

**Determinants of the Decision on Mandatory Adoption of International Financial  
Reporting Standards (IFRS) in Japan**

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**Purpose** – The purpose of this study is to explore which issues are important to board members of the Business Accounting Council (BAC) in expressing their opinions regarding the mandatory adoption of IFRS in Japan. This study also determines whether there are differences in either the level of support for the mandatory adoption of IFRS or the arguments used by various stakeholder groups and different time periods.

**Design/methodology/approach** – Using a content analysis of relevant BAC meetings and Gernon and Wallace's (1995) accounting ecology framework, this study provides rigorous and holistic insights into the debates concerning the adoption of IFRS in Japan.

**Findings** – The results indicate significantly higher levels of disapproval of mandatory adoption of IFRS by representatives from accounting academics, manufacturing industries, and the Financial Services Agency (FSA) than from the Japanese Institute of Certified Public Accountants (JICPA). Also, a lower level of disapproval of mandatory adoption of IFRS was found in 2009 than in 2012 and 2013. The result further shows that different arguments were cited by various stakeholder groups in different terms.

**Originality/value** – The findings are especially useful for the IASB and representatives of countries that plan to adopt IFRS in the future because the study shows that every country has different motivations, policies, and backgrounds for the global convergence of financial reporting.

**Keywords:**

Adoption of IFRS, Business Accounting Council (BAC) of Japan, Content analysis, Global convergence

**JEL Classification:**

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## **Determinants of the Decision on Mandatory Adoption of International Financial Reporting Standards (IFRS) in Japan**

### **1. Introduction**

The International Accounting Standards Board (IASB) has been largely responsible for developing a set of financial reporting standards that can be used internationally. The need for convergence<sup>1</sup> in International Financial Reporting Standards (IFRS) is supported by the assertion that a single set of high-quality accounting standards is an important means of enhancing the comparability and transparency of financial reporting (Doupnik and Perera, 2012, pp. 92-93). With more than 125 countries currently permitting or requiring IFRS for financial reporting, accounting convergence has become an essential component of globalization.

Although accounting standard-setters in Japan, such as the Business Accounting Council (BAC) and the Accounting Standards Board of Japan (ASBJ),<sup>2</sup> have been converging Japanese generally accepted accounting principles (J-GAAP) with international accounting standards (IAS) and IFRS, Japan has adopted a “cautious convergence approach” instead of applying a “direct adoption approach.” In other words, Japan has harmonized J-GAAP with IFRS rather than replacing J-GAAP with IFRS. This choice remains controversial and unresolved within the BAC, which is expected to make a decision on the adoption of IFRS.

As far as we know, little research has provided empirical evidence on the contents and debates in BAC meetings. Thus, the objective of this study is to explore which issues are important to BAC board members in expressing their opinions regarding the mandatory adoption of IFRS in Japan. This study also determines whether there are differences in either the level of support for the mandatory adoption of IFRS or the arguments used by various stakeholder groups. Additionally, as the BAC has issued three interim (tentative) reports regarding the adoption of IFRS in 2009, 2012, and 2013, this study investigates whether there are differences in BAC members’ opinions and arguments in these different time periods.

Using a content analysis of relevant BAC meetings and Gernon and Wallace’s (1995) accounting ecology framework, this study provides rigorous and holistic insights into the debates concerning the adoption of IFRS in Japan. Out of 14 related meetings held from October 23, 2008, to June 19, 2013, BAC board members expressed opinions 410 times (332.6 pages). Among stakeholder groups, representatives from accounting academics, manufacturing industries, the Financial Services Agency (FSA), and the Japanese Institute of Certified Public Accountants (JICPA) are opinion leaders in terms of the number of statements and words. The results indicate significantly higher levels of disapproval of mandatory adoption of IFRS by representatives from accounting academics, manufacturing industries, and the FSA than from the JICPA. Also, a lower level of disapproval of mandatory adoption of IFRS was found in 2009 (Term 1) than in 2012 and 2013 (Terms 2 and 3). This result further shows that different arguments were cited by various stakeholder groups in

different terms.

In regard to IFRS implementation, departures from the direct adoption of IFRS may lead to opportunities for political interference, delays in the availability of the standards, and concerns about IFRS compliance (Zeff and Nobes, 2010); such departures also may hinder international comparability among global enterprises. On the other hand, there is growing acceptance that one set of accounting standards does not necessarily fit all types of companies, including manufacturing industries that finance from domestic markets and small and medium-sized enterprises (SMEs) that rely on a tax-based accounting system (e.g., Advisory Council, 2010). Thus, it is timely and important to more fully understand which issues were debated within the BAC to benefit both international and national accounting standard-setters. To address these issues, this study extended the suggestion of Chatham *et al.* (2010) by conducting time-series analysis. This dynamic method should be useful for comparing the positions and arguments of various stakeholder groups expressed in different terms and we believe that it can be applied to future studies that will be conducted in other countries.

The remainder of this study is organized as follows. Section 2 describes the background of debates on the adoption of IFRS in Japan. Section 3 develops research questions. Section 4 outlines the research methodology. Section 5 shows the results of the analysis of BAC minutes. Section 6 summarizes the study and presents conclusions.

## 2. Background

After four BAC meetings from October 23, 2008, to June 11, 2009, consistent with the global trend toward convergence, the BAC issued *An Opinion on the Application of International Financial Reporting Standards (IFRS) in Japan (Interim Report) (2009 Report)* (BAC, 2009) on June 30, 2009. The *2009 Report* allowed the voluntary adoption of IFRS starting in the March 2010 fiscal year-end for consolidated financial statements. The voluntary adoption of IFRS was allowed only for listed companies that established an appropriate internal system to prepare IFRS-based reporting and whose financial and business activities were conducted globally (i.e., “well-established,” “global,” and “listed” companies). Also, the decision concerning the mandatory adoption of IFRS was supposed to be made by the end of 2012.

Along the lines of the *2009 Report*, former Minister Shozaburo Jimi of the FSA allowed the voluntary adoption of IFRS for well-established, global, and listed companies in Japan. However, on June 21, 2011, the minister announced the indefinite postponement of the decision concerning the mandatory adoption of IFRS (Jimi, 2011). The minister’s decision was mainly influenced by the following factors:

- (1) Announcement to postpone the adoption of IFRS in the United States (US) by the Securities and Exchange Commission (SEC);
- (2) Strong request to postpone the adoption of IFRS in Japan by representatives of 21 leading Japanese companies and the Japanese Chamber of Commerce and Industry;
- (3) Resistance of the Japanese Trade Union Confederation;
- (4) The unprecedented earthquake and tsunami on March 11, 2011; and

- (5) Contextual factors characterizing Japan's institutional environment, such as its economy and legal system (Jimi, 2011).

The minister stated the importance of the consideration of social, historical, political, and economic factors in each country. Following the statement, the BAC initiated a discussion to determine the fundamental policy regarding the adoption of IFRS. After five meetings from June 30, 2011, to December 22, 2011, the BAC issued *Discussion Paper on the Application of International Financial Reporting Standards (IFRS) in Japan (2012 Report; BAC, 2012)*. The voluntary adoption of IFRS for consolidated financial statements of well-organized, global, and listed companies was continuously recommended, while the mandatory adoption of IFRS was not suggested so as to maintain institutional complementarities between accounting standards and other infrastructures.

Because Japan has well-organized related infrastructures, such as financial systems, governance structures, related laws, and auditing standards, it would be futile to adopt IFRS without adjusting for related facilities and resources (Saito, 2010; Tsunogaya *et al.*, 2011). The institutional complementarity perspective assumes a plurality of models and emphasizes the systemic links between various institutions so that they fit together well and mutually increase their benefits (e.g., Aoki, 1994; Gordon and Roe, 2004; Schmidt and Spindler, 2006).<sup>3</sup> In addition to maintaining institutional complementarities domestically, the Japanese government is required to keep its promise to pursue a single set of international accounting standards to enhance international competitiveness of business activities. This promise was made in the declaration by leaders at the 2008 G20 Washington Summit (e.g., LDP, 2013). Indeed, the acceleration of global convergence of financial reporting has been necessary for Japanese companies to establish attractive capital markets within the country and to operate and finance in foreign markets (BAC, 2009, 2012, 2013; LDP, 2013). Although previous studies investigating cross-country comparability have provided mixed evidence concerning the effect of mandatory adoption of IFRS (positive evidence: e.g., Yip and Young, 2012; Chua *et al.*, 2012; negative evidence: e.g., Kvaal and Nobes, 2010; Ahmed *et al.*, 2013), other studies have reported almost unanimous support for capital markets benefits, i.e., the effects on market liquidity and cost of capital following the mandatory adoption of IFRS (e.g., Daske *et al.*, 2008; Li, 2010; Muller *et al.*, 2011).

Overall, to reflect these domestic and global requirements simultaneously, the BAC has followed two objectives:

- (1) Maintaining institutional complementarity between the financial reporting system and other infrastructures such as accounting-related laws and human resources; and
- (2) Enhancing the international comparability of financial reporting and increasing the attractiveness of the Japanese capital markets.

To maintain complementarity among domestic infrastructures, the *2012 Report* opposed the adoption of IFRS for non-consolidated financial statements and suggested the voluntary adoption of IFRS only for consolidated financial statements. Under this so-called "separation approach" (*Rentan-bunri*), consolidated financial statements are expected to play an

information-providing role for investors' decision making, while non-consolidated financial statements play a reconciliation role among stakeholders. Although global convergence of financial reporting led by the IASB relates almost entirely to the information-providing role (via consolidated accounts), the Japanese accounting system maintains two major roles for financial reporting: provision of relevant information for investors (via consolidated accounts) and calculation of surplus available for distribution and taxable income (via non-consolidated accounts) (ASBJ, 2006).

After the *2012 Report*, the BAC held five meetings from March 26, 2013, to June 19, 2013, to discuss further the adoption of IFRS in Japan and issued *A Tentative Policy Concerning the Adoption of IFRS (2013 Report; BAC, 2013)*. The BAC's policies have been largely influenced by the US-SEC decisions, which postponed adoption of IFRS in the US (see SEC, 2012). Uncertainty remains about whether or not the US will ultimately adopt IFRS mandatorily (Holder *et al.*, 2013).

In addition to the US-SEC influence, the IFRS Foundation has pressured Japan to make a clear commitment to accelerating the adoption of IFRS in Japan. To maintain the position of monitoring board,<sup>4</sup> the IFRS Foundation asked jurisdictions including Japan to be prominent in IFRS application and to make financial contributions continuously (IFRS Foundation, 2013). This new exogenous pressure allowed the BAC to facilitate the voluntary adoption of IFRS in Japan. The *2009 Report* and the *2012 Report* suggested voluntary adoption of IFRS only for consolidated financial statements of well-established, global, and listed companies. However, to facilitate voluntary adoption, the *2013 Report* allowed the use of IFRS for companies that have established an appropriate internal system to prepare IFRS-based reporting. The requirement was relaxed and "global" and "listed" were removed to accelerate Japanese companies' voluntary adoption of IFRS.

