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1 “The Accounting Big Bang” starts the “Third Era”

1-1 The Present Japanese Accounting System

The Japanese accounting system has suffered a great change in these recent years. People use to refer to these changes as the “Accounting Big Bang”, or “the accounting after 1997” pointing to the year when the change started. Whichever the expression, both are aware that the Japanese accounting system has come to a new phase, and I have the same thought.

It is not sufficient to point out that the “accounting after 1997” that started with the “accounting big bang” is very different from the accounting before that. First, we must consider that not only the Japanese accounting system has suffered a great change, but also many countries in the world have experienced a similar change. In a symbolical way, we can say that the world of accounting shifted from the IASC era to the IASB era.

Secondly, we must point out that the Japanese accounting has entered in his third era after the end of the WWII. I will explain it later, but it is a new era that follows the first era, where the Japanese accounting system was built following the American accounting system and the second era, where the so called “the triangle system” was maintained although the environment was requiring a global harmonization of accounting. We must also take into consideration that the development of accounting in those “English speaking countries” is different from the “non-English speaking countries” like Spain and Japan.

This paper has not the intention to explain the reasons why the Japanese accounting system has reached a new era after the big reforms made, known as the accounting big bang. Consequently, it neither has the intention to explain the reasons why accounting in Japan is becoming more and more closer to the accounting in the English speaking countries. The purpose of this paper is to make clear how conscious are the companies respect to these big reforms in the Japanese accounting system.

I participated in some of the empirical research questionnaire surveys performed for this purpose. This paper tries to verify the changes in the corporate behaviour and consciousness through comparisons with the questionnaires performed in 1997, 1999 and 2002. The reform of the Japanese accounting system is not yet completed. However, many of the reforms in accounting standards or the settlement of new standards were concentrated between 1997 and 1999, and their

influences began to appear in financial statements of the year 2000 or after. So, a large-scale survey was performed in 2002. Still the results of that survey are being analysed, and interviews will be carried out.

This was a brief explanation of the present situation of the Japanese accounting system. Below I will explain it more detailed.

1-2 “Accounting Big Bang”

The terms “accounting big bang” were employed at the beginning by the journalism, and became to be used in general, so that it does not have a precise definition. In general, it is explained that the “accounting big bang” was caused by the “financial big bang”. In November 1996, the Prime Minister Hashimoto has instructed to reform the financial system. This reform was afterwards called the Japanese financial big bang. The Finance Minister Mitsuzuka, in order to accomplish the reform of the financial system, instructed to introduce the necessary reforms to the accounting system.

However, the changes in the environment requiring a reform in the financial system had already begun earlier. In relation to the accounting system, the revision of the consolidated financial statements rules was already considered. This system was introduced in 1977, but the basis for disclosure was the individual financial statements. The Business Accounting Deliberation Council (BADC) published the Opinion on Reviewing the Reporting System of Consolidated Financial Statements in June 1997, proposing a move to a disclosure system based on consolidated information. The new system started for periods beginning on April 1999 and after.

So, because in 1997 an opinion having a great influence on the Japanese accounting system was made public, and that time was just after the instructions were given for the reform of the financial system, it was called the “accounting big bang” or the “accounting after 1997”. The terms might seem to be somewhat incorrect for those who have participated in the process of changing the system, but the fact is that the time required a new accounting system, and responding to that, a reform of the accounting system was promptly accomplished. However, the influence on the financial statements of many of the new standards, including the one for consolidation accounting, came out after closings on March 2000. So, from the point of view of investors, the new accounting system seems to have just now started.

The following are the accounting standards that were newly settled or revised by the BADC from 1997.

- BADC (June 6, 1997), Opinion on Reviewing the Reporting System of Consolidated Financial Statements (effective from April 1999).
- BADC (March 13, 1998), Opinion on Setting Accounting Standards for Interim Consolidated and Parent-Only Financial Statements (effective from April 2000).
- BADC (March 13, 1998), Opinion on Setting Accounting Standards for Consolidated and Parent-Only Cash Flow Statements (effective from April 1999).
- BADC (March 13, 1998), Opinion on Setting Accounting Standards for Research and Development Costs (effective from April 1999).
- BADC (June 16, 1998), Opinion on Setting Accounting Standards for Post-Employment Benefits (effective from April 2000).
- BADC (October 30, 1998), Opinion on Setting Accounting Standards for Income Taxes (effective from April 1999).
- BADC (January 22, 1999), Opinion on Setting Accounting Standards for Financial Instruments (effective from April 2000, partially effective in 2001 and 2002)
- BADC (October 1999), Opinion on Reviewing Accounting Standards for Foreign Currency Transactions, etc. (effective from April 2004).

After this, the publication of standards was disrupted until August 9, 2002, when the Opinion on Setting Accounting Standards for the Impairment of Assets (effective on April 2005) was set out. The effects of this standard cannot be seen yet in practice (early application from April 2004 is encouraged).

During this disruption, the Financial Accounting Standards Foundation (FASF) was founded in July 2001, and under the FASF, the Accounting Standards Board (ASB) was settled. This ASB (for outside Japan, ASB of Japan or ASBJ) became the new standard setting body. However, as the relation between these two bodies is not clearly settled, at the moment, both the BADC and the ASBJ are coexisting.

The ASB has already published two accounting standards:

- ASB Accounting Standard No.1 (February 25, 2002), Accounting Standards for Treasury Stocks and Legal Reserves (effective from April 2002).
- ASB Accounting Standard No.2 (September 25, 2002), Accounting Standards for Earnings Per Share (effective from April 2002).

The ASB has in its agenda issues on Business Combinations, Accounting for Share-Based Payments, Insurance Contracts, Activities of Finance Institutions, IFRIC, and Performance Reporting.

In relation to the accounting standards newly settled or revised after 1997, the rules concerning the disclosure of information and the Commercial Code and its related regulations were largely amended. Consequently, after periods beginning on April 2003, there are still issues to be dealt with and the companies should continue with the adjustments to the new standards.

1-3 Characteristics of the “Third Era”

As the corporate transactions become complicated, the accounting procedures also turn to be complicated. Sometimes, the practice becomes confused about the accounting procedures. Among the discussions held about complicated accounting problems, the accounting standards that seem to be more convincing are shaped. Because the present GAAP are shaped following always this process, the tendency is to consider that the present GAAP are a collection of excellent accounting principles. As a proof of that, the set of accounting principles in each country continues growing in volume. There are very few opinions in favour of simplifying them as much as possible, and have a more free administration.

However, we must not forget that the GAAP themselves exist because that time requires them. I will omit the details, but in my opinion, the Japanese accounting system has entered in its third era after the WWII. If we roughly make a division, the first era comprises the 1950's and the 1960', the second era the 1970's and the 1980's, and the third era, from the 1990's on. At the beginning of this paper I said that the “accounting big bang” started the “accounting after the 1997”, but if the adaptation to the changing environment had been quickly performed, the accounting principles that were necessary at the beginning of the 90's would have been completed at that time and not now. The third era can be said to begin actually in 2000, but looking at the environment of accounting, the third era has already begun in 1990. In Japan, there are opinions saying that due to the inexistence of proper policies, the 90's constitute the “missing decade”, but also in accounting, 10 years behind was very big.

However, it is very difficult to set a dividing line between eras. That is because it depends on which rule do you choose for dividing the eras. So, in the three divisions I made, there are also some differences.

(1) The first era, mainly the 50's and the 60's

This era begins around 1948 and 1950. In 1948, the Securities Exchange Law was actually put into effect (it was settled in 1947, but a great part was amended before coming into force). Also, the Certified Public Accountants Law was settled. In 1949, the Stock Exchange Market (that was closed during the war) was reopened. The publication of the "business accounting principles" cannot be forgotten, to understand the Japanese accounting. It is not exaggerated to say that these "business accounting principles" constituted until recently, the Japanese conceptual framework. Also in 1950, the compulsory external audit was introduced, and the regulations for the presentation of financial statements were settled. In this way, the Japanese accounting system after the WWII was arranged by 1950.

The end of this era is about 1974. The "business accounting principles" were considered to be a summary of the conceptual framework of the American GAAP at that time, and contributed to the modernization of the Japanese accounting. The concepts of these "business accounting principles" differed from those of the Commercial Code and the tax laws, so that the domestic systems were adjusted, and the audit under the Securities Exchange Law and the audit under the Commercial Code were unified. Finally in 1974, with the amendment of the Commercial Code and the business accounting principles, the domestic harmonization was completed.

However, economically, in 1971 the fixed foreign exchange rate system came to an end, and from 1973 it moved to the floating exchange rate system, the oil prices shoot up (the oil shock) from 1973 to 1974, causing an inflation that ended the period of high growth in Japan. So, the typical period for the first era is the 50's and 60's, and consequently, the accounting for this period is the "accounting for the high growth period".

(2) The Second Era, mainly the 1970's and the 1980's

This era begins in 1974, if we consider the history of the accounting system. That is to say, the points in conflict between the accounting way of thinking and the one of the Commercial Code disappeared, and the base for an accounting system centred in the Commercial Code and laying importance on the laws was shaped. Consequently, the disclosure system of the Securities Exchange Law based on the business accounting principles, and the corporate income tax, that was constructed in concordance with the closing of the Commercial Code, had no discrepancies in relation to accounting. This legal system in relation to accounting became to be

known later as the “triangle system”.

But, ironically, a period of economic disorder starts from the beginning of the 1970's. Liberalization, marketization and globalisation became the slogan, and the different systems in the economy were frequently reformed. In this period of trouble, Japan was not the only country that could not adapt its accounting system. However, the IASC and the FASB were settled in 1973, and it is not difficult to think that there was an awareness of the need to adapt for the period of economic disorder. Even more, in the second half of the 1980's, a “bubble” economy was formed that temporally disguised the existence of the economic disorder.

In other words, the 1970's and the 1980's were periods very difficult to cope with, but the Japanese economy had maintained a stable or low growth, and during the bubble economy everybody was looking at the illusion of an apparent growth. Due to this, nobody noticed the importance of international harmonization in accounting. That means, although the economy was suffering a period of difficulties, the accounting system maintained the “accounting for a high grow period”. This constituted a barrier for the switch to the next era.

(3) The Third Era, mainly from the 1990's up to the present

From the point of view of the accounting system, it can be said that this era begins in 1997, when the new standards began to be settled (the publication of the opinion for changing the system to one based on consolidated information) or in the 2000, when their effects came out. However, the bubble economy became to an end between 1990 and 1992 (1990 for the stock market, between 1991 and 1992 for real estates) and the recession of the Japanese economy started. Many discussions were made about a quickly recovery of the economy, so that the disposition of the uncollectible debts, that were the cause of the disease, fell behind. This was the cause for the later collapse of financial system, leading to the bankruptcy of big banks and securities companies, showing the “collapse of the non-bankruptcy myth”.

Many of the newly settled or revised standards after 1997, deal with the, recognition of “the lost value” or the “predictable charges”. Really it is becoming the “accounting for stagnation or recession”. If the “accounting for stagnation or recession” had been prepared during the second era, the problems could have been solved at the time of the collapse of the bubble, without deferring them. But, in reality, that did not happened,

Actually, the problems were deferred until the dead-end, and just then the

accounting system was reformed giving place to the “Japanese big bang”. Consequently, the fact that a change in the accounting systems has a big influence on the economic activity has begun to be recognized. That is, the “accounting after 1997” has produced a change in the conscious and behaviour of the Japanese corporations and now we are in the middle of that changing process. So, if we consider that the 1990’s is a period of changes, we can say that the year 2000 points the real start of the new era.

The meaning of the above mentioned division in eras is to confirm that the “accounting for the high growth period” is different from the “accounting for stagnation and recession period”, that although being in a period of stagnation and recession, the “accounting for the high growth period” was maintained, making the economic problem worsen, and that the need for an “accounting for stagnation and recession” has recently been recognized. For those reasons, the surveys performed in 1997 and 1999, and the survey performed in 2002 were indispensable to grasp the conscious and behaviour of the Japanese corporations.

