had understood the adverse effects of using

different accounting standards in different subsidiaries in the group, such as Japanese GAAP and IFRS on performance management, and management was willing to adopt IFRS. (Glass & Ceramics Products)

- ✓ The company clarified the purpose and necessity of changing the accounting standards, which are important management infrastructure, to IFRS. Then, the company compared and discussed pros and cons of the IFRS adoption. The accounting department explained the results to management several times and obtained approval for the IFRS adoption. (Chemicals)

The following comments were made with regard to the need for company-wide involvement not only by the top management and the accounting department but also by all business units.

- ✓ The company recognizes “enhanced business management on a consolidated basis” as one of the top management issues and, from the beginning, the IFRS adoption project has been positioned as a company-wide project, rather than the accounting department’s project. (Wholesale Trade (Trading Company))
- ✓ As the staff of some subsidiaries were reluctant to switch accounting standards, the company urged them to participate in the project for the transition to IFRS, while clarifying the specific actions to be taken. It is necessary that the project team of the parent company takes the initiative to encourage the related departments to be involved in the project. (Securities & Commodity Futures)
- ✓ It is necessary for management to formulate policies and execute the transition from a top-down approach, but at the same time, it is essential to listen to the opinions from business units. (Wholesale Trade (Trading Company))
- ✓ It was possible for the headquarters’ accounting department to adjust consolidated results into IFRS. However, the company considered it was not suitable to the company and made the IFRS adoption project as a group-wide project, including the involvements of subsidiaries. The headquarters’ accounting department interpreted IFRS standards, but business units from each subsidiary got involved in preparing the group accounting policy manual from an early stage. (Pharmaceutical)

With regard to the opposition on the shift to IFRS, most companies answered that there was no such opposition. However, seven (7) companies answered that there was. [Table 3] below represents the main oppositions and companies’ responses to such opposition.

[Table 3] Main opposition to the IFRS adoption and responses to the opposition

Opposition	Response
(1) Some relevant departments feared that the IFRS adoption would increase the workload, because application of IFRS to non-consolidated financial statements in Japan is not allowed under the Financial Instruments and Exchange Act. They also noted that the corporate tax return cannot be prepared in IFRS. (Services)	With top management's strong determination, a project team was formed and the transition to IFRS was decided in a short time.
(2) Tight human resources are a chronic issue for the company's administrative departments. Various departments in the company expressed concern because the IFRS project would increase the workload. Some members of the management questioned the necessity to shift from U.S. GAAP to IFRS. (Wholesale Trade (Trading Company))	The company recognizes "enhanced business management on a consolidated basis" as one of the top management issues and, from the beginning, the IFRS adoption project has been positioned as a company-wide project, rather than the accounting department's project, which turned out to be successful. It made careful explanations to those who opposed the transition and persuaded the parties, including some members of the management.
(3) The accounting department in a domestic business unit and listed domestic subsidiaries were concerned as to whether the benefit exceeded the cost. They were also concerned about the burden of dual performance management under IFRS and Japanese GAAP. (Electric Appliances)	The company repeatedly explained that the IFRS adoption was essential in unifying various business on a global basis. The company also coordinated with the audit firm, so that GAAP adjustments to comply with IFRS would be only for necessary items based on proper understanding on the business and the level of materiality.
(4) Many people, especially in the sales department, questioned the necessity for the transition to IFRS given that almost all current business operations are	The company thoroughly explained to the sales department that the IFRS adoption would promote the global expansion of the company's business, and the sales

conducted in Japan. (Wholesale Trade (Trading Company))	department agreed with it.
(5) When the project started, voluntary adoption of IFRS was not permitted in the Japanese regulation and it was merely a request from the headquarters' finance department. Therefore, various business units opposed it. (Precision Instruments)	The project team explained that because the company has many overseas subsidiaries and the same products are manufactured and sold at multiple subsidiaries, it was necessary to have a single "measure" to objectively evaluate the business performance of each subsidiary. In addition, to mitigate the concerns of business units, the head office explained the support provided to business units for the transition.
(6) When the company was making the decision on the transition to IFRS, one of the external executives expressed the view that there was no need for haste in adopting IFRS, considering other priorities the management has. (Chemicals)	The company decided the timing of the IFRS adoption by taking account of the overall priorities the management has and the timing of establishing the next medium-term business plan.
(7) Some expressed a concern that costs for external consulting firms and audit firms would be too expensive. (Services)	The company reduced the costs by shortening the period spent for the IFRS adoption project by hiring an employee who had experience with IFRS adoption.

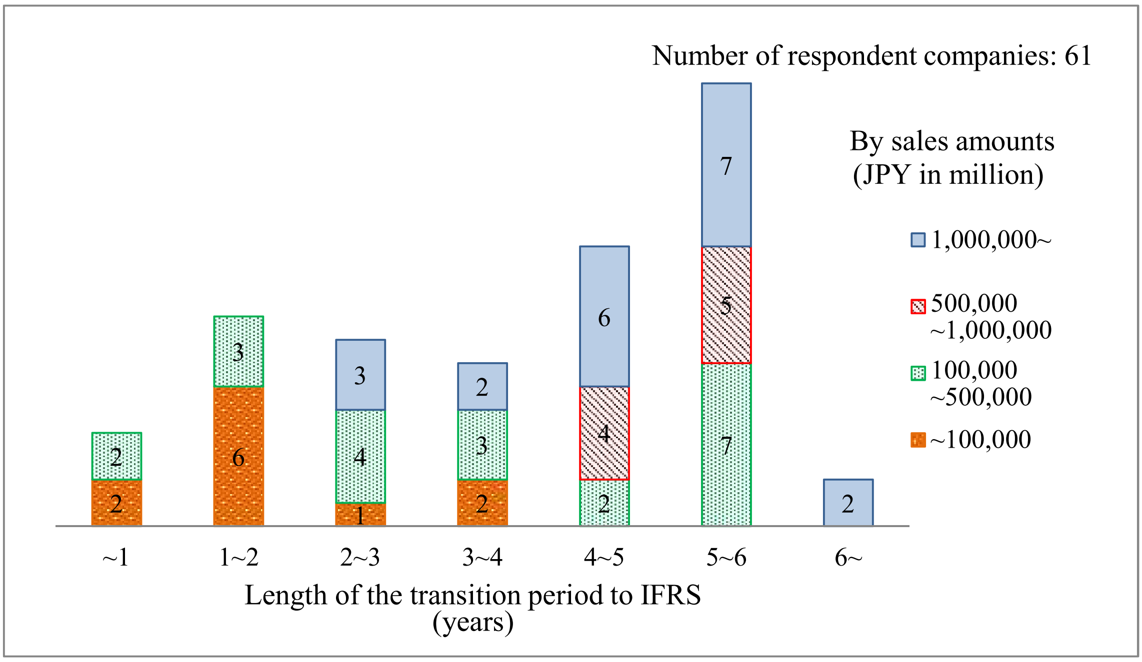
When departments other than the accounting department (such as the sales department) expressed concern, there were some cases where the top management was able to persuade them with its strong determination such as (1) above, but in most cases (such as (2) to (5) above), companies explained the merits of adopting IFRS in terms of business management and encouraged these departments to become involved in the project. These measures seem to be important in proceeding with a smooth transition to IFRS. Furthermore, such measures seem to be effective with concerns about the timing and costs of IFRS adoption as seen in (6) and (7) above.

2. Preparation and costs for the transition to IFRS

(1) Length of the transition period to IFRS (overall)

In this question, we asked companies about the approximate period needed for the IFRS transition from the internal kickoff meeting to the statutory filing of the financial statement on an IFRS basis. We also asked for breakdowns of the period, in order to understand an overview of the project from the beginning to the end. We received responses from sixty-one (61) companies. [Chart 4] below shows the period spent on the IFRS transition by range of sales amounts.

[Chart 4] Number of companies by length of the transition period to IFRS (analyzed by the range of sales amounts)



The average length of the transition period was three years and eight months. Among the companies that took a relatively short time, four (4) companies answered it took them less than one year and nine (9) companies answered one to two years. These thirteen (13) companies are in industry sectors such as Services, Information & Communication and Retail Trade. Out of these thirteen (13) companies, the sales amounts of eight (8) companies were less than 100 billion yen and those of five (5) companies were 100 billion to 500 billion yen.

The companies that shifted to IFRS in a relatively short time tended to be those of small size and a single business segment. These companies needed limited GAAP adjustments and did not require drastic modification of IT systems. In other cases, strong determination of the top management or sufficient budget led to a short-term transition to IFRS.

Among the companies that took a relatively long time for the transition, nineteen (19) companies answered it took five to six years and two (2) companies answered six years or longer. These twenty-one (21) companies are in industry sectors such as Wholesale Trade (Trading Company), Chemicals, and Electric Appliances. Out of these twenty-one (21) companies, no company had sales amounts of less than 100 billion; sales amounts of seven (7) companies were 100 billion to 500 billion yen, those of five (5) companies were 500 billion to 1 trillion, and those of nine (9) companies were 1 trillion or more.

Reasons for taking a relatively long time for the IFRS transition include cases where the company has many business segments, which resulted in many GAAP adjustments and IT system modifications. With regard to the two (2) companies that took six years or longer, these include the period they suspended the IFRS transition project, during the period they needed to allocate resources to other projects.

(2) Transition period by each step

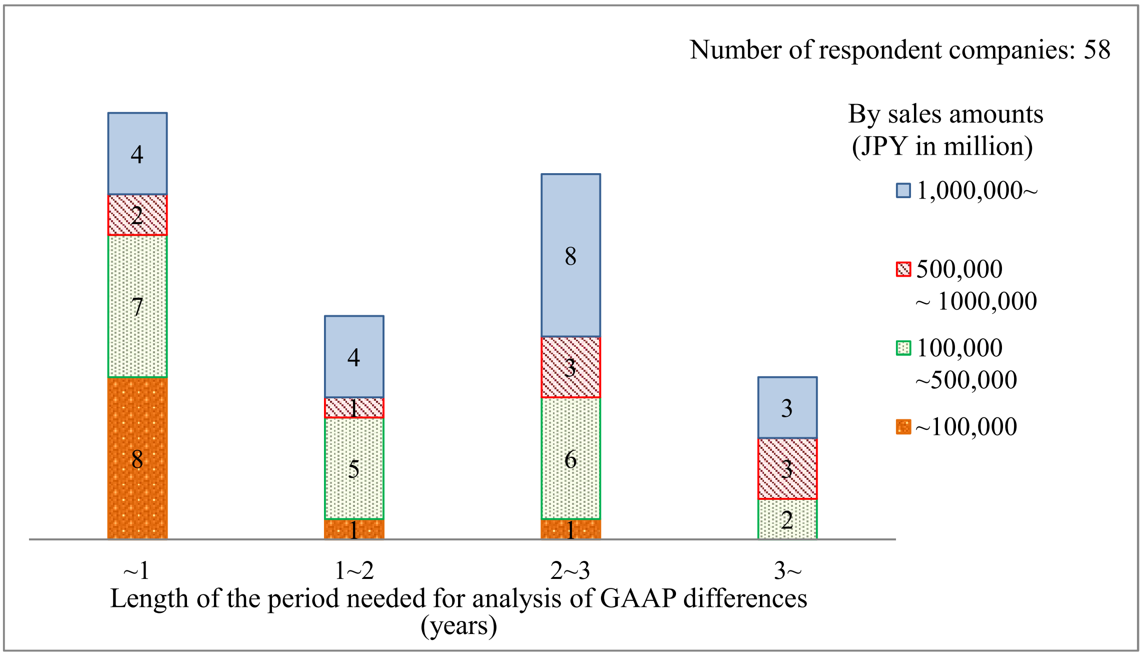
In this question, we asked companies the length of the transition period needed for following each step: a) analysis of GAAP differences, b) development or modification of IT systems, c) preparation of financial statements (testing phase), d) establishment of internal controls, and e) others.

