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Special Edition

A New Era of Corporate Disclosure

- Will 2013 upgrade to EDINET and new-generation XBRL improve corporate valuation process? -

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CONTENTS

Chapter 1	Next-generation corporate disclosure infrastructure	2
Chapter 2	XBRL and issues in Japanese corporate disclosure	6
Chapter 3	Securities Report for Analysts — an overview	11
Chapter 4	A financial analysis perspective: where are companies positioned in the corporate universe and what are their business characteristics?	14
Chapter 5	Possibilities in terms of corporate governance	17
Chapter 6	Front lines of Japanese equity investment: Amundi asset management	19
Chapter 7	An investor relations perspective	23
Chapter 8	Hopes for corporate disclosure in Japan	26

Chapter 1

Next-generation corporate disclosure infrastructure

1. Lack of information about Japanese companies has contributed to sluggish stock performance

For years it has been noted that institutional investors have neither increased their holdings of Japanese equities nor paid much attention to many listed companies here, resulting in lackluster share prices. Fully 68.4% of listed companies in Japan were trading below a P/B ratio of 1 as of July 2012, and more than 70% have lower market caps now than in June 2008, prior to the failure of Lehman Brothers. Market cap has fallen by at least an order of magnitude at 160 of these companies over this period. Is the market's assessment appropriate?

A growing number of companies left out of reports by sell-side analysts are now making efforts to reach out directly to institutional investors, including paying to have their own reports produced. One of the main reasons cited by overseas-based Japanese equity analysts for not holding Japanese stocks by foreign asset managers is the difficulty of obtaining information about companies. This is particularly true for those with poor liquidity: investors demand a constant stream of information for such stocks because of the fear they would not be able to sell quickly in the case of some negative event.

Information about Japanese companies can of course be obtained from global data vendors, which provide investors with data on share prices and key financial indicators. Asset management companies use these data to screen for stocks that meet their investment objectives, strategies and criteria. However, these vendors tend not to carry the kind of information that bears closely on a company's longer-term growth prospects, such as its business strategy, the implementation of that strategy, governance structures, and how various risks are being addressed. The cost of collecting such information makes it difficult for vendors to provide.

2. XBRL and corporate disclosure in Japan

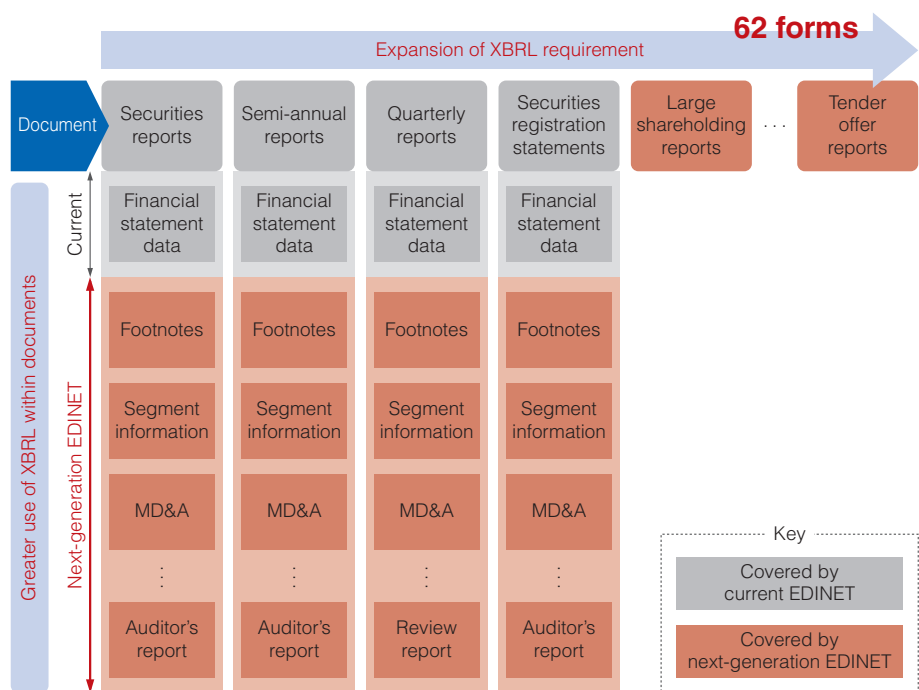
Japanese corporations are required to submit important information—including securities reports, reports of major shareholdings, and notifications of tender offers—electronically to the FSA’s EDINET¹⁾ and the Tokyo Stock Exchange’s TDnet²⁾. Since 2008 companies have been required to submit financial statement data to both EDINET and TDnet in XBRL format³⁾. Users can obtain documents submitted to EDINET or TDnet on the Internet and import the data directly to a database or Excel, making it possible to quickly analyze a large number of companies. The FSA provides a file containing definitions of the line items of financial statements companies are to use when preparing the XBRL files. This file defines both Japanese and English item names, making the system easier for foreign investors to use.

NOTE

- 1) Electronic Disclosure for Investors NETwork. An electronic disclosure system for securities reports and other documents companies are required to submit under the Financial Instruments and Exchange Law.
- 2) Timely Disclosure network. A system operated by the Tokyo Stock Exchange that is designed to enable timely disclosure and viewing of information.
- 3) eXtensible Business Reporting Language. An extensible language designed for business reporting.

However, data provided in XBRL remain limited to primary financial statement data; other information can still only be obtained in PDF or HTML format. For example, breakdowns of SG&A or current assets are available in XBRL if they are part of the primary financial statements, but not if they are presented in the footnotes. Segment data and capex breakdowns must also be accessed in PDF format because XBRL is not used.

Exhibit: Regulatory disclosure reports x contents



Source: Financial Services Agency

In light of the issues noted above, the FSA plans to revise EDINET and expand the range of data available in XBRL in 2013, with the aim of improving the search function and enhancing secondary usability of corporate disclosure. Whereas in current securities reports and securities registration statements only the primary statements are presented in XBRL, the next-generation EDINET will use XBRL for all documents. In addition, companies are currently required to use XBRL only for securities reports and securities registration statements, but in the next-generation EDINET, companies will have to use XBRL for tender offer notifications, reports of large shareholdings, and unscheduled reports as well.