Additionally, the ruling party of Japan, the Liberal Democratic Party (LDP), has suggested that 300 Japanese companies should adopt IFRS voluntarily by the end of fiscal year 2016 (LDP, 2013). These endogenous and exogenous pressures encouraged accounting standard-setters to prepare Japanese-specific IFRS (J-IFRS), in which some accounting standards and procedures included in pure-IFRS are deleted and modified to prioritize J-GAAP. Although the new development of J-IFRS is expected to promote the adoption of IFRS by Japanese companies, Takatsugu Ochi, an IASB board member from Japan, stated that J-IFRS cannot be recognized as IFRS by the IASB (see Ito, 2013), resulting in future controversies.

### 3. Development of research questions

Because IFRS implementation is an important and controversial topic that is still debated by both national accounting standard-setters and the IASB, it is important to better understand the views of the different stakeholder groups. As suggested in prior studies (e.g., Chatham *et al.*, 2010; Brüggemann *et al.*, 2013), case studies, such as this study, provide the most effective means of understanding reactions and decisions made by accounting standard-setters and policy makers.

Actually, various constituents both affect and are affected by the BAC decision regarding the adoption of IFRS. To investigate whether various stakeholders' opinions are reflected in BAC decisions, it is important to understand both the positions of the different stakeholder groups regarding adoption of IFRS and the reasons stated to support their positions. Given that BAC board members are selected by formal and fair procedures, BAC board members' opinions and arguments are deemed to represent various stakeholders in Japan (Nishikawa, 2007). Accordingly, the research questions ask whether there are differences in the level of support for mandatory adoption of IFRS by different stakeholder groups and whether these groups cite different arguments to support their positions.

Research questions 1 and 2 seek evidence related to the relative level of support for the mandatory adoption of IFRS by various classes of stakeholder groups and also whether the reasons to support their positions vary among different stakeholder groups.

Research Question 1 (RQ1): Are there differences in the level of support for mandatory adoption of IFRS by various stakeholder groups?

Research Question 2 (RQ2): Are there differences in the arguments stated by different stakeholder groups?

Position and arguments are also grouped by terms (i.e., Term 1, 2, or 3). It is important to better understand how BAC board members articulated their opinions similarly or differently in Terms 1 through 3. Specific arguments that BAC board members used across all the terms may reflect fundamental issues, such as maintenance of institutional complementarity between financial reporting and other subsystems and enhancement of the international comparability of financial reporting.

Arguments that influenced the BAC's interim decisions and the reasons why lower levels of disapproval of mandatory adoption of IFRS were found more frequently in 2009 (Term 1) than in 2012 and 2013 (Terms 2 and 3) will be clarified by this content analysis. For example, arguments seen only in Terms 2 and 3 may have affected the decisions in the *2012 Report* and the *2013 Report*, but not the decisions in the *2009 Report*, thereby implying a reason behind the higher levels of disagreement with the mandatory adoption of IFRS in 2012 and 2013 versus 2009.

Research questions 3 and 4 examine the arguments that various stakeholder groups present to support their positions in different terms.

Research Question 3 (RQ3): Are there differences in the level of support for mandatory adoption of IFRS in different terms (Term 1, 2, or 3)?

Research Question 4 (RQ4): Are there differences in the arguments stated in different terms (Term 1, 2, or 3)?

#### **4. Research methodology**

Chatham *et al.* (2010) analyzed the contents of comment letters to the IASB concerning the proposed standard for financial instruments by grouping different stakeholders in different countries. Because they ignored the time-series analysis, they could not compare past, current,



and future positions and arguments of the different stakeholder groups. Therefore, this study extends the methodology developed by Chatham *et al.* (2010) by conducting time-series analysis. To investigate the positions of key stakeholder groups in different terms, this study reviews the minutes of BAC meetings held from October 23, 2008, to June 11, 2009 (Term 1), from June 30, 2011, to December 22, 2011 (Term 2), and from March 26, 2013, to June 19, 2013 (Term 3). These periods are especially worthy of attention because the significance and focus of the issues related to adoption of IFRS differed in these periods.

Content analysis, as used in this study, is a well-established method for analyzing the content of comment letters to accounting standard-setters, accounting standards (e.g., principles versus rules), and other related issues (Chatham *et al.*, 2010; Bradbury and Schröder, 2012; Holder *et al.*, 2013). Nonetheless, prior studies largely failed to conduct time-series analyses concerning the contents of minutes discussed by various stakeholder groups. Discussions included in the minutes that are not related to IFRS are excluded from the analysis. Although some BAC board members concurrently serve in more than two categories (e.g., serve as both an academic and a certified public accountant), all members are grouped into one category by using the list of board members at the beginning of each term. Statements by the former minister, the chairperson of the BAC, and bureaucrats of the FSA are included in the category of FSA when they define directions for adoption of IFRS and express relevant opinions. Representatives from the Japan Business Federation (*Nippon Keidanren*) are included in the category of financial and service industries in Term 1 and manufacturing industries in Terms 2 and 3 according to the affiliation of representatives in each term. Statements submitted by absentees in the form of documents are included because they consist of stakeholders' opinions. As a result, as shown in Table 1, the pages and the number of statements included in the analysis are 332.6 and 410, respectively.

#### **Insert Table 1**

A Likert-type rating system is used to assess the level of agreement with the mandatory adoption of IFRS (1=Agreement, 0=Neutral, -1=Disagreement). Because BAC board members do not show their positions clearly to avoid conflicts with other members,<sup>5</sup> it is difficult to fractionalize their positions into more than the five categories that are used in prior studies. Thus, tertile is used in this study to reflect faithfully BAC board members' positions and to avoid arbitrary scoring by the raters. Additionally, to calculate the average score showing disagreement or agreement with the mandatory adoption of IFRS within the stakeholder groups in the range of -1.0 to 1.0, this study uses the scores of -1.0 for disagreement, 0 for neutral, and 1.0 for agreement. For example, a score of -1.0 (1.0) means all BAC board members within the same stakeholder group disagree (agree) with the mandatory adoption of IFRS.

Arguments cited in the BAC minutes were coded according to 17 qualitative characteristics suggested in the accounting ecology framework developed by Gernon and Wallace (1995) and seven additional issues identified during the analysis. Compared to other frameworks (e.g., Gray, 1988; Dougnik and Salter, 1995; Nobes, 1998), Gernon and Wallace's (1995)



accounting ecology framework incorporates both causes and effects of accounting and allows for the study of accounting in a particular country in its natural setting and an exploration of the interaction in its broader institutional context. Thus, it allows researchers to study the totality of the local and global contexts. These contexts are important for this study because the BAC has pursued heterogeneous objectives, namely, maintaining institutional complementarity and enhancing the international comparability of financial reporting.

A Likert-type rating system is also used to assess the content of the specific characteristics expressed by BAC board members (1=Positive usage; 0=Neutral; -1=Negative usage). For example, if a BAC board member uses the term manufacturing activities (*monodukuri*) in Japanese society positively (negatively), the statement is coded as 1 (-1). Although the process of content analysis is classified into computer-aided and human-coded, this study adopts a human-coded process to reflect the naive meanings of statements made by BAC board members and to make the quantitative assessment more reliable, as suggested by Holder *et al.* (2013). Because BAC board members do not express their positions clearly, this human-coded process is necessary to reflect the subtle nuances in their statements.

As suggested by Krippendorff (2013, p. 277), the reliability of the content analysis was tested. An independent research assistant checked 109 statements (and its related 24 arguments for each statement) in which BAC board members made speeches regarding the mandatory adoption of IFRS. The inter-coder reliability between a researcher and the research assistant in percentage ranged from 97.3% to 100%. The average score of Krippendorff's alpha was 0.98. These results show high levels of reliability in the coding process of the study.

Nonparametric tests and descriptive statistics are used to identify patterns or differences in BAC board members' approval/disapproval scores and the arguments cited by various stakeholder groups. Statements in the BAC minutes are grouped by stakeholder group and term.

## 5. Results

### 5.1. Agreement or disagreement with mandatory adoption of IFRS (RQs1 and 3)

#### Overview

As shown in Table 2, the total of statements (410) of BAC board members consists of agreement (50, 46%), disagreement (59, 54%), and neutral (301) with the mandatory adoption of IFRS (percentages are calculated by excluding the number of neutral statements). These data show that the number of opponents of mandatory adoption of IFRS exceeds that of proponents by 8% (=54%-46%).

The average score shows the level of disagreement or agreement with the mandatory adoption of IFRS within the stakeholder groups. According to this average score, stakeholder groups are classified into opponents and proponents of mandatory adoption, as follows (parentheses: average scores):

- (1) Opponents: Accounting academics (-0.8), other academics (-0.6), tax accountants (-

- 1.0), manufacturing industries (-0.3), chamber of commerce (-1.0), trade union (-1.0), FSA (-1.0), and ASBJ (-0.3).
- (2) Proponents: JICPA (1.0), financial and service industries (1.0), stock exchanges (1.0), and financial analysts (0.6).

#### **Insert Table 2**

For further comparison of the profiles of BAC board members, Table 3 exhibits the number of BAC board members, BAC board members who made a speech at least once in the meeting, their statements, and each speaker's words in the documented minutes. The number of statements by opponents and proponents is 292 (71.2%) and 118 (28.8%), respectively. Similarly, the number of words by opponents and proponents is 341,168 (74.7%) and 115,553 (25.3%), respectively. The data provide evidence that the majority of the BAC consists of opponents of mandatory adoption of IFRS. The data further show that representatives from accounting academics, manufacturing industries, and the FSA are opinion leaders among opponents, while representatives of the JICPA are opinion leaders among proponents, in terms of the number of statements and words. The total volume of statements and words by these four major groups amounts to 67.8% and 72.9%, respectively.

#### **Insert Table 3**

This study explores whether differences in the level of support for mandatory adoption of IFRS exist between various stakeholder groups (RQ1) or different terms (Terms 1, 2, or 3) (RQ3). With regard to RQ1, academics (accounting and others), preparers of financial reports (tax accountants, manufacturing industries, chamber of commerce, trade union), regulators (FSA), and standard-setters (ASBJ) are mostly against the mandatory adoption of IFRS (average scores: from -1.0 to -0.3). The scores of -1.0 and -0.3 mean that all (100%) and two-thirds (about 66%) of BAC board members disagree with the mandatory adoption of IFRS, respectively. Conversely, the agreement largely comes from the accounting profession (JICPA) and users of financial reports (financial and service industries, financial analysts, and stock exchanges) (average scores: from 0.6 to 1.0). The scores of 1.0 and 0.6 indicate that all (100%) and four-fifths (80%) of BAC board members agree with the mandatory adoption of IFRS, respectively.