Out of the companies that replied to "(1) Length of the transition period to IFRS (overall)" above, some companies did not reply about the length of the transition period by each step. Given that in some cases companies had undertaken multiple transition steps simultaneously, the sum of the length of the transition period for each step does not necessarily match the length of the overall transition period in their responses.

a. Analysis of GAAP differences

We received responses from fifty-eight (58) companies on the length of the period needed for analysis of GAAP differences. The average length of the period needed for analysis of GAAP differences was one year and five months. [Chart 5] below represents the length of the period needed for analysis of GAAP differences by the ranges of annual sales.

[Chart 5] Number of companies by length of the period needed for analysis of GAAP differences (analyzed by the range of annual sales)



(Length of the period needed for analysis of GAAP differences)

The length of the period needed for analysis of GAAP differences seems to depend on the size of the company and type of the business. Companies of relatively small size and a single business segment took a relatively short time for the analysis, while companies of large size and various business segments took a relatively long time for the analysis, as they have many items to consider.

(Preparation of the group accounting policy manual)

Some of the companies of large size and various business segments started to prepare a group accounting policy manual at a relatively early stage. These companies needed to spend enough time to reflect comments from their subsidiaries during the preparation and to thoroughly inform their group companies of the manual and make sure subsidiaries fully understand it.

On the other hand, some companies did not need to prepare a new group accounting policy manual, because GAAP differences only resulted in limited adjustments for these companies.

As such, different companies prepared group accounting policy manuals at different stages, depending on the circumstances of the companies.

The main comments in relation to the preparation of a group accounting policy manual were as follows:

(Cases where companies prepared group accounting policy manuals)

- ✓ The parent company needed to prepare an IFRS-based group accounting policy manual that would be satisfactory to overseas subsidiaries. The parent company therefore prepared a draft manual by each section corresponding to each accounting standard and confirmed with overseas subsidiaries. (Electric Appliances)
- ✓ 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 relevant members of the group to have a broad picture of practices. The company considers that this approach was effective. Subsequently, the policy manual was finalized after an additional year of further revision. (Wholesale Trade (Trading Company))
- ✓ The company spent one and a half years to prepare the draft manual both in Japanese and in English. Subsequently, the company spent another one year to revise the manual and distributed the final version to all group companies. Additionally, the company individually explained the manual to main group companies. (Pharmaceutical)
- ✓ In total, it took the company around three years to prepare the group accounting policy manual and its detailed guidance. The company spent the first one and a half years on the group accounting policy manual and the latter one and a half years on its detailed guidance. After the company prepared these documents, it visited its group companies to explain how to implement IFRS. The company provided such explanations continuously until the project was finished. (Wholesale Trade (Trading Company))
- ✓ When preparing the group accounting policy manual, the company assigned project members for each accounting subject and prepared the manual by the IFRS transition date, which was two years before the actual disclosure of the first IFRS financial statements. After the transition date, the company updated the policy manual by reflecting feedback from group companies. (Transportation Equipment)
- ✓ Initially, the company prepared the group accounting policy manual not only in Japanese and English, but also in Chinese and Thai. However, the company could not update the Chinese and Thai versions and abolished them. Careful consideration is required when increasing the number of languages in which the company prepares the manual, because once a translation is prepared, it requires continuous update. (Precision Instruments)

- ✓ With regard to the group accounting policy manual, the company repeatedly provided seminars for both domestic and foreign subsidiaries, to make sure that they understood IFRS. Additionally, the company prepared educational materials (eg. video) to provide sufficient training. (Wholesale Trade (Trading Company))

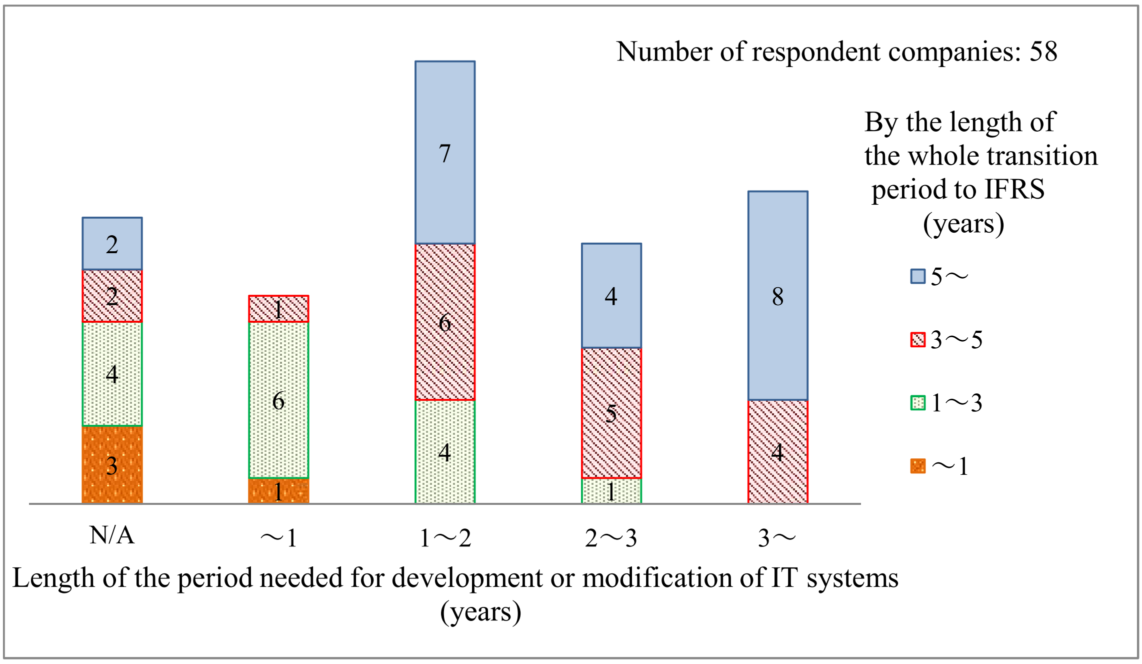
(Cases where companies did not prepare group accounting policy manuals)

- ✓ In the year of the transition to IFRS, only the IFRS transition team worked on the project and the company did not ask other departments in the company to work on the project. Subsequently, the company decided to ask the other relevant departments to become involved in the IFRS adjustments and communicated with relevant departments each time. (Real Estate)

b. Development or modification of IT systems

We received responses from fifty-eight (58) companies with regard to the length of the period needed for development or modification of IT systems. The average length of the period was one year and four months. [Chart 6] below shows the length of the period needed for development or modification of IT systems by range of the length of the whole transition period to IFRS.

[Chart 6] Number of companies by length of the period needed for development or modification of IT systems (analyzed by the range of the length of the whole transition period to IFRS)



It seems that there is a common perception that development or modification of IT systems is necessary for the transition to IFRS. However, we noted that there were eleven (11) companies that did not develop or modify their IT systems in particular for the purpose of voluntary adoption of IFRS. These companies include companies with IT systems which are capable of handling the transition, and other companies that achieved the IFRS transition by just using spreadsheet software. The main comments in relation to this point are as follows:

- ✓ No exceptional upgrade to the IT systems was made because the company implemented an efficient process which enabled the preparation of IFRS financial statements through the use of just one type of spreadsheet software. (Services)
- ✓ The company's group reporting package was originally based on spreadsheet software, and thus tailoring it for IFRS adoption was achieved through the changes to particular items on the spreadsheet. (Information & Communication)

On the other hand, other companies developed or modified their IT systems. Many companies aimed to develop or modify IT systems after clarifying accounting policies under IFRS. For example, companies understood the requirements in IFRS first and then standardized GAAP adjustments and incorporated them into a group reporting package. Most companies responded that it is beneficial to minimize the transition costs and optimize the reporting process if the company clarifies the accounting policy under IFRS and engage in system development only to the necessary area, although some companies commented that they redid some system developments due to changes in the company's accounting policy, etc. The main comments in relation to this point are as follows:

- ✓ 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 company introduced an integrated internal control system for the accounting function (from upper stream to lower stream) controlled by a newly established regional headquarters, rather than having each subsidiary have its own accounting department. (Electric Appliances)
- ✓ The company believes 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 for GAAP adjustments. However, the company does not believe that systemization should be done from the beginning. On the transition to IFRS, it is efficient to aim first at minimizing the IT system development. It is more efficient to utilize spreadsheet software for the area such as accumulating necessary

data to input into a fixed assets system or preparing GAAP adjustments as well as IFRS-based financial statements. Then, the process would be standardized and reflected in a group reporting package. On that basis, a company can develop IT systems if necessary. The company developed an IT system to deal with a particular accounting standard but eventually abandoned it after considering costs and benefits, because unexpected cases occurred in relation to the system. (Precision Instruments)

- ✓ While it is possible to develop or modify full IT systems, from the beginning, the company aimed at making GAAP adjustments only on a consolidated basis. The approach was making minimum adjustments, on the basis of materiality, to separate financial statements based on Japanese GAAP. Therefore, the company prepared for the transition in the following order. It first analyzed GAAP differences affecting the company, and then the parent company decided the adjustments that needed to be made based on the materiality, and modified IT systems to the necessary extent. In most cases, the company was able to obtain necessary information with the existing IT system and did not need large-scale modification of its IT system. (Information & Communication)

Some companies replaced the main IT system when IFRS was adopted. Some of these companies fully replaced the main IT system when the companies adopted IFRS, in order to deploy an advanced business management system. It can be said that these companies consider IFRS as a key tool to advance business management and utilize it.

- ✓ Taking the opportunity of IFRS adoption, the company is proceeding with a project to introduce the new main IT system. For integrated business management of the entire group, it is very important to introduce the main systems compatible with IFRS, and thus the company is working on this in collaboration with the IT department. (Metal Products, Services)
- ✓ Previously, the group companies had different accounting systems. The company decided to introduce the integrated accounting systems by taking advantage of the opportunity to shift to IFRS. (Glass & Ceramics Products)
- ✓ The company replaced accounting-related IT systems in order to control group accounting in an integrated manner, including overseas subsidiaries, after the transition to IFRS. (Services)

Twenty-nine (29) companies answered about the nature of IT system development or modification for IFRS adoption. Multiple answers were allowed. [Table 4] below represents responses from these companies.

