Special Edition

A New Era of Corporate Disclosure Vol.2

—Will next-generation EDINET and its XBRL facilitate corporate evaluation and improve global comparability?—

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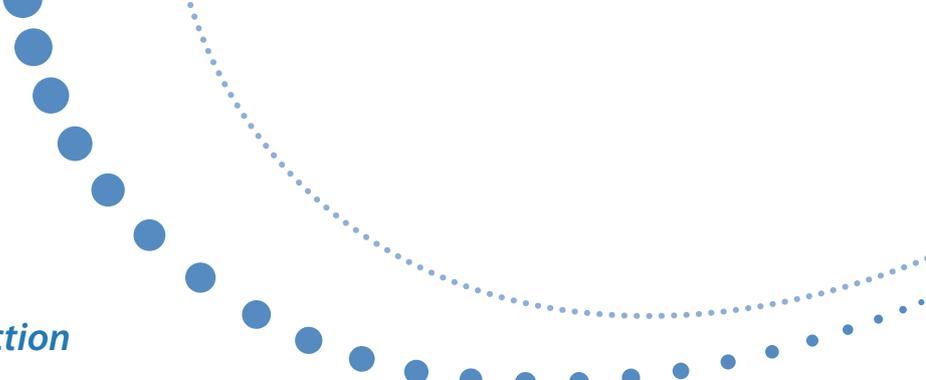
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Introduction

EDINET[1], a corporate disclosure system of Japan's Financial Services Agency (FSA), will be drastically upgraded in fiscal 2013. It has hitherto provided only data from primary financial statements that were digitized in XBRL[2]. After this upgrade, however, all data other than primary financial statements will also be digitized.

In our previous issue, "A New Era of Corporate Disclosure" (August 2012 special EDITION, lakyara vol.145), we interviewed analysts and asset managers on their conceptual opinions about how securities report will help analyze companies in anticipation of the next-generation EDINET upgrade.

In this issue, the main theme of which is "next-generation corporate disclosure" (a continuation of the previous report), we have interviewed both Japanese and non-Japanese experts on what kind of digitization (XBRL) is required based on a more precise analytic approach.

Chapter 1 provides an overview of the next-generation EDINET upgrade plan and its schedule. It also discusses the current state of and future outlook for XBRL, which is seen as the key accelerator for utilization of the next-generation EDINET.

Chapters 2 and 3 look at how corporate analysis or comparison is done overseas and what sort of XBRL disclosure is required from the perspective of foreign investors.

Chapter 4 discusses the next-generation EDINET. We asked data users, mainly Japanese buy-side and sell-side analysts, about their actual analytic methods, the data required for such analyses, and the challenge posed by different accounting standards in conducting global comparative analysis. From companies' standpoint, disclosed information is useful for comparing themselves with competitors and
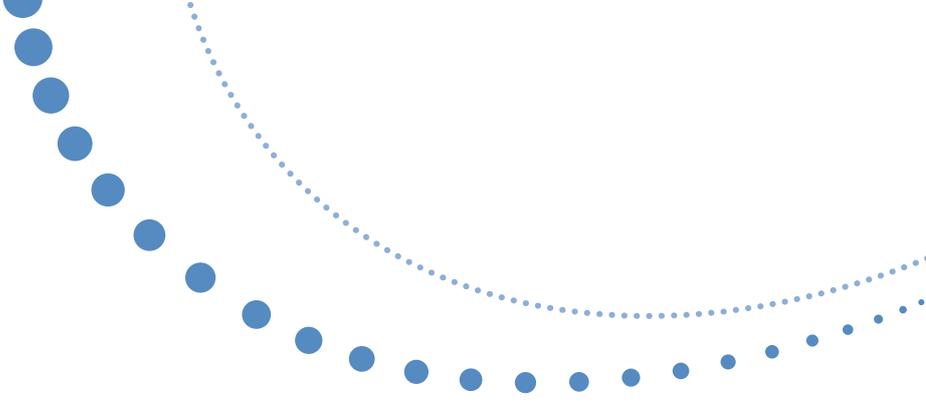
gaining knowledge of the competitive landscape.

Chapter 5, the final chapter, examines how to make corporate disclosure more effective and efficient based on the comments from the interviewees.

This issue presents insightful comments from several experts on the future of corporate disclosure and XBRL and discusses expectations for and challenges facing EDINET, backed by detailed analysis or comparisons.

Everyone interviewed for this issue is at the forefront of his or her field. Through this issue, we hope readers will gain further insight into the fundamental ideas on business analysis and corporate information disclosure, as well as the underlying core beliefs.

Lastly, we would like to thank everyone who kindly participated in our interviews.

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Chapter 1

Next-generation EDINET, new XBRL, and circumstances specific to Japanese market

1. XBRL for EDINET

EDINET (Electronic Disclosure for Investors' NETwork), an electronic disclosure system for securities reports, is slated to be upgraded. The upgrade will expand the scope of its XBRL disclosure. Since 2008, Japan's FSA has required primary financial statements included in companies and mutual funds' securities reports, quarterly reports, securities registration statements to be in XBRL (eXtensible Business Reporting Language) format. When financial statements are formatted in XBRL, software can be used to automatically capture selected line-items and their values. XBRL also enables regulatory authorities to automatically check incoming company disclosure documents and users to automatically input and store data in their databases in real time.

About 40 countries/regions have adopted or are preparing to adopt systems that employ XBRL for corporate disclosures to investors or for monitoring by regulatory authorities (as of May 2013). Based the local disclosure regulations, stock exchanges or standard setters in each county determine a standard nomenclature and foreign language translations for accounting line-items to create a taxonomy[3], which represents the hierarchy and computational relationship between each line-item. All companies and mutual funds have to compile data to be reported on the basis of the taxonomy. Since a taxonomy also includes explanations of each accounting line-item, it can be called an electronic definition collection. If the standard taxonomy provided by the FSA lacks an appropriate line-item, companies may add their own tags[4]. Such tags are called extension tags. If a company extends its own tags, it has to designate the tags' position on balance sheet or income statement taxonomy where the tags appear. Such extensions are generally not used in XBRL disclosures required by the central bank or tax agency, because companies need to provide data only for those items requested by these authorities.

[3] Essentially an electronic template, a taxonomy is a kind of XBRL file that defines the parent-child relationship between line-items and report structure.

[4] Tags: A string that marks up HTML or XML documents. XBRL is an XML-based language where accounting line-items are set as tags that systematically define their meaning.

2. New specifications adopted for next-generation EDINET

When Japan's FSA decided to adopt XBRL in 2006, discussion of the content to be expressed in XBRL focused mostly on primary financial statements, as was the case in other countries also. At the time, there was not yet sufficient consensus about how to express key information such as accounting period or company name in XBRL.

Since 2009, US companies had started to submit disclosure reports in XBRL to EDGAR[5], the SEC's electronic disclosure system. The US adopted Dimensions[6], a new method for designing taxonomies, especially to describe financial statements' footnote disclosures such as detailed tables or segment information.

When the UK's HMRC introduced XBRL in 2010, it selected a new format called inline XBRL[7] (which is based on XHTML[8] and can be displayed in a browser and also used as data by direct insertion tags) to facilitate conversion of entire reports to XBRL.

Data inputted in XBRL are stored in a file called an "instance[9]". Software can retrieve the data by reading the instance file. The taxonomy file specifies tag definitions to be inserted before and after figures in an instance file. Although companies use the FSA's standard taxonomy as a base, they create their own extension taxonomies that specify the order in which their line-items, including those with extension tags, are presented in the financial statements. Companies then submit their disclosures to EDINET together with their instance files. Inline XBRL, by contrast, uses the same taxonomies but, instead of an instance file, companies create an XHTML file that can be displayed in a browser. Since XBRL tags are set before and after figures, EDINET can convert inline XBRL files into conventional instance files. Inline XBRL has consequently garnered attention as a means of realizing one-file submission (currently, PDF or HTML files used to display data are sometimes submitted as a duplicate of an XBRL instance file, most commonly for disclosures submitted to the Tokyo Stock Exchange's TDnet[10]).

The next-generation EDINET will incorporate inline XBRL and Dimensions to expand the scope of XBRL disclosure to encompass entire securities reports (from the cover page to the audit report). It will also expand XBRL disclosure in 62 regulatory disclosure forms, including extraordinary reports (material facts), tender-offer-related documents, and large shareholding reports.