#### **Result of RQ1**

To statistically test RQ1, the four main stakeholder groups—representatives from accounting academics, manufacturing industries, FSA, and JICPA—were checked using the Kruskal-Wallis nonparametric test and statistical differences were found at  $p < .01$  ( $p = .0000$ ). To determine which pairs of groups differed, a multiple comparisons test was used. The Steel-Dwass test revealed that the higher disagreement ratings regarding the mandatory adoption of IFRS of accounting academics, manufacturing industries, and FSA are statistically different from JICPA ( $p < .01$ ;  $p = .0000$  for accounting academics and JICPA,  $p = .0006$  for manufacturing industries and JICPA,  $p = .0000$  for FSA and JICPA). These statistics show that differences in the level of support for the mandatory adoption of IFRS by different

stakeholder groups are confirmed; therefore, RQ1 is supported.

#### Result of RQ3

For RQ3, as shown in Table 2, the numbers (percentages) of proponents and opponents of the mandatory adoption of IFRS are 21 (66%) and 11 (34%) in Term 1, 20 (41%) and 29 (59%) in Term 2, and 9 (32%) and 19 (68%) in Term 3, respectively. The agreement ratings regarding mandatory adoption of IFRS were reversed before and after Term 2. That is, the mandatory adoption of IFRS was supported by the majority of BAC board members in Term 1, but opposed by the majority in Terms 2 and 3. Average scores during these terms are 0.3 in Term 1, but -0.2 in Term 2 and -0.3 in Term 3.

From a statistical standpoint, Terms 1, 2, and 3 were checked using the Kruskal-Wallis nonparametric test and statistical differences were found at  $p < .05$  ( $p = .0285$ ). To determine which pairs of terms differed, a multiple comparisons test was used. The Steel-Dwass test showed that the higher agreement ratings regarding the mandatory adoption of IFRS in Term 1 are statistically different from those of Term 2 ( $p = .0861$ ) and Term 3 ( $p = .0240$ ). These statistics show that although the level of significance is .1 and .05, respectively, differences in the level of support for the mandatory adoption of IFRS in different terms are mostly confirmed; therefore, RQ3 is supported.

To check whether BAC board members were selected without the intention to change the position concerning mandatory adoption of IFRS within the BAC, the number and position of board members who resigned at the end of Term 1 and came in during Term 2 were investigated. The changed members included representatives from accounting academics (2), other academics (3), JICPA (2), tax accountants (1), manufacturing industries (8), trade union (1), the minister and bureaucrats of the FSA (2), witnesses invited by the ASBJ (-3), and financial analysts (2) (parenthesis: net increase). From the perspective of stakeholder groups, the net number of proponents (JICPA and financial analysts) and opponents (other groups) increased by 4 and 14, respectively. Based on this difference (a difference of 10), BAC board members seemed to be selected intentionally. However, given that members of the same stakeholder group do not always have the same view, the selection procedure was not necessarily biased. Indeed, the old members consisted of 1 proponent and 6 neutralists, while new members consisted of 9 proponents, 11 opponents, and 5 neutralists. As a result, the net number of proponents and opponents increased by 8 and 11, respectively (the number of neutralists decreased by 1). This small difference (a difference of 3) provides evidence that factors other than the selection process of BAC board members affected the decisions concerning the mandatory adoption of IFRS.

#### *5.2. Content analysis – argumentation differences (RQs 2 and 4)*

##### Criteria used in the content analysis

The study also explores whether there are differences in the arguments stated by BAC board members in their support or opposition to the mandatory adoption of IFRS relative to various stakeholder groups (RQ2) or different terms (Terms 1, 2, or 3) (RQ4). Thus, in addition to the overall approval ratings, the argument employed by different groups is examined using the

frequency with which 24 criteria were mentioned by the different types of interested parties (the 24 criteria are shown in the appendix).

Following Gernon and Wallace's (1995) suggestion, 17 criteria were divided into five main groups:

1. Societal criteria (manufacturing, prudence, and long-term perspective);
2. Organizational criteria (financing in global markets, globalization of business activities, and application of step-by-step approach for global enterprises);
3. Professional criteria (application of principles-based approach and importance of education and training);
4. Individual criteria (consideration of contextual factors, international comparability, transparency, and establishment of global markets); and
5. Accounting criteria (superiority of J-GAAP to IFRS, application of fair value measurement, recycling procedure to calculate net income, close relationship with taxation, and application of separation approach).

In addition to these criteria, the following seven criteria were added during the analysis of BAC minutes:

6. Other criteria (endorsement procedures, carve-out procedures, new development of J-IFRS, coexistence of accounting standards, US-SEC policies and decisions, maintenance of international status, and relaxation of requisites to adopt IFRS).

#### Result of RQ2

Table 4 presents these 24 criteria mentioned often by opponents and proponents and shows the frequency of statements using the arguments positively (POS), negatively (NEG), or neutrally (NEU) per statement made by a BAC board member. The statistical differences between statements of opponents and proponents were also checked using the Mann-Whitney U test. These statements can be classified into four main groups: (1) argument that was used positively by opponents, but negatively by proponents, (2) argument that was used positively by proponents, but negatively by opponents, (3) argument that was used mostly positively by both parties, and (4) argument that was used mostly negatively by both parties (see Table 5).

#### **Insert Tables 4 and 5**

Significant differences in argumentation exist between opponents and proponents. More than 90% of opponents used arguments such as the importance of manufacturing (*monodukuri*), prudence (conservatism), and long-term perspective on the Japanese economy and society, while all the proponents refuted these concepts to support their positions. More than 90% of opponents suggested considering contextual factors, and thus institutional complementarity between subsystems, including the close relationship between financial reporting and taxation. Also, 80% of opponents recommended applying carve-out procedures for some items included in pure-IFRS because they considered J-GAAP to be superior to IFRS. Conversely, half of the proponents acknowledged the traditional relationship between financial reporting and taxation, but they largely denied arguments using contextual factors (NEG; 100%) and

the superiority of J-GAAP to IFRS (NEG; 67%). Because they suggested the application of pure-IFRS to Japanese firms, they are passive in applying carve-out procedures (NEG; 86%).

In addition to the recycling procedure to calculate the traditional concept of net income (all opponents and 71% of proponents agreed), other accounting treatments such as scheduled amortization for intangible assets (e.g., goodwill) and immediate recognition of development expenditures are mostly supported by both parties (Nippon Keidanren, 2006; ASBJ, 2006; METI, 2010; opinions of opponents and proponents, e.g., Nishimura, a representative from manufacturing industries, BAC, 2011a; Saito, A., a representative from the Tokyo Stock Exchange, BAC, 2011c). To establish Japan-specific IFRS to reflect these accounting treatments, 72% of opponents and half of proponents suggested developing J-IFRS. However, these percentages should be interpreted with caution because even though both parties agreed with the development of J-IFRS, their ideas stand in marked contrast. Proponents consider the application of J-IFRS as a first step in adopting pure-IFRS mandatorily, while opponents want to develop J-IFRS to avoid the direct adoption of IFRS for Japanese companies (Ito, 2013).

Meanwhile, proponents cited arguments that differed from those of opponents, such as financing in global markets and international comparability, whereas a majority (80% and 53%, respectively) of opponents used these arguments negatively. Although 71% of proponents agreed with the application of fair value measurement, 95% of opponents did not accept the IASB's suggestions. This is primarily because the excessive focus and application of fair value measurement may result in intolerable volatility in financial statements, especially for manufacturing industries (e.g., Nishimura, a representative from manufacturing industries, BAC, 2011a).

Although both parties have antagonistic views and conflicts about the mandatory adoption of IFRS, their shared ideas can also be observed. The arguments both parties used positively include the application of a step-by-step approach for global enterprises (AGR: 92% and 86%), transparency of financial reporting (AGR: 80% and 100%), application of the separation approach (AGR: 68% and 72%), introduction of endorsement procedures (AGR: 94% and 100%), consideration of US-SEC policies and decisions (AGR: 100% and 75%), and relaxation of requisites in adopting IFRS voluntarily (AGR: 91% and 89%).

In addition to these notions, some arguments were used positively by both parties, but opponents used them less frequently than proponents. These include arguments such as globalization of business activities (AGR: 71% and 100%,  $p < .01$ ), importance of education and training (AGR: 100% each,  $p < .05$ ), establishment of global markets (AGR: 71% and 100%,  $p < .01$ ), and maintenance of international status (AGR: 96% and 100%,  $p < .01$ ). The recycling procedure to calculate net income was cited positively by both parties, but opponents used it more frequently than proponents (AGR: 100% and 71%,  $p < .01$ ). Conversely, the application of a principles-based approach was cited negatively by both parties (NEG: 100% and 87%). They expressed concerns related to the discretionary behavior of managers and excessive application of judgments (e.g., Sato, a representative from

manufacturing industries, BAC, 2011b; Indo, a representative from financial analysts, BAC, 2008).

#### Result of RQ4

With respect to RQ4, Table 6 shows the number of BAC board members in each term using a particular criterion either positively (POS) or negatively (NEG). Percentages are calculated by taking the number of statements using a particular criterion in each term divided by the total number of statements during Terms 1, 2, and 3. For example, BAC board members used a criterion of manufacturing positively 17 times in Term 2 and 19 times in total; therefore, the percentage is calculated at 90% (=17/19). To rule out small frequencies that may give false meanings, percentages listed had at least five statements in each term. Statistical tests were run to determine whether the arguments expressed by BAC board members differed during Terms 1, 2, and 3. While some arguments are too small to yield meaningful statistics, useful observations can be made with regard to common arguments cited by BAC board members, as seen in Table 6.

#### **Insert Table 6**

First, no significant differences among different terms were found for some arguments. Taken together, the findings shown in Tables 5 and 6 exhibit that the notions of globalization of business activities, establishment of global markets, and maintenance of international status were used positively, while a principles-based approach was used negatively throughout the terms by both parties. The argument regarding contextual factors was suggested primarily by opponents, while international comparability was put forth mainly by proponents in all the periods.

Second, significant differences among the three terms were found (at less than the .05 level according to the Kruskal-Wallis test) for some notions. Issues related to the close relationship between financial reporting and taxation and the influence of US-SEC policies and decisions were cited mainly in Terms 1 and 2 (more than 95% and 87% were cited in Terms 1 and 2, respectively). Because the *2012 Report* documented clearly that accounting standards for SMEs should not be influenced by IFRS and should maintain a close relationship with taxation (*Kakutei Kessan Syugi*), opponents might no longer have had to mention this issue in Term 3. Similarly, because the debate concerning adoption of IFRS in the US has not developed since a staff report (SEC, 2012) was released in July 2012, BAC board members could not take into consideration suggestions by the US-SEC in Term 3.