1-4 Outline of the Compared Three Surveys

As stated before, the accounting in Japan was changed by the accounting big bang. At this time, in the Japan Accounting Association (JAA), a Committee named “General Research on the Introduction of the International Accounting Standards” was settled, chaired by Professor Kazuo Hiramatsu. This Committee has already exposed its research report about the accounting in different countries in the 2002 JAA Annual Conference. A Research Group was settled in this Committee for an “Empirical Research on the Japanese Accounting and the Introduction of the International Financial Reporting Standards”, represented by Kenji Shiba. Including this survey, there are 3 surveys in which I participated as the responsible person in charge. All these surveys were performed sending printed questionnaires by mail and asking to answer them.

(1) 2002 Survey “An Empirical Research on the Japanese Accounting System and the Introduction of the International Financial Reporting Standards”

Performed by the Research Study Group (leded by Kenji Shiba, Professor at Kansai University) settled in The Committee of the Japan Accounting Association (chaired by Kazuo Hiramatsu, Professor at Kwansei Gakuin University)

Contents: Items in relation to accounting and external auditing were chosen

considering the comparability with the 1997 and 1999 surveys.

Time: The questionnaires for corporations were sent on September and collected on October 2002.

The questionnaires for users were sent on November and collected on December 2002

Population: Questionnaires for preparers were sent to 3414 listed corporations, collecting 493 (14.4%)

Questionnaires for users were sent to 815 analysts and researchers inside companies, collecting 95 (11.7%)

Results: Kenji Shiba (2003), Report on the “Empirical Research on the Japanese Accounting System and the Introduction of the International Financial Reporting Standards”, Working Papers No.8 and No.9, The Business Administration Society, Kansai University. The analysis of results is still continuing.

(2) 1997 Survey “A Survey on Trends Related to How Corporations are Responding to the Globalisation of Accounting Standards”

Performed by a Research Team composed by a number of Universities (Chairman: Nobumasa Matsuo, professor at Kansai University)

Contents: How are corporations responding to items where accounting standards are likely to be newly settled or reformed, etc.

Time: The questionnaires were posted on August and collected on September 1997.

Population: Sent to 1831 listed corporations excluding financial institutes, collecting 431 answers (23.5%)

Results: Nobumasa Matsuo and Kenji Shiba (1999), “Corporate Accounting in Japan”, Hakuto Shobo and Other 7 papers.

This 1997 survey was a questionnaire survey for information preparers, but a similar questionnaire survey for analysts was performed in 1998. However, this questionnaire had few items in common with the survey performed in 2002.

(3) 1999 Survey “Disclosure of Japanese Corporations”

Performed by: Kansai University, Kenji Shiba Research Room, (Leader: Kenji Shiba, Professor at Kansai University).

Contents: Research on consciousness and behaviour of Japanese corporations in relation to disclosure.

Time: Sent and collected on December 1999.

Population: The questionnaires were sent to 2407 listed corporations, from which 372 were collected (15.5%).

Results: Kenji Shiba and Miyuki Ito (2000), "Corporate Behaviour in the Field of Disclosure in Japan", Keiri Joho, and other 4 papers.

The results of these surveys will be explained centred on the 2002 survey, and comparing it with the 1997 and 1999 surveys. There are many papers published in relation to these three surveys, but as they are all written in Japanese, this is the first time the results are officially reported outside Japan. Thus, at the end of this paper I included an appendix with the 2002 survey results compared with the results of the other surveys.

2 Research Results in Relation to the Accounting System

2-1 The Triangle System

When the characteristics of the Japanese accounting system are explained, the terms "Triangle System" are often employed. According to Kiyomitsu Arai and Shonosuke Shiratori (1991), since this denomination was first used by these professors to explain the characteristics of the Japanese accounting system, it rapidly became to be widely used. It is not necessary to explain it to the Japanese, but I will refer to a part of a report made by these professors at an international conference:

"Generally speaking, we can say that the main objectives of accounting are the following three ones:

- (1) To make clear the accountability of the corporate management for their performance.
- (2) To calculate the distributable profits of the company (the distributable profits for stockholders and the taxable income for the company)
- (3) To provide information to stockholders and other investors for investment decision-making.

In Japan, we can say that the Commercial Code stresses importance on (1) and (2), the Securities and Exchange Law on (1) and (3), and the Corporate Income Tax on (2). But the overwhelming majority of companies or the industry laid importance on (2), the calculation of the distributable profits. The reason is that this is a very important issue for stockholders and management considering the development and

growth of the company and the industry. Also it is very important for the country, because through the corporation income tax law, it receives the necessary revenue.

On the other hand, in the Japanese stock market, the proportion of individual stockholders is very low, so that the “people’s capitalism” is not sufficiently developed. For this reason, the accounting objective (3) of providing information for investment decision-making is not yet given sufficient importance in the process of preparing the accounting standards. “

The above-mentioned paragraphs represent what was generally thought in Japan. It was twelve years ago. However, as an accounting system called the triangle system does not exist, we should consider it as a concept to explain from the legal point of view, the characteristics of the “Japanese Accounting” that was formed by multiple accounting systems.

The three laws had supported the Japanese accounting that, and laying a special importance on the calculation of the distributable profits, was an “accounting for growth” corresponding to an economy of high growth. But when in the 1990’s the bubble economy burst, many of the social-economic systems did not function properly, and the same happened to the accounting system. In the decade of the 1990’s, the triangle system began to melt. For the Japanese accounting before the accounting big bang, please refer to Kenji Shiba and Lilia Shiba (1997).

2-2 Corporate Awareness and Behaviour at Present

In the 2002 survey (see Appendix), some questions are made in section 3, about how the Japanese accounting system should be.

(1) About the double standard

There is a question that may lead to tell the post-triangle system. This question is comparable to the past surveys.

Question: “In Japan, closings under the Commercial Code (Commercial Code accounting), are centred on individual closings, and the Securities Report (Securities and Exchange Law accounting) is centred on consolidated closings because it lays importance on information disclosure to investors. Do you think that it is desirable to have this kind of division of roles?”
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In relation to this question, the answers of the preparers of accounting information (companies) show that the 75.4% think that is “not desirable” and the 10.6% “desirable”. The survey of 1997 showed that the 50.5% considered it “not desirable” and 32.2% as “desirable”. In this way, the Japanese corporations do not think desirable to have different requirements from the Commercial Code and the Securities and Exchange Law.

On the other hand, the answers of the users of accounting information (analysts, etc) show that 54.7% think that is “not desirable” and 26.3% as “desirable”. The results for the previous survey were “not desirable” 29.1% and “desirable” 26.0%. So, the proportion of users that do not desire the division of roles in accounting is lower than the companies.

From the above answers, we can see that the companies want to avoid the double standard system more than before. This does not mean that they want to maintain the triangle system, but no matter how the Japanese accounting system changes, they just want to avoid an excessive burden of work.

(2) Other Characteristics

The following points could also be verified.

- In Japan, from closings beginning in March 2003, companies listed on the NYSE or NASDAQ, are exempted from preparing Japanese consolidated financial statements. About 50 companies having the exemption will present the American style consolidated financial statements, while the rest of the companies will prepare the Japanese style consolidated financial statements. However, although the two styles will coexist, the answers on this rule were affirmative.
- When preparing the consolidated financial statements, it was asked if it was desirable to be able to choose between the Japanese style, the American style or the International Standard style, and the answers were also affirmative.
- However, in the question asking if the IAS will become more important because the EU will introduce them, a considerable number answered that it would be so.

From the above, it can be thought that there is no contradiction in the consideration that excessive burden of administrative costs want to be avoided, and the consideration that it is important to follow international standards. Thus, the characteristic of the Japanese accounting can no more be explained as the triangle

system.

3 Survey Results about the Accounting Standards

3-1 Survey of the Committee of the JAA

As stated before, the Japanese accounting had a great change due to the accounting big bang. I also mentioned that a study group was settled, the “Fact Finding Survey Related to the Introduction of the IAS and the Japanese Accounting System” (represented by Kenji Shiba).

Below, the awareness and behaviour of the Japanese corporations will be analysed, considering the questions and answers related to the influence of the IAS that are already introduced or are supposed to be introduced. At the time of preparing the questions in this survey, it was considered its comparison with the previous survey in 1997 (Nobumasa Matsuo and Kenji Shiba (1999)).

3-2 About the Introduction of the Current Values

There is a growing tendency to include directly in the balance sheets the valuation gains and losses from current cost valuations. When asking if these adjustments should be included in the profit and loss account, only about 20% of the answers were favourable, not only those from the companies but also from the information users. So, it can be concluded that the practice of including them directly in the balance sheet is already spreading.

Below are some examples from the free answers received about the increase in the influence of current cost valuations.

Directly influenced the preparation of information	<p>A new rule for inclusion in the profit and loss account was settled to have one step before a compulsory devaluation.</p> <p>A new system was constructed to secure a way to obtain market values.</p> <p>Troubles to get information about the current values of golf club membership rights.</p> <p>Enlighten activities like the preparation of manuals for subsidiaries.</p>
Directly influenced the use of information.	<p>Became to use both calculations, directly to equity and considering as profit or loss, and calculating also that influence.</p> <p>Became to be consider the equity not including valuation gains.</p> <p>Became to be more careful in the estimation of increases and decreases in the</p>

	<p>capital account.</p> <p>Unrealised gains and losses are showed in the balance sheet and became to be easily recognised.</p>
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Also, the following opinions were given for the indirect influences on the introduction of current valuation.

- As the influence of current valuation of marketable securities on closing accounts is very big, we are promoting to sell them
- Became very careful in the purchase of golf-club membership rights.
- Audit fees increased
- Management of profit and losses became more difficult

3-3 About the Introduction of Accounting for Post-employment Benefits

This is one of the areas where the new accounting standards had a great influence on the corporate behaviour. Thus, a comprehensive scheme of employee benefits including salaries, bonuses, retirement allowance, pension plans, and stock options, etc. became necessary. This put a final end to one of the characteristics of the Japanese style management: the seniority wage system. When asking if this new comprehensive scheme will have the approval of the directors and employees, most of the answers were affirmative in both cases, the survey for preparers and for users.

The following opinions were given in relation to the influence of accounting for retirement benefits.

Directly influenced the preparation of information	<p>Burden of PBO calculation costs.</p> <p>Increase in costs due to outsourcing calculations.</p>
Directly influenced the use of information	<p>Due to the low prices of stocks, the current value of stocks held decreased considerably with a great influence on profits.</p> <p>Many discounting rates are considered, and the influences on profits are calculated.</p> <p>It influenced the purchase and sales prices in M&A.</p> <p>The number of years required to expense the difference at the time of changing accounting standards became one indicator of the company's earning power.</p> <p>Became to be interested in the valuation method of liabilities.</p>

Also the following opinions were given for the indirect influences on the introduction of accounting for retirement benefits.

- It caused the revision of the retirement allowance system.
- It draw more attention to the pension assets management in trust with life insurance or trust companies
- Like is happening in the US, excess stock option plans are causing window dressing to maintain the stock prices, and may cause undesirable effects as changing the company's culture.

3-4 The Introduction of Business Combinations

In Japan, the accounting standards for business combinations are in the process of settlement. The American accounting standards and the international accounting standards are moving to unify the procedure to the purchase method. In relation to this situation, we asked if Japan should also unify the procedure to the purchase method. The answers from the companies were ambiguous. This is a typical conduct of Japanese corporations that do not clearly state their opinions until they know the actual contents of the new system. On the other hand, the users are in favour of the unification.

The following influences are thought to arise if accounting for business combinations is introduced.