3. Current issues and necessary response

Japan was relatively early to adopt XBRL, but a number of unforeseen issues have emerged in the four years since then. As one example, companies used tens of thousands of (slightly different) line-item names (e.g., “Cash and deposits” vs. “Cash, deposits”) in the pre-XBRL era. When XBRL was adopted, the FSA studied all information provided by listed companies and settled on some 5,000 standardized line-item names, but it also allowed companies to extend their own elements (line-item names) when there was no appropriate one in the list provided. Consequently, side-by-side comparisons have become difficult in some cases as companies extend elements for a variety of reasons. And since many audit companies are not able to look at the data in the XBRL files submitted for the audit, it is now being suggested that those data should be checked by a third party. None of these issues can be resolved by the authorities or the adoption of new systems alone. While there are no overnight solutions, it is hoped that the people and organizations involved will coordinate their efforts to ensure that XBRL adoption has the greatest possible impact.

4. Overseas adoption of XBRL

In the four years since Japan introduced XBRL in 2008, overseas use of XBRL has changed dramatically.

In the US, companies have been required to submit annual and quarterly financial statements in XBRL to EDGAR, the SEC’s system for corporate data collection and distribution, since 2009. Initially companies were required to submit only primary financial statement data with detailed XBRL tags (other parts are edited

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

with large XBRL tags for simplifying the submitting process in the first year), but over time the requirement has been expanded to include all information, including footnotes. The Financial Accounting Standards Board (FASB), which is partly responsible for preparing the line-item name (standard elements) definitions used by companies when preparing XBRL files (the “taxonomy”⁴⁾), analyzes submitted XBRL data and is engaged in ongoing efforts to improve the taxonomy (by revising the standard elements lists, etc.) and make the system easier to use.

A growing number of Asian countries have also adopted XBRL. China’s Shanghai and Shenzhen Stock Exchanges, Korea’s KOSDAQ, and the Taiwan Stock Exchange now use XBRL for the disclosure of corporate data. In 2013 the UAE will become the first Middle East country to require listed companies to submit financial statement data in XBRL. The Abu Dhabi Investment Authority says that by deploying XBRL it hopes to increase the global exposure of UAE-listed companies by making it easier for foreign institutional investors to obtain and analyze corporate information. Some countries are also introducing IFRS along with XBRL to enable automatic conversion of line-item names between languages and comparisons of companies based in different countries.

5. Recommendations for corporate data infrastructure from an investor’s perspective

Under the changes to EDINET scheduled for FY2013, Japan will widen the XBRL requirement to include all sections of securities reports and will become the first country to broaden the scope of XBRL to include other information provided by companies. Two key questions in this regard are what kind of information this will cover and what kind of data-structure will be required. In this report we considered these questions from the perspective of investors, the primary users of corporate data. We asked fund managers, analysts, and academics what kinds of analysis they perform and for what purpose, what kind of corporate information they need for that analysis, and what sorts of constraints or issues they have encountered in the past.

EDINET is a kind of social infrastructure, and we hope to present ideas for how the system could be utilized to enhance Japan’s corporate data infrastructure at a time when countries in Asia and the Middle East are quickly catching up. It is our hope that readers might learn something new about EDINET, XBRL, and how they can be used from people with many years of hands-on experience.

Chapter 2

XBRL and issues in Japanese corporate disclosure



Mr. Tetsuo Kitagawa



Mr. Manabu Sakaue



Ms. Fumiko Nagoya

Tetsuo Kitagawa, Professor, Aoyama Gakuin University (former Senior Analyst Morgan Trust Bank, Nomura Research Institute, etc)

Manabu Sakaue, Professor, Hosei University

Fumiko Nagoya, Assistant Professor, Aoyama Gakuin University

Interviewer: **Chie Mitsui**

Mitsui: The next-generation EDINET should bring improved ease of use and an expanded range of XBRL data next year. I was hoping you could give me a quick summary of your views on 1) EDINET as a basis for evaluating companies and 2) the content it provides.

Japanese companies need to provide corporate data in a form that is easy for foreign institutional investors to understand

Kitagawa: Japanese company values (i.e., market caps) are ultimately determined by institutional investors, and particularly foreign institutional investors. That is why many have argued for the adoption of IFRS. But that alone is not enough. First, investors need to be able to search for and obtain corporate information in English. If the adoption of IFRS is not possible soon, I would at least like to have a system that automatically compensates for accounting standard differences such as the treatment of pensions and goodwill and the recognition of sales. I hope that EDINET can help us in that area.

Mitsui: Two reasons often cited for not being able to invest in Japanese companies are a lack of information and a lack of liquidity.

Kitagawa: This is a vicious cycle: when there is not enough company information available, the analyst coverage ratio⁵⁾ drops, leading to lower trading volume and increased volatility.

Sakaue: If adopted under the current situation, IFRS will lead to greater volatility for

5) The coverage ratio designates the percentage of listed companies that are followed by securities firm analysts. It is sometimes used to denote the number of analysts following a specific company.

Japanese company's earnings. The problem here is that investors fear the possibility that rules will force the company to leave the market if its earnings fall sharply, and that may cause foreign investors to avoid investing in it in the first place.

Mitsui: So instead of focusing on share price volatility, you would like to see investors place more emphasis on financial data and corporate disclosure when evaluating companies. You are also an expert in the field of XBRL—do you think the XBRL data being supplied via EDINET today is helping foreign investors to evaluate Japanese companies?

6) A label is an XBRL component. Each tag has an English label and a Japanese label, enabling the system to show the titles of each report element in English.