Third, arguments related to the superiority of J-GAAP to IFRS were found only in Terms 2 and 3 (no citation in Term 1). Specifically, opponents pointed out that some IFRS regulations should be modified or excluded because of the superiority of J-GAAP. These standards include recycling procedures, fair value measurements, accounting for intangible assets, development expenditures, impairment of long-lived assets, and functional currencies. They were expressed in the *Comments on Requests for Views, Agenda Consultation 2011* (ASBJ, 2011) as a formal opinion of a wide variety of stakeholders in Japan.



Fourth, during Term 1, the BAC and FSA were less likely to support the separation approach (POS 7; NEG 12). Because consolidated financial statements are based on non-consolidated financial statements within an enterprise group (Mitsui, 2009), J-GAAP required preparers of financial reports to adopt the same accounting standards in preparing these financial statements. Contrary to this basic principle in J-GAAP, after Term 2, the separation approach received support from both parties to promote global convergence of financial reporting and to maintain institutional complementarities among domestic subsystems (POS 25 and 7; NEG 5 and 0 in Terms 2 and 3, respectively). Importantly, the separation approach can be viewed as the outcome of a trade-off between heterogeneity at the supranational and country levels of objectives within the country (Brüggemann *et al.*, 2013).

Fifth, the importance of manufacturing activities and a long-term perspective on the Japanese economy and society as well as concerns about the application of fair value measurement were used mainly in Term 2 (92%, 100%, and 83% were cited in Term 2, respectively). Term 2 was important for opponents to provide legitimacy for the statement of the former minister, who postponed indefinitely the decision concerning mandatory adoption of IFRS (Jimi, 2011). Opponents may have used the rhetoric to reverse the dominant views within the BAC. In other words, it was not the selection process of board members but these arguments that reversed the decisions within the BAC concerning mandatory adoption of IFRS.

Finally, the remaining arguments, such as the necessity of endorsement procedures and relaxation of requisites to adopt IFRS, and concerns about the coexistence of accounting standards were discussed in Term 3 (88%, 82%, and 100% were cited in Term 3, respectively). Because of the application of endorsement procedures and new development of J-IFRS, four accounting standards (J-GAAP, pure-IFRS, J-IFRS, and US-GAAP) coexist for Japanese listed companies. This circumstance is controversial and most BAC board members are concerned about this complicated and incomprehensible situation with respect to the comparability of financial reporting (POS 9; NEG 24).

#### Additional analysis

For the robustness test, correlations among the variables were checked using the Spearman and Kendall methods (see Table 7). The concepts of financing in global markets, globalization of business activities, a step-by-step approach for global enterprises, a principle-based approach, education and training, international comparability, transparency of financial reporting, establishment of global markets, fair value measurement, and maintenance of international status had a significant and positive relationship with the mandatory adoption of IFRS. These ideas are mostly consistent with the “global” objective of enhancing international comparability and establishing global capital markets within the country. These objectives have been pursued by the Japanese government and by IASB policies. On the other hand, the arguments regarding manufacturing, prudence, a long-term perspective, contextual factors, the superiority of J-GAAP to IFRS, a close relationship between financial reporting and taxation, and the coexistence of accounting standards had a significant but negative relationship with the mandatory adoption of IFRS. These notions are



largely consistent with the “local” objective of maintaining institutional complementarity and considering contextual factors in making decisions regarding the adoption of IFRS. Given that proponents and opponents suggest a direct adoption approach and a cautious convergence approach, respectively, it is likely that the global contexts are supported by proponents, but the local contexts are preferred by opponents. These facts provide additional evidence of diversified opinions and arguments within the BAC.

#### Insert Table 7

### 6. Summary and conclusions

Using the average score, stakeholder groups are classified into opponents and proponents of the mandatory adoption of IFRS. Representatives from accounting academics, other academics, tax accountants, manufacturing industries, chamber of commerce, trade union, the FSA, and the ASBJ are grouped into opponents (average scores: from -1.0 to -0.3). Representatives from the JICPA, financial and service industries, stock exchanges, and financial analysts are proponents (average scores: from 0.6 to 1.0). The profile of BAC board members provides evidence that most BAC members are opponents. The data further show that representatives from accounting academics, manufacturing industries, and the FSA are opinion leaders of opponents, while representatives of the JICPA are opinion leaders of proponents in terms of the number of statements and words. The results of this study indicated significantly higher levels of disapproval of the mandatory adoption of IFRS by representatives from accounting academics, manufacturing industries, and the FSA than by those from the JICPA. Also, a lower level of disapproval of the mandatory adoption of IFRS was found in 2009 than in 2012 and 2013. The result further demonstrated that diversity of opinions and arguments existed in different stakeholder groups and in different terms.

Actually, opponents and proponents have differing views and conflicts about the mandatory adoption of IFRS. Opponents tend to consider the “local context,” including institutional complementarity between domestic subsystems, and suggest a more “cautious convergence approach.” They argue that Japanese manufacturing industries prefer J-GAAP to IFRS because the BAC and the ASBJ have prepared accounting standards to reflect the economic realities of Japanese manufacturing (*Monodukuri*). The arguments involving prudence, a long-term perspective, contextual factors, and a close relationship with taxation are mostly cited by opponents. They suggest the application of carve-out procedures and the development of J-IFRS, in which some accounting standards and procedures included in pure-IFRS are deleted and modified to prioritize J-GAAP.

However, conflicts and dilemmas exist between the application of carve-out procedures and J-IFRS and the contribution to the IASB. The carve-out procedures may enhance the voluntary adoption of IFRS in Japan, but this procedure should not be applied to the voluntary adoption of IFRS to maintain IFRS compliance (Yanaga, 2013). Similarly, Japanese companies may adopt J-IFRS instead of J-GAAP, but J-IFRS prepared by the FSA are not recognized as IFRS issued by the IASB (Ito, 2013). Also, the development of J-IFRS results in further controversy because different accounting standards such as J-GAAP, “IFRS

as issued by the IASB (pure-IFRS),” “IFRS as endorsed by the FSA (J-IFRS),” and US-GAAP coexist. Conversely, proponents tend to focus more on the “global context” and support a “direct adoption approach.” They argue that the mandatory adoption of IFRS would enhance international comparability of financial reporting and increase the attractiveness of Japanese capital markets. Proponents largely share the argument regarding financing global markets.

Nonetheless, some ideas shared by proponents and opponents can be observed. The notions of globalization of business activities and establishment of global markets were used positively, while that of a principles-based approach was used negatively, by both parties throughout the terms (Terms 1, 2, and 3). The argument regarding contextual factors was suggested primarily by opponents, while international comparability was advocated mainly by proponents in all the periods. Importantly, this observation is consistent with the fact that Japanese policy makers and standard-setting bodies have followed two objectives: enhancing the international comparability of financial reporting and considering contextual factors and maintaining institutional complementarity between financial reporting and other infrastructures (e.g., BAC, 2009, 2012, 2013; LDP, 2013).

Issues related to the influence of US-SEC policies and decisions were cited by both parties, mainly in Terms 1 and 2. Because the debate concerning the adoption of IFRS in the US has not developed since a staff report (SEC, 2012) was released in July 2012, BAC board members could not consider suggestions by the US-SEC in Term 3. This fact has important implications for the BAC following decisions and policies of the US in the future. In other words, as long as the domestic-oriented policies of the US continue, they might provide legitimacy for the BAC not to recommend mandatory adoption of IFRS for Japanese companies. Additionally, although the separation approach was not supported by both parties in Term 1, the approach was supported by both parties after Term 2. The separation approach is consistent with the dual objectives that the Japanese policy makers and standard-setting bodies have followed. They have sought to enhance the international comparability of financial reporting by adopting IFRS for the consolidated financial statements of global enterprises. A second objective is to consider contextual factors and maintain institutional complementarity between domestic subsystems by adopting J-GAAP (or J-IFRS) for non-consolidated financial statements as well as the consolidated financial statements of other listed companies (e.g., manufacturing industries) that finance mainly from Japanese capital markets.

Findings of this study suggest that certain characteristics of the Japanese accounting environment may create problems concerning the adoption of IFRS. Important problems that have been identified include application of fair value measurement and the principles-based approach. This may be caused by a lack of judgment skills among Japanese accounting professionals. In other words, the code law tradition and strict compliance with national legislation in the Japanese accounting system are the main sources of these concerns. To improve judgment skills in the accounting and auditing professions, the JICPA established the Japan Federation for Accounting Education and Learning (JFAEL) in July 2009.

Moreover, to develop international accounting professionals who contribute to the IASB, the ASBJ launched the Accounting Human Resource Development Program in August 2011. These facts provide evidence that challenges for the adoption of IFRS are gradually progressing in Japan.

Some limitations in this research should be acknowledged. First, content analysis cannot avoid arbitrariness by raters. This study made every attempt suggested in prior studies (e.g., Chatham *et al.*, 2010; Krippendorff, 2013) to improve reliability and maintain consistency. Second, to investigate opinions of key stakeholders concerning the adoption of IFRS in Japan, this study collected 14 sets of minutes from BAC meetings. However, the unbalanced composition of the BAC (see Table 3) indicated that the diversified opinions of BAC board members were not necessarily reflected in the BAC's decisions. Despite these limitations, this study is the first to conduct a content analysis of BAC minutes and to provide rigorous and holistic insights into the debate concerning adoption of IFRS in Japan. The research method used by the study can be applied to future studies that will conduct time-series analyses for a variety of purposes (e.g., analysis of comment letters to accounting standard-setters). The findings are especially useful for the IASB and representatives of countries that plan to adopt IFRS in the future because the study shows that every country has different motivations, policies, and backgrounds for the global convergence of financial reporting.

#### **Appendix: Description of criteria used in the content analysis**

The criteria used in the content analysis are specified below with illustrative examples. The 17 criteria are derived from Gernon and Wallace's (1995) accounting ecology framework, which includes societal, organizational, professional, individual, and accounting criteria. The other seven criteria were added during the analysis of BAC minutes. The numbers in parentheses represent the number cited by BAC board members either positively (POS) or negatively (NEG).

##### **Societal environment:**

The societal environment refers to the structural, cultural, and demographic elements within a society, as follows:

**Manufacturing (*Monodukuri*) (POS: 19, NEG: 5)** – This argument is based on the assertion that the competitiveness of Japanese firms is evident in a variety of manufacturing industries (*Monodukuri*). Most opponents among BAC board members insist that the adoption of IFRS will reduce the strength of the Japanese economy because IFRS are better suitable to financial and service industries than to manufacturing industries.

