

WG for progress and advocate of fundamental investment analysis
4th IFRS XBRL workshop

2015/06/2

Date June 2nd (Tuesday) 17:30-19:00

Theme

Thinking the comparability of IFRS from the standpoint of companies

1. Back ground of Today's theme. Introduction guests.
Grace Leung (AO office)
2. "Operating Income" of Japanese IFRS adoption companies.
Mr. Hirota from Toyo Keizai (One of biggest Japanese company financial data providers)
Materials: Appendix 1. Current situation and challenges of the IFRS financial statements from the user point of view (P1-P14)
3. Discussion 1
 - 3-1. Companies comments
Materials: Appendix 5. Materials: Appendix 7.
 - 3-2. Analysts comments
Materials: Appendix 8.
 - 3-3. Explanation about Taxonomy.
Materials Appendix 10. IFRS taxonomy illustrated
Materials Appendix 11. EDINET Taxonomy items-list.
 - 3-4. How we should tag for "operating income" of Japanese companies?
Materials: Appendix 6-1 Appendix 6-2 tagging examples
4. The relationship between the line items in the primary financial statements and subclassifications in the notes.
Mr. Hirota from Toyo Keizai
Materials: Appendix 1. Current situation and challenges of the IFRS financial statements from the user point of view (P15-P18)
5. Discussion 2
Materials: Appendix 9.
6. Closing session

Materials:

Appendix 1. Current situation and challenges of the IFRS financial statements from the user point of view

Appendix 2. Differences Between A "Operating Income JAS" and B "Profit From Operating Activities"

Appendix 3. Disclosure method and items of earnings estimates by entity

Appendix 4. Definitions of non-GAAP Operating Income

Appendix 5. Company comment 1 . "operating income" for Japanese Company.

Appendix 6. Example Bank A; Expected company's extensions.

Appendix 7. Company comment 2 . "Operating income" for Japanese Company.

Appendix 8. Analyst comment . "Operating income" for Japanese Company.

Appendix 9. Comment for "The relationship between the line items in the primary financial statements and subclassifications in the notes.

Appendix 10. IFRS taxonomy illustrated

Appendix 11. EDINET Taxonomy items-list.

Appendix 12. Explanation "operating income" for Japanese Company.(Japanese only)

Appendix13. ASBJ minutes 20090604_04.pdf (Japanese only)

Appendix14. Example Sojits

Appendix15. Examples of IFRS financial statements (Japanese only)

Appendix 16. Minutes from 2nd IFRS XBRL workshop, August 2014.

Appendix 5

Company comment 1 . “operating income” for Japanese Company.

Ms. Fukasawa Nomura Research Institute

Experience; CPA(Mid-size Audit firm) → Accounting and disclosure Dept. Nomura Research → IR Dept.→Corporate Planning (Investment, managing group companies) Dept.

Some company CEO / CFO stick to amount of operating income occasionally. When I was working for Audit firm, I had experienced arguments with clients which is more appropriate for amount of loss belong to belong to "operating loss" or "extraordinarily loss"

I am not sure whether the company adopt IFRS have same idea.

- - I am assuming, that this is for the comparison of competitors which still do not adopt IFRS..

Competitor comparisons are not only done by investors and analysts but also by companies in IR disclosure and recruiting activity.

ROE is becoming important but the operating income (profit of the core business) remains strong

NRI's Strengths: Industry Leading Profitability

NRI consistently maintains high profitability even for its industry. While net sales are lower than at some major computer manufacturers, NRI's operating profit margin, which was 12.9% in the year ended March 31, 2014, far surpasses that of its competitors.

Comparison of Profitability (Operating Profit Margin) with Competitors

Industry-wide Comparison of Sales and Operating Profit Margin

Operating profit margin(%) Fiscal year ended 31st March, 2014

Company	Sales (billions of yen)	Operating Profit Margin (%)
NRI	~500	12.9
S	~400	~8.5
C	~400	~7.0
N(IT service·SI)	~1000	~6.5
F(Service)	~3200	~6.5
H (Software/Service)	~1800	~5.5
ND	~1300	~4.5
U	~300	~3.5

« Human Resources Are the Key Continuous Growth »

- Investor Relations >>
- Management Policy >>
- NRI's Strengths >>
 - From Identifying the Problem to Completing the Solution >>
 - A Solid Client Base >>
 - A Distinctive Business Model
 - Human Resources Are the Key
 - Industry Leading Profitability >>
 - Continuous Growth >>
- IR Calendar >>
- IR Library >>
- Stock Information >>

Appendix 7

Company comment 2 . “operating income” for Japanese Company.