5) EDGAR: (Electronic Data-Gathering, Analysis, and Retrieval system) Electronic disclosure system for reports required to be filed by the US Securities and Exchange Commission pursuant to the Securities Act of 1933 and Securities Exchange Act of 1934.

6) Dimensions: One XBRL taxonomy design. Dimensions enable multiple attributes to be set to a single element (tag).

7) Inline XBRL: A standard for directly embedding XBRL tags in a document created in XHTML. Unlike a traditional "instance," which is an XBRL file that contains the data as input, inline XBRL uses display tags that allow the data to be displayed in a browser. As XBRL tags are also inserted, inline XBRL can be processed as data.

8) XHTML: Tags that convey data's meaning are inserted in conventional HTML documents. When XBRL tags in particular are used, XHTML is called inline XBRL.

9) Instance: An XBRL file containing actual numerical data, etc.

10) TDnet: Timely Disclosure network. A system operated by the Tokyo Stock Exchange that is designed to enable timely disclosure and viewing of information.

11) Form tree: A method of designing taxonomies to represent all filings in the manner prescribed by Cabinet Office Ordinances. It was created for the next-generation EDINET.

Under the same framework, five-year management indicators, corporate governance disclosures, and audit reports will also be available in XBRL in addition to financial statements and footnotes. The FSA has adopted a new taxonomy design called a form tree[11] to systematically manage all reports filed pursuant to disclosure regulations.

3. Discussions surrounding XBRL

XBRL stakeholders in the IASB, FASB and SEC have recently been increasingly discussing issues such as identifying who uses XBRL corporate disclosures and the purposes that XBRL disclosures should fulfill. Is usage by analysts and investors secondary to systematic checking of regulatory filings as required by law? Or does usage by analysts and investors take priority? Taxonomy designs differ depending on the purpose for which XBRL is used.

In addition, opinions regarding XBRL differ among analysts and investors. For example, one said that XBRL should normalize line-items for ease of use while others said that it should be able to systematically identify all detailed information at the same level as the original document.

12) ESG report: Reports to explain a company's environmental, social and governance initiatives to shareholders, customers, employees, etc.

13) Integrated report: A report that companies issue mainly for IR purposes and includes not only financial statements but also management strategy and governance in an integrated manner. The International Integrated Reporting Council (IIRC) published a framework draft on integrated reporting in April 2013.

14) IASB: International Accounting Standards Board. A London-based private agency responsible for setting international accounting standards.

Others are in favor of providing even non-financial information in XBRL, particularly IR information such as ESG reports[12] and corporate governance reports. Proponents of XBRL publication of such IR information say that it should be edited in XBRL in the same manner as statutory disclosure documents. With integrated reports[13] now under discussion, organizations in Japan and overseas have started to discuss how to make such information available in XBRL on one common system. Amid such developments, next-generation EDINET will give rise to many new issues requiring discussion. The new EDINET's updated XBRL will manage various reports on one taxonomy that includes non-financial information. The EDINET XBRL framework also allows editing using the IASB's[14] IFRS taxonomy for consolidated financial statements. Will EDINET improve the comparability of Japanese companies' disclosure information for global investors? In the following chapters, we explore the approaches that should be taken by interviewing some key persons in the XBRL field.

Chapter 2

Latest developments in the US —Financial institutions and information vendors' growing interest in XBRL usage—

1. EDGAR filings

More than 30 Japanese companies currently issue consolidated financial statements in conformity with US GAAP. Some of them are listed on US securities exchanges and submit their reports to the US's EDGAR electronic disclosure system US. Similar to EDINET in Japan, EDGAR allows funds and companies to submit financial statements and other disclosures for investors. It has required XBRL filing since 2009. Like US companies, Japanese companies[15] submit their disclosure reports in XBRL. The US Financial Accounting Standards Board (FASB) has created a standard taxonomy in the US, which encompasses not only primary financial statements but also footnote disclosures since 2009.

In the US, companies were divided into three groups by market capitalization and, beginning with the largest companies, sequentially required to submit regulatory filings in XBRL from 2009. This approach was adopted on the view that supporting businesses would accumulate know-how and more XBRL editing products would become available over time. The idea was that by the time small companies were required to submit XBRL filings from the third year, support services and editing products would be available at prices that even small companies could afford. Legal liability for misrepresentations in disclosure documents was waived for the first three years. XBRL documents submitted by all companies will be officially treated as statutory disclosure documents from 2013 onward. Prior to this effective date, the XBRL Financial Analysis Conference (hereinafter, the conference) cohosted by the New York Society of Security Analysts (NYSSA) was held on March 31 2013, mainly for financial statement users, to discuss XBRL's future direction.

15) Japanese companies that have adopted US accounting standards for their consolidated financial statements have to submit their disclosures to EDGAR using the FASB's standard taxonomy. But these FASB-compliant XBRL files are not permitted to be submitted to EDINET directly. Such companies' consolidated financial statements are not available in XBRL from EDINET (but XBRL data for their J-GAAP non-consolidated financial statements are available from EDINET). Though this rule will not be changed for next-generation EDINET, users can get XBRL data from EDGAR directly, albeit without Japanese labels for each line-item.

2. Developments involving US disclosure-information users

Many of the participants of the conference were data users, such as information vendors or analysts. A participant in charge of IR said that he attended because he wanted to know how "people on the other side" are thinking—i.e., to learn about trends among investors and analysts. The conference was organized around panel discussions. Each panel comprised analysts, software providers, CFA Institute[16] representatives, leading financial information vendors, portal sites, rating agencies, and securities brokers who discussed issues and the future potential of XBRL documents submitted to EDGAR. First, the XBRL tags that have been provided in the US since 2009 tend to have the same names as the line-item names from each company's original disclosures. The number of tags is consequently enormous. In the original disclosure information, line-item names include company-specific terminology, like in Japan. To improve comparability between companies, information vendors convert original line-items to standard names when there is no significant economic difference between the two. This standardization enables end-users to perform intercompany and historical comparisons.

Additionally, users map line-items to standard names based on not only similarity but also perceived equivalence in terms of analysis for a specific purpose. For example, financial institutions' operating revenue and manufacturers' sales can both be treated as "gross revenue" to calculate certain financial indicators. Such mapping makes it possible to screen all companies by certain criteria. At the same time, however, it does not obscure the original line items. As a result, all panelists agreed that "XBRL should not be normalized from the time of submission" and "users need the original information too."

XBRL allows multiple attributions to be set for a single item (e.g., the item "sales" has several attributions about net and segment values, or previous- and current-year sales), a feature not commonly seen in XML. This function is called Dimensions. Panelists noted that it is too complex for the average user.

3. Interview: XBRL should be focused especially on footnote disclosure data

We interviewed panelist Glenn Doggett (Director, Standards of Practice), of the

16) CFA Institute: An NPO that is an international association of investment experts in more than 100 countries. The CFA Institute certifies CFAs (Chartered Financial Analysts).

Mr. Glenn Doggett

17) "The XBRL Guide for Investors" is available at http://www.cfainstitute.org/ethics/topics/Pages/our_take_on_xbrl.aspx

18) XBRL International: An NPO organization formed in the aim creating XBRL specifications and disseminating XBRL. It has branches in several countries. (http://www.xbrl.org/AboutXBRL)

CFA Institute just before the conference about what analysts think about XBRL and future challenges.

Mitsui: You have a conference to attend right after this interview. There will be many market participants including people from the SEC and FASB attending the conference and you will a panelist. First, what is your involvement with XBRL?

Doggett: The CFA Institute has been following the XBRL projects of the SEC and other regulators since 2007. We also published a white paper, "eXtensible Business Reporting Language: A Guide for Investors"[17], in 2009. We recognized that XBRL benefits will come from footnote disclosures. Data from primary financial statements are already well-provided by information vendors, but not so much for the footnote disclosures. This is because what information vendors provide is mostly financial statement data that every company discloses, but much other important data used to evaluate companies, such as information on leases or pensions, varies by company. Selected footnote data are thus not very easy for database services to track. At the moment, analysts collect such information, but doing so entails a great deal of work. So it is worth introducing XBRL in this space.

Mitsui: Did you already recognize the importance of footnotes or the value of original information for XBRL back in 2009? It is only in the past year or two that XBRL International[18] and others have started to focus on users. Now we hear still comments like "easy search" or "make XBRL simple and re-write the labels to avoid extensions"….

