Corporate Reporting in Japan

Based on “Survey of Integrated Reports in Japan 2015” conducted by KPMG Japan Integrated Reporting Advisory Group

November 15 2016
Japanese Disclosure Overview

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Some Facts

1. Corporate Governance is the most important element of the Revival Plan of Prime Minister Abe’s Cabinet.

2. Especially, companies are facing to much challenge for engagements with institutional investors. Integrated reports are one of effective tools for enhancing the quality of communication with outside significant audiences, like as investors.

3. All listed companies have to submit “Corporate Governance Report” based of the rules of Tokyo Stock Exchange. On the other hand, a ratio of companies which have developed “corporate governance policy” is just 30%.

4. In Japan, over 1500 listed companies have experience to publish each CSR/Sustainability report. However, it is just focused on “E” and “S”. In addition, from the begging of 2000, the Ministry of Economic, Trade and Industry (METI) has been promoting “Intellectual Assets based Management” initiatives. A lot of companies, mainly SMEs, are trying to clarify their own business story and communicating with their targeted audiences.

5. In 2016, over 300 companies will publish their own “Integrated Report”. We are expecting to include of many subjects regarding corporate governance.
KPMG’ Survey for Integrated Reports in Japan

Target:
205 companies in the list of Japanese companies Issuing Self-Declared Integrated Reports in 2015. That are listed by the Corporate Value Reporting Lab.

Reason:
- A broadly agreed-upon definition of the integrated report does not exist.
- The Corporate Reporting Lab has continued to create the list from 2010.

Future issues:
- Some good “annual reports” are lacking from the list.
- Many unsatisfied reports are included.

Methodology:
- Established the criteria for selected disclosure items
- Carried out by the several team members on the general principle
- Required a decision by survey members, criteria were adjusted and levelled as appropriate.
Our survey’s Questions and discussion points

The number of companies which create the integrated report is increasing rapidly. However, many reports are not enough to fill the required elements of the “integrated report”.

Looked into following three points for our discussions.

1. Integrated reports are expected to provided audiences of the past-current-future story talked by the management. For telling the story, how companies are disclosed regarding their own significant capitals and the business model?

2. Corporate Governance contributes for increasing corporate value. Involvements of corporate governance in-charge are required in order to realize credibility of corporate reporting. How companies are making efforts for disclosure of corporate governance on the integrated reports?

3. Connectivity is one of the most important elements of integrated reports. Discussion regarding materiality is effective to create the relevant reports to meet their significant audiences. Materiality is impact to decision making on management resource allocatons. How companies are handling their own materiality on process and analysis and its disclosure?
Purpose of the survey

1. Fact findings of the current status of integrated reports published in Japan during 2015.
   - Companies profile (ex. Revenue, Industry, business attributes)
   - Style of each report (ex. Title, no, of pages, Language, timing )

2. Elements of the reports
   Following three points are critical for constructive communication between investors and companies.
   ① Value Creation
   ② Corporate Governance
   ③ Materiality
Overview

1. Major companies are trying to create the integrated reports.
   - Fact 1: 93% (191 companies) is the listed companies at the TSE 1st section.
   - Fact 2: 85% (174 companies) 's revenue is over JPY 100 billion.

2. Industry
   - Social contributable business (ex. Pharmaceuticals)
   - High and strict regal requirements and regulations for Eco (ex. Chemical)
   - B to C business (ex. Food, Retail)

3. Number of pages is 60 – 70 pages. (concise!!!)

4. Both of Japanese and English are available.

5. Recently, it is increasing to develop the project teams for the report, which are including of the sections to support management decision making and strategy.
Disclosure: Business Model

- The value create story is described based on the business model. However, disclosed companies are less than 50%. Furthermore, explain for it are available on just 52 companies.
- It seems that discussion and understanding for “Capitals” are not fruitful internally.
- The management team should make much discussion regarding their business resources from strategic point of views.
Disclosure: Corporate Governance

- The corporate governance code has implemented for all listed companies as of 2015. The Tokyo Stock Exchange is required to submit the corporate governance report based on the code.
- Corporate Governance is very critical factor for long and medium term value creation. However, the corporate governance part of the report is just 7% (Global base: 19%)
- While many elements of the corporate governance structure have already disclosed officially on the corporate governance report, intention for investors’ interests are missing on voluntary disclosures like as the integrated report.
Disclosure: Materiality

- Materiality is the most significant element to realize relevancy at the business reporting.
- A lot of organizations (e.g. members of CRD) are discussing regarding “materiality” from each organization’s insights, purpose and vision. Until then, at the CSR fields, materiality is identified at the CSR fields. Then, almost all disclosures are based on CSR oriented interests.
- Materiality is the core to create corporate value, and the fundamental concept for business story and connectivity of business process and resources. The board should be discussed regarding their own organizations’ materiality, which would contribute for powerful competitive advantage in the markets. It is also one of the most valuable information for capital providers’ decision making.
Future of the integrated report?

- Almost all Japanese integrated reports are missing many critical elements of integrated reporting. (eg. Capital, Business model)

- Commitments of corporate governance in-charge are important to keep credibility and accountability of reports. Current Japanese report are just including of “boilerplate type” information, and it is not contributable for investors’ decision making. We have to consider expectation GAP among capital markets’ players.

- Business strategy based materiality analysis is required to improve the quality of communication on value creation mechanism. Information regarding the process of materiality analysis may provide audiences with much implication for company’s own value.

- Some excellent reports are also available. However, almost all reports are in process to improve the reporting quality, which may use by the management team for their communication with investors.
Why companies are challenging for integrated reporting?

- The quality of integrated reports in Japan is not satisfied to meet audience’ expectation, while the number of companies is increasing rapidly.

- First of all, in order to create informative reports, it seems to clarify and identify the significant audience for business by the management team. “Stakeholders” are including of many kinds levels of expectation, roles, and involvement for corporate value creation. The board should have clear thoughts for significant audience and materiality based on their business cycle. Those discussion may realize connectivity during the reports.

- Both discussion of Internal and Eternal is not enough to create value and business sustainability based on value chain. The integrated reports may be the most beneficial tool. It is also the good tool for CEO to implement the strategy in business process and functions.

- The integrated report is one of results of integrated reporting. It the management team would involve its processes and take leadership, challenging for integrated reports may contribute for enhancing corporate sustainable value.
References

- The Integrated Reporting Movement, Robert Eccles, Michael Krzus, 2014
Thank you