Sakaue: EDINET's XBRL taxonomy defines English labels⁶⁾, making it possible for the system to display line-item names automatically in English and allowing foreign investors to obtain information at the same time as their Japanese counterparts. But the question is whether foreign investors can understand the English being used. For example, two words—"allowance" and "provision"—are used as English labels for a Japanese line-item that translates as "allowance for bad debt" in standard English. This item's verbose label is a direct translation of the original Japanese that is almost never used by companies outside Japan. I suspect companies seeking to improve the quality of their English-language information for investors are not particularly happy about having to use such expressions.

Mitsui: So what you're saying is that the official translations provided by the authorities may cause a loss of understanding for foreign investors?

Sakaue: When the authorities are responsible for preparing the translations, they must ensure that everything is in line with existing regulations, and as a result the final product tends to be a one-size-fits-all affair. There are a variety of ways that information could be provided to foreign institutional investors. I think the authorities could also work together with private information providers and allow them to take the original XBRL data and put it in a format that is easier for foreign investors to understand.

Nagoya: If the goal is to improve understanding of Japanese companies among foreign institutional investors, I think it is also important to improve EDINET's search function. EDINET was not designed with the objective of providing information to investors. If documents submitted in EDINET could contain direct links to company websites, the original information could be presented to investors, but it appears that that type of usage was not envisioned. Something should also be done about

the feature that times out users who are reading through documents slowly.

Sakaue: EDINET has no English-language search page and does not allow searches by ticker code, which makes it difficult for foreign institutional investors and individual investors without substantial knowledge to use.

Nagoya: At present it is not possible to search for a company by its common name, which makes it difficult for people who do not know the official registered name to find it. I suspect this is because the system was originally designed for the *submission* of documents. If XBRL is to be adopted and greater efforts made to encourage people to use the system, I would like to see its functionality improved based on the assumption that it will be used to provide information to investors.

Mitsui: Clearly all three of you are frequent users of EDINET. The next-generation EDINET in 2013 is supposed to include improvements in English accessibility and the search function. Hopefully that will lead to greater interest from foreign investors.

Information required for analyzing companies

Mitsui: I would now like to hear your views on how analysis would change and what kind of information analysts would want if various information provided by companies were made available in XBRL.

Kitagawa: In the past the qualitative information contained in securities reports went largely unused, but I think as people become more aware of how easy to use the data is they will start to want more information. For example, listing the top ten shareholders may be appropriate for printed securities reports, but I wish that companies would list the top thirty if this information is going to be made available in XBRL. The structure of shareholders could be used in a variety of analysis. I would also like to make greater use of information about directors. Information about the gender of each director and whether he or she is an outside director is also needed.

Sakaue: Recently we have been using text mining to analyze securities reports, but proper tagging⁷⁾ of all sections of these reports would make it much easier to extract the specific portion we want to look at, thereby facilitating the analysis of non-financial information. If combined with financial data, I think this could enable new uses for the text sections of securities reports.

⁷⁾ A tag is a character string used for mark-up in HTML or XML. XBRL, which is an XML language, specifies tags for each account that define that account.

Mitsui: What do you think about reports other than the securities reports?

8) See <http://www.rieti.go.jp/jp/publications/summary/11030004.html>

Sakaue: Previously I participated in some joint research⁸⁾ on the disclosure of non-financial information, which is essential to analyzing a company from a variety of perspectives. When we looked at the kinds of non-financial information that were *not* available in current securities reports, we found that the filings contain information on risks and governance, but not on intellectual property or the company's social and environmental initiatives. Some companies do publish environmental or CSR reports, which can help compensate for the absence of such information in the securities reports.

Mitsui: As part of their investor relations activities, some NPOs prepare so-called integrated reports⁹⁾ that combine securities reports with CSR and ESG reports. Here as well there is discussion of providing the information in this report in XBRL.

9) A type of report proposed by the International Integrated Reporting Council (IIRC) under which companies provide comprehensive information on business strategies, governance, performance and outlook for investors and other stakeholders.

Sakaue: Efforts are already under way to present the integrated reports in XBRL, but we have yet to see any reports that actually use that taxonomy. If XBRL is used to present information about a company's intellectual property and social and environmental initiatives, it could be integrated with financial information. It would be no different from current reports but would have the same effect as the integrated reports.

Kitagawa: Fund managers often lament that there is no place for the company to explain its business model. Although some companies provide this information for investors separately, presenting it in XBRL would make it easier for foreign investors to obtain. As such, I think we should actively encourage companies to include this information in their securities reports. There is a growing trend for companies using IFRS to include the IFRS "Management Commentary" in their securities reports. I think this is one positive impact of IFRS adoption.

Expectations for use of XBRL for securities reports

Sakaue: My hope is that XBRL will make it easier to jump to footnotes several pages after or to drill down to more detailed items. Even if an analysis begins with 200 to 300 items from the primary financial statements, it is difficult to draw a conclusion from these items alone when the companies are also investing in environmental or CSR initiatives. That necessitates a close examination of story

type and other qualitative information. System-wide links indicating exactly where that information can be found would enable more accurate interpretations.

Kitagawa: Securities reports contain important information. Earlier I said they do not contain information on intellectual property or environmental initiatives, but if companies were required to include information about ESG and so on somewhere in the reports, the information would take on a much greater depth. At present we must seek out that information on our own, but being able to pull up the necessary data immediately would make the system much easier to use. I think the use of XBRL might also shorten the time required to submit securities reports (they currently take longer than the earnings digest), since we would not have to wait for the reports to be printed. At the moment there is a tendency for people to look only at the earnings digest and overlook the securities reports, which are a valuable source of information.

Mitsui: We may see a reassessment of the value of securities reports.

Kitagawa: That's right. If we are going to enable the continual use of non-financial information in the form of data, it might be wise to alter the procedure for making changes in the Cabinet Office Directive on Corporate Disclosure. Instead of making major changes once every few years, I think it would be better to carry out smaller annual revisions as needed with a focus on enabling comparable, consistent corporate assessments. That, in turn, would encourage the widespread use of this information. I think it would then be time to incorporate external assessments of "outstanding securities reports" by investors or analysts. The Security Analysts Association of Japan is already conducting annual assessments of disclosure as a whole. Another possibility would be to outsource the assessment of securities reports to analysts and portfolio managers.