**Prudence (Conservativeness) (POS: 9, NEG: 3)** – This argument suggests that the adoption of IFRS will conflict with the traditional virtues in Japanese society. Thrift and moderation derived from the teachings of Confucius lead to the virtues of prudence and conservativeness in Japanese society (Suzuki, 2011). For example, opponents are against the adoption of IFRS because it allows for the optimistic revaluation of assets using fair value measurements.

**Long-term perspective (Going-concern) (POS: 12, NEG: 4)** – This idea is related to

other Confucian virtues such as seniority and loyalty. The Japanese seniority (*Nenko-joretsu*) and lifetime employment (*Shusin-koyo*) systems are typical cases. From a long-term perspective, opponents argue against the adoption of IFRS, which will promote short-term fluctuations (volatility) in accounting figures caused mainly by fair value measurements.

**Organizational environment:**

The organizational environment is related to elements bearing on rationalizations in the choice and design of accounting systems, such as organizational size, technology, complexity, and global operations, as follows:

**Financing in global markets (POS: 8, NEG: 4)** – The notion is that consistent with the globalization of business activities, Japanese companies should seek the most appropriate financing method in both global and domestic markets. Proponents often rely on this notion, but opponents argue that 99% of all Japanese companies are privately owned and finance mainly from bank credit and/or finance from domestic capital markets.

**Globalization of business activities (POS: 26, NEG: 5)** – This idea is based on the current situation in Japan in which about 250 listed companies engage in financial and business activities that are conducted globally. Both proponents and opponents acknowledge the importance of globalization of business activities to overcome the shrinkage of matured domestic markets.

**Step-by-step approach for global enterprises (POS: 17, NEG: 2)** – The idea is that IFRS should not be applied in all listed companies (about 3,900 companies) in Japan but rather applied in a step-by-step manner in certain companies, such as global enterprises (about 250 enterprises). Both proponents and opponents agree on the adoption of IFRS for global enterprises.

**Professional environment:**

The professional environment implies such aspects of the profession as education, training, registration, discipline, and professional ethics and culture, as follows:

**Principles-based approach (POS: 1, NEG: 21)** – This argument suggests that preparers of financial statements and auditors in Japan may face difficulty in making judgments about the more principles-based IFRS. The code law tradition and strict compliance with national legislation are the main reasons for these concerns. Both proponents and opponents demonstrate strong concerns about the application of a principles-based approach.

**Education and training (POS: 14, NEG: 0)** – The idea is that the adoption of IFRS necessitates extensive education and training to interpret IFRS consistently. Both proponents and opponents acknowledge the importance of education and training on the practical application of IFRS, including judgment skills.

**Individual environment:**

The individual environment shows the total setting in which individuals lobby standard setters and use accounting numbers to their respective advantage. The controversial issues between proponents and opponents are as follows:

**Contextual factors (POS: 42, NEG: 17)** – The argument is that contextual factors, such as social, historical, political, and economic factors, should be reflected in the decision

concerning adoption of IFRS. Because the accounting and economic systems in Japan are well organized and quite different from those in Anglo-American countries, consideration of institutional complementarities is required. Opponents cited this notion frequently, but proponents denied it completely.

**International comparability (POS: 23, NEG: 9)** – This is the notion that the adoption of IFRS is an important means of enhancing international comparability of financial reporting. Proponents argue that adoption is important to establish attractive and reliable capital markets within Japan. In contrast, opponents insist that international comparability is not necessarily needed because almost all Japanese companies finance mainly from bank credit and/or domestic capital markets.

**Transparency (POS: 9, NEG: 1)** – The idea is that adoption of IFRS will enhance transparency in financial reporting. Because of long-term corporate relationships among stakeholders through cross-share holdings, the pressure to enhance transparency in financial reporting in Japan was not necessarily strong. Both proponents and opponents acknowledge the importance of enhancing transparency in financial reporting.

**Establishment of global markets (POS: 33, NEG: 6)** – The notion is that capital markets in Japan, including the Tokyo Stock Exchange, should become more global markets to attract foreign investors and reduce Japanese firms' cost of capital. Most BAC board members agree with this notion.

#### Accounting environment:

The accounting environment encompasses accounting practices, rules, and/or trends that affect or are affected by the other dimensions, as follows:

**Superiority of Japanese GAAP to IFRS (POS: 37, NEG: 6)** – This argument is mainly based on the assertion that Japanese manufacturing industries prefer J-GAAP to IFRS because Japanese accounting standards-setters have prepared accounting standards to reflect the economic reality of manufacturing (*Monodukuri*). Opponents agreed with this notion completely, but most proponents did not accept it.

**Application of fair value measurement (POS: 6, NEG: 23)** – The argument concerns whether the application of fair value measurement enhances the information-providing role for investors' decision making and the reconciliation role among stakeholders (i.e., the calculation of surplus available for distribution and taxable income). Most proponents agreed with the application of fair value measurement, while almost all opponents refuted it so as to avoid intolerable volatility (short-term fluctuations) in financial statements.

**Recycling procedure to calculate net income (POS: 33, NEG: 2)** – The recycling or reclassification procedure is required to avoid double-counting unrealized income items that are recognized as a portion of net income during a period and also as a portion of unrealized income in that period or earlier periods. The recycling procedure is important because net income cannot be calculated without it. Although the IASB has not adopted an amenable attitude toward the recycling procedure, most BAC board members suggested the application of this procedure.

**Close relationship with taxation (*Kakutei Kessan Syugi*) (POS: 38, NEG: 6)** – Close interaction between financial reporting and accounting for tax purposes exists for some Japanese companies, including SMEs. The Corporation Tax Law influences accounting



practices in Japan because it allows companies to deduct only those expenses that are included in net income and settled in the general meeting of shareholders. Most opponents agreed with this approach, but half the proponents did not accept the maintenance of this traditional system.

**Separation approach (*Rentan-bunri*) (POS: 39, NEG: 17)** – This approach is based on the idea that consolidated financial statements are allowed to be prepared using IFRS, while non-consolidated financial statements should be prepared using J-GAAP. The dominant view in Term 1 was that the same accounting standards should be applied to prepare both consolidated and non-consolidated financial statements because consolidated financial statements were based on non-consolidated financial statements within an enterprise group. However, after Term 2, the separation approach was supported by both opponents and proponents so as to promote global convergence of IFRS.

#### **Other factors:**

**Endorsement procedures (POS: 25, NEG: 1)** – According to the *Regulation Concerning Terminology, Forms, and Preparation of Consolidated Financial Statements* (Article 93), IFRS are included in J-GAAP given that IFRS are endorsed by the minister of the FSA. This endorsement process potentially results in differences between “IFRS as issued by the IASB” and “IFRS as endorsed by the FSA.” There may be cases in which the FSA suspends the adoption of IFRS directly when IFRS are seriously inappropriate and cannot be recognized as J-GAAP. Most BAC board members accepted these procedures.

**Carve-out procedures (POS: 17, NEG: 10)** – This relies on the idea that some IFRS regulations should be modified or excluded, especially in cases when (1) basic concepts of J-GAAP differ from those of IFRS, (2) the cost of IFRS implementation exceeds its benefits, and (3) institutional complementarity cannot be maintained. Opponents agreed, but most proponents disagreed because carve-outs provide discretion for individual countries and may hinder international comparability and create excessive politics surrounding the issue.

**New development of J-IFRS (POS: 16, NEG: 8)** – The ruling party of Japan, the Liberal Democratic Party (LDP), suggests that 300 Japanese companies should adopt IFRS voluntarily by the end of fiscal year 2016. This endogenous pressure compelled the ASBJ to prepare J-IFRS, in which some accounting standards and procedures included in pure-IFRS are deleted and modified to prioritize J-GAAP. Most opponents and half the proponents accepted the establishment of J-IFRS. However, the intention behind developing J-IFRS may differ between opponents and proponents.

**Coexistence of accounting standards (POS: 9, NEG: 24)** – As a result of the endorsement and carve-out procedures, four accounting standards for listed companies in Japan coexist: J-GAAP, pure-IFRS, J-IFRS, and US-GAAP. Half of opponents accepted, but all proponents were concerned about issues related to the complexity and comparability of financial reporting.

**US-SEC policies and decisions (POS: 37, NEG: 3)** – The question is whether Japanese policy makers should follow decisions made by influential organizations such as the US-SEC. Most BAC board members acknowledged that the BAC’s policies have been largely influenced by US-SEC decisions, including postponing the adoption of IFRS in the US.

**Maintenance of international status (POS: 47, NEG: 1)** – This notion was suggested

by most BAC board members. However, their statements should be interpreted with caution. Opponents insist that international status can be enhanced by preparing a set of high-quality J-GAAP that can compete with IFRS. In contrast, proponents argue that opinions can be reflected in international discussions only by adopting IFRS and securing political power as board members within the IASB and IFRS Foundation.

**Relaxation of requisites to adopt IFRS (POS: 18, NEG: 2)** – Consistent with the pressure from the IFRS Foundation to be prominent in IFRS application in Japan, the BAC removed the requisites of “global” and “listed.” The remaining requisite for adopting IFRS is the establishment of an appropriate internal system to prepare IFRS-based reporting. Most BAC board members agree with this proposal to accelerate the voluntary adoption of IFRS for Japanese companies, including SMEs whose activities are conducted globally.

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**Table 1.**  
**Sampling Units of the BAC Minutes**

Term	No.	Date of meeting	Pages of the minute	Number of statements
Term 1	1	October 23, 2008	20.4	28
	2	December 16, 2008	29.0	28
	3	January 28, 2009	27.3	35
	4	June 11, 2009	13.6	24
	Subtotal	Oct. 23, 2008-Jun. 11, 2009	90.3	115
Term 2	1	June 30, 2011	24.6	26
	2	August 25, 2011	21.8	34
	3	October 17, 2011	28.0	22
	4	November 10, 2011	24.9	16
	5	December 22, 2011	27.4	34
	Subtotal	Jun. 30, 2011- Dec. 22, 2011	126.7	132
Term 3	1	March 26, 2013	20.6	19
	2	April 23, 2013	25.9	34
	3	May 28, 2013	26.4	50
	4	June 12, 2013	21.7	22
	5	June 19, 2013	21.0	38
	Subtotal	Mar. 26, 2013-Jun. 19, 2013	115.6	163
Total		Oct. 23, 2008-Jun. 19, 2013	332.6	410

