



What is the role of Balance Sheet? (Thinking toward Primary Financial Statement project)

~Looking at Relation between BS and Notes from Other financial assets disclosure ~

Date and time: 8 September 2016, 18:00-20:00 (Tokyo time)

Venue: IFRS Foundation Asia Oceania office
9th IFRS digital reporting (XBRL) workshop

IFRS Primary Financial Statement project

- ✓ IASB has started on the Primary Financial Statement project aiming to improve disclosure for Better Communication
 - ✓ IASB recognizes that financial statements (mainly PL) need more structure to meet investors demands (Per Chairman's speech on 30 June)
 - ✓ IASB started with alternative performance measure (APM) such as operating profit as an urgent issue
- Issue on operating profit is a symptom, not a cause.
 - Fundamental cause is that necessary data for investors to compute highly comparable performance measure are difficult to obtain with current IFRS financial statement structure.
 - This is the problem for not only PL, but all of the primary financial statements.
 - We as Japanese financial statement users decided to discuss based on BS as such problems tend to show more on BS.
 - BS is included in the scope of Primary Financial Statement project led by IASB.

Number of attendees	38 attendees + 9 from IASB (4 were though video)
Categories	Investors, Analysts, Information providers, Accountants, Company IR, Academics, Regulators etc.
Participants overseas	WEBEX is set for overseas regulators and standard-setters to observe the event. There were request from 6 parties and 2 joined. For those parties that could not join, agenda and minutes are shared via e-mail.

<Appendix> Better communication

• Financial Reporting initiative

<http://www.ifrs.org/Features/Pages/Hans-Hoogervorst-better-communication.aspx>

Better Communication

30 June 2016

Date: 30 June 2016

Event: IFRS Foundation Conference, Zurich

Speaker: Hans Hoogervorst, Chairman, International Accounting Standards Board



Introduction

Ladies and gentlemen, it is a pleasure to be with you here in Zurich, one of the world's great financial centres and home to many global corporations. There are well over 300 participants from more than 50 countries at this Conference, which makes this event a great place to talk about our work to develop a global language of financial reporting.

Today, I will talk to you about the Standards Board's work around the world and the central theme of

Improved quality

While the world has been busy adopting IFRS Standards, we, the Board have been working hard to deliver substantial improvements to the quality of our Standards. In doing so, we have worked in close cooperation with the worldwide standard-setting community. The best ideas from around the world have become the global Standards.

We have plugged the big holes that existed in the old set of Standards and introduced important improvements in existing IFRS Standards. The major projects of financial instruments, lease accounting and revenue recognition have been finalised, while the new insurance contracts Standard is being completed.

These are material improvements that will enhance the quality of financial reporting. However, I have a great deal of sympathy for people who have had to deal with this continuous change. You have been living in a bit of a building site for much of the last decade. However, the good news is that the majority of the structural work is now complete. The heating and plumbing systems are now in good shape.

Yes, there are still some gaps in our Standards, such as Extractive Industries and possibly Rate Regulation. Over the coming years, we will continue to update Standards that can no longer stand the test of time. But the upheaval caused by these changes should be less than the big Standard

Many of our constituents have asked us to further develop our thoughts on OCI after we finish our work on the Conceptual Framework. Maybe we could even succeed in finding a better place for elements of income that are currently parked in OCI.

Another area of work that will help improve communication in financial statements is our work on the 'Disclosure Initiative'. Since starting this project in 2013, we have already made some important changes to improve disclosures. One example is the amendment to IAS 1 Presentation of Financial Statements, which clarified that companies should use judgement when deciding what information to disclose in their financial statements. This should make it easier for preparers to improve the quality and hopefully reduce the volume of their disclosures.

We are also finalising a Materiality Practice Statement which will give more guidance to company managers on how to deal with thorny materiality questions. There is more work to do in this area, but the lessons learned from the Disclosure Initiative project so far will be very helpful for other related projects.

The Financial Instruments with the Characteristics of Equity project, or FICE, is a project which should result in a clearer distinction between liabilities and equity. It should help improve communication by looking at the recognition and presentation requirements for complex financial instruments. This should improve the relevance of both the statement of financial position and the statement of P&L.