Doggett: Information vendors already provide such tools that make it easy to access normalized company information.

Mitsui: At today's conference, I think there will be a discussion on the structure of XBRL tags. Ideally, it is good to hear analysts' views on such issues, like how footnote disclosure needs to be tagged in order to make it easily usable.

Doggett: The CFA Institute has been conducting surveys of its members since 2007, but awareness and usage remain low. Data comparability and use of company extensions are points of concern according our survey results.

Mitsui: I see. Please have a look at this diagram (Exhibit 1). It shows structural

Exhibit 1: Taxonomy structures for "segment disclosure" of JP GAAP and IFRS

Notes - Segment information, etc.	Notes - Segment information, etc., Consolidated financial statements [heading]
Segment information	Segment information [abstract]
Disclosure of sales, profit (loss), asset, liability, and other items for each reportable segment	Disclosure of sales, profit (loss), asset, liability, and other items for each reportable segment [table]
Consolidated or non-consolidated	Consolidated or non-consolidated [axis]
Consolidated	Consolidated [member]
Operating segments	Operating segments [axis]
Per financial statements	Entity total [member]
Total	Total of reportable segments and others [member]
Reportable segments	Reportable segments [member]
Others	Other reportable segments [member]
Others	Operating segments not included in reportable segments and other revenue generating business activities [member]
Reconciling items	Reconciling items [member]
Disclosure of sales, profit (loss), asset, liability, and other items for each reportable segment	Disclosure of sales, profit (loss), asset, liability, and other items for each reportable segment [line items]
Sales	Sales, Segment information [abstract]
Revenues from external customers	Revenues from external customers
Transactions with other segments	Transactions with other segments
Net sales	Net sales
Operating revenue	Operating revenue-1
Operating revenue	Operating revenue-2
Gross operating revenue	Gross operating revenue
Ordinary income	Ordinary income-BNK
Operating income	Operating income-INS

Elements named [member], are used for the horizontal axis of tables. Elements named [abstract] are used for the titles of financial statements. So those elements don't have any facts (figures). In case of Japan's FSA, "Transactions with other segments" is set as normal element, for the vertical axis of tables.
Source: The fourth draft of the new taxonomy for Next-Generation EDINET

Proposed mapping IFRS

Consolidation items [axis]							
	Entity's total for consolidation items [member]						
		Operating segments [member]					
		Material reconciling items [member]					
			Elimination of intersegment amounts [member]				
			Unallocated amounts [member]				
Segments [axis]							
	Segments [member]						
		Reportable segments [member]					
		All other segments [member]					

The proposed amendment released by IASB at October 2012. Since "elimination of intersegment amounts" becomes [member], each line-item such as Net sales, Net incomes are able to set multiple figures one of which has this attribution, on the table.
Source: IASB website

differences between the IFRS, US GAAP and J-GAAP taxonomies in terms of "intersegment eliminations". I think analysts should make comments on this to clarify how they evaluate and compare the data.

Doggett: The CFA Institute has not focused on the XBRL taxonomy development. Data users have to rely upon the information provided by the company. Thus, it is important for the regulators and firms to work together in developing a list of tags that deliver decision-useful information to the market. It is even harder to ask analysts questions on Dimensions issues as they are less concerned with how data are added to an XBRL filing than with how easily the data can be retrieved. Accounting standard setters should work together with information vendors.

Mitsui: However you said that information vendors are currently not providing enough data from footnote disclosures.

Doggett: That is because of the aggregation cost. All vendors are not tracking every company-reported item. Even if XBRL is complete, analysts or institutional investors will continue to analyze on the platforms that information vendors provide as they are comfortable with those services. It is essential for the information vendors to be aware of their clients' analytical methods and continue to make enhancements based on the structure of taxonomies by leveraging their data management experience.

Mitsui: Thank you very much. It was very informative. Good luck in your panel discussions.

Chapter 3

How do global investors see XBRL?
—Investors want to know line-items' nature and inter-relationship—

Christian Dreyer, *CFA, CEO, CFA Switzerland and XBRL Switzerland.*
Interviewer: **Chie Mitsui**

Mr. Christian Dreyer

19) The Comprehensive Business Reporting Model is available at http://www.cfainstitute.org/ethics/topics/Pages/comprehensive_business_reporting_model.aspx

Christian Dreyer, a member of the IASB's XBRL Advisory Committee, spoke frankly during a coffee break after discussion on how XBRL should be adapted to reflect analysts' opinions. He said, "If you want to discuss XBRL with investors, it would be better to understand what they want to do. I recommend you read the Comprehensive Business Reporting Model (CBRM)[19]. It helps to understand what XBRL might be able to do."

—We interviewed Christian Dreyer, CEO of CFA Society Switzerland, about his views on XBRL and how disclosure should be for the sake of analysts and investors.

Mitsui: EDINET will be upgraded this year and all financial reports will be edited in XBRL. It is therefore crucial for us to get a better understanding of foreign investors' views on XBRL. Once Japanese companies adopt IFRS, they will start using the IASB taxonomy to edit XBRL. As you are a member of the IASB's XBRL Advisory Council, I would like to hear your views on XBRL. I recently read the CBRM as you recommended. After reading it, I got the impression that investors typically do not look just at the figures disclosed in financial reports. Analysts analyze various figures (not only from the primary financial statements) to estimate future performance. So reporting style does not matter. As long as data are disclosed in XBRL format, investors will be able to process them however they like.

Dreyer: Firstly, I would like to explain what the CBRM is. The CBRM starts to explain the meaning of capital markets and share value. Investors think they want

to have an access to the same figures as management, not the figures prepared deliberately for investors. They would like to know the materiality thresholds and assumptions used. If figures that they need are not disclosed, analysts ask questions about them at the analysts' meeting. But information rightfully should be available equally to everyone, so such information should have been included in the financial reports. That is why I think that the way to disclose information is important. The CBRM says that details of the linkages between line-items and financial activities not currently reported on the balance sheet must also be disclosed to enable investors to thoroughly understand.

Mitsui: From our point of view, the CBRM seems like common sense. Analysts have to forecast future cash flows, so they have to estimate the future value of each balance sheet item and break down the sources of profit on the income statement. So categorization of and linkages between line-items are necessary, correct?

Dreyer: There are many barriers (regulatory and physical) to changing the style of disclosure information written in hard-copy or PDF format. But we can use an XBRL taxonomy to systemically define links for some items, such as parent-child relationships or links between subtotals and totals or primary financial statement items and footnotes.

For instance, financial reporting rules permit cost of sales to be itemized either in the primary financial statements or footnotes. In some cases, investors may get confused about where itemized expenses are reported on the income statement.

But we might be able to resolve this confusion by using the XBRL taxonomy without changing financial reporting formats. XBRL has a function named Dimensions with which we can set several properties for each item.

So we define such item categories in the taxonomy. Users can use software to read that information from the taxonomy and program their calculations correctly.

Mitsui: The CBRM says that for more detailed analysis, a company should disclose disaggregated, not net, figures. But even if a company has no intention of concealing bad figures, transparent disclosure is sometimes physically difficult. So if an XBRL taxonomy can handle such disclosures in accord with the CBRM, it would help the company.

Dreyer: Yes. Also, we have issues with not only financial information but also non-financial information such as governance or environmental disclosures where a single piece of information is a multi-faceted indicator. I think such information can be expressed by Dimensions. If a company can explain that a disclosed fact has certain significance in terms of governance and a different significance from an environmental standpoint, investors can evaluate the information from multiple perspectives.

Mitsui: Companies tend to explain governance and environmental issues in particular in narrative format. If this information were categorized using Dimensions, the user can capture the information systematically. At the same time, the user can read the English label, which aids investors' understanding globally.

Dreyer: I agree. Even in Switzerland, some companies disclose only in the local language. I am sure you have the same problem in Japan too.

Mitsui: It is important for Japanese companies to use XBRL so that global investors can understand them better. We hope there will be more comments from investors and analysts to develop XBRL's functionality further. Thank you very much.

Chapter 4

Toward improving the environment for evaluating Japanese companies

1. Necessity of footnote information for forecasting and company evaluation
   —Clear disclosure based on understanding of how investors use data in calculations—

Takahide Mizuno, *CFA, CEO, TM investment*
Interviewer: **Chie Mitsui**

We interviewed to Takahide Mizuno, who has been in asset management for many years, about using disclosure information to evaluate companies.