[Table 4] Number of responses by nature of IT system development or modification for IFRS adoption

IT systems developed or modified	Number of responses
Consolidated accounting systems	20 companies
Fixed asset systems	11 companies
Sales systems	7 companies
Disclosure systems	3 companies
Purchasing systems	2 companies
Others	6 companies

Many companies pointed to development or modification of consolidated accounting systems and fixed asset systems for dual management of Japanese GAAP and IFRS. The main comments were as follows:

- ✓ The company revised the IT system so that it could maintain two sets of accounting data in accordance with both local accounting standards and IFRS. Since the transition, each subsidiary makes necessary adjustments to local statutory financial statements in order to prepare IFRS-based financial statements to report to the headquarters. (Pharmaceutical)
- ✓ The company did not need to drastically modify sales- and purchasing-related systems for the transition to IFRS. On the other hand, the company modified the IT system for fixed assets in order to manage data for both Japanese GAAP and IFRS. (Glass & Ceramics Products)
- ✓ The company only modified some of the systems, such as the consolidated accounting and fixed asset systems. (Electric Appliances)

Furthermore, some companies responded that they modified IT systems other than those listed above. Specifically, they noted the following.

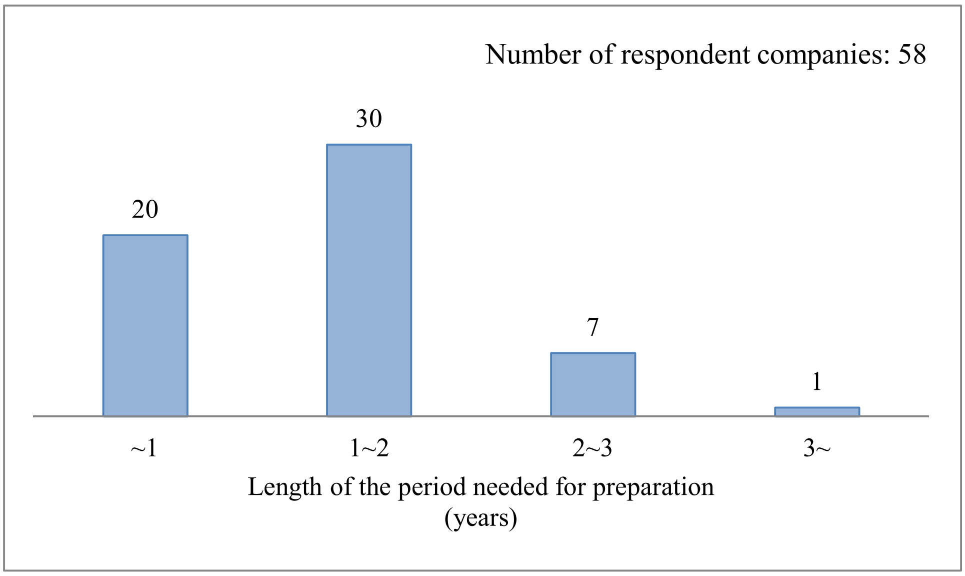
- ✓ The company modified its IT system at a minimum to comply with IFRS. The company did not change IT systems of the group companies and only modified the parent company's non-consolidated and consolidated accounting systems. Modified systems included the investment management system and the sales and purchasing system. (Wholesale Trade (Trading Company))

Other than the comments above, some noted that it took a long time to identify necessary data to be added to the group reporting package and modify the reporting package, in order to prepare consolidated financial statements and footnotes in accordance with IFRS.

c. Preparation of a set of financial statements (testing phase)

Companies typically prepare a set of financial statements as a test, using financial statement numbers from the previous fiscal year of the IFRS transition year. We received responses from fifty-eight (58) companies with regard to the length of the period needed to prepare a set of financial statements for this test. As seen in [Chart 7], the largest number of companies answered one to two years and the second largest number of companies answered less than one year.

[Chart 7] Number of companies by period needed for preparation of a set of financial statements (testing phase)



The main comments made regarding preparation of a set of financial statements were as follows:

- ✓ When the company was considering transition to IFRS, there was no precedent in domestic companies applying IFRS and no cases it could refer to. Therefore, even though the company started the project relatively early, the company ended up preparing financial statements over and over until the first adoption. The company considers that it is effective for companies considering transition to IFRS to study the prior cases that have already been disclosed. (Precision Instruments)
- ✓ Given the large volume of disclosure for IFRS, the company analyzed disclosures made by European companies, with external advisors. (Information & Communication)
- ✓ Three months after the company started the transition project, the company finished analysis for GAAP differences affecting the company. Then, the company started

preparing for the model of financial statements and disclosures. When preparing for the model of financial statements and disclosures, the company referred to the financial statements prepared by other companies that adopted IFRS, the standards of IFRS itself, and materials from the audit firm. (Real Estate)

Companies spent a significant amount of time on preparation of a set of (model) financial statements and disclosures by using external advisors and studying cases of foreign companies. During the process, some companies needed to redo their work due to lack of precedents.

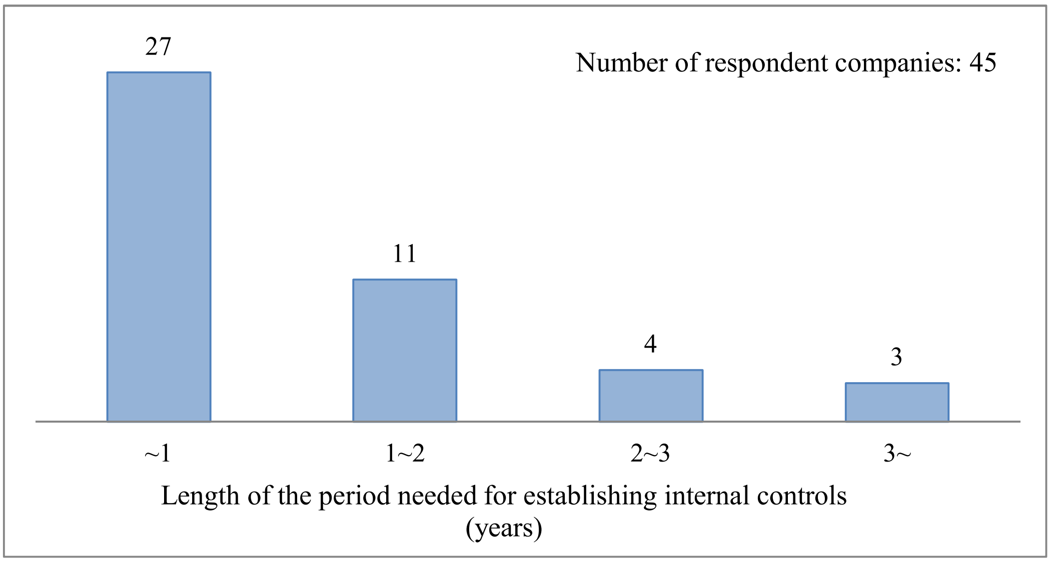
However, in the past couple of years, the number of Japanese companies adopting IFRS has increased and precedents have been accumulated.

Therefore, companies planning for IFRS adoption will likely shift to IFRS in a shorter period of time by referring to a number of such precedents.

d. Establishment of internal controls

We received responses from forty-five (45) companies with regard to the length of period needed for establishing internal controls. Twenty-seven (27) companies, the largest number of companies, answered that it took them less than one year. [Chart 8] below represents responses from the companies.

[Chart 8] Number of companies by period needed for establishing internal controls



Companies that answered it took them less than two years to establish internal controls mainly commented as follows.

- ✓ Although there were changes to the accounting standards, there were no significant changes to the internal authorization processes. Therefore, it did not take long to establish internal controls. (Securities & Commodity Futures)
- ✓ Internal controls for IFRS are not different from others and the company simply prepared a checklist for IFRS-based reporting. (Retail Trade)

Meanwhile, companies that answered it took them two years or longer to establish internal controls mainly commented as follows.

- ✓ The company's business did not change by adopting IFRS, but due to GAAP differences between U.S. GAAP and IFRS, it took the company considerable time and effort to revise internal documents used for internal controls. (Wholesale Trade (Trading Company))

(3) Internal structures established for the transition to IFRS

This question asked about the overview of the transition process in each phase. The transition process has multiple steps reflecting the circumstances of each company. These phases include the "early stage" in which the accounting department prepares action plans, the "middle stage" of collaboration with other divisions and external advisors, and the "late stage" where financial statements in accordance with IFRS are prepared and disclosed. Forty-four (44) companies responded to this question.

When transition projects are divided into the "early stage," the "middle stage," and the "late stage," most of the responding companies took the steps indicated in [Table 5] below, although the timing of carrying out those steps differed among the companies.

[Table 5] Nature of major steps in projects for transition to IFRS (by phase)

Project phase	Nature of major steps
Early stage	✓ Development of plans ✓ Impact studies
Middle stage	✓ Determination of accounting policies ✓ Preparation of a group accounting policy manual ✓ Preparation of prototype financial statements ✓ Consideration of the method to collect data ✓ Modification of IT systems ✓ Unification of reporting date
Late stage	✓ Group-wide deployment ✓ Establishment of internal controls ✓ Preparation of financial statements

[Internal systems at the early stage of transition projects]

At the early stage of transition projects, people in the accounting department initially carried out the transition process in many cases. Even at companies where dedicated project staff was assigned to the IFRS transition project, the number of such staff was small at first in most cases.

[Internal systems at the middle stage of transition projects]

At the middle stage of projects, most companies assigned three to five dedicated staff members to the IFRS transition project. One of the respondent companies had twenty dedicated project staff members, while another company had several external advisors dedicated to the transition project at the company's site. Furthermore, some companies involved employees from overseas subsidiaries, who were familiar with IFRS, in transition projects.

Regarding modification of IT systems, people from IT departments were assigned as the transition project staff at some companies, while there were no dedicated IT staff in the transition team at other companies.

In addition, while many companies prepared their group accounting policy manuals at the middle stage, different companies prepared the manual at different stages depending on the circumstances of the companies; some companies prepared the draft manuals at the early stage and revised the manuals subsequently. Others deployed the manuals to their group companies after preparing the final version at a relatively late stage. It depends on their size, the number of their group companies, and other factors as indicated in "2. Preparation and costs for the transition to IFRS, (2) Transition period by each step, a. Analysis of GAAP differences" (p. 46).

[Internal structures at the late stage of transition projects]

Some companies had two teams (a Japanese GAAP team and an IFRS team) in the accounting department at the late stage of projects in order to prepare financial statements for both Japanese GAAP and IFRS at the same time.

[Internal systems after voluntary adoption of IFRS]

Many companies commented that the IFRS transition team was dissolved after the adoption and the internal structures returned to the ordinary state. As such, many companies stated that the number of employees in the accounting department was not that different compared with the number before adopting IFRS. On the other hand, some companies are keeping dedicated project staff to deal with new standards and manage their subsidiaries.

(4) Use of external advisors

This question asked companies about their utilization of external advisors and received responses from sixty-five (65) companies, among which fifty-nine (59) companies used external advisors.