Directly influenced the preparation of information	<p>The process of valuation at current values of controlled companies' assets and liabilities is time consuming.</p> <p>Only office processing costs increased without having any expectations, and no effects can be seen for the moment.</p> <p>For every time of business combinations, the calculation of the fair values is required, incrementing the procedures required. If the fresh start method is used together, the procedures will increase even more.</p> <p>Adjustments to the tax laws seem to become very difficult and complicated</p>
Directly influenced the use of information	<p>I doubt if its adequate to value at current costs of only the assets of the merged company, and I fear that it will cause a decrease in the reliability of financial statements</p> <p>The control company becomes clear, and as the balance sheet of the merged company is stated at FMV and disguised profits and losses disappear, it will become a clear transaction.</p> <p>The unification to the purchase method may distort the real entity</p>

	disclosure, because it cannot show correctly the situation in the Japanese merger, where many years are spent to construct an equal partner relationship.
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Also the following opinions were given for the indirect influences on the introduction of accounting for business combinations:

- Depending on the changes (in standards), and considering their influence on our company's financial figures, basis for managerial decisions like business purchases etc. may change
- Labour management relations may become delicate (influenced by M&A)
- It does not consider the case of the Japanese style merger under equal conditions, so that the moral of the employees of the merged company may be considered to drop.

3-5 About the Introduction of Accounting for Income Taxes

Due to the introduction of accounting for income taxes, the difference between taxable income and reported income became larger, and it is said that the so-called "triangle system" has collapsed. Thus, we asked if the introduction of accounting for income taxes was desirable from the point of view of information disclosure. Also in this item, both answers, from preparers and from information users, showed that about 65% think that it was "desirable".

The following opinions were given in relation to the influences caused by the introduction of the accounting for income taxes.

Directly influenced the preparation of information	Increase in office work and costs. Became to require more detailed explanations from consolidated subsidiaries about closing accounts. Tax returns became open, especially entertainment expenses. Coordination with the accountants became closer.
Directly influenced the use of information	Difficulty in performance projection. Tax information that was not disclosed before comes out. Comparison with other companies becomes possible. Verification of the possibility of recovering deferred income taxes

Also the following opinions were given for the indirect influences on the introduction of accounting for income taxes.

- Requirement of accounting and taxation general skills.
- Management awareness about taxation increased
- Tax planning become more necessary than before.

- Management decisions can be taken more freely without being bound to tax laws (tax deductible expenses).

3-6 About the Introduction of accounting for the Impairment of Assets

The inquiry was performed just at the time when it was thought to introduce the devaluation of fixed assets based on concepts like the discounted cash flow, etc. In relation to this, we asked if there was considered necessary to value business assets with a valuation standard other than the purchase cost. But both answers, those from the preparers and those from information users, were dispersed between “necessary “ and “unnecessary”, without been able to catch the tendency.

However, due to the situation that its introduction is imminent, the following concrete opinions were given about the influences.

Directly influenced the preparation of information	Grouping the assets or precisely deciding about the devaluation, etc. is extremely complex in practice. It is necessary to maintain the data of both, accounting and tax purpose depreciation calculations. A new valuation system for each unit of assets, which requires development costs.
Directly influenced the use of information	Uncertain factors for performance projections increase Keener decision-making can be done. Expectations for knowing the entity increase. If the discounted cash flow becomes common in Japanese corporations, the balance sheet would show properties more appropriately It may cause confusion between users, due to subjectivity in the selection of the discount rate

Also the following opinions were given for the indirect influences on the introduction of accounting for the impairment of assets.

- The use of operational real estates was reconsidered
- It is possible to make reasonable investments
- It influences the conditions for financial limitations like the maintenance of net assets for issued bonds.
- Long time prospects for operations subject to devaluation will be closely watched by investors, so that liquidation and integration would be promoted.

3-7 About the Introduction of Cash Flow Statements

With the introduction of cash flow statements, the level and fluctuation of operational cash flows and free cash flows became more discussed. So, it was asked if the increase in cash flows was settled as one important issue of management. 80% of the companies answered that considered it an important management issue, and 67% of information users answered that they considered it important. Cash flow concepts seem to be established in practice.

The following opinions were given in relation to the influences caused by the introduction of the cash flow statements.

Directly influenced the preparation of information	Office work increased in order to settle a system for preparing cash flow statements as well as make a proper disclosure. By preparing cash flow statements, it is possible to grasp not only our entity but also other entities too. We are trying to apply the direct method too.
Directly influenced the use of information	The fluctuation of operating cash flows is given much more importance. We became aware of the possibility of bankruptcy although having positive figures. Comparing to the profit and lost statement, it became possible to know the entity (including the future prospects)

Also the following opinions were given for the indirect influences on the introduction of cash flow statements.

- Became a factor for restrain capital investments.
- Became to think more on following up funds than pursuing accounting profits.
- It is useful for fund management because the fund flows of consolidated companies can be grasped at a sight.
- A project team was settled for the improvement of cash flows. The concept of free cash flows was picked up in the company's decision-making organisation, and monthly management became necessary.

3-8 Differences Still Existing

Besides the above-mentioned items, there are more differences between the international standards and the Japanese standards. For those international standards that are likely to be revised, we asked whether it was important or not to consider the revision of the Japanese standards in order to match the international standard. Considering that the companies are accustomed to the traditional

Japanese accounting, it could be anticipated to have answers in contrary, but that was not the case in some items (shown with an * in the table below), and there were items where the answers from companies and from users broadly differed (#). So, many interesting results were earned. Only the results are summarised in the table. Please refer to the appendix for details.

	Preparers (companies)		Users	
	Not important	Important	Not important	Important
Accounting procedures for inventories				
* # Compulsory application of the lower of cost or market	20.7%	43.4%	6.3%	85.3%
* Elimination of LIFO	19.6%	53.6%	13.7%	62.1%
Accounting procedures for finance leases without transferring proprietorship				
Purchase and sale procedure	33.9%	34.6%	16.8%	57.9%
Accounting procedures for real estate investments				
* # Current value or note	21.6%	51.6%	6.3%	80.0%
Accounting procedures for stock options				
* Compulsory as expense	23.3%	44.9%	8.4%	60.0%
Compulsory to equity	22.7%	20.0%	19.1%	30.9%

4 Survey in Relation to Disclosure

4-1 The Survey of the Committee of the JAA

Our “Empirical Research Related to the Introduction of the IAS and the Japanese Accounting System” includes questions about the awareness and behaviour of the Japanese corporations in relation to disclosure. At the time of preparing the questions, it was pretended to be comparable to the 1999 survey (Kenji Shiba and Miyuki Ito (2000)).

There are some differences between these two surveys. First of all, the 1999 survey included items about management issues, like those related to systems characteristic of the Japanese style management, but this time they are not included. Also, the 1999 survey was meant only for corporations, but the 2002 survey included the users too.

As the question items are detailed and the size of the tables of answers is very large, they are included in the appendix. Only the main characteristics of the results are shown below. And the results of the survey related to the differences

between the Japanese and the Europeans and Americans about disclosure, are shown in a different section.

4-2 The Consciousness of the Companies and the Users' View

In the inquiry for preparers, the questions in relation to disclosure were about the factors considered when the company chooses the accounting procedures (question No.5 of the appendix), if there are merits from compulsory disclosures and voluntary disclosures (question No.6), about management objectives considered with most care in relation to information disclosure (question No.7), about the importance of other items compared to the disclosure of information (question No.8) and about the opinions on disclosure. The first four items are explained in this section (4-2) and the last one is included in the next one (4-3).

The first question is about the factors considered when choosing an accounting procedure, and the rest 4 are about opinions related to disclosure. These questions are useful to know the consciousness that is behind the companies' behaviour. From question No.5 we can distinguish two groups according to the corporations' behaviour. But, in this survey we also included another item that could be easily answered: the "public trend". From question No.6 we can presume to be able to verify the existence of a difference in the effects (merits and demerits) to the companies' from compulsory disclosures and voluntary disclosures. From the rest 3 questions, it is possible to examine from different points of view, how Japanese corporations consider disclosure important or not. From these questions it is possible to clarify the disclosure mind of the Japanese corporations.

The questions in the enquiry for information users were also considered in order to be comparable to the inquiry for companies. But, the questions were settled to ask for the users' view about the companies.

4-2-1 Items Considered when Choosing Accounting Procedures

The question included 8 or 7 items (reality disclosure, stability of profits, etc.) asking to choose the one considered when deciding for an accounting procedure. The questions required answers for "the considerations actually made up to now" and "the considerations to be considered from now on (for the future 5 years), to see the variations from the past to the future. The variations are shown below. Please refer to the appendix for the rest.

Survey on Preparers

Answers	A	B	C	D	E	F	G	H
	Disclosure	Profits stability	Industry practice	Dividends policy	Taxation policy	Stock price	Debt contracts	Public trend
2002	3.1%	2.6%	▲18.4%	18.7%	▲11.2%	42.7%	28.6%	6.4%
1999	8.5%	▲0.8%	▲20.0%	30.5%	▲7.3%	82.3%	55.6%	—

Survey on Users

2002	166.7%	▲49.1%	▲60.9%	▲10.0%	▲38.7%	129.4%	16.7%	56.5%
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According to the survey on preparers, we can verify a basic thought that accounting procedures are selected considering “disclosure”. Apart from this, the corporate mind can be clearly seen. We can presume that the “stability of profits” should be an important factor for the selection of the accounting procedure. This tendency was also seen in the 1999 survey as well as in the 2002 survey. However, this time the factor “public trend” was included, and a considerable proportion of answers concentrated in this factor. On the other hand, the results of the survey on users show that they think companies have been considering “industry practice”, “taxation policies” and “profits stability” in the selection of accounting procedures, but from now on they would consider “disclosure” and “stock prices”. It largely differs from the companies that have always been considering “disclosure” and “profits stability”.

4-2-2 Influence of Disclosure

About compulsory disclosure, we asked if there were merits (yes, no or neither of them) on the influences on operating management, on financing, on social status, on other companies and on information costs. The same questions were made for voluntary disclosure.

According to the survey for preparers, we could verify that the merits and demerits pointed out on compulsory disclosure had the same patters as those for voluntary disclosure. This could probably be considered as a Japanese characteristic. Disclosure is also considered to have a positive effect on the “company’s status”. There effect is similar to the item “public trend” in question No.5.

According to the survey for users, the users think that no matter the disclosure is compulsory or voluntary, the companies should have merits on “operational management”, “financing” and “social status”. It differs from the

answers given by companies themselves, where the characteristic was the “influence on social status”.

4-2-3 Management Objectives Carefully Considered for Disclosure

For this item, we pointed out seven objectives: increase in market share, increase in sales, increase in ROE etc., increase in EVA, attainment of profit goals, avoid decrease in profits and avoid lost. Then, we asked for the items that are more carefully considered for making disclosure. In the answers, we asked to write the preferences from the 1st to the 7th place. The figures below show the averages for each item.

Both, the survey on preparers and the survey on users, show that the “attainment of projected profit goals made public” is considered the most important management objective. In Japan, it is characteristic to make public this kind of future prospective information. Although there are no legal penalties if the goals are not attained, the market is very sensitive to it, so that the management cannot omit this item.

Survey on Preparers

Average position	Increase in market share	Increase in sales	Increase in ROE etc.	Increase in EVA	Attain profit goals	Avoid decrease in profits	Avoid lost
2002	5.7	3.4	3.0	5.1	1.6	3.7	4.5
1999	5.6	3.7	3.2	5.0	2.1	4.0	4.5

Survey on Users

Average	5.0	3.5	3.3	5.3	2.3	3.7	3.9
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According to the survey on preparers, we made clear what the companies consider most important. More than anything, the “attainment of projected profit goals made public” is considered important, and comparing the results from the 1999 survey, we can find that this tendency is stronger. However, in our both surveys the results show that “market share” and “EVA” (which was a boom a little ago) seem not to be very important, at least from the average figures.