Better Communication will also be home to our work in the area of digital reporting. We have for many years maintained an IFRS Taxonomy, a classification system for IFRS requirements that enables financial statements to be tagged consistently in an electronically readable format.

Many investors already consume IFRS Standards information through electronic media. We expect this tendency to be increasingly pervasive in the future. Currently, investors often use data aggregators, who add their own industry tags and other related information. The big question here is to what extent our Standards can and should meet a broader range of electronic reporting needs. This question ties in with our possible efforts to provide more structure to the income statement.

Finally, the last part of the Better Communication theme that I will report on is the question about non-financial reporting and what role the Board should play in this area. There are hundreds of initiatives dealing with non-financial reporting. For example, the International Integrated Reporting Council, the Global Reporting Initiative, the Sustainability Accounting Standards Board and the Financial Stability Board's Enhanced Disclosure Taskforce and many, many more. The world of non-financial reporting is still very far removed from the crystallisation of a single set of global standards.

Non-financial reporting is relevant to us, but to what extent should we participate, or even take a lead in these initiatives? We do not anticipate enlarging the scope of our work significantly, but will take a fresh look at this issue.

Better Communication will be an overarching theme and a source of inspiration for the coming years. It responds to much of the feedback we received through the Agenda Consultation, and will hopefully deliver material improvements to the decision-usefulness of financial information.

Implementation support

Let me now move to talk about some of the other work we anticipate doing over the coming years. We have heard strong support for the Board and the IFRS Foundation to play a more active role in supporting jurisdictions to implement new and existing IFRS Standards.

We already undertake a fair amount of work in this area, through the IFRS Interpretations Committee, through our Education Initiative, through Post-Implementation Reviews of new Standards and through the work of various consultative bodies, such as the Emerging Economies Group. However, each of these functions has been sitting in different parts of our organisation, under different reporting lines.

Moreover, given the limited resources at our disposal we have in the past disbanded project teams once the final IFRS Standard has been issued. As a consequence, much of the project knowledge and intellectual property related to the Standard is not captured in the most effective way. So we feel we can do more in this area.

We have tasked Henry Rees and Patricia Buchanan, two of our most senior technical staff, to lead an enlarged team that will organise a programme of activities to help jurisdictions with the implementation of our Standards. We have moved all relevant functions into this new team and we are in the process of developing an overall plan for the next few years.

Some of this work will be undertaken directly by the Board or the IFRS Foundation, while other aspects of this work will be undertaken in partnership with others. We recently updated our agreed Statement of Protocols with IOSCO, and this is a good example of such a relationship.

Developing and maintaining IFRS Standards will always be the core of what we do. But we do see an opportunity to make better use of the technical teams involved in developing new Standards. This will help us to develop a wrap-around of resources and programmes to help jurisdictions to implement our Standards on a globally consistent basis.

Many investors already consume IFRS Standards information through electronic media. We expect this tendency to be increasingly pervasive in the future. Currently, investors often use data aggregators (data via aggregators: author's note), who add their own industry tags (items) and other related information. The big question here is to what extent our Standards can and should meet a broader range of electronic reporting needs. This question ties in with our possible efforts to provide more structure to the income statement.

Changing financial reporting

Every organisation needs a clear, consistent set out to describe more clearly the outcome of that project was a brand of the statement is explained in the first 20,000 times. Please take a moment

So there you have it. Our mission is to be efficient to the global economy in practical terms? How are we doing it

When the Board began its work in 2009, it was needed to upgrade the old International Accounting Standards around the world to switch from national standards. Fifteen years later, we have made good

Global adoption

In the past 15 years, we have seen a wave of jurisdictions to adopt IFRS Standards in Europe, Africa. The last few years have

Our own research, which now covers almost all of the world's major economies, shows that almost all of the remaining jurisdictions that have not included in the list of 120 adopters. How

Swiss main market elect to use IFRS Standards on a voluntary basis. For example, Switzerland is not included in the list of 120 adopters. However, more than 130 Japanese companies have voluntarily adopted IFRS Standards or announced plans to do so. That is more than 30 per cent of the total market capitalisation of the Tokyo Stock Exchange.

