Aoyama Sogo Accounting Firm Innovation Speed Quality

NewsLetter

Aoyama Sogo Accounting Firm

～The latest in alternative investments～ Vol.30 2024.2.29

Chairman's Column

Emerging participants in the Private Equity Market

Hello everyone. This month marks our 30th volume of ASA Newsletter. As part of our renewal, we added the subtitle "the latest in alternative investments". The term may be unfamiliar to much of the public but as fund administrators, we know alternative assets as real estate, renewable energy, and financial assets that don't have a real-time market price.

As investment types have expanded in Japan, the term is becoming more commonplace. These assets are typically held by companies and partnerships, and beneficiary interests held by funds. Since our employees are closest to the action, they can deliver the latest alternative trends and discussion, challenges of structure setup, and sharing positive feedback from industry participants.

2024 began with sad news of the Noto Peninsula earthquake. We send our deepest condolences to those affected by the tragedy.

Meanwhile in financial news, the Nikkei Stock Average has been strong with a 35-year high within reach. Some companies have risen in stock price while others have gone private. Some recent examples of the latter are the respective TOB of Benesse and Lawson. Since many of our clients are well-equipped funds with enormous capital and know-how, they can accelerate growth in multiple companies that are beyond their early/seed stage. We deal with fewer buy-out funds (i.e. those that invest with equity in mature companies).

A limited partnership is often used for setting up fund structures within Japan. When a foreign entity is an investor, an LPS in the Cayman Islands may be used, which often results in more complexity. When a third-party investor is involved, dividend calculations are based on ownership share and capital call preparations become necessary.

We are also receiving more requests from understaffed funds and GPs in need of back office support. Also noteworthy is the increase in investments from government and municipalities. Additionally, I get the impression that new participants like corporations are investing more in tech companies related to their industry.

by Kazuhiro Matsuzawa, Chairman

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DX in Accounting

ASA's Story of Digital Transformation

Part 3: DX and SDG (Smart Data Guideway) are under way.

Currently, our SDG plan is in the second step, which is systemization. This is the process of extracting, standardizing, and systemizing necessary data from various AM, GP, and PM information sources. The goal is to deliver required information faster and more accurately. Our ultimate goal is to allow our clients online access to information on the first business day of the month.

As a preliminary step, we are focused on developing:

① Journal entry automation from PM reports
② Journal entry automation from bank statements

We are especially focused on journal entry automation from PM reports. Although we have repeatedly considered and developed this system for over 10 years ago, it was difficult to achieve due to having different PM report formats and various SPC (client) requirements.

With some SPCs, individual staff members have used VBA for journal entry automation, however company-wide automation has been difficult as the number of SPCs increased.

However, after we officially rolled out our SDG plan, our staff members and system development team began to collaborate to develop a system both for company-wide use and for individual SPC use. This wasn't revolutionary in any way; it was just a matter of of collecting information from various formats and producing one output.

Currently, development is in the testing phase, with some SPCs already using journal entry automation. In the future, we look to implement the system with more SPCs, so that we can deliver more accurate and faster accounting data to our clients.

We plan to develop automated systems not just for accounting, but for other reports as well.

by Hirokazu Ando, ASA Reporting Professional

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Japan Real Estate

The Aftermath of the 2024 Noto Peninsula Earthquake

On January 1, Noto Peninsula of Ishikawa prefecture was the epicenter of a devastating earthquake. In particular, the cities of Suzu and Wajima were dealt the most damage, decimating buildings, and bringing fire and tsunami. As of February 8, it left 241 people dead, 11 missing, and 1,182 injured.

I offer my prayers and deepest condolences to those that lost their lives. I also pray for those that have been affected by this tragedy.

The damage was widespread, primarily on old homes and smaller buildings, but

"Within the prefecture, 7 REITs hold a total of 11 properties. Of them, 6 hotels, 2 offices, 2 stores, and 1 residential property are around Kanazawa. As of 5pm on January 3, no REITs reported damage that affect operations. In the adjacent prefecture of Toyama, 3 investment corporations each hold one property. They have not reported on any damage." (Nikkei Real Estate Market Report, January 3, 2024)

There were no reports of significant damage to fairly big properties.

This news reminds me of the Great Hanshin Earthquake of 1995, when I was based in the Kansai branch of a financial institution. The 40-year-old company apartment was partially damaged and tilted, while surrounding buildings had collapsed and killed many.

Compared to the Great Hanshin Earthquake with magnitude 7.3, the Noto Peninsula Earthquake was 7.6, so one can easily imagine how powerful it must have been.

For those that want to contribute to the affected areas, volunteering may be a challenge, but perhaps a donation may work (I've contributed a small amount as well).

Account holder name	Bank name	Account number
Ishikawa Prefecture 2024 Noto Peninsula Earthquake Disaster Relief Fund	Hokkoku Bank Prefectural Office Branch	Ordinary deposit 28593

(Ishikawa Prefecture website)
Disaster Relief Funds

by Shigeru Hirai, Client Relations Group

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U.S. News

A Second Trump Presidency?

What the U.S. and the world may expect

With numerous polls showing Donald Trump as the clear favorite to win the GOP nomination, a second presidency may possibly be on the horizon. Let's look back at some of the major domestic and international policy changes under Trump's first term.

Tax Cuts and Jobs Act. Tax cuts proved favorable for U.S. corporations and wealthy individuals.

