Chairman's Column

The growing interest for Non-Financial Disclosures

As of the time of this writing, the United Nations Climate Change Conference (COP27) is under way. The primary objective is to exchange ideas on how each country will attempt to meet their emissions reduction targets to halt the rising average global temperature by just 1.5 degrees Celsius.

Since ASA supports the administration of real estate and renewable energy funds, the disclosures are primarily about financial figures and cashflow. However, particularly in today's investing climate, we feel the growing importance of ESG calculations and disclosures. ESG bonds and social bonds are becoming more prevalent as products that can potentially reduce financing costs by meeting certain criteria.

At COP27, I have heard that one of the key topics is how to calculate GHG emissions. Last month, a client had asked, "Does Aoyama Sogo Accounting provide services for CO_2 emissions calculation?". I am very much interested in this field and in speaking to global fund administrators, they have begun such services.

At center: COP27 President Sameh Shoukry on November 18, 2022 (Source: Reuters)

The exact definition is still unclear, but it seems to be called "carbon accounting". Although called accounting, it has less to do with financial statements. In providing such services, we must first become more knowledgeable about the international standards of the GHG Protocol for emissions calculation and reporting, particularly for Scope 3 emissions. Needless to say, this may be challenging...

by Kazuhiro Matsuzawa, Chairman

ASA's story of digital transformation
Part 1: Team Building

As previously mentioned, we are moving forward with our SDG (Smart Data Guideway) plan as part of our digital transformation.

The DX of accounting is becoming more commonplace in numerous ways. For example, accounting systems especially after Covid have dramatically become automated by way of syncing payment and bookkeeping, and automatic text recognition of PDF files like invoices. Such efficiency gains in our accounting system are just one solution to cut down on time, however, since our firm deals with SPC administration, this alone proves ineffective.

To elaborate, when servicing SPCs, it's not just bookkeeping but also includes TK reports, financial statements, business reports, as well as utilizing data for investor reports and cash flow preparation. After considering such needs, we concluded that a separate system needed to be developed.

We have previously used VBA and RPA on a project-basis as part of our overall system development, however it was implemented in limited capacity for menial tasks and proved difficult to expand into a bigger platform. When we started our DX initiatives, employees with systems experience were involved. However, to create a revolutionary platform, we found that we were short on time and technical knowledge.

We have added several system engineers who will be dedicated to developing a new system. We have already seen a dramatic improvement in development speed, system accuracy, and speed. However, the challenge for engineers is that they lack accounting and SPC-related knowledge. It's up to us to tell the engineers what final product we would like to see.

We are still undergoing much trial and error, and to reach a solution, both teams need to understand each other's work better and establish a common language.

As DX progresses throughout SPC-related industries, we hope our case study proves to be helpful. We will continue this dialogue in the next volume.

by Hirokazu Ando, ASA Reporting Professional

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NewsLetter

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REITs and Green Bonds – Why now?

Currently, nearly 80% of Japan's public REITs issue green bonds, signaling perhaps a new standard for the REIT industry.

What exactly is a green bond?
The Ministry of Environment's "Green Finance Portal" (https://greenfinanceportal.env.go.jp/) gives the following explanation:

"Issued by companies and local governments to fund-raise for domestic and overseas green projects"

① Use of funds is restricted to green projects.
② Funds raised are adequately tracked and managed.
③ It is a highly transparent form of security through periodic reporting after issuance.

For businesses, the ① "Green project" conditions may be difficult to meet, however for REITs, green projects are defined as,

"the financing or refinancing for the purpose of acquisition or renovation/construction of qualifying green assets (defined for each REIT by a third-party certification body that uses certification ranks)"

The definition is fairly simple and standardized across REITs.

How can REITs benefit from issuing green bonds? According to the Green Finance Portal, issuing green bonds has the following benefits:

① The advancement of sustainable management practices through green bond related initiatives and dialogue with investors.

② Strengthening fund-raising efforts by acquiring new investors and consistent fund-raising through ESG dialogue with investors

③ Public recognition for proactiveness in green projects

④ Possibly more advantageous conditions for fund-raising

These are just some potential benefits. However, for REITs, it seems that the biggest incentive is to cater to investors who are far keener about ESG than in previous years.