Mitsui: Until now it was impossible to perform statistical evaluations of non-financial information or use it in statistical studies.

Kitagawa: ESG and corporate governance reports are starting to gain greater attention worldwide, but Japan's securities reports have contained some of the same information for over a decade. In that sense, depending on the extent to which the content is enhanced, I think we could end up with something that is both pioneering and highly sophisticated. I hope there will be more active discussion on content—including the voices of users—as we encourage greater use of corporate information with XBRL.

Chapter 3

Securities Report for Analysts —an overview

Yukio Suzuki, *Chief Analyst and Representative Director, Belle Investment Research of Japan Inc. (former Analyst of Nomura Research Institute, Director of Nomura Asset Management, etc)*

Interviewer: **Chie Mitsui**



Mr. Yukio Suzuki

Securities report is a bible

Mitsui: You have looked at many companies in your many years as a corporate analyst. Perhaps you could tell us what kind of role securities report, which is filed after the earning digest is disclosed, play for analysts.

Suzuki: For me, securities report is like a bible. When I have to start to research a new companies, I carefully read its securities report. I also make a point of reading them whenever something important affairs happen to the company. When there is an incident of some kind—as at Tepco and Olympus recently—I focus in particular on the directors, the balance sheet, and the footnotes. That said, I am usually more interested in a company’s future prospects and therefore do not spend time to read the securities report, which contain only historical information. When asked how often I look at them, I say, “whenever necessary.”

Mitsui: Could you tell us a little about how you read the securities report?

Suzuki: Let’s use Sumitomo Corporation’s FY2010 securities report as an example. Sumitomo switched over to IFRS that year, and the report presents two years of data under IFRS and five years of data under SEC standards. A comparison of the two highlights the different treatment of revenues, which correspond to sales, under IFRS and US GAAP. Both also differ substantially from what would be considered “sales” for a trading company under Japanese GAAP. The Japanese GAAP numbers are helpfully included in the footnotes.

Mitsui: When a company adopts a new set of accounting standards, many analysts ask for a few years of back data under the new standards. But what

you're saying is that this is not necessary if you conduct a proper reading of the securities report.

Suzuki: They just need revised statements for several years when a company switches to a different set of accounting standards. I next turn to the “overview of operations.” Learning how the company sees its own environment helps in the evaluation process. In Sumitomo’s case, the securities report contains a summary of the company’s “medium-term management plan” and the results so far. They also include a section similar to a CSR report that contains information about environmental initiatives and the company’s social and community activities. Sumitomo’s report is an excellent example because they contain this kind of information in the company’s comments on its business performance, which makes it very easy to understand.

Looking at the quality of management

Suzuki: I also focus on “operating risks” and “issues to be addressed” even though some analysts complain that companies tend to say similar things in these sections. Companies seriously often write in great detail. Other parts of the reports I look at include “important contracts,” “facilities and equipment,” “major shareholders,” and “treasury stock” In the section on directors, I look at the career histories of individual managing directors and see whether any of the executive directors are also serving as managing directors. Sumitomo’s report notes in the “corporate governance” section that the company has also established an advisory board and a compensation committee. Given the media’s recent focus on a variety of problems at companies, I always take a close look at the quality of management before establishing a long-term position.

Mitsui: But doesn’t reading the entire set of securities report take a great deal of time? And aren’t the filings of different companies difficult to compare?

Suzuki: In my case, I focus on four key characteristics—1) management, 2) business growth prospects, 3) business sustainability, and 4) earnings volatility. I then compare and evaluate companies on the basis of these four characteristics. For the first I look at “issues to be addressed” and “directors.” For the second, I look at the “overview of operations” and the “segments information.” For the third, the existence of outside directors and independent auditors is also important in

determining the extent of external supervision. I follow changes in the auditor as well. For the fourth, I look at “risks” and “important contracts.” As you said, however, this takes time. Making this information available in the form of XBRL data would enable comparisons with other companies in the same industry—as we already do with financial statements—and allow analysis that is more efficient and broader in scope.

Mitsui: In other words, you would like to be able to select a specific section of the text from each company’s reports and compare them side-by-side.

Suzuki: Exactly. All analysis is based on comparison and forecasting. Comparing other companies in the same industry is easy; the process becomes more difficult when we start to examine companies in other sectors. Sector analysts are limited to a single industry, but fund managers must look at companies in different industries and select the best one from a wide range of possibilities. For them the kind of “editing” of data I’m talking about becomes even more important. That said, I would like to spend more time thinking about how this editing should be done and see more companies included. I sincerely hope that XBRL helps make this kind of work more efficient.

Mitsui: Since comparison lies at the root of the concept of XBRL, the only remaining question is whether the sections that analysts want to compare are properly tagged.

Suzuki: Another important issue is that when we begin studying a company, we examine at least 10 years of financial statements and other published information. We typically look at 30 years of data when studying US companies. It is very valuable if we have access to financial statements for the last 30 years and can look at “issues to be addressed” over that period. I would very much like to see that kind of data accumulated as soon as possible.

Chapter 4

A financial analysis perspective: where are companies positioned in the corporate universe and what are their business characteristics?

Hidetaka Kawakita, Professor, Kyoto University (former director, Nippon Life Insurance Company)

Interviewer: **Chie Mitsui**



Mr. Hidetaka Kawakita

EDINET from an investor's perspective

Mitsui: Professor Kawakita, you worked as an analyst for many years and are now writing books about financial analysis as well as teaching at university. Could you give us your views on the role that EDINET should play in financial analysis?