# Determinants of the Decision on Mandatory Adoption of IFRS in Japan

**Table 2.**  
**Opinions of BAC Board Members on Mandatory Adoption of IFRS**

Stakeholders	Term 1 Oct. 23, 2008-Jun. 11, 2009				Term 2 Jun. 30, 2011-Dec. 22, 2011				Term 3 Mar. 26, 2013-Jun. 19, 2013				Total Oct. 23, 2008-Jun. 19, 2013			
	AGR	DIS	NEU	Av.	AGR	DIS	NEU	Av.	AGR	DIS	NEU	Av.	AGR	DIS	NEU	Av.
<b>Academics</b>																
Accounting	0	6	16	-1.0	2	5	13	-0.4	0	5	24	-1.0	2	16	53	-0.8
Others	0	2	1	-1.0	1	1	11	0.0	0	1	4	-1.0	1	4	16	-0.6
<b>Accounting professional</b>																
JICPA	6	0	11	1.0	6	0	7	1.0	3	0	17	1.0	15	0	35	1.0
Tax accountants	0	0	0	0.0	0	4	2	-1.0	0	0	0	0.0	0	4	2	-1.0
<b>Preparers</b>																
Manufacturing industries	5	0	6	1.0	4	10	15	-0.4	0	8	22	-1.0	9	18	43	-0.3
Financial and service industries	4	0	5	1.0	3	0	1	1.0	0	0	2	0.0	7	0	8	1.0
Chamber of commerce	0	1	0	-1.0	0	0	2	0.0	0	0	0	0.0	0	1	2	-1.0
Trade Union	0	0	0	0.0	0	3	2	-1.0	0	0	3	0.0	0	3	5	-1.0
<b>Regulators</b>																
FSA	0	0	25	0.0	0	4	15	-1.0	0	5	38	-1.0	0	9	78	-1.0
Stock exchanges	2	0	4	1.0	2	0	1	1.0	2	0	2	1.0	6	0	7	1.0
<b>Standard setter</b>																
ASBJ (FASF)	1	2	8	-0.3	0	0	8	0.0	0	0	8	0.0	1	2	24	-0.3
<b>Users</b>																
Financial analysts	3	0	7	1.0	2	2	6	0.0	4	0	15	1.0	9	2	28	0.6
<b>Total</b>	21	11	83	0.3	20	29	83	-0.2	9	19	135	-0.3	50	59	301	-0.1
<b>Percentage</b>	66%	34%	--		41%	59%	--		32%	68%	--		46%	54%	--	

Note 1: This table summarizes the number of statements made by BAC board members on the mandatory adoption of IFRS.

Note 2: AGR: Agree, DIS: Disagree, NEU: Neutral (a neutral stance or no statement regarding the adoption of IFRS).

Note 3: Av: Average score of AGR (+1) and DIS (-1).

Note 4: JICPA: Japanese Institute of Certified Public Accountants, Chamber of commerce: Japanese Chamber of Commerce and Industry, Trade union: Japanese Trade Union Confederation, FSA: Financial Services Agency, ASBJ: Accounting Standards Board of Japan, FASF: Financial Accounting Standards Foundation.

**Table 3.**  
**Composition and Statements of BAC Board Members**

Stakeholders	Number of board members announced officially	Number of board members who made a speech at least once in the meeting	Number of statements made by board members in the minutes	Number of board members' words in the minutes
<b>Opponents of the mandatory adoption of IFRS</b>				
Accounting academics	14 (19.7%)	11 (18.6%)	70 (17.1%)	74,151 (16.2%)
Other Academics	8 (11.3%)	5 ( 8.5%)	21 ( 5.1%)	15,471 ( 3.4%)
Tax accountants	2 ( 2.8%)	1 ( 1.7%)	6 ( 1.5%)	5,725 ( 1.3%)
Manufacturing industries	12 (16.9%)	11 (18.6%)	70 (17.1%)	72,798 (15.9%)
Chamber of commerce	1 ( 1.4%)	1 ( 1.7%)	3 ( 0.7%)	1,631 ( 0.4%)
Trade union	2 ( 2.8%)	2 ( 3.4%)	8 ( 2.0%)	9,028 ( 2.0%)
ASBJ (FASF)	6 ( 8.5%)	5 ( 8.5%)	27 ( 6.6%)	29,685 ( 6.5%)
Sub Total	45 (63.4%)	36 (61.0%)	205 (50.0%)	208,489 (45.6%)
FSA	8 (11.3%)	8 (13.6%)	87 (21.2%)	132,679 (29.1%)
Sub Total	53 (74.6%)	44 (74.6%)	292 (71.2%)	341,168 (74.7%)
<b>Proponents of the mandatory adoption of IFRS</b>				
JICPA	6 ( 8.5%)	6 (10.2%)	51 (12.4%)	53,208 (11.7%)
Financial/service industries	2 ( 2.8%)	1 ( 1.7%)	15 ( 3.7%)	14,815 ( 3.2%)
Stock exchanges	2 ( 2.8%)	1 ( 1.7%)	13 ( 3.2%)	15,304 ( 3.4%)
Financial analysts	8 (11.3%)	7 (11.9%)	39 ( 9.5%)	32,226 ( 7.1%)
Sub Total	18 (25.4%)	15 (25.4%)	118 (28.8%)	115,553 ( 25.3%)
<b>Total</b>	<b>71 (100%)</b>	<b>59 (100%)</b>	<b>410 (100%)</b>	<b>456,721 (100%)</b>

Note 1: Opponents: Av. < 0, Neutralists: Av. = 0, Proponents: Av. > 0.

Average scores (Av.) were calculated by BAC board members' Agreement (+1) and Disagreement (-1) with the mandatory adoption of IFRS expressed in the all BAC minutes (see total column of Table 2).

Note 2: JICPA: Japanese Institute of Certified Public Accountants, Chamber of commerce: Japanese Chamber of Commerce and Industry, Trade union: Japanese Trade Union Confederation, FSA: Financial Services Agency, ASBJ: Accounting Standards Board of Japan, FASF: Financial Accounting Standards Foundation.

# Determinants of the Decision on Mandatory Adoption of IFRS in Japan

**Table 4.**  
**Common Arguments Used by Stakeholders with Different Positions on Adoption of IFRS**

Criteria	Opponents			Proponents			Mann-Whitney U Test	
	POS	NEG	NEU	POS	NEG	NEU	Z	Sig.
<b>Societal Criteria:</b>								
Manufacturing	19 ( 91%)	2 ( 9%)	272	0 ( 0%)	3 (100%)	114	3.189	.001**
Prudence	9 ( 90%)	1 ( 10%)	283	0 ( 0%)	2 (100%)	115	2.377	.017*
Long-term perspective	12 (100%)	0 ( 0%)	281	0 ( 0%)	4 (100%)	113	3.477	.001**
<b>Organizational Criteria:</b>								
Financing in global markets	1 ( 20%)	4 ( 80%)	288	7 (100%)	0 ( 0%)	110	3.752	.000**
Globalization of business activities	12 ( 71%)	5 ( 29%)	276	14 (100%)	0 ( 0%)	103	3.236	.001**
Step-by-step approach for global enterprises	11 ( 92%)	1 ( 8%)	281	6 ( 86%)	1 ( 14%)	110	0.380	.704
<b>Professional Criteria:</b>								
Principles-based approach	0 ( 0%)	14 (100%)	279	1 ( 13%)	7 ( 87%)	109	0.158	.874
Education/training	6 (100%)	0 ( 0%)	287	8 (100%)	0 ( 0%)	109	2.409	.016*
<b>Individual Criteria:</b>								
Contextual factors	42 ( 93%)	3 ( 7%)	248	0 ( 0%)	14 (100%)	103	6.115	.000**
International comparability	8 ( 47%)	9 ( 53%)	276	15 (100%)	0 ( 0%)	102	4.344	.000**
Transparency	4 ( 80%)	1 ( 20%)	288	5 (100%)	0 ( 0%)	112	1.915	.055
Establishment of global markets	15 ( 71%)	6 ( 29%)	272	18 (100%)	0 ( 0%)	99	3.732	.000**
<b>Accounting Criteria:</b>								
Superiority of J-GAAP to IFRS	34 (100%)	0 ( 0%)	259	3 ( 33%)	6 ( 67%)	108	4.043	.000**
Application of fair value measurement	1 ( 5%)	21 ( 95%)	271	5 ( 71%)	2 ( 29%)	110	3.237	.001**
Recycling procedure to calculate net income	28 (100%)	0 ( 0%)	265	5 ( 71%)	2 ( 29%)	110	2.231	.026*
Close relationship with taxation	34 ( 94%)	2 ( 6%)	257	4 ( 50%)	4 ( 50%)	109	3.110	.002**
Separation approach	26 ( 68%)	12 ( 32%)	255	13 ( 72%)	5 ( 28%)	99	0.526	.599
<b>Other Criteria:</b>								
Endorsement procedures	17 ( 94%)	1 ( 6%)	275	8 (100%)	0 ( 0%)	109	0.507	.612
Carve-out procedures	16 ( 80%)	4 ( 20%)	273	1 ( 14%)	6 ( 86%)	110	2.981	.003**
New development of J-IFRS	13 ( 72%)	5 ( 28%)	275	3 ( 50%)	3 ( 50%)	111	1.035	.301
Coexistence of accounting standards	9 ( 50%)	9 ( 50%)	275	0 ( 0%)	15 (100%)	102	4.169	.000**
US-SEC policies and decisions	28 (100%)	0 ( 0%)	265	9 ( 75%)	3 ( 25%)	105	1.287	.198
Maintenance of international status	26 ( 96%)	1 ( 4%)	266	21 (100%)	0 ( 0%)	96	2.657	.008**
Relaxation of requisites to adopt IFRS	10 ( 91%)	1 ( 9%)	282	8 ( 89%)	1 ( 11%)	108	1.237	.216

Note 1: This table shows the number of statements using a particular criterion positively (POS), negatively (NEG), or neutrally (NEU) by a BAC board member.

Note 2: **Opponents:** Accounting academics, Other academics, Tax accountants, Manufacturing industries, Japanese Chamber of Commerce and Industry, Japanese Trade Union Confederation, Financial Services Agency (FSA), and Accounting Standards Board of Japan (ASBJ). **Proponents:** Japanese Institute of Certified Public Accountants (JICPA), Financial and service industries, Stock exchanges, and Financial analysts.

**Table 5.**  
**Arguments Used Positively and/or Negatively by Proponents and Opponents**

		Proponents	
		More positively ←	→ More negatively
Opponents	More positively ↑	<b>Argument that was mostly used positively by opponents and proponents</b> <ul style="list-style-type: none"> <li>• globalization of business activities**</li> <li>• application of step-by-step approach for global enterprises</li> <li>• importance of education and training*</li> <li>• transparency</li> <li>• establishment of global markets**</li> <li>• recycling procedure to calculate net income*</li> <li>• application of the separation approach</li> <li>• endorsement procedures</li> <li>• US-SEC policies and decisions</li> <li>• maintenance of international status**</li> <li>• relaxation of requisites to adopt IFRS</li> </ul>	<b>Argument that was used positively by opponents, but negatively by proponents</b> <ul style="list-style-type: none"> <li>• manufacturing**</li> <li>• prudence*</li> <li>• long-term perspective**</li> <li>• consideration of contextual factors**</li> <li>• superiority of J-GAAP to IFRS**</li> <li>• close relationship with taxation**</li> <li>• carve-out procedures**</li> <li>• new development of J-IFRS</li> <li>• coexistence of accounting standards**</li> </ul>
	More negatively ↓	<b>Argument that was used positively by proponents, but negatively by opponents</b> <ul style="list-style-type: none"> <li>• financing in global markets**</li> <li>• international comparability**</li> <li>• application of fair value measurement</li> </ul>	<b>Argument that was mostly used negatively by opponents and proponents</b> <ul style="list-style-type: none"> <li>• application of principles-based approach</li> </ul>

Note 1: Fifty percent is used as a criterion to divide statements of proponents and opponents into either more positively or more negatively. For example, 91% of opponents used the concept of manufacturing positively, while all proponents used it negatively, therefore, manufacturing is classified into the category of “Argument that was used positively by opponents, but negatively by proponents.”