Mitsui: After retiring from a major asset management company, you have established your own one-man investment advisory firm. I think that financial analysis for stock selection sometimes requires a lot of work. What is your approach?

Mizuno: I use the DCF method[20] to analyze about 180 companies using a uniform condition to calculate earnings forecasts. I calculate companies' intrinsic value and determine whether to buy or sell their stocks based on their market prices' deviation from intrinsic value and also qualitative factors. When I analyze a company for the first time, I usually read the securities reports to understand its governance structure, corporate history, business activities, management, and risks. I then analyze it quantitatively.

Mitsui: So you basically always read securities reports when you first analyze a company?

Mizuno: That's right. And I calculate FCF (free cash flow) from financial items such as sales, operating income, NOPLAT (net operating profit less adjusted taxes), depreciation and amortization, change in working capital, and capital investment. I then discount FCF to calculate the intrinsic value of the company. Furthermore,

20) DCF (discounted cash flow) analysis: A method of valuing earning assets by discounting projected future cash flows to present value at a discount rate corresponding to the prevailing cost of capital.

to check the return on invested capital (ROIC), I like to review major balance sheet items for at least the past 10 years. We believe that in order to make a forecast for the next 10 years, you must review trends over the past 10 years at least.

Mitsui: Is immediate availability of 10 years of information a prerequisite for you to consider a company as a potential investment candidate?

Mizuno: In fact, I usually use data dating back to 2000, so I use 13 years of data for forecasting the next 10 years. Ten years of data is a minimum requirement because the data reflect various economic conditions, including yen strength, yen weakness, economic booms and recessions.

When I make a forecast, I take into account both good and bad times to verify the company's profitability. Therefore, I want at least 10 years of securities reports and earning digests (*tanshin*). When I visit a company's website and find only five years of data, the same timeframe available on EDINET, I'm very disappointed. It is very helpful if a company's website has 10 years of data not in a summarized format such as fact sheets. That makes me so happy.

Mitsui: Could you please tell us a bit more about the DCF analysis that you use?

Mizuno: For DCF analysis, I need to determine future tax rates to calculate NOPLAT, so current-period tax expense is important. Deferred tax expense is disregarded in DCF analysis. In the *tanshin*, companies sometimes report current and deferred income tax expense as a single line-item. Such reporting is frustrating for me, though I have never encountered it in a securities report. Securities reports explain the factors behind variances between a company's tax rate and the statutory tax rate. They also explain factors behind changes in deferred tax assets and liabilities. I believe that this information is very important in terms of a company's future tax burden. Some companies explain them in the *tanshin*, which I find very helpful.

Mitsui: Do you need that information in the *tanshin*? *Tanshin* are released earlier than securities reports, as a digest.

Mizuno: I may use securities reports for my analysis when I analyze the company for the first time. However, once a company is in my portfolio, I have to reevaluate it on an ongoing basis. I do so using the *tanshin*, even though information is not perfect.

I cannot afford to wait until securities reports are released.

Mitsui: I see. So you might have a problem if the *tanshin* is released but lacks the figures you need, correct?

Mizuno: Yes. In addition, in DCF analysis, we use operating profit before amortization of goodwill, so if a company discloses depreciation and amortization as an aggregated line-item, this is another problem for me. I need depreciation and amortization to be disaggregated. I calculate a company's value by summing its surplus non-operating assets and the present value of its operating FCF, so I refer to information on investment securities' composition and leased assets' market value. I also have to disaggregate investment securities into operationally essential holdings (e.g., investments in affiliates) and pure investment holdings.

This information is usually provided in the notes of a securities report, but most companies' *tanshin* do not disclose it.

When it is not in the *tanshin*, I estimate based on the previous year's securities report. Trading companies have large holdings of investments in affiliates and often disclose them separately on their balance sheets. This also is helpful.

Mitsui: You do not look at financial data in the same format that they were reported in the financial statements, do you? Even if disclosures adequately comply with the rules, if investors analyze the data in their own manner irrespective of the disclosure rules, the company may end up not presenting itself well to analysts, so it is better to understand investors' manner?

Mizuno: Right. Investors often need an income statement, but the most important thing in DCF analysis is the cash flow statement.

Some companies seem to issue a cash flow statement only once a year in their *tanshin*, but I need to see a cash flow statement at least semiannually. A summary cash flow table is completely useless for DCF analysis.

Mitsui: As an investor who retrieves information of the securities reports for your own analytical model, could you please tell us your expectations for the next-generation EDINET?

Mizuno: Because I now single-handedly analyze about 180 companies using the DCF method, I am time-constrained. Of course, segment information sometimes needs to be analyzed, such as in the case of companies with both manufacturing and financial services segments, but I do not have time to analyze it in detail for all companies. If segment information could be automatically captured and presented in Excel in an easy-to-understand time-series format, that would be very helpful for me. Also, geographical segment information is also essential due to the extreme exchange rate volatility of recent years. I would like to also have this information available in time-series format.

Mitsui: Unfortunately, geographic segments were not selected as a detailed tag in the fourth draft of the new taxonomy, but they would be good to add in future. Thank you very much.

Takahide Mizuno

CFA, MBA the University of Chicago
Present: CEO, TM investment

- In 1975 he joined Nomura Securities Co., Ltd (Nomura) in Tokyo as a financial analyst.

- In 1980 He started portfolio management career at the Nomura's advisory section of the Institutional Research and Advisory Department, which was later span off to become a part of Nomura Investment Management Co., Ltd (NIMCO) in the spring of 1981.

- In 1993, he was appointed as head of Pacific Basin Equity Investment Department of NIMCO.

- In 1997, he was appointed as Chief Investment Officer (CIO) of NIMCO, and later in the year, as director and CIO of the institutional division of the newly created Nomura Asset Management Co., Ltd (NAM). NAM was formed out of a merger between NIMCO and Nomura's other investment company.

- In 2003, he was appointed as Executive Vice President (EVP) of NAM and became CIO of the entire firm. As CIO, he chaired monthly Investment Policy Committee, which set a house-view on the global investment environment, supervised all investment activities by portfolio managers, and authorized new investment products. He was responsible for investment assets of about $250 billion.

- In April 2010, became a senior advisor of NAM.

- In February 2011, he set up TM Investment Inc. an independent investment advisory firm specializing in the Japanese equity.

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2. Potential to efficiently evaluate companies on an ongoing basis
—There is no boundary between non-financial information and financial information—

Hiroki Sampei, *Director of Research Japan, Fidelity Worldwide Investment*
Interviewer: **Chie Mitsui**

Mr. **Hiroki Sampei**

We interviewed Hiroki Sampei about the value of financial statements' non-financial information. He has long used non-financial information to evaluate companies.

Mitsui: The next-generation EDINET will finally be up and running in 2013. Non-financial information and footnotes are slated to be edited in XBRL in addition to the financial statements. Could you please tell us your hopes for such XBRL data from the standpoint of evaluating companies?

Sampei: Aside from financial statements, securities reports contain other very important information in a standard, easy-to-understand format. When I visit a company for the first time, I always re-check its securities report to confirm the information in the report, even if I am already very familiar with it. If I do not take the time to thoroughly prepare before visiting a company, the company may answer my questions by saying, "We disclosed that in our securities report," in which case the meeting would not be productive. I think that if XBRL can be used to efficiently retrieve information from securities reports' footnotes and other detailed tables, as well as data from the primary financial statements, it would be helpful for our work flow.

Mitsui: Other than financial statements, do you use non-financial information as well?

Sampei: Yes, of course. Actually, I am not entirely comfortable with the new term "non-financial information." I read company research for investment evaluation, to understand the company's philosophy, intentions, behavior, and business environment, and then interpret it together with financial data. In other words, companies translate their corporate activities into financial statements and I interpret their underlying activities and intentions from the financial data. For over

20 years, I have been using other information along with financial statement data for evaluating companies.

Mitsui: I see. But some people say that the *tanshin* summary and segment information are sufficient to evaluate a company. Why should companies care that full XBRL versions of securities reports would really help analysts to evaluate them? Could you please tell us how you utilize such data in your evaluation process?

Sampei: I can't reveal too much detail about our analytical methods.

Mitsui: That would be like a teacher disclosing test questions before the test, wouldn't it?