The companies mainly used external advisors for the following areas:

- ✓ Project management
- ✓ Analysis of GAAP differences
- ✓ Support for preparing a group accounting policy manual
- ✓ Support for preparing prototype financial statements
- ✓ Support for preparing group reporting packages
- ✓ Analysis of other companies' cases
- ✓ Support for group-wide deployment
- ✓ Support for establishing internal controls
- ✓ Support for IT system introduction
- ✓ Support for unifying reporting date

As external advisors, some companies selected (a) audit firms that were in charge of auditing (including consulting companies from the same group), while others selected (b) advisors other than their auditors.

As for merits of (a), the following comments were received.

- ✓ As the external advisor was the auditor of the company, they understood the business of the company. (Electric Appliances)
- ✓ The company considers one of the merits of using its auditor as an advisor to be the fact that the company was able to reduce uncertainty in accounting treatments. In addition, the company aimed to achieve consistent application of the uniform accounting policies throughout the group upon the adoption of IFRS. Therefore, the company used audit firms in the same member firm for its overseas subsidiaries and sought opinions of local audit firms on whether the subsidiaries comply with the group's accounting policies. (Electric Appliances)
- ✓ The company considered that in order to develop the global uniform accounting policies, it would make things easier to seek advice from a consulting firm in the same member firm of its auditor. The audit firm and the advisor had similar views, and the audit firm did not disagree with the decisions on accounting policies that had been developed with the advisor. (Pharmaceutical)
- ✓ So as to transition to IFRS in a short time and avoid unnecessary reworking, it is better to choose an advisor that is a consulting firm in the same member firm of the auditor, and make sure to agree with the auditor step by step. (Metal Products)

Meanwhile, as for the merits of (b), the following comments were received.

- ✓ The company selected an audit firm that was not its external auditor as the advisor, because the company wanted to determine the application of IFRS cooperatively with the advisor rather than just being taught the accounting treatment by the audit firm. (Foods)
- ✓ Unlike the auditor, the external advisors of the company collected information from the standpoint of the company, which was very useful. However, even when the company uses an external advisor, it should make its own judgment and take initiative in using the advisor. Otherwise, the company cannot take advantage of using advisors. (Information & Communication)
- ✓ The company used an audit firm that was not its auditor as an external advisor. The company used the external advisor with the purpose of getting a second opinion on the accounting policies developed by the accounting department after internal discussions when the company disagreed with its auditor. Companies should determine the accounting policies by themselves rather than leaving all the decisions to an advisor. The company used the external advisor so that it could make up for expertise lacking within the company and keep an objective eye. (Transportation Equipment)

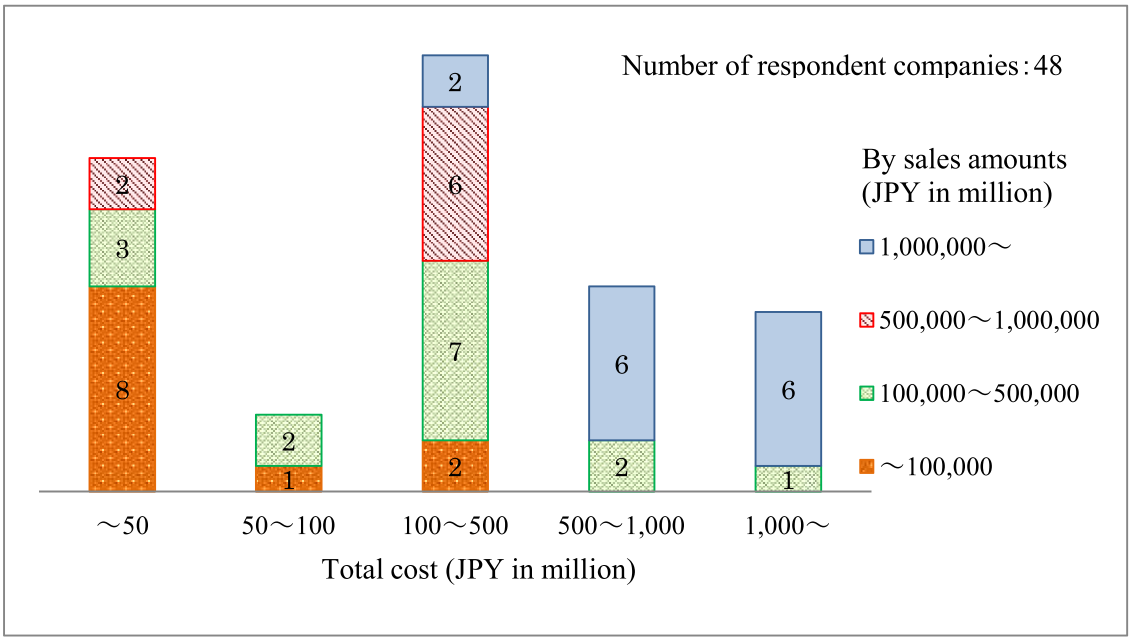
In all of these cases, many companies had policies about how they cooperate with their external advisors when making decisions on accounting policies and preparing financial statements on a principle basis. As just described, it is considered to be important that companies carry out transition projects on their own initiative. In addition, few companies were wholly dependent on their external advisors for their projects.

(5) Total costs directly needed for the transition to IFRS

This question asked about total costs directly required for the transition to IFRS and their breakdowns: (a) external advisor (e.g., other auditor and consulting firms), (b) auditor (except ordinary audit fee), (c) introduction or updating of accounting systems, and (d) approximate amount of other expenses.

Regarding total costs directly needed for the transition to IFRS, we received responses from forty-eight (48) companies. Total costs by the ranges of sales amounts are shown in [Chart 9].

[Chart 9] Number of companies by total costs directly needed for the transition to IFRS (analyzed by the ranges of sales amounts)



Analyzing the ranges of sales amounts of responding companies, we found that among thirteen (13) companies answering that total costs were less than 50 million yen, eight (8) companies had a sales amount of less than 100 billion yen and no companies had a sales amount of 1 trillion or more. On the other hand, among eight (8) companies with total costs between 500 million yen or more and less than 1 billion yen, six (6) companies had a sales amount of 1 trillion or more. Also, among seven (7) companies claiming their total costs were 1 billion or over, six (6) companies had a sales amount of 1 trillion or more.

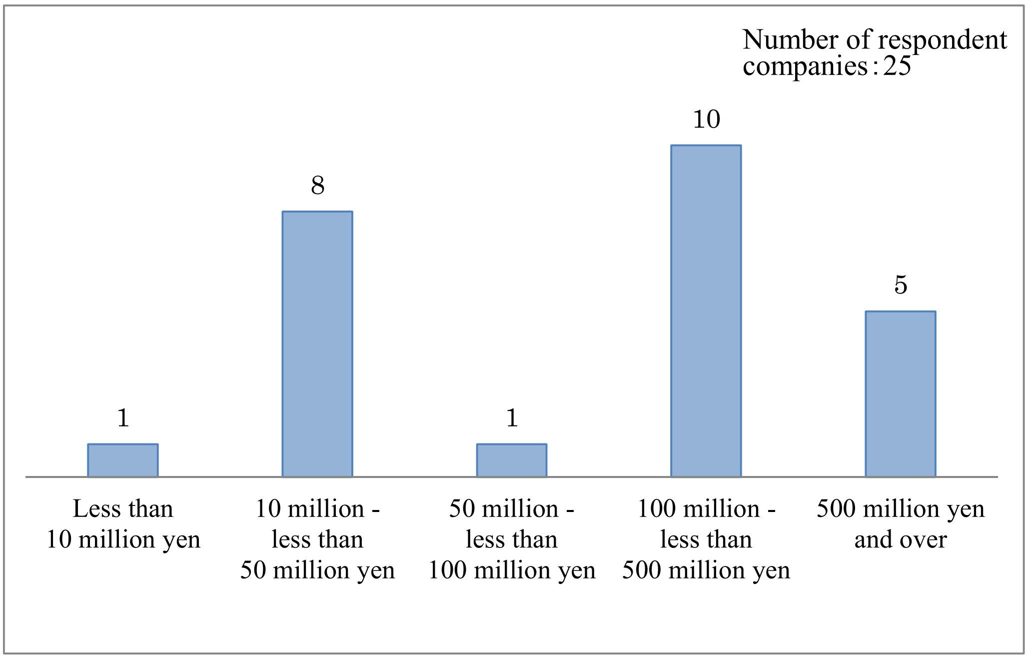
The general tendency is that total costs of companies doing multiple businesses and having many overseas subsidiaries were large.

The breakdown of total costs is indicated below. Meanwhile, some companies did not show the breakdown of total costs required for the transition to IFRS. Therefore, the numbers of respondents for total costs and their breakdowns do not match each other.

a. External advisor

Twenty-five (25) companies responded about expenditures on external advisors (e.g., other auditor and consulting firms). Details of the responses are described in [Chart 10].

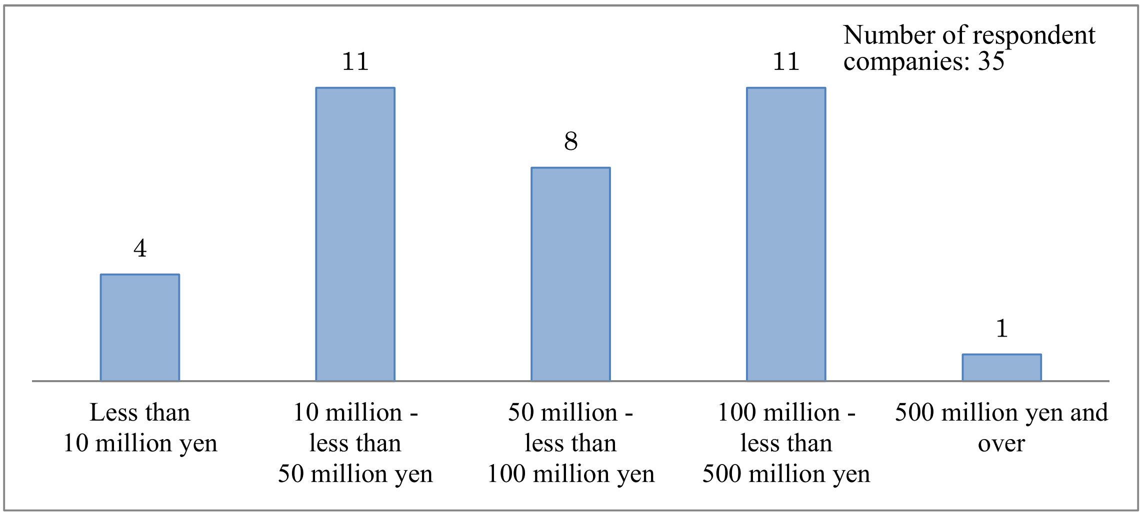
[Chart 10] Number of companies by expenditures on external advisors



b. Auditor

Concerning expenditures on audit firms (excluding the ordinary audit fee), we received responses from thirty-five (35) companies. Details of the responses are shown in [Chart 11] below.