Note 2: \*\*: significant at less than .01; \*: significant at less than .05.



**Table 6.**  
**Common Arguments Used by BAC Members within Different Terms on Adoption of IFRS**

Criterion:	Term 1		Term 2		Term 3		Total		Kruskal-Wallis Test		Steel-Dwass Test					
	POS	NEG	POS	NEG	POS	NEG	POS	NEG	$\chi^2$	Sig.	Term 1 vs. Term 2		Term 1 vs. Term 3		Term 2 vs. Term 3	
											t	Sig.	t	Sig.	t	Sig.
<b>Arguments that no significant differences are found by Kruskal-Wallis Test during Terms 1, 2, and 3</b>																
Globalization of business activities	9 ( 35%)	1	10 ( 38%)	3	7 ( 27%)	1	26	5	1.030	.598						
Step-by-step approach for global enterprises	8 ( 47%)	2	8 ( 47%)		1		17	2	5.756	.056						
Principles-based approach	1	6 ( 29%)		8 ( 38%)		7 ( 33%)	1	21	0.523	.770						
Contextual factors	8 ( 19%)	1	28 ( 67%)	13 ( 76%)	6 ( 14%)	3	42	17	5.440	.066						
International comparability	9 ( 40%)	4	7 ( 30%)	3	7 ( 30%)	2	23	9	0.202	.904						
Establishment of global markets	6 ( 18%)	1	20 ( 61%)	5 ( 83%)	7 ( 21%)		33	6	5.326	.070						
Recycling procedure to calculate net income	4		17 ( 52%)	2	12 ( 36%)		33	2	4.994	.082						
Carve-out procedures	2	3	2		13 ( 76%)	7 ( 70%)	17	10	2.197	.333						
New development of J-IFRS			1		15 ( 94%)	8 (100%)	16	8	2.776	.250						
Maintenance of international status	12 ( 25%)		22 ( 47%)	1	13 ( 28%)		47	1	4.604	.100						
<b>Arguments that significant differences are found by Kruskal-Wallis Test during Terms 1, 2, and 3</b>																
<b>Arguments that used mainly in Terms 1 and 2</b>																
Close relationship with taxation	9 ( 24%)	1	27 ( 71%)	5 ( 83%)	2		38	6	18.370	.000**	2.043	.102	2.315	.053	4.131	.000**
US- SEC policies and decisions	15 ( 40%)	2	18 ( 49%)		4	1	37	3	12.934	.002**	0.470	.885	2.861	.012*	3.724	.001**
<b>Arguments that used mainly in Terms 2 and 3 (or that used differently in Terms 2 and 3 compared to Term 1)</b>																
Superiority of J-GAAP to IFRS			26 ( 70%)	4	11 ( 30%)	2	37	6	19.262	.000**	3.988	.000**	2.143	.081	2.680	.020*
Separation approach	7 ( 18%)	12 ( 71%)	25 ( 64%)	5 ( 29%)	7 ( 18%)		39	17	17.751	.000**	3.464	.002**	2.304	.055	2.834	.013*
<b>Arguments that used mainly in Term 2</b>																
Manufacturing	1		17 ( 90%)	5 (100%)	1		19	5	11.429	.003**	2.220	.067	0.248	.966	2.702	.019*
Long-term perspective			12 (100%)	4			12	4	8.742	.013*	1.926	.131	--	--	2.281	.058
Application of fair value measurement		1	6 (100%)	18 ( 78%)		4	6	23	7.629	.022*	2.141	.081	0.977	.590	1.961	.121
<b>Arguments that used mainly in Term 3</b>																
Endorsement procedures	2		1		22 ( 88%)	1	25	1	22.582	.000**	0.701	.762	3.196	.004**	3.783	.000**
Coexistence of accounting standards	1	4	1		7 ( 78%)	20 ( 83%)	9	24	7.629	.022*	1.697	.206	1.387	.347	2.511	.032*
Relaxation of requisites to adopt IFRS					18 (100%)	2	18	2	20.337	.000**	--	--	3.113	.005**	3.328	.003**

Note 1: This table shows the number of BAC board members in each term using a particular criterion either positively (POS) or negatively (NEG). Percentages are calculated by taking the number of statements using a particular criterion in each term divided by the total number of statements during Terms 1, 2, and 3. For example, BAC board members used a criterion of manufacturing positively 17 times in Term 2 and 19 times in total, therefore, the percentage is calculated at 90% (=17/19). Percentages listed had at least five statements in each term.

Note 2: Criteria that were not used more than 15 times (i.e., prudence, financing in global markets, education/training, transparency) were excluded from this table.