Sampei: For example, in terms of dividends, rather than looking at the payout ratio or dividends' trend over time, I prefer to take a company's explanation of its dividend policy and compare it with other companies'. I might notice common patterns in how the policies are explained. Or certain expressions may differ slightly from other companies'. Since companies also have to study other companies' disclosures, I assume that the difference has significance because the company intentionally chose to differentiate its dividend policy from other companies'.

21) Disclosure Ordinance: Cabinet Office Ordinance on Disclosure of Corporate Information.

Mitsui: Because the next-generation EDINET will have tags available that comply with the Disclosure Ordinance[21], I think you should be able to extract text from disclosures and compare its wording to other companies' corresponding disclosures. What do you think?

Sampei: I think that it will offer that advantage. I think that many Japanese companies are working on writing disclosure documents with precision. If you can extract key sections and compare their wording, that could be very useful for deciphering various developments related to management of the company. Aside from inter-company comparisons, you could, for example, compare explanations in the latest securities report with their counterparts in previous reports. You sometimes might notice minor differences that reveal a change at the company.

Mitsui: So you mean that you often scrutinize the corporate governance sections of securities reports?

Sampei: Exactly. In the example I just gave, I was talking about the corporate governance section. I always read the section on executive officers too. For example, I often look at independent directors' biographies. When I find a director with a background in law or law enforcement, I assume that the company has a mindset dating back to the 1990s. Also, when I find an independent director previously employed at another company, I consider whether he may have been recruited to cultivate business ties with the other company or to provide a fresh point of view. Also important is qualitative information about the corporate culture, such as whether any corporate officers were promoted internally over more-senior colleagues, how long he has been with the company, and his previous posts within the company. I now read this information myself and manually input corporate officer data for selected companies.

Mitsui: Are you disappointed that the fourth draft of the new XBRL taxonomy doesn't have detailed tags in securities reports' corporate governance section?

Sampei: In securities reports' corporate officers section, I would like to have biographical information available in XBRL format to identify anyone who is a director at multiple companies. This information would be useful for foreign investors also. For the corporate governance section, it would be useful to have even the text in XBRL to check whether any wording has changed from previous reports. I would also like to be able to extract certain information from all companies' securities reports, such as the identity of their independent auditors.

Mitsui: Is there any other information that you need for your analysis?

Sampei: I look at the footnotes' detailed tables on, for example, securities holdings and accounts receivable, and information on the company's direct suppliers and customers and how much business it does with them. If you check such information every year, you can identify important signs, such as inconsistencies or changes at the company. I always check a company's history to see when it first expanded overseas. Did it do so before its competitors or wait until overseas expansion was fashionable? This is interesting information that offers insight into the company's business judgment.

Mitsui: Some people say securities reports contain too much information, but the information is quite important for determining a company's status, isn't it?

Sampei: You cannot say that Japanese securities reports are too large compared to US Form 10-K[22]. That said, they sometimes exceed 200 pages, which is too long to read in one sitting. If we could use XBRL data to extract and compare only selected sections of securities reports, that would improve the quality and efficiency of the company evaluation process.

Mitsui: Companies currently present their disclosures differently, within the bounds permitted by disclosure rules. Some companies combine into a single section content that other companies present in separate sections. It is therefore sometimes difficult to compare disclosures between companies.

Sampei: I agree. Companies should of course be encouraged to act independently and express their individuality. To avoid confusing users, however, even qualitative information must be clearly presented in the appropriate section for comparison with other companies or the same company's previous disclosures. I hope the new EDINET succeeds in this regard.

Mitsui: Thank you very much for your time today.

Hiroki Sampei

Director of Research for Japan, Fidelity Worldwide Investment

He joined Fidelity in 2007 and is responsible for overseeing the company's Japanese equity research department.

Prior to Fidelity he held several positions at Nippon Life Insurance Co., including Analyst and Fund Manager at NLI Asset Management (USA) and International Investment Dept, CIO and CEO of Nissay Deutsche Asset Management (UK), and Head of Investment Research and Head of Domestic Equities at Nissay Asset Management in Japan.

Hiroki Sampei is a Planning Committee Member of the Corporate Reporting Lab and a Project Member of the New Project titled "Competitiveness and Incentives Structures for Sustainable Growth: Building Favorable Relationship between Companies and Investors" hosted by the Ministry of Economy, Trade and Industry.

3. Importance of telling a company's story with data
—Beneficial for intra-company understanding also—

Yoshiko Sato, *Chief Research Fellow, Japan Investor Relations Association*
Interviewer: **Chie Mitsui**

Ms. Yoshiko Sato

Companies play the leading role in information disclosure. We interviewed Yoshiko Sato about the next-generation EDINET's possibilities from companies' perspective.

Mitsui: It seems like quite a bit of work for companies to edit all of their securities reports in XBRL for EDINET. Do you think they will complain about the additional work?

Sato: I think so, considering that the amount of information legally required to be disclosed has increased, investors are not fully utilizing the information, and companies' workload is increasing. Japanese corporate disclosure is now quite thorough, even compared to companies listed overseas. Some companies' securities reports are now very lengthy.

Mitsui: On the other hand, with companies required to prepare entire disclosure documents in XBRL, they might wonder if anyone actually reads all of the data. I have heard that Japanese corporate disclosure has changed a lot in the past few years.

Sato: Japanese companies got serious about IR from the early 2000s. Now, more than 90% of listed companies have IR websites and 44% conduct roadshows for overseas institutional investors. However companies that have expanded their IR activities based on the concept of "increasing shareholder value" and enhancing the corporate value on a sustained basis are still in the minority. In the US, management often focuses on maximizing EPS and views their company's share price as a "management scorecard," but such a mindset is unfamiliar in Japan. CEOs who strive to reconcile various stakeholders' interest are in the majority. There is nothing wrong with Japanese management's mindset itself, but when a company is being evaluated by foreign investors who supply a large amount of risk capital, it is important to engage them in dialogue and explain things using globally

accepted metrics. The number of investors that invest in and analysts who follow Japanese stocks is decreasing, though the situation may have changed somewhat due to the recent stock market rally. If Japanese companies don't provide globally comparable information and opportunities, they might not even be considered by foreign investors. In this sense, initiatives conducive to global comparability, whether XBRL or IFRS, are important.

Mitsui: Even though the amount of disclosure has increased, this might not be enough unless disclosures' content is further enhanced to make it more user-friendly for global investors. Is that what you mean?

Sato: That's right. A company has to think about what kind of information is helpful to investors in terms of analysis and decision-making and take initiative to provide such information.

Mitsui: I think Japanese companies are at a disadvantage relative to US companies. They tend to neither like IT nor use data. They have to prepare many information disclosures and I have heard that most companies outsource XBRL document creation. They do not even care much about what is contained in XBRL files. US companies, by contrast, are increasingly creating XBRL files in-house.

Sato: I think many CEOs delegate all finance and accounting matters to their CFOs. But the task of talking to global investors about a company's future value is management's responsibility. Being able to understand the figures in the financial statements and speak persuasively are very important skills.

Mitsui: For example, if management downloads their financial data from EDINET to compare with their competitors' data, would that make it easier for them to talk about the value of their company?

Sato: Yes, the process of compiling the finalized financial statements involves classifying internal numbers while making various decisions. Although ultimate responsibility lies with the CEO, it may not be realistic for him to get deeply involved in this process. But when you carefully study financial statements in comparison to previous years', you may notice something out of the ordinary. Such anomalies are an important sign for not only for investors but also companies.

When management checks their own company's status or monitors consolidated subsidiaries in preparation for IR activities, they can detect risks by noticing that something unusual or unexpected has happened and promptly take remedial action. If XBRL disclosure progresses to the point where it can be used to systematically monitor companies instead of relying on gut instinct, I think that would be quite helpful.

Mitsui: I agree. XBRL has various purposes, such as electronically improving the quality of business analysis and making financial information more easily usable for a lot of people, but monitoring is especially important in my opinion. Do you think that adopting XBRL to systematically monitor the accuracy of financial statements could result in companies, even ones that are not well-known overseas, being more likely to be perceived by foreign investors as having trustworthy financial statements?

Sato: I think so. For example, even if a company prepares IR attractive materials, if it often restates its financial statements to correct errors, its information disclosures would lose credibility. So if XBRL enables investors to check financial statement figures' integrity as soon as the financial statements are released, they may favor Japanese companies over Asian emerging-market stocks. If the financial statements of even newly listed companies are highly reliable, perceptions of Japanese companies as a whole should improve.

Mitsui: What should companies try to achieve through the next-generation EDINET?