According to the survey on users, the results show that users think that the companies’ consider important those management targets as “attainment of projected profit goals made public” and “increase in profit ratios like ROE, etc.” This answer is similar to those given by the companies themselves, so that it is a

good contrast compared to the other questions.

4-2-4 Factors that Interfere for Disclosure

We settled six items: pursuit of profits, company's reputation, employees' stability, maintain industry's order, friendly relations with clients and good relations with authorities, and we asked if each item was or not more important than disclosure. For the results, please refer to the appendix.

This question as well as the previous one is asking for a subtle consciousness. In other words, if the items shown have too much consideration, there exists the probability that might cause window-dressings.

According to the survey on preparers, we could not verify the existence of the tendency found on the 1999 survey where "pursue profits" was considered the most important item. This time, in comparison to "disclosure" the "employees' stability" was considered to be the most important. This might probably be typically Japanese.

According to the survey on users, they think that the companies' consider the "pursue profits" more important than disclosure. For the other items it cannot be seen any characteristic. It contrasts with the results obtained from the companies'

4-3 Changes in the Japanese Views of Europeans and Americans

In this survey as well as the previous survey, we asked the following question: "It is generally said that the Japanese do not lay so much importance on information disclosure like the Europeans or the Americans do. Do you agree or not? In any case, please give your opinion." The results are as follows.

【Survey on Preparers】

	Not agree	Neither one nor the other	Agree
2002	191		288
1997	29	42	176

Sample of answers that do not agree:

The proportion of foreign investors in the Japanese stock market has increased, and this is influencing Japanese investors to claim for more positive disclosure. If the adoption of 401K increases, more disclosure will certainly be claimed for.

Either in the US or in Japan, it is natural that people who invest its own money in a

company should ask for information from that company.

Americans and Europeans are very sensitive in information disclosure concerning stock prices, but from the point of view of compliance, it is doubtful.

Like the case of Enron, I do not think that the Europeans or the Americans place much more importance.

Sample of answers that agree:

Both, those who give the information and those who receive it are not so mature in the aspect of valuing the information disclosure.

In Japan, in most cases the owner is the manager.

For inconvenient cases, the regulations regarding information disclosure are not so severe (including penalties for the company or the managers) like in Europe or the US, so the management does not want to disclose information.

Japanese are not so sensitive respect to evasion of risks of lawsuits, like in the US. So, it is doubtful that the Japanese could feel their responsibilities when there is excessive information. There may be resistance to disclose anything just because it is so done in other countries

【Survey on Users】

	Not agree	Neither one nor the other	Agree
2002	34		59
1997	There is no comparable data		

Sample of answers that do not agree:

Europeans and Americans disclose the information because it is required and not because they are highly conscious of its importance. There is no difference between “Enron”, “World Com” and “Yamaichi”.

Just those managers who do not want to disclose information are saying that.

Saying that Europeans or Americans lay importance on disclosure and Japanese do not, is making a stereotype. What is important is the attitude of the company that makes the disclosure.

Sample of answers that agree:

Learning from everyday experience where requiring information is not welcomed, I think the Japanese suffer a kind of disclosure allergy.

The disclosure information contents and wording are standardized and there are very few unique disclosure contents. Authorities and accountants seem to be negative in disclosing contents different than other companies.

Japanese are resigned and think that the disclosed information is distortional.

Summary

Since 1997, Japan has introduced extensive reforms in the accounting system and the Commercial Code, that is known as the “accounting big bang”. Only six or seven years ago, the Japanese accounting standards differed in a great manner from those of the United States or the International Accounting Standards (now the International Financial Reporting Standards). Although the worldwide tendency was towards harmonization, it was sustained that Japan should continue maintaining its own system and that it was not necessary to change it. Consequently, the reforms made in these several years had a great influence in Japanese corporate behaviour.

In order to see the behaviour of the Japanese corporations, we had performed three extensive researches. As a result, we had discovered that corporations following the Japanese style management could be clearly divided into two groups: the internationally oriented corporations, and the domestic oriented corporations. The Commercial Code was also drastically reformed, due to the changes made in the accounting standards and the changes originated in the corporate behaviour. As a result, the so called “the triangle system”, that was a characteristic of the Japanese legal system for accounting, was transformed.

However, recently there are opinions saying that Japan should lay importance on US accounting standards instead of the IAS (the IFRS). But the biggest problem in Japan is that there is a lack of a clear strategy about the structuring of the accounting system.

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APPENDIX

An Empirical Research on the Japanese Accounting System and The Introduction of the International Financial Reporting Standards

**Comparative Results of the Questionnaire Survey for Preparers and Users
Including results of similar surveys**

April 2003

Kenji Shiba

Kansai University

This research was performed by the empirical research group settled under the Committee for the “General Research on the Introduction of the International Financial Reporting Standards” (Chairman: Kazuo Hiramatsu, Prof. at Kwansei Gakuin University).

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【How to read this appendix】

This appendix is a result of plural questionnaire surveys performed.

The appendix was prepared based on the questions and answers of the principal survey.

For the secondary survey comparable to the principal survey, the questions are omitted, showing only the results under the corresponding question number.

There is another survey previous to these two that can be used for comparison. These results are shown in those items that are comparable.

【Details of the surveys】

The surveys included in this appendix are the following.

● Principal survey (Survey for the preparers of the accounting information)

“An Empirical Research on the Japanese Accounting System and the Introduction of the International Financial Reporting Standards”

Performed by: The Committee of the Japan Accounting Association (Chairman Kazuo Hiramatsu, Prof. at Kwasei Gakuin University)

The Empirical Research Group (Leader: Kenji Shiba, Prof. at Kansai University)

Contents: Items in relation to accounting and external auditing were chosen considering the comparability with the 1997 and 1999 surveys.

Time: Sent on September and collected on October 2002.

Population: 3414 listed corporations, collecting 493 answers (14.4%)

● Secondary survey (Survey for the users of the accounting information)

“An Empirical Research on the Japanese Accounting System and the Introduction of the International Financial Reporting Standards”

Performed by: The Committee of the Japan Accounting Association (Chairman Kazuo Hiramatsu, Prof. at Kwasei Gakuin University)

The Empirical Research Group (Responsible: Kenji Shiba, Prof. at Kansai University)

Contents: Items in relation to accounting and external auditing were chosen considering the comparability with the 1997 and 1999 surveys

Time: Sent on November and collected on December 2002

Population: 815 analysts and researchers working in companies, collecting 95 answers (11.7%)

● Comparable Previous Surveys

(1) 1997 Survey: “A Survey on Trends Related to How Corporations are Responding to the Globalisation of Accounting Standards”

Performed by: a Research Team composed by a number of Universities (Chairman: Nobumasa Matsuo, professor at Kansai University)

Contents: How are corporations responding to items where accounting standards are likely to be newly settled or reformed, etc.

Time: Sent on August and collected on September 1997.

Population: 1831 listed corporations excluding financial institutes, collecting 431 answers (23.5%)

(2) 1998 Survey: Performed by the Team of the 1997 Survey with same theme but for users.

Time: Sent on November and collected on December 1998.

Population: 1931 analysts, collecting 229 answers (11.9%)

(3) 1999 Survey: “Disclosure of Japanese Corporations”

Performed by: Kansai University, Kenji Shiba Research Room, (Leader: Kenji Shiba, Professor at Kansai University).

Contents: Research on consciousness and behaviour of Japanese corporations in relation to disclosure.

Time: Sent and collected on December 1999.

Population: 2407 listed corporations, from which 372 answers were collected (15.5%).

(4) 2001 Survey: “Questionnaire Survey for the Analysis of Cost-Performance In Japanese Audits”

Performed by: Japan Audit Research Association, Research Group on “Analysis of Cost-Performance in Japanese Audits”, (Chairman: Yasuhiko Kato, Professor at the Konan University).

Time: Sent on September and collected on October 2001.

Population: 2538 listed corporations, from which 484 answers were collected (19.1%)

【How to read the tables】

Most of the questions ask for answers in a scale of 7, from 1 to 7, to agree or disagree, or show their degree. We standardise, basically, the way to totalise the answers as shown below. The percentage of the items 1 to 3 from the total is shown below them. In the example below is 75.4%. The percentages for the scale 4 are omitted in the table. Also, the average of the answers is shown as a criterion to see the trend.

Not desirable←	1	2	3	4	5	6	7	→Desirable
Answers	122	137	112	69	33	17	2	Total: 492
	75.4%				10.6%			Average: 2.6

For those questions that were comparable to those of previous surveys, the comparative data is also shown.

1 About the Capital Markets and the Choice of the Accounting Standards

In this section, the questions comprise the situation “up to now” and “from now on”. For the situation in the past of your company, please answer in the line “up to now”, and for the situation you consider possible in the future in the line “from now on”. For “up to now” it is meant until 2001 closing (until the year ending on March 2002) and for “from now on” please answer what is the prospect for the near future (about 5 years).

Question No.1

Has your company prepared up to now any financial statements under the standards of the countries mentioned below? Also, from now on, do you expect to prepare financial statements under the standards of any of those countries? Please check the corresponding standard. Multiple answers are allowed, but in case of answering in column E please, write the name of the country.

【Survey on preparers】

	A	B	C	D	E
	Japanese	US	UK	International Standards	Other Standards
Up to now	485	18	0	5	
From now on	457	22	1	33	China 1
Variation	▲5.8%	22.2%	—	560%	

Only the numbers are shown for multiple answers. Percentages are shown in ().
The same is for all questions.

comparison : 1997 Survey

【Survey on Preparers】

	A	B	C	D	E
	Japanese	US	UK	International Standards	Other Standards
Up to now	421	27	0	2	Germany 1, others 4
From now on	368	41	0	96	Germany 1, others 4
Variation	▲12.6%	51.9%	—	4700%	

Comparison of variations

【Survey on Preparers】

	A	B	C	D
	Japanese	US	UK	International Standards
2002	▲5.8%	22.2%	—	560%
1997	▲12.6%	51.9%	—	4700%

Question No.2

If there were no restrictions for the preparation of financial statements, which standards would your company like to adopt for preparing the financial statements? It is simply an assumption, but decides which standard (or standards) would you like to adopt considering that it is suitable for the situation of your company. Write the order of preference, from 1 for the most preferable, 2 for the second, etc. If there were only one

standard you would like to adopt, please write 1 in the corresponding box. Also, please write the reason why you consider that is the best choice.

【Survey on Preparers】

Answers	A	B	C	D
	Japanese	US	UK	International standards
Average	1.1	2.0	3.8	1.7
1 st	408	24	0	57
2 nd	19	22	1	94
3 rd	3	21	3	10
4 th	2	1	21	0

(E) For other standards, there is 1 company for Chinese standards.

Individual answers

1) Sample of those who chose 1 for Japanese standards:

There are different accounting standards for the different situations in each country. If we adopt a single set of standards saying that it is the global standard, it may cause confusion from the economic point of view.

The activity is limited to local operations, so there are no merits from preparing financial statement under standards others than the Japanese.

The Japanese investors can better understand us.

To avoid the burden of work that would cause the change of accounting standards.

2) Sample of those who chose 1 for US Standards:

Because the parent company is American.

Because we think it is a reasonable standard considering the practice.

In case of issuing bonds or having IR abroad, we are better understood if US standards are adopted.

Because we expect to quote our stocks on the US Stock Exchange in the future.

Because they are the most recognized accounting standards internationally.

3) Sample of those who chose 1 for International Standards:

Because they can show the actual situation.

In recent years the Japanese accounting has changed to be closer to the IFRS and the company has made hard efforts financially and in accounting. We hope the standards become unified.

Any standard would be good, but as globalisation expands, we think that the unification of standards is necessary.