Table 7  
Correlation Matrix

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)
(1) Mandatory adoption		<b>-.224</b>	<b>-.157</b>	<b>-.207</b>	<b>.163</b>	<b>.209</b>	<b>-.158</b>	<b>.114</b>	<b>.109</b>	<b>-.248</b>	<b>.202</b>	<b>.122</b>	<b>.234</b>	<b>-.222</b>	<b>.184</b>	<b>.000</b>	<b>-.204</b>	<b>.006</b>	<b>-.008</b>	<b>-.034</b>	<b>-.015</b>	<b>-.134</b>	<b>-.034</b>	<b>.197</b>	<b>-.035</b>
(2) Manufacturing	<b>-.231</b>		<b>.227</b>	<b>.350</b>	<b>-.244</b>	<b>-.026</b>	<b>-.072</b>	<b>-.014</b>	<b>-.081</b>	<b>.134</b>	<b>-.018</b>	<b>.114</b>	<b>-.130</b>	<b>.323</b>	<b>-.286</b>	<b>.144</b>	<b>.095</b>	<b>-.047</b>	<b>-.035</b>	<b>-.010</b>	<b>-.012</b>	<b>.019</b>	<b>-.039</b>	<b>-.080</b>	<b>-.026</b>
(3) Prudence	<b>-.163</b>	<b>.229</b>		<b>.427</b>	<b>-.171</b>	<b>-.122</b>	<b>-.015</b>	<b>-.235</b>	<b>-.016</b>	<b>.285</b>	<b>-.112</b>	<b>-.193</b>	<b>-.111</b>	<b>.295</b>	<b>-.309</b>	<b>.278</b>	<b>.246</b>	<b>.102</b>	<b>-.021</b>	<b>-.006</b>	<b>-.007</b>	<b>.012</b>	<b>-.024</b>	<b>-.073</b>	<b>-.016</b>
(4) Long-term perspective	<b>-.214</b>	<b>.353</b>	<b>.429</b>		<b>-.221</b>	<b>-.017</b>	<b>-.016</b>	<b>-.088</b>	<b>.050</b>	<b>.310</b>	<b>-.013</b>	<b>-.011</b>	<b>-.181</b>	<b>.293</b>	<b>-.314</b>	<b>.017</b>	<b>.128</b>	<b>.054</b>	<b>-.024</b>	<b>-.007</b>	<b>-.008</b>	<b>.013</b>	<b>-.028</b>	<b>-.072</b>	<b>-.018</b>
(5) Financing in global markets	<b>.168</b>	<b>-.246</b>	<b>-.172</b>	<b>-.223</b>		<b>.302</b>	<b>.057</b>	<b>.012</b>	<b>-.011</b>	<b>-.047</b>	<b>.096</b>	<b>.085</b>	<b>.226</b>	<b>-.104</b>	<b>.170</b>	<b>.036</b>	<b>-.146</b>	<b>.030</b>	<b>-.014</b>	<b>-.004</b>	<b>-.005</b>	<b>-.043</b>	<b>-.016</b>	<b>-.020</b>	<b>.121</b>
(6) Globalization of business activities	<b>.216</b>	<b>-.026</b>	<b>-.123</b>	<b>-.017</b>	<b>.303</b>		<b>.183</b>	<b>.042</b>	<b>.064</b>	<b>-.052</b>	<b>.303</b>	<b>.093</b>	<b>.197</b>	<b>-.070</b>	<b>.096</b>	<b>-.050</b>	<b>-.010</b>	<b>.001</b>	<b>.065</b>	<b>-.023</b>	<b>.022</b>	<b>-.040</b>	<b>.009</b>	<b>.186</b>	<b>.007</b>
(7) Step-by-step approach	<b>.164</b>	<b>-.072</b>	<b>-.015</b>	<b>-.016</b>	<b>.058</b>	<b>.184</b>		<b>.038</b>	<b>.031</b>	<b>.032</b>	<b>-.020</b>	<b>.127</b>	<b>-.036</b>	<b>-.037</b>	<b>.028</b>	<b>-.044</b>	<b>-.041</b>	<b>.041</b>	<b>.005</b>	<b>.033</b>	<b>.081</b>	<b>.022</b>	<b>.105</b>	<b>.118</b>	<b>-.031</b>
(8) Principles-based approach	<b>.118</b>	<b>-.014</b>	<b>-.236</b>	<b>-.089</b>	<b>.013</b>	<b>.042</b>	<b>.038</b>		<b>-.137</b>	<b>-.021</b>	<b>.101</b>	<b>.027</b>	<b>.046</b>	<b>-.050</b>	<b>.089</b>	<b>-.095</b>	<b>-.048</b>	<b>-.056</b>	<b>.052</b>	<b>.056</b>	<b>.018</b>	<b>-.027</b>	<b>.024</b>	<b>-.025</b>	<b>-.110</b>
(9) Education/training	<b>.112</b>	<b>-.082</b>	<b>-.016</b>	<b>.050</b>	<b>-.011</b>	<b>.064</b>	<b>.031</b>	<b>-.138</b>		<b>.006</b>	<b>.073</b>	<b>-.024</b>	<b>.092</b>	<b>-.046</b>	<b>.030</b>	<b>-.051</b>	<b>-.005</b>	<b>-.025</b>	<b>-.045</b>	<b>-.013</b>	<b>-.016</b>	<b>-.071</b>	<b>-.052</b>	<b>.018</b>	<b>.028</b>
(10) Contextual factors	<b>-.258</b>	<b>.136</b>	<b>.289</b>	<b>.314</b>	<b>-.048</b>	<b>-.053</b>	<b>.033</b>	<b>-.021</b>	<b>.006</b>		<b>-.061</b>	<b>-.016</b>	<b>-.115</b>	<b>.188</b>	<b>-.218</b>	<b>.045</b>	<b>.427</b>	<b>.104</b>	<b>-.009</b>	<b>.138</b>	<b>.015</b>	<b>.019</b>	<b>.190</b>	<b>-.168</b>	<b>-.001</b>
(11) International comparability	<b>.209</b>	<b>-.018</b>	<b>-.113</b>	<b>-.013</b>	<b>.097</b>	<b>.307</b>	<b>-.021</b>	<b>.102</b>	<b>.074</b>	<b>-.063</b>		<b>.095</b>	<b>.264</b>	<b>-.028</b>	<b>.051</b>	<b>-.062</b>	<b>.000</b>	<b>.057</b>	<b>.078</b>	<b>-.076</b>	<b>.026</b>	<b>-.138</b>	<b>-.031</b>	<b>.148</b>	<b>.058</b>
(12) Transparency	<b>.126</b>	<b>.114</b>	<b>-.194</b>	<b>-.011</b>	<b>.085</b>	<b>.093</b>	<b>.127</b>	<b>.027</b>	<b>-.024</b>	<b>-.016</b>	<b>.096</b>		<b>.182</b>	<b>-.074</b>	<b>.133</b>	<b>-.138</b>	<b>-.074</b>	<b>.070</b>	<b>-.030</b>	<b>-.009</b>	<b>-.010</b>	<b>.017</b>	<b>.070</b>	<b>.151</b>	<b>-.023</b>
(13) Establishment of global markets	<b>.242</b>	<b>-.131</b>	<b>-.112</b>	<b>-.183</b>	<b>.228</b>	<b>.199</b>	<b>-.036</b>	<b>.046</b>	<b>.093</b>	<b>-.117</b>	<b>.267</b>	<b>.183</b>		<b>-.100</b>	<b>.091</b>	<b>-.002</b>	<b>-.047</b>	<b>.100</b>	<b>-.053</b>	<b>-.045</b>	<b>-.051</b>	<b>-.057</b>	<b>-.054</b>	<b>.025</b>	<b>.072</b>
(14) Superiority of J-GAAP to IFRS	<b>-.229</b>	<b>.327</b>	<b>.298</b>	<b>.296</b>	<b>-.105</b>	<b>-.071</b>	<b>-.037</b>	<b>-.051</b>	<b>-.046</b>	<b>.192</b>	<b>-.028</b>	<b>-.074</b>	<b>-.101</b>		<b>-.434</b>	<b>.342</b>	<b>.206</b>	<b>.153</b>	<b>.005</b>	<b>.045</b>	<b>.077</b>	<b>.005</b>	<b>.012</b>	<b>-.100</b>	<b>.026</b>
(15) Fair value measurement	<b>.191</b>	<b>-.289</b>	<b>-.311</b>	<b>-.316</b>	<b>.171</b>	<b>.097</b>	<b>.028</b>	<b>.089</b>	<b>.030</b>	<b>-.221</b>	<b>.052</b>	<b>.134</b>	<b>.092</b>	<b>-.438</b>		<b>-.253</b>	<b>-.163</b>	<b>-.051</b>	<b>.074</b>	<b>-.025</b>	<b>.013</b>	<b>-.021</b>	<b>.012</b>	<b>.107</b>	<b>.029</b>
(16) Recycling procedure	<b>-.002</b>	<b>.145</b>	<b>.279</b>	<b>.017</b>	<b>.036</b>	<b>-.050</b>	<b>-.044</b>	<b>-.095</b>	<b>-.051</b>	<b>.046</b>	<b>-.063</b>	<b>-.138</b>	<b>-.002</b>	<b>.344</b>	<b>-.254</b>		<b>.093</b>	<b>-.041</b>	<b>-.029</b>	<b>.049</b>	<b>.157</b>	<b>.036</b>	<b>-.015</b>	<b>-.007</b>	<b>-.009</b>
(17) Close relationship with taxation	<b>-.211</b>	<b>.096</b>	<b>.248</b>	<b>.129</b>	<b>-.147</b>	<b>-.098</b>	<b>-.041</b>	<b>-.048</b>	<b>-.005</b>	<b>.434</b>	<b>.000</b>	<b>-.074</b>	<b>-.047</b>	<b>.208</b>	<b>-.164</b>	<b>.093</b>		<b>.281</b>	<b>-.060</b>	<b>.013</b>	<b>-.021</b>	<b>.059</b>	<b>.087</b>	<b>-.127</b>	<b>-.045</b>
(18) Separation approach	<b>.007</b>	<b>-.048</b>	<b>.104</b>	<b>.055</b>	<b>.031</b>	<b>.001</b>	<b>.042</b>	<b>-.056</b>	<b>-.025</b>	<b>.107</b>	<b>.058</b>	<b>.071</b>	<b>-.102</b>	<b>.156</b>	<b>-.052</b>	<b>-.041</b>	<b>.285</b>		<b>.045</b>	<b>.042</b>	<b>.043</b>	<b>-.028</b>	<b>.004</b>	<b>.074</b>	<b>.034</b>
(19) Endorsement procedures	<b>-.008</b>	<b>-.035</b>	<b>-.021</b>	<b>-.024</b>	<b>-.014</b>	<b>.065</b>	<b>.005</b>	<b>.052</b>	<b>-.045</b>	<b>-.009</b>	<b>.079</b>	<b>-.030</b>	<b>-.054</b>	<b>.005</b>	<b>.075</b>	<b>-.029</b>	<b>-.061</b>	<b>.046</b>		<b>.143</b>	<b>.189</b>	<b>-.255</b>	<b>-.034</b>	<b>-.022</b>	<b>.049</b>
(20) Carve-out procedures	<b>-.035</b>	<b>-.010</b>	<b>-.006</b>	<b>-.007</b>	<b>-.004</b>	<b>.023</b>	<b>.033</b>	<b>.057</b>	<b>-.013</b>	<b>.141</b>	<b>-.077</b>	<b>-.009</b>	<b>-.045</b>	<b>.045</b>	<b>-.026</b>	<b>.050</b>	<b>.013</b>	<b>.043</b>	<b>.145</b>		<b>.075</b>	<b>.173</b>	<b>.044</b>	<b>-.052</b>	<b>-.055</b>
(21) New development of J-IFRS	<b>-.016</b>	<b>-.012</b>	<b>-.007</b>	<b>-.008</b>	<b>-.005</b>	<b>.022</b>	<b>.082</b>	<b>.018</b>	<b>-.016</b>	<b>.015</b>	<b>-.027</b>	<b>-.011</b>	<b>-.052</b>	<b>.078</b>	<b>.013</b>	<b>.159</b>	<b>-.021</b>	<b>.044</b>	<b>.190</b>	<b>.077</b>		<b>.043</b>	<b>.011</b>	<b>-.028</b>	<b>-.015</b>
(22) Coexistence of standards	<b>-.139</b>	<b>.020</b>	<b>.012</b>	<b>.014</b>	<b>-.044</b>	<b>-.041</b>	<b>.022</b>	<b>-.028</b>	<b>-.071</b>	<b>.019</b>	<b>-.140</b>	<b>.017</b>	<b>-.058</b>	<b>.005</b>	<b>-.022</b>	<b>.036</b>	<b>.060</b>	<b>-.029</b>	<b>-.257</b>	<b>-.175</b>	<b>.044</b>		<b>.036</b>	<b>-.009</b>	<b>-.178</b>
(23) Influences of SEC policies	<b>-.035</b>	<b>-.039</b>	<b>-.024</b>	<b>-.028</b>	<b>-.016</b>	<b>.009</b>	<b>.106</b>	<b>.024</b>	<b>-.053</b>	<b>.193</b>	<b>-.031</b>	<b>.070</b>	<b>-.054</b>	<b>.012</b>	<b>.013</b>	<b>-.015</b>	<b>.087</b>	<b>.004</b>	<b>-.034</b>	<b>.045</b>	<b>.011</b>	<b>.036</b>		<b>.084</b>	<b>-.013</b>
(24) maintenance of international status	<b>.204</b>	<b>-.080</b>	<b>-.074</b>	<b>-.072</b>	<b>-.020</b>	<b>.187</b>	<b>.118</b>	<b>-.025</b>	<b>.018</b>	<b>-.170</b>	<b>.150</b>	<b>.152</b>	<b>-.025</b>	<b>-.100</b>	<b>.108</b>	<b>.006</b>	<b>-.128</b>	<b>.076</b>	<b>-.022</b>	<b>-.053</b>	<b>-.028</b>	<b>-.010</b>	<b>.085</b>		<b>.044</b>
(25) Relaxation of requisites	<b>-.036</b>	<b>-.026</b>	<b>-.016</b>	<b>-.018</b>	<b>.122</b>	<b>.007</b>	<b>-.032</b>	<b>-.110</b>	<b>.028</b>	<b>-.001</b>	<b>.059</b>	<b>-.023</b>	<b>.073</b>	<b>.026</b>	<b>.029</b>	<b>-.009</b>	<b>-.046</b>	<b>.035</b>	<b>.049</b>	<b>-.056</b>	<b>-.015</b>	<b>-.180</b>	<b>-.013</b>	<b>.044</b>	

Note 1: Figures below diagonal of the table are the values for the correlation test of Spearman; figures above diagonal are those for the correlation test of Kendall.

Note 2: Bold-faced font indicates statistical significance at less than 5% level.

## Notes

<sup>1</sup> Convergence is defined in this study as the process that eventually results in the harmonization of accounting standards and thus the adoption of IFRS either voluntarily or mandatorily.

<sup>2</sup> The Business Accounting Council (BAC) was established in 1952 to prepare a set of accounting standards as the first public accounting standard-setting body in Japan. Since the Accounting Standards Board of Japan (ASBJ) was established in 2001 as a private accounting standard-setting body, the BAC has concentrated on preparing auditing standards and policy making concerning the adoption of IFRS.

<sup>3</sup> Generally, a country's institutions include public and private human-made organizations such as the legal system, banking system, taxation system, regulatory and enforcement agencies, industry associations, standards bodies, and networks of professionals (Hail *et al.*, 2010, p. 360n).

<sup>4</sup> As of 2013, the monitoring board of the IFRS Foundation consists of five members, one from the Japanese FSA, one from the US-SEC, one from the European Commission (EC), and two from the International Organization of Securities Commissions (IOSCO).

<sup>5</sup> This may result from the teachings of Confucius in Japanese society, in which social relationships are conducted so that everyone's "face" (*kao*) is maintained and conflicts are avoided (Suzuki, 2011).