Sato: They must understand what kind of information analysts use. I know that IR personnel usually understand this but they may not be able to communicate it within their company. I would suggest, for example, that a company compare its EDINET disclosures with those of its rivals on a section-by-section basis and discuss inter-company differences and possible reasons for them. With the number of analysts covering Japanese stocks in decline, a single analyst is sometimes assigned to cover the entire universe of Asian stocks. I think that EDINET may be useful for comparing one's own company with Asian rivals and sharing that information internally.

Mitsui: I agree. Comparing a company's securities reports against those of competitors may be more useful for the company's management than for

investors. Thank you very much for your time today.

Yoshiko Sato

Chief Research Fellow Japan Investor Relations Association

- 1993 Joined to JIRA, transferred from Nikkei Inc. Bureau of Advertising
- 1999 senior research fellow, JIRA
- 2003 Chief Research Fellow, JIRA

- Member of Self-Regulating Committee Tokyo Stock Exchange
- Member of Advisory Group on Improvements to TSE Listing System Tokyo Stock Exchange
- Member of Certified Public Accountants and Auditing Oversight Board JICPA (the Japanese Institute of Certified Public Accountants)

4. High hopes for line-item convergence and systemization
—Most important is comparability and timeliness of financial information—

Goro Kumagai, *Senior Fellow of the Strategic Research Dept. Mizuho Securities*
Interviewer: **Chie Mitsui**

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We interviewed Goro Kumagai about accounting standards, intercompany comparisons, and XBRL's prospects of expediting dissemination of disclosed information.

XBRL and accounting standards

Mr. Goro Kumagai

Mitsui: You have been proactively speaking out to accounting standard-setters from the standpoint of financial statement users. Today, please tell us your opinion on XBRL's expected impact in terms of Japanese companies' global

comparability?

Kumagai: I knew that the FSA had introduced XBRL, but I previously didn't have much exposure to XBRL's technical points. So I decided that today's interview would be a good chance to learn. I downloaded the fourth draft of the taxonomy for the next-generation EDINET from the FSA's website. Do you mind if I briefly look it over now? I see the line-items are classified as A or B in the first column. What does this mean? <Exhibit 2>

Mitsui: The A group are statutorily required line-items; the B Group are others commonly used.

Kumagai: I see. How many line-items has the FSA prepared for EDINET?

Mitsui: When the FSA began to develop XBRL in 2006, they prepared standard tags for about 2,500 line-items listed in the financial statements regulations. But during pilot testing, many companies told the FSA that line-items they use were missing from the list. In response, the FSA added 2,200 additional commonly used line-items, lest companies create many extension tags that would hinder comparability. These additional tags are referred to as Group B.

Kumagai: Once companies add extension tags, it becomes difficult for users to make comparisons. If all companies use their own line-items, comparability suffers. The exact same issue has arisen in the discussions about accounting standards. Is a similar process happening overseas?

Mitsui: The IASB has been working on a similar project since 2011. They studied actual disclosure documents for some industries and identified commonly used line-items. Tags for these line-items were included in the standard taxonomy as a group called Common Practice.

Kumagai: I see. Because IFRS are principle-based accounting standards, they are sometimes said to be conducive to international divergences in financial reporting, but if line-items are available in XBRL, they would make it easier for companies to select line-items, thereby facilitating intercompany comparisons by investors. Incidentally, are 5,000 line-items enough for Japanese companies?

Mitsui: No, 5,000 are not enough. Currently, Japanese companies use about

60,000 extension line-items. The FSA is studying the extension line-items actually used every year to add them to Group B. Instead of referring to development of an XBRL taxonomy as systemization, we should say that it is an effort to improve line-items' comparability.

Exhibit 2: Group for each line-item provided by Japan's FSA

Line-items list Balance Sheet

	Standard Label (English)	Verbose Label (English)
—	Balance sheet	Balance sheet [abstract]
A	Balance sheet	Balance sheet [table]
A	Balance sheet	Balance sheet [line items]
A	Assets	Assets [abstract]
A	Current assets	Current assets [abstract]
A	Cash and deposits	Cash and deposits
A	Notes and accounts receivable-trade	Notes and accounts receivable-trade
A	Allowance for doubtful accounts	Allowance for doubtful accounts-notes and accounts receivable-trade
A	Notes and accounts receivable-trade, net	Notes and accounts receivable-trade, net
A	Notes receivable-trade	Notes receivable-trade
A	Allowance for doubtful accounts	Allowance for doubtful accounts-notes receivable-trade
A	Notes receivable-trade, net	Notes receivable-trade, net
A	Accounts receivable-trade	Accounts receivable-trade
A	Allowance for doubtful accounts	Allowance for doubtful accounts-accounts receivable-trade
A	Accounts receivable-trade, net	Accounts receivable-trade, net
B	Accounts receivable from subsidiaries and affiliates-trade	Accounts receivable from subsidiaries and affiliates-trade
A	Accounts receivable-installment	Accounts receivable-installment
B	Accounts receivable-development business	Accounts receivable-development business
B	Accounts receivable-real estate business	Accounts receivable-real estate business
B	Accounts receivable-completed operation	Accounts receivable-completed operation
B	Accounts receivable-due from franchised stores	Accounts receivable-due from franchised stores
B	Notes and operating accounts receivable	Notes and operating accounts receivable-CA
B	Operating accounts receivable	Operating accounts receivable-CA
B	Electronically recorded monetary claims-operating	Electronically recorded monetary claims-operating-CA
B	Operating loans	Operating loans-CA
A	Securities-trading and matured within one year	Securities-trading and matured within one year [abstract]
A	Securities	Securities
A	Stocks of parent company	Stocks of parent company-CA
A	Money held in trust	Money held in trust-CA
A	Operational investment securities	Operational investment securities-CA
A	Inventories	Inventories

Source: The fourth draft of the new taxonomy for Next-Generation EDINET

Kumagai: I likewise believe that comparability is important. By the way, do Japanese companies use the IASB's IFRS taxonomy when preparing their financial statements in XBRL?

Mitsui: Yes, they do. Since Japanese companies submit their disclosure documents to EDINET, they need Japanese labels. They are available on the IASB website courtesy of the Accounting Standards Board of Japan (ASBJ). The ASBJ translates line-items into Japanese to publish in the IASB's taxonomy so that they are available for anybody.

Kumagai: If a foreigner downloaded a Japanese company's XBRL file from EDINET and tried to read the file on his PC, what would happen?

Mitsui: If the company used the IASB's standard tags without any extensions, the user would be able to read the line-items in his own language because the IASB's tags are labeled in numerous languages besides Japanese.

Kumagai: In other words, financial statements prepared in one language are automatically translated into other languages through XBRL, correct?

Mitsui: Yes, just like machine translation.

Kumagai: Even if authorities in South America or the Middle East, for example, adopted IFRS in the aim of attracting global investors, the language barrier may prevent them from doing so. In such cases, it would be smart to adopt XBRL together with IFRS.

Mitsui: As of June 2013, 28 countries have adopted the IFRS XBRL taxonomy. When emerging market stock exchanges adopt IFRS XBRL, I feel it sends a strong message to the effect of "Please buy our country's stocks," for foreign investors.

Kumagai: Japanese companies need to do likewise.

XBRL's potential to facilitate global comparability and expedite information dissemination

Kumagai: Even in Japan, global asset allocation dates back to the latter half of the

1980s or early 1990s. At that time, however, global asset allocation largely meant getting Japanese retail investors to invest in individual foreign stocks. Large US and European institutional investors were then engaged in diversified international investment on a sizable scale, but they did so only within selected countries or regions. Because accounting standards and tax laws differ among countries or regions, foreign investors had to familiarize themselves with Japanese accounting standards to invest in Japanese stocks.

At the time, investors accepted that international differences in valuation levels could be explained by differences in tax laws, accounting standards and economic growth rates. From the latter half of the 1990s, however, the trend toward global comparison of companies in the same sector emerged globally. The concept of global sectors, where companies in the same sector are compared internationally because they compete with each other globally, became popular. In the wake of this trend coupled with widespread adoption of IFRS and convergence of Japanese and US GAAP with IFRS, equity valuations also converged globally from the early 2000s. I expect such a trend to gain further momentum if XBRL becomes widely adopted internationally.

Mitsui: From such a standpoint, XBRL should be useful for identifying line-items for comparison and converting words from one language to another. What else would it be good for?