Kawakita: If the next-generation EDINET requires companies to submit almost all reports in XBRL, I think the system should provide the functionality needed for investors to manipulate that data on EDINET. Side-by-side comparisons of individual companies are less important than comparisons with tabulated figures for sectors and so on. We do not have to do this for all items. For example, preparing the kinds of numbers that are available in the Ministry of Finance's *Financial Statements Statistics of Corporations by Industry*¹⁰⁾ and making it possible to see where a company stands in relation to the broader universe of listed companies would contribute to a better understanding of that company. It would also be convenient to have averages and totals for individual sectors. There is still the question of how to select the right sector—with more companies diversifying their operations and businesses evolving over time, it may sometimes be difficult to select an appropriate sector, but it is hard to evaluate a company unless we can compare it with a group of some kind.

Mitsui: In the case of a company with a diverse range of operations, do you specify individual business segments and compare and evaluate them separately, like sectors?

Kawakita: We seldom extract one segment to perform a side-by-side comparison with similar segments at other companies. Instead, we choose the companies we

¹⁰⁾ The Ministry of Finance website describes this as a sample survey based on statistical methodology that is designed to provide information about the corporate activity of for-profit corporations in Japan.

wish to compare and then use data on individual segments to highlight differences and see which segments stand out. One exception would be overseas sales, which we use to compare many companies side by side. A common tag for this item alone would make extracting and comparing data much easier. At present, companies where overseas sales account for less than 10% of total sales are not required to disclose the value of their overseas sales. If XBRL coverage expands to include these figures, I would like to see all companies present their figures for this item.

Mitsui: Before we move on to talk about individual items, is there anything else you would like to say about EDINET functions?

Kawakita: I think the five-year requirement for storing past data is inadequate. We need 10 or 20 years of data at the very least. While I'm not going to ask companies to present retroactive revisions for the past 10 years, I would like to be able to see the original filings, even if there is no continuity with past data.

Information describing businesses is critical

Mitsui: Could you tell us a little bit about the kind of information you use to evaluate companies?

Kawakita: I focus on the company's businesses. In the securities reports, I first look at subsidiaries and affiliated companies. I don't necessarily look at all of them, just those in which the company has a significant stake. I want to see what kinds of businesses the subsidiaries and affiliates are involved in and what geographical areas they are active in. I spend relatively little time on governance, but I do think the career histories of directors are important. When looking at outside directors, I want to know if that person has a business relationship of any kind with the company, whether he is a major shareholder, and whether he is related to any of the other directors or executives. I am also very interested in production and orders. Having these figures in table form helps; otherwise, the data must be extracted from the text, and that takes time. When retained earnings are substantial, I check to see whether a company is investing adequately, but that is also buried somewhere in the text.

Mitsui: So you use the securities reports extensively. The next-generation EDINET will use inline XBRL¹¹⁾, which makes it possible to embed tags in the text, allowing users to extract specific data from the body of the report.

11) A standard for the direct embedding of XBRL tags in a document created in XHTML. Unlike the traditional "instance," which is an XBRL file that contains the data as announced, it uses display tags that allow the data to be displayed in a browser. As XBRL tags are also inserted, it can be processed as data.

Kawakita: I see. As for capex, companies typically only reveal their capex plans for the next year, but I would like to see more information about these plans, including the company's longer-term plans for the future. The current disclosure format also makes it difficult to pick up data. There is also the question of whether treasury stock that has been acquired is going to be re-released on the market or retired. If we are going to move to XBRL, I would like to see more discussion on the specific items that must be disclosed.

Mitsui: What about itemized lists of corporate bonds or borrowings? Numerical information for these is currently presented in tables.

Kawakita: Since I conduct my analysis from the perspective of an equity investor, I don't spend much time looking at these. What I *would* like to see is market cap data. Instead of the high and low share price for the year, I would like to see the closing price at the end of the year along with the company's market cap based on the number of shares outstanding at that point in time.

Mitsui: If companies began disclosing their end-of-year share prices and tagged them along with the number of shares at that point in time, it might be able to set up software to calculate the market capitalization automatically.

Kawakita: There is also the issue of stock options. This information is difficult to glean from current securities reports. I would like to be able to see the potential number of options as well as the potential impact if all were exercised at the end of the period in question.

Mitsui: I would like to look into whether tags can be set up to allow automatic calculation of this as soon as the information is made available in XBRL.

Kawakita: Finally, a word on the detailed account of manufacturing costs. At present this is available only in the parent-only financial statements, but I would like to see it presented on a consolidated basis as well, along with personnel and other costs. Finally, I would like to be able to find detailed information about R&D costs, which can tell us a lot about a company's potential future strengths—although companies may not want to provide this because it sheds light on their business strategy. [smiles]

Mitsui: I hope that the next-generation EDINET will attract more users and encourage further discussion along these lines.

Chapter 5

Possibilities in terms of corporate governance

Takaya Seki, Lecturer, Meiji University's Graduate School of Global Business and Representative Director, Corporate Practice Partners, Inc.

Interviewer: **Chie Mitsui**

Mitsui: Amid the growing focus on corporate governance, how is this information being used to evaluate companies, and how *should* it be used?

¹²⁾ A report compiled in the early 1990s by a committee charged with finding ways of improving the quality of financial statements. The report recommended the reinforcement of corporate governance structures by the introduction of outside directors, and its recommendations became established as the “comply or explain” approach.

¹³⁾ In this context, “corporate governance report” refers to a report in a specific format that the Tokyo Stock Exchange requires listed companies to submit.

Seki: The Cadbury Report¹²⁾, published in the UK in 1992, defines corporate governance as follows: “Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies.” In other words, directors—which in Japan include the auditors appointed by shareholders—bear responsibility for a company’s assets and management. Those trying to evaluate a company therefore require information to determine (1) the systems put in place by the company to ensure effective corporate governance and (2) the concrete ways in which the company is taking responsibility for this. Key points here include the structure of the board of directors and audit committee as well as structures and disclosure requirements designed to prevent conflicts of interest, all of which are included in the corporate governance report¹³⁾.

Mitsui: What kind of information do you need to make an accurate determination of that? Is the information currently contained in securities reports sufficient?