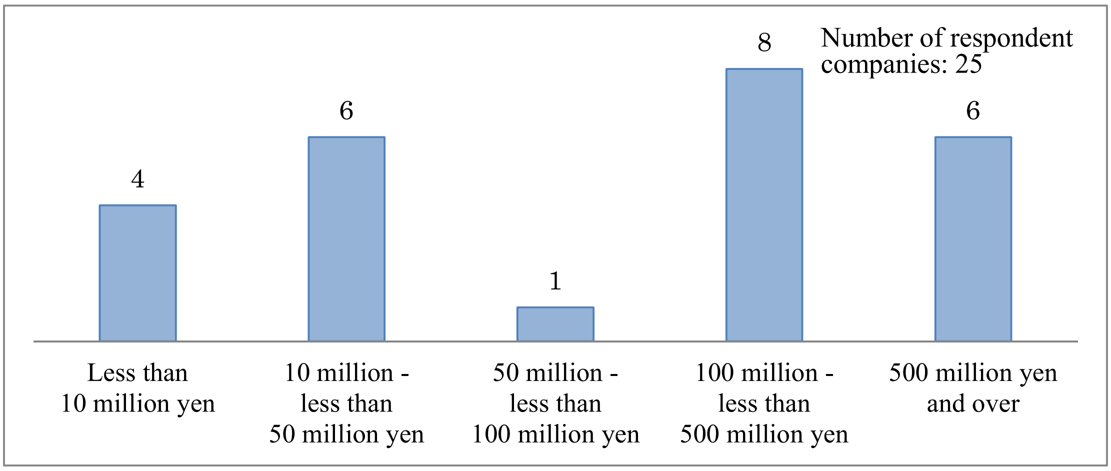
[Chart 11] Number of companies by expenditures on auditor



c. Introduction or updating of IT systems

Twenty-five (25) companies provided their expenditures required for introducing or updating IT systems. [Chart 12] indicates details of the responses.

[Chart 12] Number of companies by expenditures required for introduction or updating of IT systems



d. Other expenditures

Six (6) companies provided their responses regarding other expenditures. The breakdown of those expenditures includes actuary fee for calculating retirement benefit obligations, travel expense for educating overseas subsidiaries, and compensation to real-estate appraisers.

(6) Running costs after the transition period

This question asked details of running costs after the transition period, as well as differences of nature and amount of these costs before and after the IFRS adoption, to which thirty-nine (39) companies sent us responses.

Among these companies, twenty-five (25) said substantial running costs had not been incurred after the adoption of IFRS. In these companies, the number of personnel in the accounting department returned to almost the same level as before the adoption of IFRS, and the audit fee, which increased during their transition projects, also returned to the level before IFRS adoption.

On the other hand, fourteen (14) companies answered that additional running costs had been incurred since the adoption of IFRS, compared with the state before the transition. The major reasons are:

- ✓ Cost of external advisors for dealing with new IFRS standards
- ✓ Cost of maintaining IT systems for adopting IFRS
- ✓ Audit fee
- ✓ Internal personnel expenses due to the increase of personnel in accounting department
- ✓ External appraisal fee

3. How companies overcame challenges during the transition to IFRS

This question asked companies to select items relevant to them from the following and rank them considering the challenges they faced during the transition to IFRS, and surveyed the reasons and their countermeasures.

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

Sixty (60) companies responded to this question. Multiple answers were allowed.
[Table 6] below shows the number of companies that cited each of the main challenges during the transition to IFRS.

[Table 6] Number of companies that cited each of the main challenges during the transition to IFRS that were ranked as most significant

Items	Number of companies
a. Treatments of particular accounting standards	43
b. Training and securing adequate personnel	9
c. Introduction or updating of accounting systems	5
d. Others	3

* No company ranked "establishment of internal controls" as the most significant among the main challenges.

a. Treatments of particular accounting standards

Forty-three (43) companies selected "treatments of particular accounting standards" as the most significant challenge during the transition to IFRS. We further inquired of these forty-three (43) companies as to which accounting standards in particular were regarded as challenges. Multiple answers were allowed. As a result, six (6) accounting standards were selected by five (5) companies or more as the challenges they faced, as indicated in [Table 7].

[Table 7] Number of companies that cited each of the accounting standards as challenges to them

Accounting standards	Number of companies
(a) Property, plant, and equipment (IAS 16)	12
(b) Revenue recognition (IAS 11 and 18)	11
(c) Intangible assets (IAS 38)	8
(d) Impairment of assets (IAS 36)	8
(e) Financial instruments: Recognition and measurement (IAS 39, IFRS 9)	8
(f) Unification of reporting date (IAS 28, IFRS 10)	5

(a) Property, plant, and equipment (IAS 16)

A wide range of industry sectors, including Pharmaceutical, Wholesale Trade, Precision Instruments, Chemicals, Electric Appliances, Services, and Other Financing Businesses stated “property, plant, and equipment” as an issue. More specifically, “selection of the depreciation method” and “estimates of useful life” were named.

The following are the comments provided by some companies on how they overcame issues associated with “selection of the depreciation method.”

- ✓ Certain areas required change in accounting treatments when applying IFRS for the consolidated financial statements, such as depreciation method. In those cases, the company also changed the accounting treatment in non-consolidated financial statements based on Japanese GAAP, to be consistent with the accounting policy used for the IFRS-based consolidated financial statements, as long as those changes are permitted under Japanese GAAP. (Electric Appliances)
- ✓ The company dually manages fixed assets in the fixed asset system, since the company still uses the declining balance method for non-consolidated accounting in order to comply with tax regulations. During the transition to IFRS, the company put a lot of labor into retrospective application when changing the depreciation method in the accounting term to the straight-line method. (Foods)
- ✓ As for the depreciation method, the company now uses the straight-line method for IFRS by giving up the declining balance method that the company mainly used for Japanese GAAP. If the straight-line method were retrospectively applied under IFRS, the book value under IFRS as of the transition date would have differed from that under Japanese GAAP and would have involved significant work for the

company, including asset management, due to a large number of assets. After discussing an appropriate book value for IFRS with its auditor, the company was eventually able to carry over to an appropriate book value for IFRS by minimizing amendments of book value for Japanese GAAP while considering the concept of deemed cost. (Pharmaceutical)

Also, the comments on how the respondent companies overcame issues related to “estimates of useful life” are as follows:

- ✓ The company internally clarified ways of estimating useful life and then considered specific rules and the number of years for estimates, calling into account actual cases of useful life of fixed assets. (Precision Instruments)
- ✓ After categorizing the assets of the entire group into three types (assets common to the entire group such as buildings, assets common to each businesses such as production facilities, and assets specific to each company), the company set unified useful life respectively for each type. At the same time, the company also changed its system so that it can manage two types of useful life: for tax and for IFRS. (Electric Appliances)
- ✓ For accounting, the company has been using economic useful life instead of tax useful life since before the transition to IFRS. Therefore, the company uses different data for both sets of useful life to handle accounting and tax. (Glass & Ceramics Products)

(b) Revenue recognition (IAS 11 and 18)

“Revenue recognition” was named as a challenge by various industry sectors, such as Pharmaceutical, Wholesale Trade, Precision Instruments, Chemicals, Electric Appliances, Glass & Ceramics Products, Services, Real Estate, and Other Financing Businesses. Specific issues were timing of revenue recognition (shipment basis, delivery basis, acceptance basis), presentation of net sales, breakup of multiple-element transactions, applicable scope of percentage of completion method and handling of rebate. However, it is considered that revenue recognition becomes a straightforward process once the company established the operations, although it took time to analyze the issues during the transition.

The following are the comments provided by some companies on challenges related to the shipment basis and how they overcame those challenges.

- ✓ While the company recorded sales on the shipment basis under Japanese GAAP, it was assuming that it would be necessary to use the acceptance basis after the transition to IFRS. However, considering data on product returns in the past several years, the company came to the conclusion that it successfully recorded revenues on the delivery basis but not on the acceptance basis in light of its materiality. (Pharmaceutical)
- ✓ The company changed from the shipment basis to the acceptance basis for revenue recognition. It records not only shipping date but also planned delivery date on its system and it confirmed that goods were generally delivered as scheduled. Therefore, it decided to recognize sales revenue on the planned delivery date in practice on the system. As a result, it did not encounter any big problems as has been said in general. (Glass & Ceramics Products)
- ✓ Before moving to IFRS, the company changed from the shipment basis to the delivery basis. (Electric Appliances)

(c) Intangible assets (IAS 38)

Some companies in the sectors of Pharmaceutical, Chemicals, and Electric Appliances named "intangible assets" as a challenge they faced. More specifically, capitalization of internally generated development costs, externally and individually generated R&D costs (intangible assets), and capitalization of advertising and promotion costs were named. The comments of the respondent companies on how they solved the issues associated with "capitalization of internally generated development costs" are indicated below.

- ✓ The company tried creating a flow chart and other charts so that it could automatically judge if capitalization is possible, using information available without changing the current development process. At that time, the company took time to consider the timing to satisfy the requirements for asset capitalization in particular. (Electric Appliances)
- ✓ The company discussed timing that would meet the requirements for asset capitalization of development costs. As a result, the company did not capitalize intangible assets since it decided that these requirements have not been satisfied yet at the final stage of development. The company is now of the view that it is rare to capitalize development costs as intangible assets. (Electric Appliances)

(d) Impairment of assets (IAS 36)

The respondent companies in various sectors, such as Pharmaceutical, Wholesale Trade, Services, Glass & Ceramics Products, and Securities & Commodity Futures cited "impairment of assets" as an issue. In particular, there are comments on difficulties in deciding how to determine asset group(s) that carries out impairment testing (cash generating units), as well as judging when impairment should be recognized.

On this point, a comment indicated that the issue was overcome through discussion with the company's audit firm over time.

- ✓ 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 time to resolve how to determine cash generating units and when to recognize impairment, which involved considerable discussion with its auditor, because things decided upon application in the first year will continue. For the company, it was preferable to test implement of goodwill with as large a unit as possible, because it would need more time for the testing if the unit is small. It took much time to determine if testing with a large unit was appropriate from the aspect of audit. (Pharmaceutical)

(e) Financial instruments: Recognition and measurement (IAS 39, IFRS 9)

"Recognition and measurement of financial instruments" was described as a challenge by sectors such as Whole Trade, Securities & Commodity Futures, and Services. Fair value measurement of unlisted stocks was named in concrete terms. As for fair value measurement of unlisted stocks, they commented that it was difficult to evaluate investments in venture companies in particular. The following are comments on how the respondent companies dealt with this issue.

- ✓ The company considered which methodology should be used to measure fair value and how actual practices should be done. It established detailed practical manuals after consulting with an audit firm, and presented those manuals to subsidiaries. (Electric Appliances)
- ✓ Although it was an issue how to deal with fair value measurement of unlisted stocks, the company learned appropriate valuation techniques from its external advisor to collect necessary data and calculate fair value so that it could measure fair value on its own. (Services)

(f) Unification of reporting date (account closing date) (IAS 28, IFRS 10)

Several industry sectors, including Wholesale Trade, Chemicals, and Services named "unification of reporting date" as an issue for them. Specific comment is listed below.