It is advantageous in the case of raising funds.

Question No.3

In Japan, since 2001 period (year ending on March 2002), those companies listed on the NYSE or NASDAQ; do not need to prepare consolidated financial statements under the Japanese standards. So, the question is:

(A) Does your company fit in the case of “those who are listed in the NYSE or NASDAQ, will no more be required to prepare Japanese consolidated financial statements”?

【Survey on Preparers】

A	Yes	8	No	477
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(B) For those who fit in (A), are your changing for “not preparing Japanese consolidated financial statements”?

【Survey on Preparers】

B	Yes	6	No	2
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Question No.4

Has your company being raising funds in the capital markets of any of the countries mentioned below? Or, do you expect to raise funds in the capital market of any of these countries? Please check the corresponding market (multiple answers possible). In this question, EU market means any EU market except UK (German, French, Italian, Switzerland, etc). In case your answer is (E), please write the country.

[Survey on Preparers]

Answers	A	B	C	D	E
	Japanese	US	UK	EU	Other markets
Up to now	468	20	22	122	Singapore 3
From now on	448	26	23	44	Singapore 3
Variation	▲4.3%	30.0%	4.5%	▲63.9%	

comparison : 1997 survey

[Survey on Preparers]

Answers	A	B	C	D	E
	Japanese	US	UK	EU	Other markets
Up to now	396	27	87	252	26
From now on	376	43	61	142	14
Variation	▲5.1%	59.3%	▲29.9%	▲43.7%	

Comparison of variations

[Survey on Preparers]

	A	B	C	D
	Japanese	US	UK	EU
2002	▲4.3%	30.0%	4.5%	▲63.9%
1997	▲5.1%	59.3%	▲29.9%	▲43.7%

2 About awareness of accounting and disclosure

Question No.5

When choosing an accounting procedure, which factor do you consider? Please check the corresponding answer. (Multiple answers possible)

[Survey on Preparers]

Answers	A	B	C	D	E	F	G	H
	Reality disclosure	Profits stability	Industry practice	Dividends policy	Taxation policy	Stock price	Debt contracts	Public trend
Up to now	426	232	114	107	170	75	14	171
From now on	439	238	93	127	151	107	18	182
Variation	3.1%	2.6%	▲18.4%	18.7%	▲11.2%	42.7%	28.6%	6.4%

【Survey on Users】

Answers	A	B	C	D	E	F	G	H
	Reality disclosure	Profits stability	Industry practice	Dividends policy	Taxation policy	Stock price	Debt contracts	Public trend
Up to now	27	57	64	30	62	17	6	23
From now on	72	29	25	27	38	39	7	36
Variation	166.7%	▲49.1%	▲60.9%	▲10.0%	▲38.7%	129.4%	16.7%	56.5%

comparison : 1999 survey

【Survey on Preparers】

Answers	A	B	C	D	E	F	G
	Reality disclosure	Profits stability	Industry practice	Dividends policy	Taxation policy	Stock price	Debt contracts
Up to now	319	243	105	95	218	29	9
From now	346	241	84	124	202	53	14
Variation	8.5%	▲0.8%	▲20.0%	30.5%	▲7.3%	82.3%	55.6%

Comparison of variations

【Survey on Preparers】

Answers	A	B	C	D	E	F	G	H
	Reality disclosure	Profits stability	Industry practice	Dividends policy	Taxation policy	Stock price	Debt contracts	Public trend
2002	3.1%	2.6%	▲18.4%	18.7%	▲11.2%	42.7%	28.6%	6.4%
1999	8.5%	▲0.8%	▲20.0%	30.5%	▲7.3%	82.3%	55.6%	—

Question No. 6

Please answer if there are any merits or not for each of the items from (A) to (E), in the case of compulsory (regulatory) disclosure like the Stock Exchange Law and in the case of voluntary disclosure like the IR.

【Survey on Preparers】

	A	B	C	D	E
Answers	Management	Financing	Social status	Other companies	Cost of information
Compulsory disclosure (There are merits)	248(53.3)	259(55.7)	265(56.9)	64(13.8)	39(8.4)
Compulsory disclosure (it cannot be said if there are merits or not)	195(41.9)	177(38.1)	184(39.5)	309(66.7)	276(59.6)
Compulsory disclosure (There are no merits)	22(4.7)	29(6.2)	17(3.6)	90(19.4)	148(31.5)
Total of compulsory disclosure	465	465	466	463	463
Voluntary disclosure (There are merits)	307(65.7)	261(56.4)	369(79.5)	104(22.5)	53(11.4)
Voluntary disclosure (it cannot be said if there are merits or not)	152(32.5)	177(38.2)	86(18.5)	287(62.1)	280(60.5)
Voluntary disclosure (There are no merits)	8(1.7)	25(5.4)	9(1.9)	71(15.3)	130(28.1)
Total of voluntary disclosure	467	463	464	462	463

() Percentages. For multiple answers only the number of answers is shown. The same for all questions

【Survey on Users】

	A	B	C	D	E
Answers	Management	Financing	Social status	Other companies	Cost of information
Compulsory disclosure (There are merits)	50(57.3)	56(62.9)	51(57.3)	20(22.5)	12(13.6)
Compulsory disclosure (it cannot be said if there are merits or not)	31(34.8)	27(30.3)	34(38.2)	54(60.7)	48(54.5)
Compulsory disclosure (There are no merits)	8(9)	6(6.7)	4(4.5)	15(16.9)	28(31.8)
Total of compulsory disclosure	87	87	87	87	86
Voluntary disclosure (There are merits)	66(74.2)	63(70)	81(90)	35(39.3)	13(14.8)
Voluntary disclosure (it cannot be said if there are merits or not)	19(21.3)	22(24.4)	8(8.9)	42(47.2)	47(53.4)
Voluntary disclosure (There are no merits)	4(4.5)	5(5.6)	1(1.1)	12(13.5)	28(31.8)
Total of voluntary disclosure	87	88	88	87	86

() Percentages. For multiple answers only the number of answers is shown. The same for all questions

comparison : 1999 survey

【Survey on Preparers】

	A	B	C	D	E
Answers	Management	Financing	Social status	Other companies	Cost of information
Compulsory disclosure (there are merits)	231(62.3)	228(61.5)	281(75.7)	87(23.5)	44(11.9)
Compulsory disclosure (it cannot be said if there are	128(34.5)	118(31.8)	86(23.2)	237(63.4)	177(47.7)
Compulsory disclosure (There are no merits)	12(3.2)	25(6.7)	4(1.1)	47(12.7)	147(39.6)
Total of compulsory disclosure	371	371	371	371	368
Voluntary disclosure (There are merits)	298(80.1)	268(72.0)	327(87.9)	139(37.5)	54(14.6)
Voluntary disclosure (it cannot be said if there are merits or	69(18.5)	89(23.9)	43(11.6)	201(54.2)	185(50.1)
Voluntary disclosure (There are no merits)	(1.3)	15(4.0)	2(0.5)	31(8.4)	130(35.2)
Total of voluntary disclosure	3725	372	372	371	369

Question No.7

Please answer about the following items that can be considered as management goals. To disclose information, which item do you consider most carefully? Write 1 for the item you consider most carefully, 2 for the next one and so on.

【Survey on Preparers】

	A	B	C	D	E	F	G
Answers	Increase in market share	Increase in sales	Increase in ROE etc.	Increase in EVA	Attainment of profit goals	Avoid decrease in profits	Avoid lots
Average	5.7	3.4	3.0	5.1	1.6	3.7	4.5
1 st	5(1.2)	50(11.1)	79(17.1)	5(1.2)	322(67.4)	9(2.1)	24(5.8)
2 nd	18(4.4)	100(22.3)	122(26.5)	25(6.2)	71(14.9)	107(25.4)	53(12.7)
3 rd	16(3.9)	101(22.5)	92(20.0)	50(12.3)	49(10.3)	93(22.1)	65(15.6)
4 th	50(12.3)	91(20.3)	70(15.2)	49(12.1)	18(3.8)	78(18.5)	61(14.7)
5 th	56(13.8)	53(11.8)	74(16.1)	75(18.5)	10(2.1)	57(13.5)	70(16.8)
6 th	76(18.7)	40(8.9)	21(4.6)	116(28.6)	4(0.8)	64(15.2)	65(15.6)
7 th	186(45.7)	13(2.9)	3(0.7)	86(21.2)	4(0.8)	13(3.1)	78(18.8)
Total	407	448	461	406	478	421	416

【Survey on Users】

	A	B	C	D	E	F	G
Answers	Increase in market share	Increase in sales	Increase in ROE etc.	Increase in EVA	Attainment of profit goals	Avoid decrease in profits	Avoid lost
Average	5.0	3.5	3.3	5.3	2.3	3.7	3.9
1 st	3(3.6)	15(16.7)	17(18.4)	2(2.4)	42(47.1)	6(7.2)	12(14.3)
2 nd	7(8.3)	15(16.7)	19(21.8)	6(7.1)	13(13.8)	24(27.7)	15(17.9)
3 rd	9(9.5)	19(20)	14(16.1)	5(6)	13(14.9)	13(15.7)	16(19)
4 th	12(14.3)	16(16.7)	15(16.1)	8(9.5)	10(11.5)	15(18.1)	9(10.7)
5 th	15(16.7)	12(13.3)	12(13.8)	22(25)	7(8)	5(6)	8(9.5)
6 th	15(17.9)	11(12.2)	11(12.6)	15(16.7)	3(3.4)	17(19.3)	9(10.7)
7 th	25(29.8)	4(4.4)	1(1.1)	28(33.3)	1(1.1)	5(6)	17(17.9)
Total	84	90	87	84	87	83	84

comparison : 1999 survey

【Survey on Preparers】

	A	B	C	D	E	F	G
Answers	Increase in market share	Increase in sales	Increase in ROE etc.	Increase in EVA	Attainment of profit	Avoid decrease in profits	Avoid lost
Average	5.6	3.7	3.2	5.0	2.1	4.0	4.5
1 st	9(3.1)	37(12.8)	50(17.3)	9(3.1)	148(51.2)	5(1.7)	31(10.7)
2 nd	9(3.1)	61(21.1)	70(24.2)	18(6.2)	55(19.0)	59(20.4)	17(5.9)
3 rd	17(5.9)	42(14.5)	49(17.0)	39(13.5)	45(15.6)	51(17.6)	46(15.9)
4 th	24(8.3)	53(18.3)	49(17.0)	41(14.2)	17(5.9)	61(21.1)	44(15.2)

5 th	64(22.2)	30(10.4)	35(12.1)	53(18.3)	9(3.1)	61(21.1)	36(12.5)
6 th	47(16.3)	47(16.3)	30(10.4)	57(9.3)	6(2.1)	47(16.3)	56(19.4)
7 th	119(41.2)	19(6.6)	6(2.1)	72(24.9)	9(3.1)	5(1.7)	59(20.4)
Total	289	289	289	289	289	289	289

Variation of importance (on average)

【Survey on Preparers】

Average position	Increase in market share	Increase in sales	Increase in ROE etc.	Increase in EVA	Attainment of profit	Avoid decrease in profits	Avoid lost
2002	5.7	3.4	3.0	5.1	1.6	3.7	4.5
1999	5.6	3.7	3.2	5.0	2.1	4.0	4.5

Question No.8

Assume that you are asked to give priority to either disclosure or to one of the items from A to F. Compare each item with information disclosure and answer which do you consider more important. Please answer 1 if you consider that the information disclosure is more important, 2 if you cannot tell which is more important, and 3 if you consider that the item shown is more important

【Survey on Preparers】

	A	B	C	D	E	F
Answers	Pursue profits	Company's reputation	Employees' stability	Maintain industry's order	Friendly relations with clients	Good relations with authorities
Disclosure is more important	164(34.5)	221(46.7)	95(20.1)	205(43.5)	132(28.0)	188(39.9)
It cannot be said which one	160(33.7)	215(45.5)	240(50.8)	239(50.1)	241(51.1)	243(51.6)
Item show is more important	151(31.2)	37(7.8)	137(29.0)	27(5.7)	99(21.0)	40(8.5)
Total	475	473	472	471	472	471

【Survey on Users】

	A	B	C	D	E	F
Answers	Pursue profits	Company's reputation	Employees' stability	Maintain industry's order	Friendly relations with clients	Good relations with authorities
Disclosure is more important	26(28.0)	38(40.4)	21(22.6)	27(29.0)	25(26.9)	20(21.5)
It cannot be said which one	23(24.7)	25(26.6)	47(50.5)	49(52.7)	42(45.2)	45(48.4)
Item show is more important	44(47.3)	31(33.0)	25(26.9)	17(18.3)	26(28.0)	28(30.1)
Total	91	92	91	91	91	91

comparison : 1999 survey

【Survey on Preparers】

	A	B	C	D	E	F
Answers	Pursue profits	Company's reputation	Employees' stability	Industry's order	Friendly relations with clients	Good relations with authorities
Disclosure is more important	91(25.2)	145(40.1)	44(12.1)	146(40.4)	81(22.4)	137(38.1)
It cannot be said which one	122(33.8)	173(47.9)	164(54.4)	186(51.5)	180(49.9)	185(51.4)
Item show is more important	148(40.1)	43(11.9)	153(42.4)	29(8.0)	100(27.7)	38((10.6)
Total	361	361	361	361	361	360

Question No.9

It is said that the Japanese do not lay so much importance on information disclosure like the Americans or the Europeans do. Do you agree or not? Please give your opinion.