Mr.Funase

Experience; Research Dept. Service provider which support to file disclosure materials for company
→ IR Dept. a public company → Planning Dept. Financial Information service provider (current)

Seiko Epson Corporation: Ended March 31, 2015 Consolidated Financial Results (IFRS)

Because “Other operating income (expense)” includes ”Post-retirement benefit plan amendment gains” and “Gain on sale of fixed assets”, definition of “Operating income” is different from J-GGAP operating incomes.

Unlike J-GAAP, ”net profit” of the IFRS is the result from all activity. (total sales and costs).

=> Therefore, extraordinary profit and loss are not important in case of the IFRS?

Because it is not permitted to describe in the section of the extraordinary profit, there is no other to record as other income.

<IAS1>

IAS1.BC56 states “it would be inappropriate to exclude items clearly related to operations (such as inventory write-downs and restructuring and relocation expenses) because they occur irregularly or infrequently or are unusual in amount.”

IAS1.87 states “An entity shall not present any items of income or expense as extraordinary items”, while IAS1. 85 states “An entity shall present additional line items, headings and subtotals in the statement(s) presenting profit or loss and other comprehensive income when such presentation is relevant to an understanding of the entity’s financial performance.”

As a IR person of listed company before, my opinion is the followings:

- (1) Can we say all other operating income/loss should be belonged to "profit (loss) from operating activities" ? In some cases, uncontrollable factors are also included. (such as seasonal or institutional, or contingent element). As described in the above <IAS 1>, recognizing the result related to operating activities as a separate profit and loss is inappropriate.(It is unfamiliar with me, though I don't think all are uncontrollable)
- (2) Is it appropriate explanation “Traditional operating income” instead of “Profit (loss) from operating activities” ?
- (3) This “Other operating income (expense)” is not equal as “Finance income (cost)”.
- (4) Company have to use the name “Other operating income (expense)” to record a part of “Profit (loss) from operating activities”. However operating activities must be from Main business, and the definition of J-GAAP "extraordinary income(loss)" is different from main business.
- (5) Is it appropriate to disclose sub-elements under “Profit (loss) from operating activities”? How foreign investors think about it?

Appendix 8

Analyst comment . “Operating income” for Japanese Company
Mr.Yoshii from Daiwa Research Institute

Some companies’ comments are “After IFRS adoption, company leaders might not stick to traditional item related to operating income.”

However, in case of Japanese companies, the operating income is still important as a sustainable profit.

Seeing some IFRS companies financial statement, there are some sort of operating income or similar definition items on their financial statements. They are reported to explain their basic performance.

However the IFRS doesn’t allow to adjust profit by the sale of shares, those indexes are not so important as same as J-GAAP

In case of JMIS, it allows to adjust profit by the sale of shares, so those operating income and similar indexes might be needed.

Appendix 9

Comment for “The relationship between the line items in the primary financial statements and subclassifications in the notes.

Mr.Enomoto from E&Y

I also noted and worried about some cases where subclassifications are not provided for each line item of BS or PL, but for the combination of line items, e.g., subclassifications are provided for the total of current and non-current loans and receivables, analysis by nature of expenses is provided for the total of cost of sales and selling, general and administrative expenses.

Regarding BS, IAS1.77 states “An entity shall disclose, either in the statement of financial position or in the notes, further subclassifications of the line items presented, classified in a manner appropriate to the entity’s operations.” Is it acceptable and appropriate to disclose subclassifications for the combinations of the line items because the requirement is “subclassifications of the line items presented”, not “subclassifications of each line item presented”? Does this wording intentional considering subclassifications for the combinations of the line items is more appropriate in some cases?

Regarding PL, IAS1.104 states “An entity classifying expenses by function shall disclose additional information on the nature of expenses, including depreciation and amortisation expense and employee benefits expense.” Is it acceptable and appropriate to disclose analysis by nature of expenses for the combination of the line items, not for each line item, because such analysis is not required for each line item?