There is still some work to do before the IFRS Standards map of the world is complete. Among the G20 economies, China, India and Indonesia are very close—with China and Indonesia both reaffirming their commitment to achieve full convergence with IFRS Standards. In the United States we expect no major progress in the short term, but IFRS Standards can be used by foreign issuers on the American capital market. The direction of travel is clear, and we should not fret too much about the time it takes for the remaining countries to come fully on board.

Communication in financial statements will be our Primary Financial Statements project. This project will potentially result in a facelift of what is often called the 'face of the financial statements'. Its focus will be to improve the organisation of the statements of financial performance (profit or loss and other comprehensive income), the statement of cash flows and the statement of financial position, also called the balance sheet.

The big questions here are to what extent the Board should provide more structure to the statements of profit or loss, including the use of subtotals. Currently we define Revenue and Profit or Loss, but not so much in between. We might decide to develop a principle-based definition of operating income. Maybe we should bring some of the more commonly-used non-GAAP terms, such as Earnings Before Interest and Tax, or EBIT, into the IFRS lexicon.

How investors / data users are using information on BS?

Opinion from attendees

—BS is the most important statement which shows

the company's financial position —

1. We look at current/ non-current assets and liabilities to see whether company's funding is balanced (terms of payment and collection are balanced)
2. In CFROI valuation model, asset life of invested capital is estimated based on amount of invested capital, free cash flow, and non-depreciable asset ratio, etc. Details of assets included in Notes are used to see the difference between useful lives of actual assets and that used in depreciation.
3. We monitor the situation of cross-holding shares. There are some patterns for disclosure depending on the companies, some disclose cross-holding shares separately on BS, while others disclose within "Other financial assets". In such case, we look at the Notes for "Other financial assets".
4. We collect data of financial instruments by each category. In IFRS, detailed data of financial instruments are often disclosed in Notes.

Today's Discussion Points

1. Does Financial Statement based on IFRS disclose current/non-current assets and liabilities in a way which facilitates analysis?
2. On BS, PPE is sometimes disclosed only as total and details of PPE are disclosed in the Notes. Are the information on Notes enough for analysis?
3. For items such as “Securities” which is not required to be disclosed separately under IAS 1, line items are determined by each company. Do the investors understand the classification correctly (What is included in which line item)?
4. IAS 1 does not clearly request to disclose each accounting items. Thus, many financial instruments are disclosed as “Other financial assets” on BS. Is the current disclosure useful and enough for analysis?