【Survey on Preparers】

	Not agree	Neither one or other	Agree
2002	191	/	288
1997	29	42	176

Answers in free spaces

Sample of answers that do not agree:

The proportion of foreign investors in the Japanese stock market has increased, and this is influencing Japanese investors to claim for more positive disclosure. If the adoption of 401K increases, more disclosure will certainly be claimed for.

Either in the US or in Japan, it is natural that people who invest its own money in a company should ask for information from that company.

Americans and Europeans are very sensitive in information disclosure concerning stock prices, but from the point of view of compliance, it is doubtful.

Like the case of Enron, I do not think that the Americans or the Europeans place much more importance

Sample of answers that agree:

Both, those who give the information and those who receive it are not so mature in the aspect of valuing the information disclosure.

In Japan, in most cases the owner is the manager.

For inconvenient cases, the regulations regarding information disclosure are not so severe (including penalties for the company or the managers) like in the US or Europe, so the management does not want to disclose information.

Japanese are not so sensitive respect to evasion of risks of lawsuits, like in the US. So, it is doubtful that the Japanese could feel their responsibilities when there is excessive information. There may be resistance to disclose anything just because it is so done in other countries

【Survey on Users】

① Not agree	34	② Agree	59
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Answers in free spaces

Samples that do not agree:

Europeans and Americans disclose the information because it is required and not because they lay importance on it. There is no difference between “Enron”, “World Com” and “Yamaichi”.

Just those managers who do not want to disclose information are saying that.

Saying that Americans or Europeans lay importance and Japanese do not, is making a stereotype. What is important is the attitude of the company that makes the disclosure.

Samples that agree:

Learning from everyday experience where requiring information is not welcomed, I think the Japanese suffer a kind of disclosure allergy

Information disclosure contents, wording are standardized and there are very few unique disclosure contents. Authorities and accountants seem to be negative in disclosing contents different than other companies.

Japanese are resigned and think that the disclosed information is distortional.

3 How the Japanese Accounting System should be

Question No.10

In Japan, accounts under the Commercial Code (Commercial Code Accounting) are on non-consolidated basis, and reports under the Securities and Exchange Law are based on consolidated accounts, because it stresses importance on providing information to investors. Do you think that this kind of division of roles is desirable?

【Survey on Preparers】

Not desirable←	1	2	3	4	5	6	7	→Desirable
Answers	122	137	112	69	33	17	2	Total: 492
	75.4%				10.6%			Average: 2.6

Comparison: 1997 research

【Survey on Preparers】

(v laid answers 431)

Answers	Not desirable	Desirable	Average
	50.5%	32.2%	3.6

【Survey on Users】

Not desirable←	1	2	3	4	5	6	7	→Desirable
Answers	18	20	14	18	11	13	1	Total: 95
	54.7%				26.3%			Average: 3.3

Comparison: 1998 survey

【Survey on Users】

Not desirable←	1	2	3	4	5	6	7	→Desirable
Answers	20	26	20	102	23	26	10	Total: 227
	29.1%				26.0%			Average: 3.9

Question No.11

In Japan, from 2001 closings (year ending on March 2003) companies listed on the NYSE or NASDAQ are allowed not to prepare Japanese consolidated financial statements. Do you think that this rule is desirable?

【Survey on Preparers】

Not desirable←	1	2	3	4	5	6	7	→Desirable
Answers	16	28	43	229	62	52	61	Total: 491
	17.7%				35.6%			Average: 4.4

【Survey on Users】

Not desirable←	1	2	3	4	5	6	7	→Desirable
Answers	2	7	8	34	15	18	11	Total: 95
	17.9%				46.3%			Average: 4.6

Question No.12

Although the company is not listed in American or European stock markets, if it were possible to prepare consolidated financial statements according to the US accounting standards or the IAS instead of preparing Japanese consolidated financial statements, do you think this rule would be desirable?

【Survey on Preparers】

Not desirable←	1	2	3	4	5	6	7	→Desirable
Answers	42	49	47	204	77	43	30	Total: 492
	28.0%				30.5%			Average: 4.0

【Survey on Preparers】

Not desirable←	1	2	3	4	5	6	7	→Desirable
Answers	5	13	8	34	13	14	7	Total: 94
	28.3%				37.0%			Average: 4.1

Question No.13

In Europe, listed companies will be required to prepare consolidated financial statements according to the IAS from 2005. Do you think that the importance of IAS will increase then?

【Survey on Preparers】

No←	1	2	3	4	5	6	7	→Yes
Answers	3	6	16	69	174	158	64	Total: 490
	5.1%				80.8%			Average: 5.3

【Survey on Users】

No←	1	2	3	4	5	6	7	→Yes
Answers	1	0	2	7	18	39	27	Total: 94
	3.2%				89.4%			Average: 5.8

Question No.14

Do you think that it would better to allow also in Japan to choose to prepare consolidated financial statements according to the IAS?

【Survey on Preparers】

No←	1	2	3	4	5	6	7	→Yes
Answers	28	33	37	174	112	71	37	Total: 492
	19.9%				44.7%			Average: 4.4

【Survey on Users】

No←	1	2	3	4	5	6	7	→Yes
Answers	2	4	7	28	27	17	10	Total: 95
	13.7%				56.8%			Average: 4.7

4 About the Importance of the Differences between the Japanese Standards and the IAS

Question No.15

About the valuation methods of inventories, the Japanese standards allow the choice between the cost method and the lower of cost or market, but the IAS allows only the lower of cost or market. Also, at present, it is proposed not to allow the LIFO method under the IAS.

(1) About the obligation to apply the lower of cost or market

In your company, do you think that about this problem it is important to consider adjusting the Japanese standards to the IAS?

【Survey on Preparers】

Not important←	1	2	3	4	5	6	7	→Important
Answers	21	32	43	132	120	106	37	Total: 491
	20.7%				43.4%			Average: 4.4

【Survey on Users】

Not important←	1	2	3	4	5	6	7	→Important
Answers	2	2	2	8	26	40	15	Total: 95
	6.3%				85.3%			Average: 5.5

(2) About LIFO method

In your company, do you think that about this problem it is important to consider adjusting the Japanese standards to the IAS?

【Survey on Preparers】

Not important←	1	2	3	4	5	6	7	→Important
Answers	27	31	43	176	86	88	38	Total: 489
	19.6%				53.6%			Average: 4.6

【Survey on Users】

Not important←	1	2	3	4	5	6	7	→Important
Answers	5	3	5	23	25	22	12	Total: 95
	13.7%				62.1%			Average: 4.8

Question No.16

About the accounting procedures of a lessee in a finance lease transaction, under the Japanese standards a lessee in certain ownership-transfer type of finance leases may elect not to record the asset and obligation (subject to a disclose in notes), but under the IAS they should be registered as an acquisition.

In your company, do you think that about this problem it is important to consider adjusting the Japanese standards to the IAS?

【Survey on Preparers】

Not important←	1	2	3	4	5	6	7	→Important
Answers	38	57	72	155	89	49	32	Total: 492
	33.9%				34.6%			Average: 4.0

About this problem, do you think it is important from the users' point of view that "Japan should consider to change its standards to match with the IAS"?

【Survey on Users】

Not important←	1	2	3	4	5	6	7	→Important
Answers	4	5	7	24	19	26	10	Total: 95
	16.8%				57.9%			Average: 4.7

Question No.17

About the accounting procedures for investments in real estates, according to the Japanese standards, they should be valued at purchase cost and depreciated the same as other tangible fixed assets. But under the IAS, the current value should be shown in the balance sheet, or if they are valued at cost, the market value should be disclosed in notes.

In your company, do you think that about this problem it is important to consider adjusting the Japanese standards to the IAS?

【Survey on Preparers】

Not important←	1	2	3	4	5	6	7	→Important
Answers	21	43	42	131	133	82	38	Total: 490
	21.6%				51.6%			Average: 4.4

About the accounting procedures for investments in real estates, according to the Japanese standards, they should be valued at purchase cost and depreciated the same as other tangible fixed assets. But under the IAS, the current value should be shown in the balance sheet, or if they are valued at cost, the market value should be disclosed in notes.

About this problem, do you think it is important from the users' point of view that "Japan should consider to change its standards to match with the IAS"?

【Survey on Users】

Not important←	1	2	3	4	5	6	7	→Important
Answers	0	3	3	13	28	32	16	Total: 95
	6.3%				80.0%			Average: 5.4

Question No.18

About the accounting procedures of stock options, the IASB is considering to register stock options as expenses (personnel expenses). Under the Japanese standards, for the moment, there is no standard requiring registering them as expenses.

(1) About the registration as expenses

Assuming that the IASB will require registering stock options as expenses; does your company think that in Japan should also be required to register them as expenses?

【Survey on Preparers】

No←	1	2	3	4	5	6	7	Yes→
Answers	33	33	48	156	111	57	52	Total: 490
	23.3%			44.9%			Average: 4.3	

【Survey on Users】

No←	1	2	3	4	5	6	7	Yes→
Answers	3	0	5	30	16	23	18	Total: 95
	8.4%			60.0%			Average: 5.1	

(2) About registration in equity

In Japan, in case of registration as expenses, there is a proposal to register the counterpart as equity. About this problem, does your company think that it should be register as equity?

【Survey on Preparers】

No←	1	2	3	4	5	6	7	Yes→
Answers	25	37	49	280	56	21	21	Total: 489
	22.7%			20.0%			Average: 3.9	

【Survey on Users】

No←	1	2	3	4	5	6	7	Yes→
Answers	6	4	8	47	9	14	6	Total: 94
	19.1%			30.9%			Average: 4.3	

5 About the Influence of the Changing of the Japanese Standards

5-1 About current values

Question No.19

Items to be valued at current values have increased and consequently there are more items to be included directly to equity as valuation profits or losses. However, there are opinions saying that those items should be included in the Profit and Loss Statement. Which do you think it is preferable, to considered them as profit and losses or not?

【Survey on Preparers】

Not include as profit or losses←	1	2	3	4	5	6	7	→Include as profit or losses
Answers	77	90	105	111	55	28	24	Total: 490
	55.5%			21.8%			Average: 3.3	

Also, in your company, what kind of influence has caused the change in these accounting standards, on the preparation of accounting information or in other non-accounting systems or behaviour?