- ✓ Changing the account closing date of subsidiaries and associates influences on business management, and the company believes it is difficult to change the date unless the company carries out IFRS projects in a top-down fashion. As it takes time to change the fiscal yearend date, the company started dealing with the issue at the early stage of the transition project and changed the fiscal yearend date before the transition to IFRS. (Wholesale Trade)

b. Training and securing adequate personnel

Regarding training and securing adequate personnel, challenges named were securing personnel familiar with IFRS from the qualitative aspect, and shortages of personnel necessary to handle the amount of business when adopting IFRS from the quantitative aspect. As specific issues, we received the following comments.

- ✓ The company considered the quality of personnel to be more important than the number of personnel when it comes to training and securing adequate personnel. Through routine accounting work, it is highly difficult to acquire skills to read and understand accounting standards in English, apply the standards to a new event, and prepare explanatory materials using accounting terminology. The company needs personnel who can think on their own and proactively move to solve new issues. (Securities & Commodity Futures)
- ✓ IFRS uses a principle-based approach, allowing some room for interpretation. Personnel who can read and understand accounting standards and build a logical accounting treatment process when a new event arises are better suited for practical tasks of IFRS. Personnel required are those who have reasoning ability to think on their own, rather than just following manuals, and discuss with auditor. (Retail Trade)
- ✓ Internal resources were not sufficient to prepare a group accounting policy manual based on IFRS. (Wholesale Trade)

The actions taken by the respondent companies to deal with the issue of training and securing adequate personnel are listed below depending on the conditions of each company.

- ✓ Internal training sessions
- ✓ Briefing sessions for group companies
- ✓ On-the-job training on account closing procedures
- ✓ Participation in seminars conducted by external parties
- ✓ Acceptance of staff from overseas subsidiaries applying IFRS
- ✓ Hiring of persons experienced in IFRS implementation

The following comments were received regarding actions to deal with the above.

- ✓ The head office's accounting department accepted staff from the subsidiary in Europe experienced in IFRS implementation to transfer knowledge and experience necessary for smoother account closing procedures complying with IFRS. (Pharmaceutical)
- ✓ So as to allocate staff with an understanding of IFRS on a company-wide level, the company transfers new employees who worked and experienced in the accounting department to other departments for the past three years. In addition, other employees have opportunities to work in the accounting department for around two years while belonging to other departments. With the aim of training adequate personnel, the company holds internal seminars hosted by the accounting department (including web seminars), while encouraging participation in seminars conducted by external parties. (Pharmaceutical)
- ✓ For the past few years, besides its main on-the-job training, as part of internal training, the company has been conducting study sessions to read through new accounting standards and annual reports of other companies during its off-season just after the second quarter, as well as training sessions on IFRS for employees who newly joined the company. (Services)
- ✓ The company repeatedly conducted briefing sessions on accounting standards and manuals specifically for domestic and overseas subsidiaries, with the purpose of providing opportunities to deepen the understanding of IFRS. Moreover, as a measure for education and dissemination, the company prepared videos in addition to a group accounting policy manual as an instructional tool used by subsidiaries and associates. (Wholesale Trade)
- ✓ As for training of adequate personnel, the company had a lot of difficulties in establishing cooperative ties with subsidiaries. The parent company proactively gave lectures to key persons of subsidiaries in order to share know-how and understanding of accounting standards among subsidiaries through those key persons. (Electric Appliances)

- ✓ In terms of personnel development, the company holds study sessions in each country where its subsidiaries are located so as to provide opportunities to learn mainly about standards that will become challenges in the future, such as "Revenue from Contracts with Customers" of IFRS 15. New employees are trained through on-the-job training on account closing procedures. (Information & Communication)
- ✓ Once a year, the company provides education to deal with annual closing of accounts. To be more precise, the company explains how to input data to the consolidated accounting system, revises its group accounting policy manual, and provides information on new IFRS standards. It also provides information on the areas revised in its group accounting policy manual on the intranet. (Glass & Ceramics Products)

c. Introduction or updating of accounting systems

Five (5) companies named "introduction or updating of accounting systems" as the most significant challenge during the transition to IFRS. Major comments are shown below.

- ✓ The fixed asset system of the company manages multiple depreciations for each asset, since the company still uses the declining balance method for non-consolidated financial statements in order to comply with tax regulations. When the company designed its system that supports IFRS, it prepared IFRS-based depreciation data using a system independent from the existing system due to time constraint, and managing two streams of depreciation became very complicated process. However, the system was subsequently upgraded to be able to calculate multiple depreciations for each asset. (Foods)
- ✓ After careful review of the fixed asset system with a reputation, the company introduced the current fixed asset system that can manage fixed assets based on three standards, that is, IFRS, Japanese GAAP, and tax regulations. (Pharmaceutical)
- ✓ Since Japanese GAAP is applied to non-consolidated accounting and IFRS to consolidated accounting, the company developed a new program after interviewing the operating division and consultation with system vendors. The most time-consuming task was developing ways that allow two kinds of accounting without imposing an additional workload on the operating division and link the non-consolidated accounting system and the consolidated accounting system. (Pharmaceutical)

Please refer to “2. Preparation and costs for the transition to IFRS, (2) Transition period by each step, b. Development or modification of IT systems” (p. 49) regarding measures for system introduction and updating.

d. Others

Three (3) respondent companies chose other issues than in the above (a), (b), and (c) as the most significant issues during the transition to IFRS.

One of the three companies commented on the reduction of the feeling of resistance to changing accounting standards. The company’s many subsidiaries and other related companies showed a feeling of resistance toward transition to IFRS from the accounting standards they were familiar with. Therefore, the company held a number of briefing sessions in and outside Japan and, through internal working groups and task forces, provided detailed explanations in areas where gaps between Japanese GAAP and IFRS are large, in order to reduce such resistance.

e. Establishment of internal controls

No company named “establishment of internal controls” as the most significant issue during the transition to IFRS. The issues on the establishment of internal controls are considered to be relatively low in terms of the degree of importance in comparison with other issues.

4. Treatments of auditing issues

Through this question, we asked about challenges when treating auditing issues related to IFRS and how auditing was improved.

(1) Challenges when treating auditing issues

Thirty-five (35) companies answered “yes” to whether they have any challenges when treating auditing issues related to IFRS. The following are the challenges they indicated.

a. Interpretation of IFRS
b. Lack of knowledge and experience in audit firms
c. Increase in hours to respond to auditors
d. Understanding of business
e. Others

a. Interpretation of IFRS

The following comments were received on the interpretation of IFRS.

- ✓ The audit firm presents inflexible interpretations based on their internal manual.
- ✓ It takes time until we can get a conclusion, because the audit firm in Japan asks the headquarters of its global member firm about accounting treatments when they cannot reach a conclusion on their own.
- ✓ Views are different between the audit firm in Japan and the audit firm of its global member firm that audit the overseas subsidiaries.
- ✓ Interpretations are different among audit firms.

Specific comments are shown below.

(Interpretation based on internal manuals)

- ✓ The audit firm often presents inflexible interpretations on the grounds that similar cases are rare, which causes trouble for the company. The company organized its views on each issue through cooperation with external advisors and the company considers it was an advantage of IFRS with principle-based nature. However, the company eventually has to convince the auditor, and it supposes this may be a reason why the voluntary adoption of IFRS has not made progress in Japan. (Chemicals)
- ✓ The company feels uncomfortable about the audit firm’s attitude, “global manual comes first.” On the other hand, the company considers it is an advantage that the

principle-based approach has more room for interpretation in comparison with the rules-based approach, which allows the company to insist on its stance. (Wholesale Trade)

- ✓ The audit firm tends to judge on auditing based on the internal manual they developed when it comes to accounting for business not specified in IFRS. This presents some issues, such as transparency of auditing and comparability with other companies. (Pharmaceutical)

(Asking the headquarters of a global member audit firm)

- ✓ Although the audit firm often asked the headquarters of its global member firm about accounting treatments, the global headquarters seemed not to have an understanding of the business practices in the company's industry sector in Japan and their answers often seemed inflexible. (Wholesale Trade)
- ✓ 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 of its global member firm take two weeks at the earliest and sometimes take a few months. Things do not go as smoothly as before since the audit firm has also not accustomed themselves to IFRS yet. (Wholesale Trade)
- ✓ It took a long time until the company got responses to its inquiries from the audit firm. That was because the audit firm themselves did not have sufficient experience due to the lack of precedent cases in Japan; they needed to refer to the headquarters in London (it took about three months until the company got responses in some cases), and carefully made judgmental decisions, as their interpretation should become the precedent cases in Japan. The length of time until the company can get responses, however, is getting significantly shorter, partly because the audit firm in Japan has been accumulating know-how. (Securities & Commodity Futures)

(Differences between views of the audit firm in Japan and those of its global member firm)

- ✓ After the transition to IFRS, interpretation of IFRS needs to be consistent throughout the group, since the consolidated financial statements are prepared in accordance with the single set of IFRS. Nevertheless, in some cases, auditors of overseas subsidiaries disagreed with the views that were already agreed between the company and its auditor in Japan. The principle-based approach of IFRS allows some room for interpretation, and is easily influenced by local ways of thinking. As a result, interpretations were varied among different regions. In such cases, it was necessary that the audit firm in Japan and its global member firm coordinated their views. At present, the company asks them to share information to each other. (Pharmaceutical)

- ✓ In some cases, there were differences between views of the auditor of the company and the auditors of the overseas subsidiary whose accounting was already based on IFRS. Although the group accounting policy tries to limit interpretation of IFRS in part, the company believes the policy needs some improvements, because some misunderstandings may occur when the accounting policy has not been fully understood by local auditors of overseas subsidiaries. (Electric Appliances)

(Different interpretations among audit firms)

- ✓ Between the audit firm and other audit firms that are external advisors, interpretations of accounting standards described in their internal manuals are different from each other, causing cases in which both views were different from each other. (Securities & Commodity Futures)

b. Lack of knowledge and experience in audit firms

Some companies commented that responses of the audit firms are not smooth enough because of the lack of knowledge and experience of IFRS among responsible persons at the firms. The major comments are shown below.

- ✓ At the early stage of the transition project, the audit firm did not have enough knowledge or experience about IFRS, and the company did not get satisfactory responses from them when it consulted with them. (Wholesale Trade)
- ✓ As the audit firm had dealt with few IFRS cases, the company did not receive a clear response even if it inquired about the cases of other companies regarding particular accounting processing. Although the company expected the audit firm to understand its business and support it with pithy responses based on a good understanding of IFRS, things did not go that way. (Services)
- ✓ Many personnel in the audit team do not have enough understanding or experience of IFRS. The company needs additional work, such as providing basic explanation. (Pharmaceutical)

c. Increase in hours to respond to auditors

There were comments among some respondent companies, saying that the time to respond to the auditor was increasing. The reasons described are: they need to prepare more supporting documents, while the length of discussion with the auditor is getting longer to deal with the principle-based approach of IFRS that requires practical judgment and they need to take more time to deal with questions from the auditors because of the increase of the number of items to be disclosed. The major comments are as follows:

- ✓ Because IFRS employs the principle-based approach, the company needs to make practical judgments more often than before. As a result, it became necessary to explain to the auditor about the company's policies on transactions not specified in IFRS and to spend a lot of time discussing with the auditor. (Wholesale Trade)
- ✓ IFRS requires more items to be disclosed in notes and thus the company needs to use significantly more data than before. Consequently, the company spent a lot of time dealing with a number of questions from the auditor in the beginning. (Electric Appliances, Pharmaceutical)

d. Understanding of business

The following are the major comments regarding the auditor's understanding of business.