Seki: Companies first started presenting corporate governance information in 2004 in their earnings digests. Major improvements followed that greatly widened the scope of information provided to investors, including securities reports, corporate governance reports, and the reference documents and business reports included with the general meeting notices sent to shareholders. The information provided is now on a par with that in other countries.

However, corporate governance is not something that can be properly assessed with text and numerical indicators alone—we cannot gain a full grasp of the situation by looking solely at corporate governance reports and the relevant items in securities reports. Still, a substantial amount of information is provided. The

rest depends on whether an outsider is able to analyze that information and use the text and numerical data to construct a model that approximates the reality. Inasmuch as a skilled analyst will be able to analyze a company and construct a realistic model even with relatively little information, it is difficult to say whether there is currently too much or too little information.

Mitsui: It appears as though the FSA will begin requiring companies to provide information in XBRL, including the qualitative information in securities reports. Is there anything in particular you would like to see? And do you have any concerns?

Seki: The TSE's corporate governance reports shifted to XBRL several years ago, making them dramatically easier to use. I think the use of XBRL for the corporate governance information contained in securities reports will have a similar impact. I do not have any particular concerns at the moment.

Mitsui: Do you have any opinions regarding the relationship between foreign institutional investors and Japanese companies, their current situation, or other issues that need to be addressed going forward?

Seki: The single greatest benefit of XBRL is global standardization. Making the report format as logical as possible also facilitates side-by-side comparisons of efforts in different countries. Analysis of corporate governance can provide hints about the strength of a company's management and its ability to respond to abrupt changes in the external environment. By facilitating international comparisons of management, I think XBRL could lead to increased awareness of the usefulness of this kind of analysis in sussing out the situation at overseas partners or in selecting acquisition targets.

One issue going forward will be how to clearly define the taxonomy and ensure bias-free reporting whether the language is English, French, German, Chinese, or Japanese. And in addition to company efforts, financial institutions, institutional investors, auditors, employees, and authorities also need to work on corporate governance. Naturally these "gatekeepers" need to provide appropriate information as well. If it were possible to compare the stances and policies of gatekeepers across national boundaries, companies could obtain useful information for management and could address issues in a more streamlined fashion.

I hope the use of XBRL for corporate governance information will serve as a first step in that direction.

Chapter 6

Front lines of Japanese equity investment: Amundi asset management



Mr. Hiromitsu Kamata

Hiromitsu Kamata, *Head of Japanese Equity Target Department, Amundi Japan Ltd. Investment Management Division*

Naofumi Harukawa, *Senior Fund Manager, Japanese Equity Target Department, Amundi Japan Ltd. Investment Management Division*

Jun Yoshida, *Senior Quantitative Researcher, Quants R&D Department, Amundi Japan Ltd. Investment Management Division*

Interviewer: **Chie Mitsui**



Mr. Naofumi Harukawa

Mitsui: There are plans to require companies to submit their entire securities reports in XBRL. From the perspective of an investor in Japanese equities, what kind of impact do you think this will have?

Kamata: We use securities reports differently from earnings digest : with securities reports we are looking for detailed information, and we make full use of the footnotes. As one example, we use the data in the footnotes to “adjust” for differences in accounting standards. It is my hope that XBRL will make it easier to access this kind of detailed information.

Mitsui: Could you discuss your process for selecting stocks and evaluating companies in a little more detail?

Kamata: We first screen all companies using available financial indicators as criteria. We then take the stocks generated by the screen and examine whether they are cheap in terms of PBR, whether they have a healthy balance sheet, and whether their businesses appear likely to survive and thrive. The picture of balance sheet health is adjusted using information from the footnotes. We take into account things like leases, pension obligations, loans, and capital expenditures.

Mitsui: That is a very involved process.

Kamata: We have to extract data on, say, capex from the text part of the report, so making this available in the XBRL data would greatly improve the efficiency of

this process. And if it were possible to use these numbers in our initial screening, the accuracy of the company selection process itself would almost certainly improve. We currently undertake this for companies that have passed the initial screening (around 250 companies), but don't look at much on a quarterly basis. We do check to see whether any major problems have emerged in the company's financial position, but we base our full-blown analysis on the results for the full year.

Mitsui: Mr. Harukawa, could you give us a fund manager's perspective?

Harukawa: I look at the companies that executives have come from along with the company's customers and suppliers. We get financial data from an in-house database, plug that into an Excel spreadsheet, and type additional information from the securities reports. We also look at whether the company has any listed subsidiaries and what sorts of business relationships exist between the two. It would make things much easier for us if the information in these sections were available as XBRL data.

Mitsui: Many people say they hope XBRL will speed up the processing of data. Do you feel the same way?

Yoshida: Being able to quickly and accurately create a database of financial data for investment candidates would be very useful for those of us involved in quantitative analysis. Faster processing may help us generate alpha¹⁴⁾. And an expanded range of data may enable us to create new parameters and come up with new valuation techniques. I would like to think that by combining various values we will be able to generate alpha.

Mitsui: What kind of data would you like to see made available in XBRL? If it is simply a matter of tagging the body text, analysts will still have to read the information to understand it. Is there anything you would like to see done to prepare the information for quantitative processing?

Yoshida: For qualitative information, having a separate Yes/No field indicating whether or not the information meets certain qualitative conditions might enable new types of quantitative analysis.

Mitsui: For example, securities reports contain information about corporate

¹⁴⁾ Of the factors that contribute to a stock's outperformance of a benchmark, alpha represents those specific to the stock in question.

governance in the body text, while the TSE's corporate governance reports have a field that indicates which directors are outside directors. Are you saying that would make the information easier to use as data?

Kamata: I worry that we might overlook something important by looking at information based on this kind of simple distinction. To take the previous example, another company's definition of "outside director" is likely to differ from our own, so when exercising our voting rights we always look at the information on each person's job history contained in the securities reports and shareholder meeting notifications to determine whether a director is inside or outside. I think others do the same.