Written opinions are omitted

【Survey on Users】

Not include as profit or loss←	1	2	3	4	5	6	7	→Include as profit or losses
Answers	17	15	15	24	9	8	6	Total: 95
	50.0%			24.5%			Average: 3.5	
Written opinions are omitted								

Question No.20

Do you think that the release of stocks held (represented by reciprocal holdings) was accelerated due to the current valuation of the stocks held?

【Survey on Preparers】

No←	1	2	3	4	5	6	7	→Yes
Answers	5	31	38	82	175	129	29	Total: 489
	15.1%			68.1%			Average: 4.8	

【Survey on Users】

No←	1	2	3	4	5	6	7	→Yes
Answers	2	3	8	11	25	36	10	Total: 95
	13.7%			74.7%			Average: 5.1	

Question No.21

For business enterprises, do you feel resistance to report the difference in the valuation of stocks held as an increase or decrease in net assets?

【Survey on Preparers】

No←	1	2	3	4	5	6	7	→Yes
Answers	29	90	113	113	92	40	14	Total: 491
	47.3%			29.7%			Average: 3.7	

【Survey on Users】

No←	1	2	3	4	5	6	7	→Yes
Answers	0	11	13	11	35	17	8	Total: 95
	25.3%			63.2%			Average: 4.6	

5-2 In Relation to Accounting for Employee Benefits**Question No.22**

As a remuneration system for employees, not only salaries and bonuses but also retirement allowances, pension funds, stock option plans, etc. are thought to be required as a comprehensive system scheme. Do you think that this thought will give incentive to managers and get their consent?

【Survey on Preparers】

No←	1	2	3	4	5	6	7	→Yes
Answers	2	16	22	181	170	71	25	Total: 487
	8.2%			54.6%			Average: 4.7	

Written opinions are omitted

【Survey on Users】

No←	1	2	3	4	5	6	7	→Yes
Answers	0	3	2	35	25	27	3	Total: 95
	5.3%			57.9%			Average: 4.8	

Influence originated on the use of information	The number of years required to expense the difference arising from the change in accounting standards became a new indicator of company's earning power. Comparisons became difficult due to large amounts of extraordinary gains and losses. Became to pay attention in the measurement of liabilities. Like is happening in the US, excess stock option plans are causing window dressing to maintain stock prices, and may cause undesirable effects as changing the company's culture.
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Question No.23

Pension fund accounting has as a distinctive characteristic of making an estimation of debts. Do you have a precise rule that you could disclose, for establishing the basic ratios? Please check the corresponding number. (For all questions having numbers, please check the corresponding number in the same way)

【Survey on Preparers】

① No and we do not think it's necessary	② No, but we think it's necessary	③ Yes, we have.	Total answers
96	215	162	473
20.3%	45.5%	34.2%	100.0%

Question No.24

Are you positively thinking of leaving the public welfare pension insurance system?

【Survey on Preparers】

① No and do not think it is necessary	② No, but think it is necessary	③ Yes	Total answers
146	156	112	414
35.3%	37.7%	27.1%	100.0%

Question 25

Do you have any intention to move to the new pension fund system based on defined contributions?

【Survey on Preparers】

① No and we don't think it is necessary	② No, but we think it's necessary	③ Yes	Total answers
93	259	126	478
19.5%	54.2%	26.4%	100.0%

5-3 In Relation to Accounting for Business Combinations

Question No.26

For business combinations, the US standards and the IAS are expected to unify the procedure to the purchase method. Do you think that this rule that clearly states the control company and the controlled one is also necessary in Japan?

【Survey on Preparers】

No←	1	2	3	4	5	6	7	→Yes
Answers	14	19	32	289	69	36	20	Total: 479
	13.6%				26.1%			Average: 4.2

Written opinions are omitted

【Survey on Users】

No←	1	2	3	4	5	6	7	→Yes
Answers	4	3	5	36	17	15	14	Total: 94
	12.8%				48.9%			Average: 4.8

Written opinions are omitted

Question No.27

About the goodwill that would be registered in the case of the purchase method, there is a trend to register their impairment instead of amortising them periodically Do you think that this non-amortising impairment procedure is proper?

【Survey on Preparers】

No←	1	2	3	4	5	6	7	→Yes
Answers	23	47	63	222	76	41	12	Total: 484
	27.5%				26.7%			Average: 3.9

【Survey on Users】

No←	1	2	3	4	5	6	7	→Yes
Answers	4	12	5	34	16	15	8	Total: 94
	22.3%				41.5%			Average: 4.3

5-4 In Relation to Accounting for Income Taxes

Question No.28

Due to the introduction of accounting for income taxes, the difference between taxable income and reported income became larger, and it is said that the so-called “triangle system” has collapsed. From the point of view of information disclosure, do you think that the introduction of accounting for income taxes was desirable?

【Survey on Preparers】

No←	1	2	3	4	5	6	7	→Yes
Answers	15	20	36	95	124	136	60	Total: 486
	14.6%				65.8%			Average: 4.9

【Survey on Users】

No←	1	2	3	4	5	6	7	→Yes
Answers	5	3	13	13	15	33	13	Total: 95
	22.1%				64.2%			Average: 4.9

Written opinions are omitted

Question No.29

Although the introduction of the accounting for income taxes, due to some requirements for deducting expenses, do you think that in Japan the business accounting procedures are still being influenced?

【Survey on Preparers】

No←	1	2	3	4	5	6	7	→Yes
Answers	6	16	30	106	189	106	38	Total: 491
	10.6%			67.8%			Average: 4.9	

【Survey on Users】

No←	1	2	3	4	5	6	7	→Yes
Answers	0	2	2	9	34	28	19	Total: 94
	4.3%			86.2%			Average: 5.5	

Question No.30

At present, in relation to depreciation expenses, there is a requirement to register them as expenses to deduct them. Do you think that is positive in practice, to remove this requirement?

【Survey on Preparers】

No←	1	2	3	4	5	6	7	→Yes
Answers	30	66	53	171	74	61	35	Total: 90
	30.4%			34.7%			Average: 4.1	

【Survey on Users】

No←	1	2	3	4	5	6	7	→Yes
Answers	4	10	12	36	13	8	11	Total: 94
	27.7%			34.0%			Average: 4.1	

Question No.31

The possibility of recovering the deferred income taxes is a big problem. Do you have a clear decision rule for preparing a schedule of the recoverability, or for the calculation to see if there is sufficient future taxable income?

【Survey on Preparers】

① No	252	② Yes	234
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【Survey on Users】

① No	60	② Yes	27
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Question No.32

Do you think that it would be better to restrict the scope of temporary differences (for example, exclude those temporarily differences that do not reverse in a long period)?

【Survey on Preparers】

No←	1	2	3	4	5	6	7	→Yes
Answers	18	32	44	147	145	73	32	Total: 491
	19.1%			50.9%			Average: 4.5	

【Survey on Users】

No←	1	2	3	4	5	6	7	→Yes
Answers	2	7	1	19	25	31	10	Total: 95
	10.5%				69.5%			Average: 5.0

Question No.33

There are opinions saying that it is theoretically proper to apply the concept of discounted present values for deferred income taxes. Like in the UK, in the valuation of deferred income taxes, there are countries allowing the adoption of the discounted present values.

(1) About the introduction of the system

Do you think that the discounted present values for the valuation of deferred income taxes should be introduced in Japan as a system?

【Survey on Preparers】

No←	1	2	3	4	5	6	7	→Yes
Answers	55	104	86	201	28	10	6	Total: 490
	50.0%				9.0%			Average: 3.2

【Survey on Users】

No←	1	2	3	4	5	6	7	→Yes
Answers	4	13	13	35	13	13	3	Total: 94
	31.9%				30.9%			Average: 4.0

(2) About the difficulties in practice

In relation to the difficulties in practice for the introduction of discounted present values in the valuation of deferred income taxes, please check the corresponding item. Also, if there are other difficulties, please specify them.

【Survey on Preparers】

① There are no difficulties in practice	② There are difficulties to determine the schedule for the reversal of time differences	③ There are difficulties in determine the discount rates	④ There are other difficulties	Total answers
16	170	201	7	394
4.1%	43.1%	51.1%	1.8%	100.0%

Written opinions are omitted

5-5 In Relation to Accounting for the Impairment of Assets

Question No.34

It seems that a new valuation method for fixed assets using the concept of discounted cash flows is going to be introduced. Do you think it is necessary to value operating assets in a method other than the purchase method?

【Survey on Preparers】

Yes←	1	2	3	4	5	6	7	→No
Answers	39	68	95	115	85	74	11	Total: 487
	41.5%				34.9%			Average: 3.8

Written opinions are omitted

【Survey on Users】

Yes←	1	2	3	4	5	6	7	→No
Answers	4	12	19	23	18	12	6	Total: 94
	37.2%				38.3%			Average: 4.0

Written opinions are omitted

Question No.35

When measuring the value of assets at DCF (discounted cash flows) due to the difficulty in obtaining their current values, would you feel to disclose the conditions for that measurement?

【Survey on Preparers】

① No 182	② Yes 301
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【Survey on Users】

① No 57	② Yes 36
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Question No.36

When applying the impairment procedure, can you agree with the idea of devaluating at first the goodwill and the common assets?

【Survey on Preparers】

① No 213	② Yes 262
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【Survey on Users】

① No 34	② Yes 59
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Question No.37

(1) Change in the basis of calculation.

Can you agree to disclose the grade of sympathy when there is a change in the calculation base of the usable value?

【Survey on Preparers】

① No 242	② Yes 222
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【Survey on Users】

① No 24	② Yes 70
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(2) Change in the conditions for calculation

Can you agree to disclose the grade of sympathy when there is a change in the conditions for the calculation of the usable value?

【Survey on Preparers】

① No 240	② Yes 222
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【Survey on Users】

① No 23	② Yes 71
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5-6 In Relation to Cash Flow Statements

Question No.38

With the introduction of cash flow accounting, discussions about the operational cash flow or the level or increase and decreases of the free cash flow have increased. Have you begun to consider the increase in cash flows as an important issue for management?

【Survey on Preparers】

No←	1	2	3	4	5	6	7	→Yes
Answers	2	7	18	70	146	167	76	Total: 486
	5.6%				80.0%			Average: 5.4

Written opinions are omitted

【Survey on Users】

No←	1	2	3	4	5	6	7	→Yes
Answers	1	6	8	16	25	24	15	Total: 95
	15.8%				67.4%			Average: 5.0

Influences on the use of information	Began to think that bankrupts can occur although having profits. Is useful for the DCF calculations. Compared to the profit and loss statement, we can know entity's reality (including the future forecasts)
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Question No.39

In Japan, there is a choice where to include interest revenues, interest expenses and dividend revenues in the cash flow statement. Do you think that this rule is a problem from the comparability or transparency point of view?

【Survey on Preparers】

① No 402	② Yes 83
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For those who answered "Yes", what kind of problem is it? Please describe it below.

Financial expenses are necessary funds for operating activities, and so they should be included in operating cash flows (comparability).
Difficult to compare.

【Survey on Users】

① No 56	② Yes 36
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For those who answered "Yes", what kind of problem is it? Please describe it below.

There is no comparability.

Question No.40

In Japan, cash flow statements can be prepared under the direct method or the indirect method. But, most of the companies adopt the indirect method. What is the reason for not adopting the direct method? Please, describe the reason below.

【Survey on Preparers】

Written opinions are omitted

6 About the Audit of Certified Public Accountants

Question No.41

This question is about the Securities Exchange Law, or the external legal audit of the Commercial Code. What kind of effect do you expect from the financial statements audits by certified public accountants (accounting firms)? Please, answer not generally speaking but from the point of view of your company being audited. In your answers, please write 1 for the most expected item, 2 for the next and so on. There is no need to write any position for those items that are not expected.