- ✓ Only a few audit team members are trying to understand the actual conditions of the company's businesses, and many audit staff tend to stick to audit manuals. This is the point the audit firm needs to improve. They should change their practice, by first understanding simple business models such as that of the respondent. (Chemicals)
- ✓ When determining disclosure policies, the audit firm required detail disclosures by using their checklist without considering the business industry and characteristics. As a result, the company needed to spend a certain amount of time to deal with their comments. (Wholesale Trade)

e. Others

Below is the main comment about other challenges.

- ✓ Although it took a long period of time to prepare for the transition when considering accounting policies, there were some cases where the auditor subsequently rejected the accounting policies with which they had once agreed. (Information & Communication, Wholesale Trade)

(2) Overcoming the audit-related challenges

Consultation with the auditor at an early stage and close communication with the auditor were identified to overcome the audit-related challenges. The following are the major comments received.

- ✓ 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 basis for its accounting treatments more carefully than it did before. In addition, the company now consults the audit firm earlier than it did before. (Foods)
- ✓ 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 supporting 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. (Transportation Equipment)
- ✓ The company used to consult the auditor after any issues arose, but now it consults every week. While the company normally presents subjects of discussion, the auditor sometimes provides subjects to be discussed. Through weekly meetings, they can now discuss expected accounting issues in the future and consider measures in advance. (Electric Appliances)
- ✓ The company tried to consult issues with the auditor earlier, as well as it asked the auditor to analyze such issues earlier. (Services)
- ✓ If any accounting issues arise, the company tries to deal with them as early as possible in order to allow the audit firm substantial time to consider the matters. (Services)

(3) Improvements recognized in relation to auditing

According to some of the respondent companies, as voluntary adoption of IFRS increases, auditors accumulate their experience, and as a result, certain improvements were recognized. The major comments received are provided below.

- ✓ Previously, it took time to get responses from the auditors. However, the situation is improving significantly now that the auditor in Japan is accumulating know-how. (Securities & Commodity Futures)
- ✓ In Japan, there were limited precedents of auditing based on IFRS before. However, an increase in the number of actual practices of auditing results in improvements.

(Wholesale Trade)

- ✓ After repeatedly asking the audit firm to provide the company with appropriate and swift responses and to enhance the collaboration with its global member firm, their support was improved. (Wholesale Trade)

5. Merits of IFRS experienced by the respondent after adopting IFRS

With this question, we asked the respondent companies to select items from the list below regarding actual merits of the transition to IFRS they experienced and rank those items with reasons. To this question item, we received responses from sixty (60) companies. Their responses are shown in [Table 8] below.

[Table 8] Number of companies that cited each of the major actual merits of the transition to IFRS that were ranked as most important

Items	Number of companies
(a) Contributions to business management	27
(b) Improved comparability	12
(c) Better reflection of performance	9
(d) Makes explanations to foreign investors easier	7
(e) Smoother finance from abroad	2
(f) Others	3

Fifty-four (54) among sixty (60) respondent companies provided the same ranking as in "1. Reasons and background for deciding on the voluntary adoption of IFRS, (1) Reasons for the voluntary adoption of IFRS or primary merits anticipated before the transition to IFRS" (p. 32). Some companies did not state actual merits because they were still at the stage where they had just decided the transition to IFRS or they had not submitted their consolidated financial statements based on IFRS yet.

The following are the major comments from the respondent companies that indicated "contributions to business management" as an actual merit of the transition to IFRS.

- ✓ Considering the principle-based approach of IFRS and concepts of individual accounting standards, the transition to IFRS provided the company with a good opportunity to discuss its accounting and financial reporting on a company-wide level, involving the management in order to realize more sophisticated business management. (Chemicals)
- ✓ After introducing IFRS, the group's companies can now perform consolidated accounting using one accounting language, that is, IFRS. In addition, the biggest merit is that the company integrated the financial information used for external financial reporting with those for internal reporting. (Glass & Ceramics Products)
- ✓ Before the voluntary adoption of IFRS, the headquarters of the company was required to convert its overseas subsidiaries' financial results based on the local

GAAP into figures based on U.S. GAAP. Since the parent company and the overseas subsidiaries used to apply different accounting standards, they sometimes had different views on their financial performance. The adoption of IFRS allowed the company to have a single "measure," with which it can now understand performances of subsidiaries more accurately. In addition, with IFRS, the company expects that it does not have to suffer from recognition of performances different from subsidiaries any longer. (Wholesale Trade)

- ✓ Overseas funds in which the company invests adopted IFRS before the company did. Meanwhile, as the company as well as domestic funds the company invested in used to apply Japanese GAAP, there existed gaps for assessment of investment performance before the transition to IFRS. After the transition, the gaps were solved and the consistency of management judgment increased. (Securities & Commodity Futures)

One (1) company chose "contributions to business management" as the most important actual merit of the transition to IFRS, although this was not the top reason when the company decided to adopt IFRS. The comment provided by the company is as follows:

- ✓ Upon the transition to IFRS, the company organized its group accounting policies and developed a unified group accounting policy manual. By using the group accounting policy manual as the common language for accounting at the headquarters and group companies in and outside Japan, the company has achieved some positive results in terms of the improvement of operational efficiency. (Wholesale Trade)

6. Demerits of IFRS experienced by the respondent after adopting IFRS

This question asked about demerits associated with the transition to IFRS, and we received responses from forty-six (46) companies. Thirty-nine (39) companies stated that they had demerits, and some of them named more than one demerit. On the other hand, seven (7) companies said there were no demerits.

(1) Demerits associated with the transition to IFRS

The following are main demerits associated with the transition to IFRS that the respondent companies cited.

a. Increase of administrative burden (27 companies)
b. Increase of costs (12 companies)
c. Performance reporting (6 companies)
d. Difficulties of adoption (5 companies)

a. Increase of administrative burden

Twenty-seven (27) respondent companies named “increase of administrative burden” as a demerit associated with the transition to IFRS.
The details of the increase of administrative burden are as follows:

<table>
<tr><td rowspan="2">Temporary increase of administrative burden</td><td>Preparation of a group accounting policy manual</td></tr>
<tr><td>Unification of reporting date (fiscal yearend date)</td></tr>
<tr><td rowspan="4">Continuous increase of administrative burden</td><td>Keeping multiple books</td></tr>
<tr><td>Increase in amount of items to be disclosed</td></tr>
<tr><td>Parallel disclosure with Japanese GAAP</td></tr>
<tr><td>Increase of consultation with the auditor</td></tr>
</table>

Measures to deal with the increase of administrative burden that respondent companies gave were reviewing the account closing process and improving efficiency through the systemization of the process, and employing experienced personnel. We also received a comment saying that additional workloads were allocated to subsidiaries and the operational division in addition to the accounting department of the headquarters. Specific comments are shown below.

(Reviewing the account closing process and improving efficiency through the systemization of the process)

- ✓ Toward the first disclosure for IFRS, the company repeatedly prepared test financial statements based on IFRS also with the purpose of identifying problems. For that, the company had frequent discussions with representatives from overseas bases and elaborated the account closing process. (Transportation Equipment)
- ✓ In order to minimize workloads, the company improved the efficiency in its operations and systems in accordance with the priority order and importance. (Chemicals)

(Employing experienced personnel)

- ✓ While the number of personnel in the accounting department did not change much before and after the transition to IFRS, the company employed two certified public accountants with experience of IFRS implementations in order to improve the quality, not the quantity, of the personnel in the accounting department. (Securities & Commodity Futures)

As for measures regarding "keeping multiple books," which had been considered to be an increase in administrative burden, a major comment from the respondent companies was that they discussed with auditors whether accounting treatment based on Japanese GAAP was available under IFRS, considering its materiality. We also received a comment stating that the company changed their accounting policies before the transition to IFRS, keeping the IFRS adoption in mind.

The major comments are shown below.

- ✓ The company studied individual standards, expecting the current accounting treatments based on Japanese GAAP to be accepted even under IFRS, and narrowed down the items that need to be adjusted. (Glass & Ceramics Products)
- ✓ As for the depreciation method of fixed assets, the company standardized its accounting policies with the use of the straight-line method before the transition to IFRS. Regarding accounting period, before the transition to IFRS, the company unified its fiscal year-ends in December at the company as well as domestic and overseas subsidiaries. (Glass & Ceramics Products)

b. Increase of costs

Twelve (12) respondent companies named "increase of costs" as a demerit associated with the transition to IFRS.

Specific costs listed were: the cost of external advisors related to the transition to IFRS, additional audit fee, and the cost of development or modification of IT systems.

Please refer to "2. Preparation and costs for the transition to IFRS, (5) Total costs directly needed for the transition to IFRS, and (6) Running costs after the transition period" (pp. 59-62) for costs generated from the transition to IFRS.

c. Performance reporting

Six (6) companies named "performance reporting" as a demerit of the transition to IFRS and the following are the main comments.

- ✓ Items presented as extraordinary income or loss under Japanese GAAP are categorized into operating profit under IFRS.
- ✓ Discontinued operations are presented in an independent category under IFRS.
- ✓ Goodwill generated as a result of business combination is not depreciated.
- ✓ When choosing to present changes in the fair values of equity instruments, not for trading purpose, in other comprehensive income, gain or loss from sales is not recognized even if such equity instruments are sold.
- ✓ Non-listed shares are also measured at fair values.

d. Difficulties of adoption

Five (5) respondent companies cited "difficulties of adoption" as a demerit of the transition to IFRS, and a major comment was about the lack of precedent cases.
The following comment describes measures taken to deal with the lack of precedent cases.

- ✓ The company conducted hearings with multiple audit firms to ask their interpretation of accounting standards. In addition, the company exchanged information closely with companies in the same industry sector as well as in different industry sectors, by which the company tried to achieve an appropriate adoption of accounting standards that are suitable to the actual conditions of its business model. (Chemicals)

Other comments stated that accounting standards are difficult to understand and those standards are frequently revised, which leads to difficulties in adoption. The use of external advisors was named as a measure for such a demerit.

(2) Demerits not anticipated before the transition to IFRS

Most of the respondent companies said that there were no demerits that they did not anticipate before the transition.

One (1) company among the respondent companies commented that, as a demerit they did not anticipate, they needed to redo the determination of certain accounting treatment, because there was no defined interpretation of accounting standards.

(3) Demerits not as significant as anticipated before the transition to IFRS

Five (5) companies answered about demerits that were not as significant as they anticipated before the transition. The major comments on such demerits are as follows.