Mitsui: In that case, I suppose the question is how detailed tags need to be to make it possible to discriminate between information. Foreign investors often comment on the difficulty of determining whether a director with one company also serves on other boards and say they would like to have tags that made it possible to cross-check board memberships. I suppose the same is true for affiliates. Do you have anything to add on this subject?

Yoshida: I hadn't given it much thought until now, but once the information is available the next step is to make it possible to identify or discriminate. Perhaps some kind of identification code could be established for people or non-listed companies.

Kamata: The question is, how far do we want to go with this?

Mitsui: If we do not limit ourselves to securities reports, what kind of information would be useful to you as an investor in Japanese equities?

Harukawa: I place a great deal of emphasis on the informational materials distributed at the analysts meeting for annual results. They often contain detailed descriptions of the company's markets and the competition as well as information on products the company is focusing on and growth in the same.

Mitsui: What about CSR reports or ESG reports?

Kamata: It's difficult to evaluate ESG reports. I don't know how to tell whether compiling that report had a positive impact on the company, and it is impossible

to see whether the effort (and its impact) was company-wide or just driven by senior management. And it's difficult to overcome the feeling that this is just a public relations exercise. For all the companies that publish these reports, we have others that actually engaged in volunteer efforts following the 11 March earthquake but didn't bother to put out an ESG report.

Mitsui: So you're saying the information contained in securities reports—which are not public relations exercises, are required by regulation, and are available for all listed companies—is more trustworthy?

Harukawa: Some companies end up writing almost exactly the same thing, which makes it difficult to determine their actual stance. I would like to see them do more to emphasize the initiatives they think are most important.

Kamata: While this disclosure is voluntary, companies are responsible for what they write, so we trust it no less than we do regulatory disclosure. But some companies might present their medium-term business plan without including the results of that plan or an explanation of the reasons for corporate growth. Each company has its own way of presenting the medium-term business plan, which makes it difficult to use that as a basis for evaluation.

Mitsui: Finally, what do you think is necessary for the proper evaluation of Japanese equities?

Kamata: We look at how a company has changed against the backdrop of long-term changes in economic conditions. Ideally we would like to go back to, say, 1955 and look at everything that has happened since then. I think the authorities need to focus on ensuring that this kind of fundamental data is available for all listed companies. Otherwise the benefits of the system are diluted. Another concern is the fact that Japan has lagged behind other countries in the adoption of IFRS. It is my hope that the use of XBRL will facilitate the analysis of Japanese companies, reassure investors, enhance the apparent cheapness of Japanese equities, and thereby lift the Japanese market. That said, these efforts to enhance disclosure are not particularly well known, and I think more could be done to publicize them. [smile]

Chapter 7

An investor relations perspective

Tetsuyuki Yoneyama, Professor, Saitama Gakuen University and member, National Investor Relations Institute (NIRI) (former Director of Daiwa Investor Relations)

Interviewer: **Chie Mitsui**



Mr. Tetsuyuki Yoneyama

Need to communicate vision behind adoption of XBRL and corresponding benefits

Mitsui: Mr. Yoneyama, you have been working on the sell side and in the investor relations industry for many years. From that perspective, what do you think of the next-generation EDINET and upgrade to XBRL planned for FY2013?

Yoneyama: I think the time has come to discuss the benefits of XBRL, which presents corporate information in the form of interactive XBRL data instead of printed text. This is a good opportunity for more people to learn about the benefits of interactive data. The time and cost savings of using XBRL for financial information have already been discussed. Going forward, I think more attention will focus on non-financial information. Of course only a few years of information have been accumulated since the XBRL effort began in 2008, and older information submitted to the authorities is not available in XBRL. Inasmuch as analysts and investors do not have as much data as they need—whether financial or non-financial—to make decisions, I think there are limits to what XBRL can achieve in its present form.

Mitsui: Japan's FSA introduced XBRL for securities reports and so on in 2008. Are you saying that it is still too early to evaluate these efforts?

Yoneyama: That's right. Although some analysts and investors in the US have undertaken pioneering efforts in this area, the use of XBRL in the field of investor relations remains in its first stages. If more analysts and investors were aware of the practical value of XBRL, I think the focus of discussion would shift from the tagging of financial information to the tagging of non-financial information. I have long thought that XBRL would be very useful in the field of investor relations, where people closely monitor developments at other companies in the same

industry. For example, tagging the kinds of non-financial information that serve as value drivers (i.e., the factors that influence business value) in each sector could enable more objective verification of business value assessment models and growth models. Companies, of course, would also benefit. As such, I think this is a good opportunity to communicate to the broader market why the authorities have chosen to revise EDINET *now*, how much time they have spent on it, what their objectives are, and what sorts of benefits the new system will offer for companies submitting information.

¹⁵⁾ See <http://www.sec.gov/disclosureinitiative>

In January 2009 the SEC published a report titled “Toward Greater Transparency” as part of its 21st Century Disclosure Initiative¹⁵⁾. In it the SEC examined the system of disclosure that has been in place throughout the 75-year history of the SEC and discussed in clear terms the significance and benefits of XBRL.

Mitsui: In the summer of 2009 the SEC began requiring companies with large market caps to submit 10Ks and 10Qs using XBRL, to be phased in over time. The report was published six months before that.

Yoneyama: The report presents XBRL as a kind of interactive data. It offers a long-term outlook for how corporate information might be managed in the future, describing an era in which information providers do not simply send out a one-way stream of data on the Internet but are also able to gauge the reactions of users in real time. In effect the SEC was providing a blueprint for a future disclosure system. After releasing this report, the SEC held an open roundtable discussion that brought together the CFA Institute, institutional investors, and other users, underlining its intention to listen to people involved in the markets. Moreover, the individual in charge of this report was the same person who had supervised the “plain English” guidelines implemented in 1998. It is clear that the SEC wanted to make sure that XBRL would be usable by anyone. I do not think the Japanese FSA or TSE were as concerned about this when talks on XBRL began in Japan.

