Early Adoption of International Financial Reporting Standards (IFRSs) to Become the "World's SBI"
The difference from JGAAP realized after the first year of adopting IFRSs

Shumpei Morita

Director, Managing Executive Officer & CFO

Q What is the background to and significance of the voluntary adoption of IFRSs?

The SBI Group is accelerating its overseas expansion under the motto of becoming the "World's SBI," and in April 2011 the Company was listed on the Hong Kong Stock Exchange. The listing in Hong Kong prompted the Company to proceed with an early voluntary adoption of IFRSs beginning in the fiscal year ended March 2013.

An important characteristic of IFRSs is high transparency in financial reporting. Under IFRSs, assets and liabilities are appraised at fair value each period, and the SBI Group's financial position is reflected in a timely manner. In addition, international comparability of financial information is now possible.

Q What impact has IFRSs adoption had in each business sector?

The impact has been greatest in the Asset Management Business. Under Japanese Generally Accepted Accounting Principles (JGAAP), in principle, at the time of sale of operational investment securities, any difference from acquisition cost is recognized as a gain or loss. Under IFRSs, the fair value of assets held is measured quarterly, whether or not the assets are sold. For this reason, business performance is now affected by the markets and fluctuates considerably. This also affects management judgment. Since a change in assessed value from the end of the previous quarter is recognized as gain or loss regardless of acquisition cost, prompt and timely decision making is required; a company will continue to hold assets if it judges that their value is likely to rise and will promptly sell assets if it judges that their value is likely to decline.

In the Financial Services Business, the conservative aspects of IFRSs compared to JGAAP affects its performance. Under IFRSs, it is necessary to proportionally divide and defer earnings, and deferral of expenses allowed under JGAAP is not allowed. Furthermore, as for the impact of fair value assessment, a characteristic of IFRSs, companies holding assets or liabilities affected by fluctuations in interest rates, stock prices, exchange rates, and other factors are subject to market impact to that extent.

The change from JGAAP to IFRSs has made no major difference in the Biotechnology-related Business and Other businesses.

In addition, the Company changed its business segments at the time of IFRSs adoption in the fiscal year ended March 2013. I think that this change has clarified the characteristics of each business segment. The Financial Services Business is a sector that generates stable earnings and expands on the basis of business assets accumulated over time, the Asset Management Business is a sector in which the most recent fluctuations in asset value are reflected in the financial statements in a timely manner and earnings vary substantially from quarter to quarter, and the Biotechnology-related Business is a high-potential sector that the SBI Group intends to develop into a future core business.

Q Are any aspects of the financial statements more difficult to understand under IFRSs than under JGAAP?

There are two premises affecting the statements of income under IFRSs that should be understood.

The first premise is that the concepts of ordinary income and loss and extraordinary income and loss do not exist under IFRSs. For this reason, not only income and loss from main business activities, but also, for instance, gains or losses on the sale of subsidiaries are reflected in operating income and loss.

The second premise is the meaning of "profit for the year" under IFRSs. Under JGAAP, "net income" is income after the deduction of minority interests. Under IFRSs, "profit for the year" includes "profit attributable to non-controlling interests," and "profit attributable to owners of the Company" is equivalent to "net income" in JGAAP. "Net income per share" in JGAAP is called "basic earnings per share attributable to owners of the Company" under IFRSs. The expression "owners of the Company" refers to the shareholders of SBI Holdings. This terminology is used since in IFRSs the entire corporate group is considered as a single economic entity, and shareholders' equity includes both parent company shareholders' interest and minority shareholders' interest, with minority shareholders being shareholders of subsidiaries.