(Reclassification from Japanese GAAP to IFRS)

- ✓ As the company defined a format using spreadsheet software, the workload of reclassification from Japanese GAAP to IFRS was not as much as anticipated, and the company completed monthly account closing within the same time schedule as that for consolidated accounting based on Japanese GAAP. (Services)

(Keeping multiple books)

- ✓ The company adopted Japanese GAAP to non-consolidated accounting at each domestic company. As for double calculation that becomes inevitable when adopting IFRS to consolidated accounting, the workload was not as much as anticipated. (Glass & Ceramics Products)

(Method of applying accounting treatments for revenue recognition and property, plant, and equipment)

- ✓ Regarding the adoption of particular accounting standards, such as revenue recognition by delivery basis and applying economic useful life, the company applied much simpler methods than anticipated initially. (Pharmaceutical)

(Moving balance to the new system)

- ✓ The company anticipated considerable confusion for the transfer of balance associated with the introduction of the new system. However, the transfer went relatively smoothly. (Wholesale Trade)

7. Requests

This question asked about requests to the International Accounting Standards Board (IASB), the Accounting Standards Board of Japan (ASBJ), and the Financial Services Agency/auditors/analysts regarding IFRS.

(1) Requests to the IASB and the ASBJ

a. Requests to the IASB

Thirteen (13) companies stated their requests to the IASB. Multiple answers were allowed. The main requests are shown in [Table 9] below.

[Table 9] Requests to the IASB

Requests	Number of companies
Development of standards placing emphasis on actual practices	4
Reviewing the validity of items to be disclosed	4
Provision of more guidance	4
Reviewing the accounting treatments for goodwill	3
Adherence to work plans	2

As for "development of standards placing emphasis on actual practices," we received comments requesting to emphasize preparers' views and to consider the feasibility of standards for actual applications.

The comments received on "reviewing the validity of items to be disclosed" suggested the necessity to determine items to be disclosed taking account of the aspects of costs/benefits and the usefulness for users since IFRS requires many items to be disclosed.

Regarding "provision of more guidance," the respondent companies provided their comments stating that implementation guidance, educational documents, and interpretations are essential in order to promote the voluntary adoption of IFRS.

The comments on "reviewing the accounting treatments for goodwill" were asking for the amortization of goodwill, as it would reflect more accurate performance of the company, as well as the simplification of impairment testing.

b. Requests to the ASBJ

Requests to the ASBJ were provided by twenty-one (21) companies. Multiple answers were allowed. [Table 10] below shows the major requests.

[Table 10] Requests to the ASBJ

Requests	Number of companies
Promotion of convergence	16
Dealing with issues related to interpretations	5
Sending opinions to the IASB	4
Offering information through seminar, etc.	4

There was a comment requesting further convergence of Japanese GAAP toward international accounting standards such as IFRS.

As for "dealing with issues related to interpretations," the ASBJ was asked to set a conference with the purpose of achieving consistent application as a measure to sort out different interpretations among companies or audit firms.

Some of the comments on "sending opinions to the IASB" express some expectation for the improvement of Japan's presence through continuous high-quality contribution, while others request reduction of gaps between Japanese GAAP and IFRS by proactively encouraging discussions about items considered to be significant for accounting treatments in Japan.

Regarding "offering information through seminar, etc.," there were comments asking for provision of information at the time of developing/changing accounting standards in a timely manner, as well as specific and easy-to-understand explanations.

(2) Requests to the Financial Services Agency

Responses regarding requests to the Financial Services Agency were received from thirty-four (34) companies. Multiple answers were allowed. The main responses are listed in the following [Table 11].

[Table 11] Requests to the Financial Services Agency

Requests	Number of companies
Reviewing parallel disclosure with Japanese GAAP	20
Simplification, etc. of the disclosure of non-consolidated financial statements	14
Acceptance of the disclosure of non-consolidated financial statements based on IFRS	10
Reviewing the quarterly reporting system	8

Regarding "reviewing parallel disclosure with Japanese GAAP," some companies expressed their concerns for the burden of dual management under IFRS and Japanese GAAP, and the usability of assumption calculation for goodwill and retirement benefits, and some doubt about the necessity of continuous disclosure of information under Japanese GAAP when business management is unified based on IFRS.

Some comments received requested further simplification or the abolition of the disclosure of non-consolidated financial statements, while others asked for the application of IFRS to non-consolidated financial statements.

As for the quarterly reporting system, some companies presented their comments asking for further simplification or the abolition of the quarterly report.

(3) Requests to auditors

Twenty-four (24) companies stated their requests for auditors. Multiple answers were allowed. [Table 12] below shows the main requests provided.

[Table 12] Requests to auditors

Requests	Number of companies
Earlier responses to questions	12
Development of personnel and organization capable of dealing with IFRS	9
Practical judgments	6
Solution of gaps among audit firms regarding interpretations	5

Some comments asking for "earlier responses to questions" suggested the necessity of improving the current time-consuming situation for inquiries from companies about views on issues.

Regarding “personnel and organization capable of dealing with IFRS,” some companies commented that the Japanese office should establish a system that enables judgment.

The comments on “practical judgments” requested audit firms to provide views after substantial consideration of each company’s conditions without adhering to the firms’ own internal manuals, while utilizing the principle-based approach.

As for the present situation where interpretations of IFRS differ among audit firms in some cases, some companies asked audit firms to discuss with each other to solve such differences of interpretations among themselves.

(4) Requests to users of financial statements, such as analysts

Requests to users of financial statements, such as analysts, were provided by ten (10) companies. Some respondent companies provided their comments asking users of financial statements to improve their knowledge about IFRS.

(5) Others

In addition to the above, there were comments requesting that the Companies Act and the Corporation Tax Act should admit the use of IFRS to non-consolidated financial statements.

8. Advice to companies considering voluntary adoption of IFRS

Thirty (30) companies provided their advice to companies considering voluntary adoption of IFRS. Major comments are shown below.

(1) Merits of voluntary adoption

There were some comments suggesting that the adoption of IFRS should be considered as a "tool" to improve the quality of management, instead of considering the adoption itself as the "purpose."

- ✓ When the company acquired an overseas company, it became conscious of the necessity to perform business management looking at the entire group as "one company," by unifying accounting standards and accounting period. From now on, the company is planning to adopt a business management system based on IFRS in principle at the company-wide level and also manage its budgets on an IFRS basis. The company considers that the introduction of IFRS is a tool to improve the management quality, rather than adoption itself as the purpose. Therefore, the company needs to have a broader perspective and a clarified purpose when introducing IFRS. (Metal Products)
- ✓ Upon the transition to IFRS, the company unified the "measure" for business management and thereby increased sophistication in its management system, not just as an action with respect to financial reporting. The purpose of the transition to IFRS is enhancing the company management, not the adoption of IFRS *per se*. (Transportation Equipment)
- ✓ The company introduced IFRS because the company considered the adoption would enable it to make decisions and evaluate performances using a single "measure" as a globally common management base and to improve the transparency of the financial process and reduce risks of internal controls. It is crucial to always consider how to utilize IFRS in the business management when introducing IFRS. The introduction of IFRS itself should not be the purpose. (Glass & Ceramics Products)
- ✓ The introduction of IFRS should be done from a viewpoint of whether the introduction is in accordance with objectives/goals of management. You should not regard the introduction of IFRS itself as the purpose. (Electric Appliances)

Further, there was a comment that recommended having a higher perspective rather than a narrow company view when considering the introduction of IFRS.

- ✓ When considering the adoption of IFRS, you should pay attention also to the vitalization of Japan's securities market and the improvement of international comparability without adhering to your merits. (Pharmaceutical)

(2) Process of the transition to IFRS

We received responses on procedures and schedules of IFRS projects.

- ✓ If you start analyzing the IFRS adoption from the scratch, it requires a huge amount of work and expense. The company recommends that you proactively inquire of companies that have already adopted IFRS voluntarily and refer to their views and practices in order to shift to IFRS smoothly. (Electric Appliances)
- ✓ The number of companies that adopted IFRS has increased and know-how of introducing IFRS is accumulating. The environment is getting better, so that companies can adopt IFRS in a shorter period and with lower costs compared to before. Through cooperation with precursor companies that have already applied IFRS, audit firms, and companies in the same industry, more efficient adoption will be possible. (Pharmaceutical)
- ✓ Studying cases of companies that adopted IFRS allows you to minimize transition costs and shorten transition periods. Therefore, the company recommends cooperating with the companies that have already adopted IFRS in a proactive manner. (Electric Appliances)
- ✓ It is important for investors to secure comparability with domestic and overseas competitors; thus, the company believes cooperation with other companies in the same industry in Japan, such as determining the timing of adoption, is essential. (Pharmaceutical)
- ✓ The company believes it is necessary to summarize and publish cases of precursor companies from each industry sector and optimize costs and the introduction model in order to realize early transition in the entire industry. Consequently, the increase of the number of cases as well as the establishment of standards in each industry sector will bring benefits to the companies that should bear costs for preceding adoption too. The company recommends this kind of cooperation in (and outside) each industry sector. (Chemicals)

Additionally, there were some comments recommending promotion of IFRS transition projects without getting caught up on the details.

- ✓ People tend to get caught up on the details as you are at the stage of consideration and things may not move forward smoothly. Therefore, you should leave points that are not material and come back to details after you get the whole picture, in order to move to IFRS smoothly. (Electric Appliances)

- ✓ You cannot move out from the stage of consideration if you stick to every issue. On the other hand, an accounting treatment that you did not expect troublesome initially may have some problem in practice. Therefore, it is important to temporarily complete financial statements even if there are some unclear points. (Services)

(3) Personnel assignment

We received a comment about assigning full-time personnel to IFRS projects.

- ✓ Initially, no personnel were working full-time for the IFRS transition project and every worker had other jobs to do. As a result, the workload for individual workers grew. The company now thinks that setting up a dedicated team for IFRS transition projects as early as possible will help achieve efficient transition. (Wholesale Trade)

(4) Dealing with accounting standards

There were some comments recommending preparing for the transition even under Japanese GAAP before the transition to IFRS and giving substantial consideration on the materiality.

- ✓ In order to minimize gaps between Japanese GAAP and IFRS during the transition, the company applied accounting treatments required by IFRS and accepted under Japanese GAAP even when the company was based upon Japanese GAAP. (Electric Appliances)
- ✓ Before the IFRS transition project started, the company widely prepared its systems by integrating the financial systems and standardizing its accounting policies. Eventually, this preparation of the infrastructure helped a lot during the transition process. (Glass & Ceramics Products)
- ✓ How about adopting accounting treatments that are acceptable under IFRS as much as you can even when you are still based on Japanese GAAP? (Pharmaceutical)

We received the following comments on accounting treatments in relation to materiality.

- ✓ The company believes it is necessary to set materiality threshold and make procedures as simple as possible upon the transition to IFRS. (Pharmaceutical)
- ✓ As IFRS has the idea of materiality, the company recommends focusing on accounting policies and accounting treatments based on the materiality. (Pharmaceutical)