21st century disclosure

Mitsui: Is it true that not many people in the US are using XBRL yet?

Yoneyama: Investor relations staff at companies are not yet able to use it. However, leading-edge analysts on Wall Street are making full use of it, to good

effect. A key question for Japan is how the non-financial information of companies will be tagged.

Mitsui: Does that mean it will take time for the benefits of XBRL to manifest themselves? And until that happens is it important to keep communicating the vision and strategy behind the XBRL initiative?

Yoneyama: That is very important. Consider, for example, the role of corporate websites in the Internet era. The market today is essentially an aggregation of information traveling back and forth across the Internet. No one would try to argue that a corporate website does not play a huge role in communicating corporate information. But in Japan There has not been enough formal discussion about the kinds of information that should be included. In the US, in contrast, the SEC released corporate website guidance¹⁶⁾ in September 2008 and prepared a framework for the disclosure of corporate information on corporate websites based on Regulation Fair Disclosure. In effect, the SEC clarified the role that corporate websites were to play in information disclosure activities. This served as preparation for the 21st Century Disclosure Initiative noted earlier. Nor should we overlook the SEC's August 2004 "Strategy Plan 2004-09," which proposed the use of XBRL as a next-generation computer language and served as a guidepost for the future. Given this series of actions by the SEC, I find it hardly surprising that there are many market participants who are confident that XBRL will bring about concrete changes in market information and investment decision-making. Naturally, the "Strategic Plan for Fiscal Years 2010-15,"¹⁷⁾ released in June 2010 after the Lehman collapse, was built on this foundation.

Mitsui: If electronic disclosure using XBRL and other data becomes increasingly common, prompting investors to begin making systems-driven investment decisions the moment information is released, we need to think about how to create an environment in which information updates can be accessed fairly by everyone.

Yoneyama: That's right. We also need to demand transparency from investors as well as from companies. I think Japan needs something like Form 13F¹⁸⁾, which requires US institutional investors managing more than \$100mn to submit detailed portfolio data to the SEC each quarter.

¹⁶⁾ Website-only disclosure was traditionally not considered "fair" in the US, but this guidance declared that website-only disclosure did meet the standard of fairness as long as certain criteria were satisfied. For example, the website had to be widely recognized and easily accessed.

¹⁷⁾ See <http://www.sec.gov/about/secstratplan1015.pdf>

¹⁸⁾ All US institutional investors with investments exceeding \$100mn, including hedge funds, must file this quarterly report with the SEC detailing their stock holdings, including common equity, put and call options, and Class A shares.

Chapter 8

Hopes for corporate disclosure in Japan

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We have heard opinions from a variety of perspectives regarding expectations and the potential for XBRL and a next-generation EDINET system to enable better, more diverse methods of evaluating Japanese companies.

Many of the opinions we have heard on the expanding use of XBRL can be classified into three groups:

- “We currently read through 100-plus-page securities reports and revisions in search of important data, and XBRL would make it possible to access this data automatically.”
- “XBRL would enable almost automatic access to qualitative information, making it easier to utilize.”
- “XBRL would enable automatic conversions when comparing companies using different accounting standards, and at the same time allow the use of English labels to overcome the language barrier.”

From the standpoint of information users, areas that everyone would like to see improved in the next-generation EDINET system included EDINET’s search function and the preparation of a larger pool of historical data.

If systems-driven, instantaneous data analysis becomes possible, an important issue would be how to ensure access to corporate information on a fair footing. That goes beyond improved search functions for EDINET and would require coordination with corporate websites and private information services.

Institutional investors have a major influence on stock price formation. Looking at how they utilize corporate information in general and securities reports in particular, we find that securities reports are well suited to the evaluation of individual companies within a sector because all companies must prepare and present them in accordance with specific rules. But since the majority of these reports are in the form of Japanese text (as opposed to numerical data), they are difficult to use even though they may contain important information. I think this has hindered the development of more diverse methods for analyzing companies. Asset management companies need to pursue proprietary methods of analysis if they want to deliver superior results. Until

now, I think it is possible to say that the time and money needed to compile the data for analysis has had a constraining effect on the analytical methods used. And the information provided by many of the private services consists mainly of key financial metrics. As a result—and this was noted in the interviews—fund managers look to the footnotes to help them assess the quality of management and use that information for more in-depth corporate evaluations. It is hoped that the broader adoption of XBRL in FY2013 will ease the burden on analysts and enable fund managers and analysts to look at a wider range of companies.

In the past, analysts usually compared Japanese equities with other Japanese equities. More recently, however, a growing number of investors are pursuing investment strategies that target *Asian* equities or perhaps global equities within a specific sector, forcing them to make comparisons across national borders. As the investment process becomes increasingly globalized and comes to include companies using different accounting standards and management techniques, comparing them solely on the basis of traditional metrics like ROE and EPS tends to paint Japanese companies in an unfavorable light. The slow recovery in Japanese stocks means that share price indicators such as market cap and P/B multiples in Japan appear stagnant. If investors were able to compare non-financial information as well as numerical indicators like these, I think it would provide opportunities for Japanese equities to be evaluated from a broader range of perspectives.

With Japanese equity teams at domestic asset management companies shrinking, Japanese companies must do more to provide information aimed at foreign investors or retail investors. From that perspective, we need improvements in EDINET search functions, and particularly in the English-language environment.

In order for the XBRL and EDINET initiatives to bear fruit, private information services, related organizations, and other entities involved in the markets need to work together with the authorities to help create an environment that enables easier access to corporate information. Current disclosure is in the form of PDF or HTML files and is designed to be read by human beings. I think the inclusion of electronic data in future discussions regarding the content of the securities reports themselves would lead to additional benefits.

As business changes, so does investment analysis. Corporate disclosure is never complete, and the efforts and cooperation of all those involved will remain important. It is my sincere hope that this work will contribute to a revival of Japan's capital markets.

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