1. BS of IFRS -- How difficult to compare each other?! --

Document 1	Rakuten	SBI Holdings, Inc.	Hitachi, Ltd.	Nippon Sheet Glass	SUMTOMO CORPORATION	ITOCHU	SoftBank Group	ONO PHARMACEUTICAL	Chugai Pharmaceutical	Santen Pharmaceutical	Philips	TESCO	Volkswagen
Cash and cash equivalents	Cash and cash equivalents	Cash and cash equivalents	Cash and cash equivalents	Cash and cash equivalents	Cash and cash equivalents Time deposits	Cash and cash equivalents Time deposits Trade receivables	Cash and cash equivalents	Cash and cash equivalents	Cash and cash equivalents	Cash and cash equivalents	Cash and cash equivalents - Accounts receivable - Accounts receivable from related parties - Other current receivables (Total)	Cash and cash equivalents	Cash, cash equivalents and time deposits
Trade receivables	Accounts receivable-trade	Trade and other accounts receivable	Trade receivables	Trade and other receivables(Current) Construction work-in-progress Available-for-sale Investments(Current)	Trade and other receivables(Current)	Other current receivables	Trade and other receivables	Trade and other receivables	Accounts receivable	Trade and other receivables	Trade & other receivables	Trade & other receivables	Trade receivables
		Assets related to securities business Cash segregated as deposits Margin transaction assets Other assets related to securities business Total assets related to securities business									Assets classified as held for sale		Marketable securities
	Financial assets for securities business Loan for credit card business Investment securities for banking business Loans for banking business Investment securities for insurance business												
	Derivative assets			Derivative financial instruments(Current)							Current derivative financial assets	Derivative financial instruments(Current)	
	Investment securities	Operational investment securities Other investment securities			Marketable securities								
Receivables from financial services(Current)			Lease receivables										Financial services receivables(Current)
Other financial assets(Current)	Other financial assets	Other financial assets			Other financial assets(Current)	Other current financial assets	Other financial assets(Current)	Other financial assets(Current)		Other financial assets	Current financial assets		Loans and advances to customers(Current)
Inventories			Inventories	Inventories	Inventories Advance payments to suppliers	Inventories Advance to suppliers	Inventories	Inventories	Inventories	Inventories	Inventories	Short-term investments	Inventories
Other current assets			Other current assets	Other current assets	Other current assets	Other current assets	Other current assets	Other current assets	Current income tax assets	Other current assets	Income tax receivable Other current assets	Current tax assets	Tax receivables(Current) Other receivables(Current)
Total current assets			Total current assets	Total current assets	Total current assets	Total current assets	Total current assets	Total current assets	Total current assets	Total current assets	Total current assets	(Total)	(Total)
Investments accounted for using the equity method	Investments in associates and joint ventures	Investments accounted for using the equity method	Investments accounted for using the equity method	Investments accounted for using the equity method	Investments accounted for using the equity method	Investments accounted for using the equity method	Investments accounted for using the equity method	Investments in associates			Investments in associates	Investments in joint ventures and associates	Equity-accounted investments Financial services receivables(Non-current)
Receivables from financial services(Non-current)				Derivative financial instruments(Non-current) Available-for-sale Investments(Non-current)	Other investments	Other investments		Investment securities			Non-current derivative financial assets	Loans and advances to customers(Non-current)	Other equity investments Lease assets
Other financial assets(Non-current)			Investments in securities and other financial assets	Trade and other receivables(Non-current)	Trade and other receivables(Non-current)	Non-current receivables	Other financial assets(Non-current)	Other financial assets(Non-current)	Financial non-current assets	Financial assets	Non-current financial assets		Other financial assets(Non-current)
Equipment on operating leases													
Property, plant and equipment	Property, plant and equipment	Property and equipment	Property, plant and equipment	Property, plant and equipment Goodwill	Property, plant and equipment	Property, plant and equipment Goodwill	Property, plant and equipment Goodwill	Property, plant and equipment	Property, plant and equipment	Property, plant and equipment	Property, plant and equipment -At cost -Less accumulated depreciation (Total) Goodwill Intangible assets excluding goodwill -At cost -Less accumulated depreciation (Total)	Property, plant and equipment	Property, plant and equipment
Intangible assets	Intangible assets	Intangible assets	Intangible assets	Intangible assets	Intangible assets	Intangible assets	Intangible assets	Intangible assets	Intangible assets	Intangible assets	Intangible assets	Goodwill and other intangible assets	Intangible assets
Deferred tax assets	Deferred tax assets	Deferred tax assets Investment properties		Deferred tax assets Investment property Tax receivables Retirement benefit asset	Deferred tax assets Investment property	Deferred tax assets Investment property	Deferred tax assets	Deferred tax assets	Deferred tax assets	Deferred tax assets	Deferred tax assets	Investment property	Deferred tax assets Investment property Tax receivables(Non-current)
				Biological assets Prepaid expenses					Defined benefit plan assets				
Other non-current assets	Other assets	Other assets	Other non-current assets	Other non-current assets	Other non-current assets	Other non-current assets	Other non-current assets	Other non-current assets	Other non-current assets	Other non-current assets	Other non-current assets		Other receivables(Non-current)
Total non-current assets			Total non-current assets	Total non-current assets	Total non-current assets	Total non-current assets	Total non-current assets	Total non-current assets	Total non-current assets	Total non-current assets	Total non-current assets	(Total)	(Total)
				Assets held for sale or included in a disposal group held for sale								Assets of the disposal groups and non-current assets classified as held for sale	
Total assets	Total assets	Total assets	Total assets	Total assets	Total assets	Total assets	Total assets	Total assets	Total assets	Total assets	Total assets	Total assets	Total assets