When issuing green bonds, some additional work is required which includes maintaining certifications for qualified green assets and periodic reporting. But along with GRESB, green bonds are certainly another way for REITs to contribute to ESG initiatives.
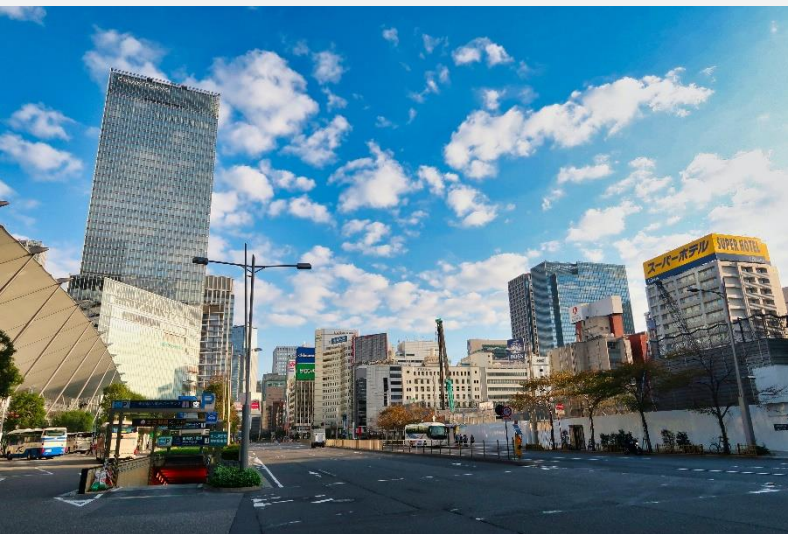
by Shigeru Hirai, Client Relations Group

New Trends

[PropTech] Japan to begin using Real Estate IDs

The new real estate ID guideline has been released from Japan's MLIT (Ministry of Land, Infrastructure, Transport and Tourism).

The real estate ID is a 13-digit real estate number and 4-digit special code that is unique to each property. This system is available for everyone. Additionally, the special code is used to determine a particular business-use floor or residential room.

Currently in Japan, the lack of a real estate ID number makes the process of obtaining and using real estate information difficult, since addresses are sometimes not consistent. When businesses independently gather property information or when releasing accurate information to consumers, the lack of an ID proves burdensome and time-consuming. These are just some of the challenges in how property information is relayed, accumulated, and used.

By creating a real estate ID system, such problems will be resolved, and hopefully the industry will improve its productivity and be more convenient for consumers. There is also hope that the system will help propel the digital transformation of the real estate industry by providing a robust database.

Specifically, the following can be considered benefits of a real estate ID system.

- Simplifying the process of finding and matching data of the same property within a company system, or between a company system and information obtained from external sources.

- Filtering out redundant property listings and bait advertising.

- Reducing data entry by reusing past transactional data.

- Improving accuracy of appraisals through awareness of final sales prices

- Assessing repairs and maintenance history along with residential history.

- Combining property management with infrastructure data like electricity, gas, and water.

- Reducing the burden of conducting surveys and preparing key information guidelines through collaboration with city planning information, hazard maps, etc.

- Creating new real estate services by utilizing big data from diverse areas for high-precision AI appraisals and other uses.

Hopefully there will be more advantages, once IDs start to be used. Contrarily, there are challenges of how to reduce data entry errors to produce accurate viewable information, as well as whether transactions of trust beneficiary interests can be saved as useable data. It will be interesting to see how this system will develop over time.

by Masanori Ikematsu, ASA Advisory

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Data retention requirements for Electronic transactions

For most businesses, preparing for next October's "qualified invoice system of consumption tax (retention of qualified invoices)" will likely continue to be an immediate concern. However, a bit further away starting on June 1, 2024, the "data retention requirement for electronic transactions" takes full effect. I would like to summarize some of the key points of the retention requirements.

(1) Firstly, the retention requirement applies to "everyone" that abides by electronic book preservation requirements for income tax and corporate tax. This includes not only companies but also the smallest sole proprietors.

(2) Electronic transactions include all purchase orders, invoices, purchase receipts, contracts, fee quotes, and delivery notices (both documents sent and received).

(3) Electronic transactions include all transmissions that occur over electromagnetic systems. This includes all EDI transactions, transactions over the internet, and attachment files sent/received via electronic mail. A famous example is if an employee pays for a company's necessary business item (to be reimbursed) on his/her smartphone, that transaction qualifies as an electronic transaction that must be saved as electronic data.

(4) Retention requires verifiability (to prevent falsification) and searchability (date, party, amount). For example, emails should not just be saved on a computer but must meet such requirements.

Depending on the business, this data retention requirement for electronic transactions can potentially be more cumbersome than complying with the invoice system for consumption tax. Thus, we ask that you prepare early to be in full compliance.

by Masaaki Kidokoro, Tax Consulting Group

Aoyama Sogo Accounting Firm

From the Editorial Department

We sincerely thank you for viewing our Newsletter
If you have any comments or requests, please reach out to us at any time.
We look forward to making future newsletters.
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