Kumagai: For making information rapidly accessible as well. I believe that there has historically been a time lag in information acquisition between the buy-side and sell-side, but I think that this lag has gotten shorter in the wake of digitization of corporate disclosures.

Mitsui: When companies report earnings, sell-side analysts had to quickly gather information to prepare reports for the buy-side, but you say that XBRL has made it easier for the buy-side to keep up with incoming information.

Kumagai: That's right. But digitization of information could also result in oversights.

Previously, everyone manually input data from *tanshin* and securities reports. In the process, we noticed mistakes but we may no longer catch such mistakes due to the convenience of electronic data.

Mitsui: In the US, some people talk about the possibility of using XBRL for "Big Data" analysis. A CPA involved in XBRL once told me, "Even if you don't thoroughly check the data with your own eyes, XBRL enables computers to mechanically perform every conceivable check to identify incongruities, such as the absence of an increase in goodwill amortization in the year following a major acquisition."

Kumagai: I agree. That is what a computer is ideally suited for. I believe that computerized data processing should be utilized to detect things that human sometimes miss. XBRL disclosure will dramatically expand the universe of companies that an analyst can analyze. However, it is crucial to keep in mind that investment decisions based on investors and analysts' own financial and investment analysis will remain as important as ever.

Mitsui: Thank you very much for your time.

Goro Kumagai

Present: Senior Fellow of the Strategic Research Dept. Mizuho Securities

- 1996, Senior portfolio manager of the (now Nomura Asset Management) Nomura investment adviser, through experience of Analyst of Nomura Research Institute and Nomura Securities.

- 1999, Director and Senior Analyst, Head of Financial Sector Research, Equity research dept. Nikko Salmon Smith Barney

- 2002, Head of Research Investment and research Dept. SPARX Asset Management

- 2004, Senior equity strategist Equity Research Dept. 2007- Senior fellow of Strategic Research Office Mizuho Securities,

- Visiting Professor Graduate School of Management Kyoto University

- Temporary Members of the Audit Committee of the Business Accounting Council

- Member of Standards Advisory Council, the Financial Accounting Standards Foundation

- Member of The Technical Committee for ASAF the Accounting Standards Board of Japan

5. XBRL and global intercompany comparisons
—One XBRL for a single set of IFRS—

Yoshihiro Nomura, *Senior Strategist of Nomura Securities Co., Ltd*
Interviewer: **Chie Mitsui**

Mr. Yoshihiro Nomura

We interviewed to Yoshihiro Nomura about XBRL and IFRS's roles and potential.

Mitsui: We have been interviewing various people about the next-generation EDINET's new XBRL. Several of them mentioned the importance of historical and intercompany comparisons. A number of them also emphasized the prospects of global comparability. This issue is not specific to XBRL alone. I would like to hear your opinions about the latest IFRS developments and XBRL for IFRS.

Nomura: First, I will talk about incentives for companies to adopt IFRS. Since IFRS have been developed as international standards, they are meaningful not only in terms of enabling investors to conveniently make global comparisons but also for companies operating globally. Companies are finally able to use a uniform set of accounting standards for their overseas subsidiaries or global operations. In addition, IFRS are useful even for companies that operate mainly in their home countries in that they enhance comparability with international competitors for financial analysis. Therefore, I think that adopting IFRS makes sense not only for New York Stock Exchange-listed companies that issue US GAAP-compliant financial statements but also for other companies. Such other companies will successively adopt IFRS beginning with the ones with the greatest need to do so.

Mitsui: This spring there was a lot of talk about trying to get more Japanese companies to adopt IFRS.

Nomura: Yes, there was. One suggestion was that newly listed companies should be permitted to adopt IFRS from the time of their IPOs to increase the number of companies eligible to adopt IFRS by the end of June (the interview was conducted on 7 June 2013).

Mitsui: Currently, new listees must file Japanese GAAP-compliant financial statements when registering for their IPO but they can subsequently switch to

IFRS. The proposal was to instead allow them to file IFRS-compliant financial statements from the beginning, correct?

Nomura: That's right. The second proposal was to relax the requirement that only companies that raise capital overseas or have overseas subsidiaries with at least ¥2 billion of capital are eligible to adopt IFRS. In such an event, company such as electric utilities and transportation and real estate companies would be able to adopt IFRS. A streamlined Japanese version of IFRS is also under consideration.

The recommendations by the Liberal Democratic Party's Research Commission on the Finance and Banking Systems' Subcommittee on Corporate Accounting seems to have also created a stir by recommending that the number of companies that have adopted IFRS be increased to around 300 within three years.

Mitsui: Not long ago, when I asked analysts if they were in favor of introducing IFRS in Japan, they often expressed concern or were ambivalent. Is this because intercompany comparisons will become more difficult if IFRS is not adopted on a market-wide basis?

Nomura: I think so. Expansion of voluntary adoption is important, but I think that this system will have to be modified at some point. For example, the interim discussion paper issued by the FSA in July 2012 mentioned that the FSA was considering setting up a separate market for companies that have adopted IFRS. Another idea is to set up a new roughly 300-company index open only to companies that have adopted IFRS, the Japanese version of IFRS, or US GAAP.

Mitsui: If such an index is created, mutual funds would likely use it as a benchmark but a separate market comprised of such companies would be easier for foreign investors to understand. Wouldn't that also be conducive to development of infrastructure for users, such as databases that provide financial information to institutional investors, computational logic for financial indicators, and analytical tools for analysts?

Nomura: I think it would. From the standpoint of such infrastructure for market participants, having a sufficiently large number of companies adopt IFRS would be more effective.

Mitsui: By the way, what do institutional investors think of IFRS?

Nomura: Accounting standards and financial regulations are improving on a daily basis around the world. The same is true in Japan, but efforts are being made to upgrade corporate evaluation methods through discussions with investors. IFRS are highly regarded as accounting standards compatible with global institutional investors' evaluation methods due to such efforts to obtain input from investors. The IFRS Foundation opened an Asia/Oceania liaison office in Tokyo in fall 2012. Through this office, Japanese investors should have more opportunities to actively voice their opinions to the IASB.

Mitsui: In non-English-speaking countries and emerging market economies in particular, XBRL and IFRS are seen as having a similar purpose. In Japan, a non-English-speaking country, I do not think that the fact that Japanese GAAP may be hard for foreigners understand is the reason that Japanese corporate disclosures tend be largely ignored by global investors. What do you think?

Nomura: First, Japan's version of XBRL was developed by the FSA. It has prepared tags for line-items and systematically developed a database, or whatever you call it, that classifies differences between industries. In my understanding, information providers that offer intercompany or time-serial comparison services can easily store XBRL data. Japan has adopted this system that enables companies to prepare reports in a specified format. I feel that such an XBRL format based on Japanese GAAP is the biggest achievement.

Mitsui: Well, it's called a taxonomy not a database. It is an electronic document that defines line-items' parent-child relationship based on published specifications and the line-items' arithmetic relationship. XBRL is widely misunderstood but it is just a computer language. It cannot do anything by itself without compatible software.

Nomura: I see. I heard that the IASB has prepared a similar taxonomy for IFRS. I downloaded an explanation of the IFRS taxonomy's latest version from the IASB'S website. I was surprised that it included detailed line-item names and tags in compliance with individual IFRS. I heard that because IFRS are principle-based standards, IFRS financial statements tend to be not comparable due to differences in line-items' granularity between companies. But by using the IASB's taxonomy, I think it is possible to clarify each line-item's definition.

Mitsui: There is some variation among countries but if a company in Japan adopts

IFRS, it would use the IASB's taxonomy, making its financial statements globally comparable.

Nomura: I have also heard about so-called Common-Practice tags for certain line-items. As the number of Japanese companies that have adopted IFRS increases, specific line-items based on the business practices unique to Japan will inevitably be used. Will such line-items become part of the Common-Practice tags?

Mitsui: That's not how it works. The Common-Practice tags were compiled by the IASB based on a study of industry-specific line-items. The unique items used by Japanese companies are therefore not included. Similar issues arose when Taiwan recently switched to IFRS. Taiwan created their own extensions for all Taiwan companies because the tags prepared by the IASB were not sufficient. So the Taiwan Stock Exchange researched the line-items in all Taiwan companies' financial statements and prepared thousands of tags for Taiwan companies' IFRS-compliant XBRL filings.