- After adopting IFRS, there are fewer line items in BS but too many varieties (that it is difficult to compare).
- Items comparable among companies have lessened, and in more cases assets and liabilities are disclosed without current/non-current distinction in BS

2. Notes not being a breakdown of the Face (Ex. “Other Financial Assets”)

...Classifications required in IAS 1 (Face) and IFRS 9 (Notes) are different

- In BS, “Other financial assets (current)” and “Other financial assets (non-current)” are disclosed separately.
- In Notes, details of financial assets (such as receivables, debt securities, equity securities) and total are disclosed.
- Amount in Notes do not match the amount by line items in BS, that current and non-current amount of each categories are not specified.

HONDA MOTOR CO., LTD. as of March 31, 2016

Unit: Million Yen

Consolidated Statement of Financial Position (BS)	Other Financial Assets (Notes)
Other Financial Assets (Current assets)	<u>Amortised cost</u>
103,035	Other receivables 86,602
	Debt securities 40,670
	Guaranty deposits 37,456
	Restricted cash 15,268
	Other 9,643
	Allowance for doubtful accounts △11,731
Other Financial Assets (Non-current assets)	<u>FVTOCI</u>
335,203	Equity securities 153,313
	<u>FVTPL</u>
	Derivatives 50,022
	Debt securities 56,995
Total 438,238	Total 438,238

Classification of financial assets under IFRS7 (IFRS9)

Items in Notes are not classified as Current assets or Non-current assets, only matches in Total

Match

3. PPE (Not comparable as level of classification of assets differs by company)

- Classifications are rough and have variety. ((1) has 3 classes, but (2) has only 2)
- Lands and buildings differ regarding depreciation. It is better to be separated.
- “Construction in progress” should also be separated

(1) 17. Property, Plant and Equipment

(1) Schedule of Changes in Property, Plant and Equipment

	(Millions of Yen)			
	Buildings and accompanying facilities	Furniture, Fixtures and equipment	Others	Total
January 1, 2014				
Cost	¥20,002	¥30,933	¥14,741	¥65,676
Accumulated depreciation and accumulated impairment losses	(8,371)	(18,602)	(8,295)	(35,268)
Carrying amount	11,631	12,331	6,446	30,408
Increases	4,871	5,128	1,323	11,322
Acquisition through business combinations	140	354	98	592
Disposals and sales	(203)	(294)	(207)	(704)
Impairment loss	(75)	(44)	(1)	(120)
Depreciation	(1,847)	(4,214)	(365)	(6,426)
Exchange rate differences	109	226	(34)	301
Other changes	(23)	1,493	(2,032)	(562)
December 31, 2014				
Cost	24,258	34,952	11,702	70,912
Accumulated depreciation and accumulated impairment losses	(9,655)	(19,972)	(6,474)	(36,101)
Carrying amount	14,603	14,980	5,228	34,811
Increases	10,238	10,750	2,384	23,372
Acquisition through business combinations	1,417	677	357	2,451
Disposals and sales	(323)	(300)	(98)	(721)
Impairment loss	(1)	(311)	(1,763)	(2,075)
Depreciation	(2,491)	(5,085)	(359)	(7,935)
Exchange rate differences	(128)	(312)	(17)	(457)
Other changes	(327)	(0)	(677)	(1,004)
December 31, 2015				
Cost	30,434	41,764	11,694	83,892
Accumulated depreciation and accumulated impairment losses	(7,446)	(21,365)	(6,639)	(35,450)
Carrying amount	22,988	20,399	5,055	48,442

Depreciation is presented within "Operating expenses" in the Consolidated Statements of Income.