【Survey on Preparers】

	Effect (Role)	1st	2nd	3rd	4th	5th	6th	7th	8th	9th
A	Guarantee the reliability of financial statements	314	63	57	24	5	5	2	1	0
B	Guidance on the preparation of disclosure information like financial statements, etc.	84	178	97	53	34	6	5	1	0
C	Guidance on administrative procedures.	32	97	146	59	37	25	11	7	0
D	Complete internal control systems.	12	46	47	97	54	33	19	7	0
E	Function as a part of the internal audit.	4	18	43	59	75	54	25	10	0
G	Assist, support or supplement external audits by syndics	1	5	9	30	41	51	46	33	1
H	Prevention of window-dressings	11	32	23	22	33	35	35	40	4
I	Follow the laws (we are audited because it is required by the law)	46	52	47	43	30	20	26	39	0
J	There are no effects	2	1	1	0	1	0	2	2	64
	Total answers	506	492	470	387	310	229	171	140	69

【Survey on Users】

	Effect (Role)	1st	2nd	3rd	4th	5th	6th	7th	8th
A	Guarantee the reliability of financial statements (including detection of window-dressings)	68	19	2	3	1	0	1	0
B	Prevention of window-dressings	6	18	30	16	3	4	0	0
C	Detection of corruption or illegal conducts by the management	1	7	6	14	20	12	1	0
D	Prevention of corruption or illegal conduct by the management	3	7	13	19	20	8	0	0
E	Guidance for the proper preparation of financial statements	17	42	12	2	3	10	0	0
G	Verify the company's ability to continue operations (going concern), provide information about the risks of bankruptcy	2	3	21	10	14	16	1	0
H	There are no effects	1	0	1	1	0	0	13	0
I	Other	1	0	1	2	0	0	0	0
	Total answers	99	96	86	67	61	50	16	0

Written opinions are omitted

Comparison: 2001 survey

[Survey on Preparers]

	Effect	Answers	%
1	Guarantee the reliability of financial statements by the audit report	457	95.41%
2	Guidance on the preparation of disclosure information like the financial statements	412	86.01%
3	Guidance on administrative procedures	384	80.17%
4	Follow the laws (we are audited because it is required by the law)	327	68.27%
5	Complete internal control systems	255	53.24%
6	Function as a part of the internal audit	170	35.49%
7	Assist, support or supplement external audits by syndics	155	32.36%
8	Prevention of window-dressings	137	28.60%
9	Prevention of corruption by employees	76	15.87%
10	Finance consulting	74	15.45%
11	Prevention of corruption by directors	61	12.73%
12	Detection and exposure of window-dressings	48	10.02%
13	Stabilize or facilitate direct financing	39	8.14%
14	Management consulting	39	8.14%
15	As a guarantee of lawsuits related to information on financial statements	37	7.72%
16	Reduction of lawsuits related to financial statements	34	7.10%
17	Detection and exposure of corruption by employees	28	5.85%
18	Detection and exposure of corruption by directors	20	4.18%
19	There are no effects	2	0.42%
20	Others	2	0.42%
	Total answers	479	—

*From the 19 items of effects, select the corresponding one (multiple choice can be selected). The percentages show by item, the proportion of the companies that selected that item, from the total answers

Question No.42

This question is about the item you chose as the most expected effect. Those who have chosen the item “there are no effects” as 1, please go to question No.43. Is the financial statements audit by certified public accountants (audit firms) actually giving the effects expected by your company?

[Survey on Preparers]

No←	1	2	3	4	5	6	7	→Yes
Answers	0	11	12	36	151	187	86	Total: 483
	4.8%			87.8%				Average: 5.6

[Survey on Users]

No←	1	2	3	4	5	6	7	→Yes
Answers	2	10	21	8	31	16	3	Total: 91
	36.3%			54.9%				Average: 4.2

Question No.43

Are the costs supported by your company in correspondence with the financial statements audits performed by certified public accountants (accounting firms)? Here, costs mean not only the audit fees paid to the auditor, or the personnel or material expenses required for the audit, but also the effects on the principal activity and mental strains.

【Survey on Preparers】

No←	1	2	3	4	5	6	7	→Yes
Answers	12	47	88	126	114	56	22	Total: 465
	31.6%				41.3%			Average: 4.2

Considering the figures in the valuation scale from 1 to 7, of question No.42, as numerical data, and obtaining the average answers of question 42 for each scale in question No.43, the following table can be completed.

Question No.43: awareness of costs	Average of Question No.42
Fully in correspondence	6.50
↑	6.25
	5.68
I cannot tell yes or no	5.54
↓	5.07
	4.68
It is not in correspondence	3.25

Comparison: 2001survey

【Survey on Preparers】

Choices	Answers	%
There are more effects than costs	8	1.7%
There are effects in correspondence with costs	195	40.7%
I cannot tell yes or no	185	38.6%
The effects are not in correspondence with costs	88	18.4%
There are nearly no effects	3	0.6%
Total answers	479	100.0%

Question No.44

The audit standards were revised on January 2002, and these new auditing standards will be applied for auditing financial statements for periods ending on March 2003. The contents of these new standards are similar to those of the US and the international auditing standards, and require more strict audits (audits of higher quality). What do you think about financial statements audits by certified public accountants (accounting firms) becoming stricter?

【Survey on Preparers】

Not desirable←	1	2	3	4	5	6	7	→Desirable
Answers	4	8	26	128	185	87	52	Total: 490
	7.8%				66.1%			Average: 4.9

The audit standards were revised on January 2002, and these new auditing standards will be applied for auditing financial statements for periods ending on March 2003. The contents of these new standards are similar to those of the US and the international auditing standards, and require more strict audits (audits of higher quality). Do you think that the actual audits will become stricter?

【Survey on Users】

No←	1	2	3	4	5	6	7	→Yes
Answers	1	2	4	14	45	18	5	Total: 89
	7.9%			76.4%				Average: 4.9

Reference: : 2001 survey

【Survey on Preparers】

Choices	Answers	%
Accept the increase in costs	8	1.7%
Accept the increase in costs if there are effects in correspondence to this increase in costs	140	29.5%
Partially accept increase in costs	148	31.2%
Cannot accept increase in costs	175	36.8%
There are no increases in costs	4	0.8%
Total answers	475	100.0%

Question No.45

Has ever been included in the Auditor's Report of your company's financial statements written in English, a legend saying that "these financial statements are for users who are familiar with Japanese accounting and auditing standards"?

【Survey on Preparers】

① No 339	② Yes 61
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Question No.46

In case you answered "Yes" in question No.45, have you consider having a supplementary audit agreement to remove that legend?

【Survey on Preparers】

① No 58	② Yes 3	③ Made agreement 0
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Question No.47

In case you answered "Yes" in question No.45, What do you think you have to do to remove the legend? Please, complete also the items below.

【Survey on Preparers】

① Change the accounting standards	② Change the auditing standards	③ Appeal to the UK and US that it is unfair	④ Others	Total
18	5	12	7	42

Written opinions are omitted

Question No.48

Supposing that financial statements audits performed by certified public accountants (accounting firms) were not required by the law. For your company, which is the level of the need for financial statements audits?

【Survey on Preparers】

Not necessary←	1	2	3	4	5	6	7	→Necessary
Answers	3	9	15	44	168	169	80	Total: 488
	5.5%				85.5%			Average: 5.4

Question No.39 for users

As a user, how do you consider the necessity of financial statements audit?

【Survey on Users】

Not necessary←	1	2	3	4	5	6	7	→Necessary
Answers	0	0	2	1	17	42	33	Total: 95
	2.1%				96.8%			Average: 6.1

Question No.49

For those who have answered that financial statements audits are necessary in question No.48 (checks in number 5, 6 and 7), why do you think financial statements audits are necessary? Please, write 1 for the item you consider most important, 2 for the next one and so on. There is no need to fill in items that you do not consider important.

【Survey on Preparers】

	Necessary for	1st	2nd	3rd	4th	5th	6th	7th	8th	9th
A	Guarantee the reliance of financial statements	324	34	37	7	2	1	2	1	0
B	Guidance for preparing disclosure documents like financial statements	51	146	60	30	27	8	3	3	0
C	Guidance for administrative procedures	17	66	111	40	20	24	6	0	2
D	Complete internal control systems	14	40	30	70	29	15	13	2	1
E	Function as part of the internal audit	5	23	31	31	53	26	14	13	3
F	Assist, support or supplement external audits by syndics	1	5	11	26	18	27	26	14	11
G	Prevent window-dressing	14	42	22	28	21	19	22	7	9
H	Maintenance of business transactions and confident relations with other companies	4	28	27	20	13	10	17	32	8
I	Borrowings from financial entities	2	13	18	16	13	10	7	9	35
	Total answers	432	397	347	268	196	140	110	81	69

Question No.40 for users

For those who have answered that financial statements audits are necessary in question No.39 (checks in number 5, 6 and 7), why do you think financial statements audits are necessary? Please, write 1 for the item you consider most important, 2 for the next one and so on. There is no need to fill in items that you do not consider important

【Survey on Users】

	Need	1st	2nd	3rd	4th	5th	6th	7th
A	Guarantee the reliability of financial statements (including detection of window-dressings)	71	15	1	3	1	0	0
B	Prevention of window-dressings	5	25	23	16	1	2	0
C	Detection of corruption or illegal conducts by the management	1	8	8	10	18	10	0
D	Prevention of corruption or illegal conduct by the management	4	8	11	16	12	9	0
E	Guidance for the proper preparation of financial statements	10	32	12	2	8	6	0

F	Verify the company's ability to continue operations (going concern), provide information about the risks of bankruptcy	3	2	21	11	7	12	0
G	Others (free)	1	0	1	0	0	0	2
Total answers		95	90	77	58	47	39	2

Written opinions are omitted

Question No.36 for users

The certified public accountant should not only be personally and economically independent from the audited company, but also mentally (actually) independent. Considering both aspects, do you think that certified public accountants in Japan performed their audits independently from the audited company?

【Survey on Users】

Not independent←	1	2	3	4	5	6	7	→Independent
Answers	4	14	20	23	24	8	2	Total: 95
40.0%			35.8%				Average: 3.8	

Question No.37 for users

For those who answered in question No.36 that certified public accountants are not independent (checks in numbers 1 to 3), which is the reason for thinking so? Please, write 1 for the item you consider most important, 2 for the next, and so on. There is no need to write any number on those items (reasons) that are not considered important.

【Survey on Users】

	Reasons	1st	2nd	3rd	4th	5th	6th	7th
A	The person responsible for the audit (the partner involved) does not change for a long period (7 years under the present rules)	4	8	8	6	2	1	0
B	There is no competition between accounting firms (CPA offices)	3	4	12	4	1	0	0
C	The auditors receive their fees from the audited company	23	5	1	1	1	0	0
D	They receive fees from the audited company for services other than auditing,	4	12	3	2	1	2	0
E	Externally and formally seem to be independent, but I feel that they are not mentally (actually) independent	5	5	4	3	4	2	0
F	There is no special reason, but I have the image that they might not be independent	1	0	2	2	0	1	0
G	Others	1	1	2	0	0	0	1
Total answers		41	35	32	18	9	6	1

Written opinions are omitted

Question No.38 for users

About the audit fees paid by the audited firm to the auditors, it can be said that the stockholders finally support them. Also, it can be thought that the costs for maintaining the institution of certified public accountants or the financial statements audit system by certified public accountants are finally supported by the taxpayers. Do you think that for the Japanese economy and society, the performance of legal external audits is sufficiently valuable in correspondence to their costs?

【Survey on Users】

Not valuable←	1	2	3	4	5	6	7	→Valuable
Answers	5	7	13	29	29	9	3	Total: 95
26.3%			43.2%				Average: 4.1	