Nomura: What will become of these Taiwanese extension tags in the future? Do you think that they will be added to the Common-Practice tags?

Mitsui: The IASB currently provides Common-Practice tags for certain financial industries only. Half of Taiwanese companies are manufacturers, so Taiwan's extensions would be needed. But Japanese companies might be comparable to Taiwanese manufacturers. From the standpoint of future usage, those extensions should be included in the IASB taxonomy's Common-Practice tags. Don't you agree?

Nomura: Yes, of course. But I think there are also line-items unique to Japan. Companies in idiosyncratic industries such as construction, transportation, and utilities will have industry-specific needs in terms of adopting IFRS. I think it is important to provide infrastructure that facilitates such companies' adoption of IFRS.

Mitsui: Japan-specific line-items that should be understood by overseas institutional investors–for example, line-items related to specific tax effects–will continue to be used.

Nomura: Global comparability and adaptation to investors' needs will be

maintained by the efforts of XBRL stakeholders. In Japan, I think that the public and private sectors should work together to establish a support system for such efforts.

Mitsui: I hope that efforts to achieve such goals continue after the next-generation EDINET is up and running. Thank you very much.

Yoshihiro Nomura

Present: Senior Strategist of Nomura Securities Co., Ltd.

He graduated from Keio University, and had started his career as a corporate analyst of Nomura Research Institute.

After he had experiences as strategist at Australia and Hong Kong of Nomura Research Institute, since 1998 he has been assigned for research of the accounting system.

2007-2012, He had been a member of committee for ASBJ.

He is now a member of the corporate accounting committee of the Securities Analysts Association of Japan.

Chapter 5

Will next-generation EDINET improve the environment for evaluating companies?

Expectations for next-generation EDINET

In summary, we interviewed leading analysts and investors about their expectations for the next-generation EDINET and new XBRL. The following points were often mentioned in the interviews.

- Improved comparability (strong demand for historical comparison of even qualitative information and company-specific information)

- Dissemination of information to foreign investors for global comparison

- Enhancement of corporate evaluation's sophistication by utilizing footnote disclosures and detailed tables.

Although securities reports are generally highly regarded as an information source, some of the interviewees mentioned that the reports currently contain too much information to fully utilize and that reading them is time-consuming. The interviewees seem to share the expectation that the new XBRL will facilitate information usage, even if only modestly.

In response to such expectations, the next-generation EDINET's new XBRL (fourth draft) provides text blocks for most footnote and qualitative information topics mentioned in the interviews with Messrs. Mizuno and Sampei. A text block is a simplified means of tagging the entire text of sections corresponding to the title elements of a form tree. Text blocks enable an entire section to be retrieved with a single tag, but they cannot be used to retrieve any numerical data contained therein (Exhibit 3).

When XBRL was initially introduced in the US, companies were permitted to use block tags as a simplified tagging method for the first year to allow them to become familiar with tagging. From the second year, companies were required to

Exhibit 3: Textblock and detailed tag

Textblock
<tag>
[○○○]
○○○
○○○

xxx	xxx	xxx
xxx	xxx	xxx
xxx	xxx	xxx

</tag>

detailed tag
[○○○]
<tag> ○○○
○○○ </tag>

<tag> xxx </tag>	<tag> xxx </tag>	<tag> xxx </tag>
<tag> xxx </tag>	<tag> xxx </tag>	<tag> xxx </tag>
<tag> xxx </tag>	<tag> xxx </tag>	<tag> xxx </tag>
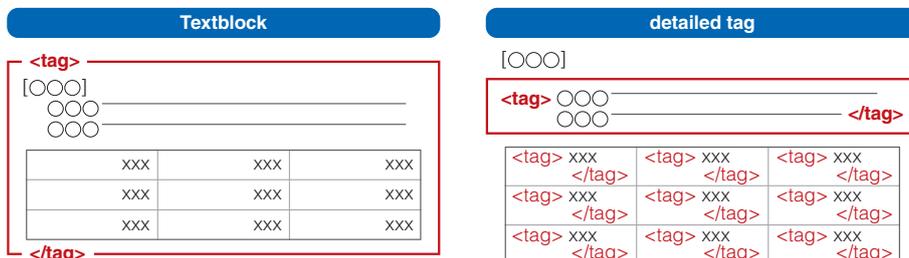
Source: FSA

use detailed tags, which are individually extractable as data. The US thus phased in XBRL in stages. In the case of EDINET, however, the FSA has not revealed any plans for text blocks as of July 2013. Once the next-generation EDINET has gone live, a roadmap will be needed to be formulated to determine how to continue to improve user-friendliness, such as by adding more detailed tags on an ongoing basis. As part of this process, it is important for analysts, investors and others with actual analytical experience to voice their opinions for the sake of wider utilization of XBRL. Mr. Nomura made the same point about the IFRS taxonomy.

What roles should XBRL play?

The issue of XBRL's future role in corporate information disclosure can be considered from several perspectives. For example, some users want line-item aggregation to facilitate analysis. Other users want the original information to be tagged to enable them to correctly access specific data. Many of the experts we interviewed this time suggest that the latter would be more appropriate because it would be useful for identifying footnote content to be evaluated and enable more appropriate comparisons by systematically identifying differences between line-items.

An analyst with over 30 years of experience said, "Securities reports do contain all matters of importance in terms of economic activities. XBRL documents should be as identical to the original as feasible on a cost-benefit basis." For example, a company involved in a business combination to take place next year will revise its definition of net income. Even if information services continue to use the same "net income" line-item name for the sake of simplicity despite the change in definition, XBRL should inform users of the discontinuity in the net income data series. The

analyst went on to say the following based on his own experience.

"About 20 years ago, accounting standards were rarely changed. When I was an analyst in the field, we would sit down together with system engineers in the office and discuss the process of maintaining continuous comparability of line-items when accounting standard reforms occurred. The engineers and analysts sometimes disagreed with each other. Thorough such discussions, we were able to maintain data continuity for evaluating companies. Nowadays, reforms occur frequently and analysts and system engineers have become farther removed from each other as job descriptions have become more specialized. I expect XBRL to help people correctly ascertain and share differences in line-items' meanings, even among those far removed from each other."

In terms of enhancing XBRL's features for clarifying line-items' definitions, Mr. Sampei emphasized historical comparisons while Mr. Kumagai mentioned the importance of realizing intercompany comparability that transcends differences in accounting standards and IFRS implementation methods. Mr. Nomura also has similar expectations.

However, when too much emphasis is placed on intercompany differences, the problem of excessive extension tags arises. When a company's line-items differ in meaning from those of its rivals, it is not possible to conduct comparisons across all companies. As Messrs. Nomura and Kumagai mentioned, the FSA's ongoing efforts to research and consolidate commonly used line-items will enhance comparability.

In sum, XBRL will help to qualitatively improve company evaluations by accurately conveying the meaning of original line-items (and differences between them).

Taking advantage of the next-generation EDINET's XBRL

Lastly, we want to touch upon what else XBRL can do aside from improving the quality of company evaluations. Namely, XBRL has the potential to improve the efficiency of business processes.

One area in which XBRL could conceivably improve efficiency is communication between companies and institutional investors with respect to shareholder

voting. In March, the Industrial Competitiveness Council recommended adopting a Japanese stewardship code[23] as one prerequisite to promoting industrial revitalization. The measure is intended enhance companies' economic value through the exercise of voting rights by institutional investors. In practice, however, information-gathering and reporting duties could prove to be onerous.

This burden could potentially be alleviated by providing the requisite information in XBRL format. If the information required to be converted into XBRL (e.g., directors' activities, clarification of rules on management compensation and corporate governance) is systematized, reporting and analysis processes could potentially be automated. However, if current reporting styles are left unchanged, text-block tagging alone is unlikely to improve efficiency, even if it is useful for organizing information. In addition, if information is prepared in the proper format (e.g., transcription of directors' names into Roman characters, consistent presentation of names of unlisted subsidiaries), automated usage of tagged information is likely to become more widespread.

XBRL is merely a language. Improvements in corporate evaluation or business-process efficiency will be achieved by intermediary services or applications that use XBRL. However, tags and taxonomies need to be designed with input from end-users to ensure that required information is provided. XBRL stakeholders consequently need to reach a common understanding of how users use information and what kind of information should be available.

The next-generation EDINET is the first step in this direction. Is important for many XBRL stakeholders to continue to engage in in-depth discussions on how to best proceed going forward.

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