(2) 12. Property, plant and equipment

	Millions of yen		
	Land and buildings	Plant, equipment and vehicles	Total
Cost			
At 1 April 2015	182,484	568,882	751,366
Exchange differences	(6,152)	(31,173)	(37,325)
Transferred to assets held for sale	(1,466)	(88)	(1,554)
Additions	1,746	24,655	26,401
Disposals	(895)	(9,924)	(10,819)
At 31 March 2016	175,717	552,352	728,069
Accumulated depreciation and impairment			
At 1 April 2015	92,335	365,502	457,837
Exchange differences	(1,743)	(17,892)	(19,635)
Charge for the period	3,471	27,006	30,477
Impairment losses arising in the period	1,201	10,382	11,583
Reversal of impairment losses from prior periods	-	(41)	(41)
Transferred to assets held for sale	(543)	(7)	(550)
Eliminated on disposals	(696)	(9,772)	(10,468)
At 31 March 2016	94,025	375,178	469,203
Net book amount at 31 March 2016	81,692	177,174	258,866

4. Disclosure of Securities (Line item not required separate disclosure under IAS 1)

- Difficult to find the amount of “Cross-holding shares” as disclosure of Securities differ by each company.

4 patterns of disclosing financial assets on balance sheet (20 companies) :

Pattern	Description	Number of Companies
A	Securities, and Derivatives disclosed separately on BS. No “Other financial assets”	3
B	Securities, Investments and “Other financial assets” disclosed separately on BS.	5
C	Only “Financial Assets” and “Other financial assets” on BS. Details of investments NOT disclosed in Notes.	7
D	Only “Financial Assets” and “Other financial assets” on BS. Details of investments disclosed in Notes.	3
E	No Financial assets disclosure	2

Even if securities are disclosed separately, we cannot identify cross-holding shares without current/non-current classification. Assumption is made based on both disclosure on BS and Notes.

Company which disclosed only “other financial asset” :

Security code	Company name	Current Other financial asset	Non-current Other financial asset	Current/non-current classification
7741	HOYA CORP	4%	NA	F
2914	JAPAN TOBACCO INC		67%	F
2432	DENA CO LTD		88%	F
3659	NEXON CO LTD		52%	F
5201	ASAHI GLASS CO LTD	NA	94%	F
4502	TAKEDA PHARMACEUTICAL CO LTD		52%	F
4503	ASTELLAS PHARMA INC		67%	F
6754	ANRITSU CORP	99%	100%	T
9984	SOFTBANK GROUP CORP	68%	85%	T
4568	DAIICHI SANKYO CO LTD	72%	89%	T

5. Disclosure of "Interest-bearing debts"

(Line item not required separate disclosure under IAS 1)

- Difficult to find the amount of “interest-bearing debts” as there are many different disclosures for “Financial liabilities” .
- If the amount of “Interest-bearing debts” is large enough, it should be disclosed separately.

“Interest-bearing debts” and “Other financial liabilities” disclosed on BS

Only “Other financial liabilities” disclosed on BS (No “Interest-bearing debts”)

Consolidated Statement of Financial Position		18. OTHER FINANCIAL LIABILITIES	
	Millions of Yen		Millions of Yen
	As of March		As of March
	31, 2016		31, 2016
LIABILITIES AND EQUITY			
Current liabilities:			
Bonds and borrowings	260,755	Derivative liabilities	3,697
Trade and other payables	286,123	Lease liabilities	1,868
Other financial liabilities	1,820	Total	5,565
Income tax payables	15,220	Current	1,820
Other current liabilities	242,950	Non-Current	3,745
Total current liabilities	806,868		
Non-current liabilities:			
Bonds and borrowings	592,045		
Other financial liabilities	3,745		
Accrued pension and retirement bene	139,049		
Other non-current liabilities	82,392		
Deferred tax liabilities	4,598		
Total non-current liabilities	821,829		
Total liabilities	1,628,697		

(Extracts from Annual Securities Report FY2015)

1. Interim Condensed Consolidated Statements of Financial Position		7. Financial Assets and Financial Liabilities	
(In thousands of yen)		(In thousands of yen)	
	June 30,		June 30,
	2016		2016
			Book Value
Liabilities			
Current liabilities			
Trade and other payables	18,704,889	Financial liabilities	
Other financial liabilities current	43,564,606	Trade and other payables	
Accrued expenses	6,205,874	Financial liabilities measured at amortized cost	18,704,889
Income tax payables	3,777,847	Other financial liabilities current	
Advances received	9,503,805	Financial liabilities measured at amortized cost	
Provisions current	856,004	Deposits received	1,211,568
Other current liabilities	10,975,970	Short-term borrowings	42,058,000
Total current liabilities	93,588,995	Corporate bonds	262,500
Non-current liabilities		Other	32,538
Other financial liabilities non-current	202,718	Total	43,564,606
Deferred tax liabilities	1,327,490	Other financial liabilities non-current	
Provisions non-current	840,094	Financial liabilities measured at amortized cost	
Post-employment benefits	5,394,192	Long-term borrowings	202,718
Total non-current liabilities	7,764,494	Office security deposits received under sublease agreement	-
Total liabilities	101,353,489	Other	-
		Total	202,718

(Extracts from Form 6-K Second Quarter FY2016)

Other comments from discussion

- There is a company who changed the classification of investment in an associate from equity method to FVTOCI. But we could not see the impact in PL, and no information disclosed in Notes. (Asset manager)
- I focus on whether companies make sudden impairment. So I need the details of the fixed assets to assess whether impairment would be necessary in near future. (Asset manager)
- Notes are not in one to one relationship with each item of the primary financial statements. For example, current and non-current items are disclosed separately on the primary financial statements, while disclosure on Notes is a break down not necessarily with current/non-current distinction. (Information vendor)
- IFRS based BS is more simplified, and there is a tendency to have more information on the Notes instead. But information on the Notes are usually disclosed in different ways depending each company, that comparison between companies becomes much more difficult. (Sell-side analyst, information vendor)

Comments from companies, accountants, IASB

Companies

- ✓ “Having too many line items on BS was thought to be difficult to see” (Comment from a company with much information on Notes but too little BS)

Accountants

- ✓ **Auditors and companies are both more concerned about the compliance, that convenience of investors is secondary.**
- ✓ The most important thing for companies and auditors, is to make financial statements not in violation of the standards. There is a tendency to avoid risks and aim only to conform to the standards.

IASB

- ✓ We have not heard these opinion from investors in EU. We wonder whether the format of financial statements is more solid in EU.
- ✓ **Could such cases be improved in the audit process?**
- ✓ Since Japanese companies have been accustomed to rule-based disclosure, they may not be accustomed to the principles-based disclosure. Not indicating directly in IAS 1 does not mean that it is not necessary to disclose.
- ✓ **IFRS may not be fully understood. For example, there is no fact that says small BS is better under IFRS.**

Summary and Consideration from today's discussion

The issues discussed today – importance of the clear definitions of each accounting item, structure of primary financial statements and Notes etc. – are issues that relate to entire financial statements, not only issues for BS, or PL.

- For structured statements, clear definitions of each accounting item are necessary.
- Information in the Notes need clear relation with the line-items on the face. (Notes must be breakdown of primary financial statements items)
- It is necessary to specify more items to be disclosed separately (unless the item is immaterial) on the face of financial statements.
- Since investors use data in their analysis model, information which cannot be imported into a database are not very useful.
- Even if a company pursues excellent disclosure on its own, **it is difficult to improve comparability with other companies.**

Possible approaches

Approach(1)

- Provide more detailed specification in IAS 1
 - ✓ Specify line items that must be disclosed on the face of financial statement such as “securities (cross-holding shares)”, “derivatives”, and “borrowings” in more detail, including classification.

Approach(2)

- Establish disclosure regulation or standards (Security commission or IASB)
 - Standards could be principle-based, but to make companies disclosure fairly and accurately, rules or guidelines are needed to some extent.

Approach(3)

- Provide best practices
- Enhance current illustrated examples provided in IFRS Standards.

In either cases, it is desirable to have investors, companies, regulators and auditors get together to build mutual recognition on what is needed and how to share the roles to accurately provide information and improve quality of analysis.

Message to IASB

- Issues of PL such as operating income or APM are not because of “having no definition in IFRS”, but rather because “financial statements were not structured in a way users can calculate such performance measures on their own”.
- Even if IFRS standards provided definition for operating income or other APM, if supporting numbers are not disclosed, we cannot take these numbers as comparable.
- To enhance transparency and comparability, standard should require line items to be disclosed specifically, and primary financial statements and Notes should be more structured, so that supporting numbers of operating income or APM can be obtained.