- Corporations – Corporate tax rate was permanently reduced from 35% to 21%.
- Individuals – Standard deductions were nearly doubled. Tax cuts are reported to have been the biggest for the wealthiest individuals. These changes last through 2025.
- Pass-through entities – 20% deduction on pass-through income.

Stock market continued its bull run from Obama's presidency. The U.S. stock market performed well and is comparative to other presidents.

Foreign policy and multilateral agreements
Unprecedented departures from international agreements included:

- Environment (Withdrawal from Paris Agreement. Also lessened the effects of Obama's Clean Power Act)
- Trade (Withdrawal from TPP. Trade tension with China)
- Other (Withdrawal from Iran Nuclear Deal and U.N. Human Rights Council. Also, declared withdrawal from WHO in the midst of Covid.)

U.S. race relations and political divide
Rallying perhaps a forgotten White America during the Obama Administration, it was evident through various news outlets that race relations were not in a good place. He was also known early on for his heavy Twitter use to empower his supporters and his claims of "fake news". This seemed to worsen political divides both in government and the general public. In my memory, there is no more pronounced period in modern U.S. history where the general public and the media's opinion of the President was this divided.

With an America-first mindset and his trademark slogan of "*Make America Great Again*", Trump certainly caused a strong polarity within America and amongst the international community. If his first term is an indication of what may come, we can expect some shakeups again.

by Yuichi Totani, Client Relations Group

Sara Cultural Centre (Photo: Jonas Westling)

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Tax Update

Taxation of Platform Operators [Consumption tax treatment of cross-border services]

For hotel investment funds, the use of hotel reservation sites (a B2B operator that provides electronic services) has been subject to the reverse charge method since October 2015. Over 8 years have gone by since then. Meanwhile, the domestic market for consumer-use mobile apps was 904.4 billion yen in 2015 and projected to grow to 5 trillion yen this year.

For the provision of "consumer-use" electronic services, tax is ordinarily assessed on a foreign operator making the sale. However, the challenge was that such operators often do not have a physical location in Japan, making taxpayer identification and investigation difficult. The issue was to appropriately assess tax on foreign operators to put them on equal footing with domestic operators.

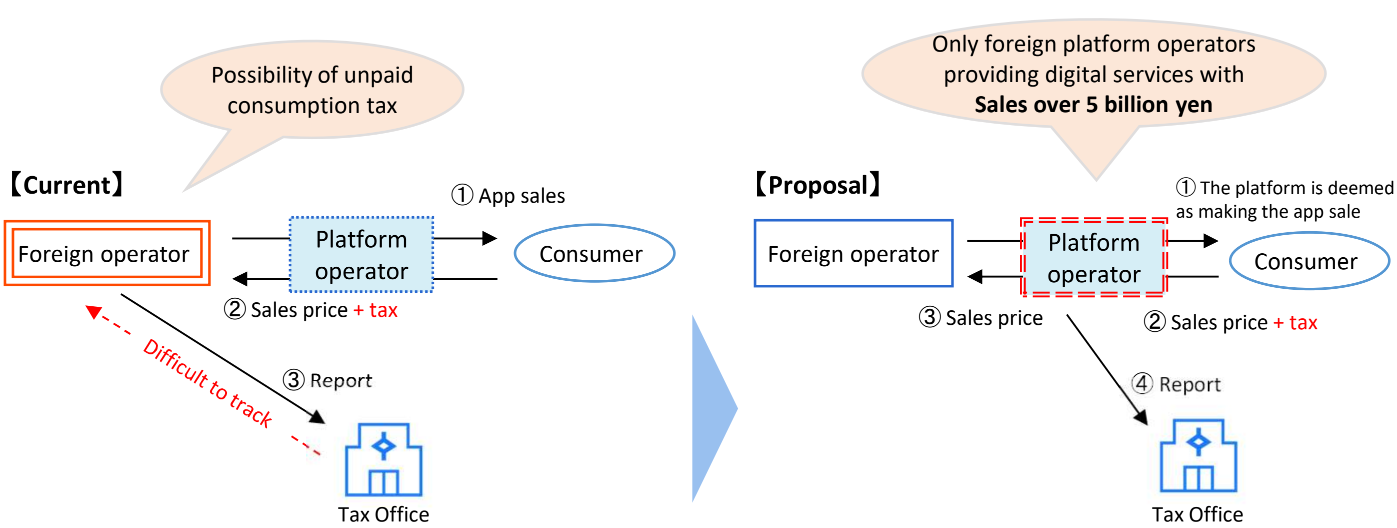
The 2024 tax reform proposes taxation on platform operators, which is a system to collect the appropriate consumption tax from platform operators like Google and Apple, instead of app developers.

If the proposed tax reform goes through, starting April 1, 2025, for sales of electronic services, <u>platform operators with sales that exceed 5 billion yen</u> in the tax period will be designated by the tax agency commissioner as a "*specified platform operator*" that must file a consumption tax return.

Meanwhile, as payment options expand, there is concern that buyers will select a payment service provider other than the platform that sells apps. This may render the tax law on platform operators to become obsolete. To prevent this, the split payment method is one way to instead place the tax filing obligation on payment service providers. Perhaps to prepare ahead, some European countries have begun CESOP (Central Electronic System of Payment information) which is a system that requires payment service providers that engage in cross-border transactions to report on a quarterly basis.

As the global digital economy grows even bigger, tax treatment (not only on consumption tax) of cross-border transactions will become a greater focus.

by Yasuhiro Ando, Tax Consulting Group



Source: METI "2024 Economy, Trade, and Industry related, Tax Reform Proposal (December 2023)"

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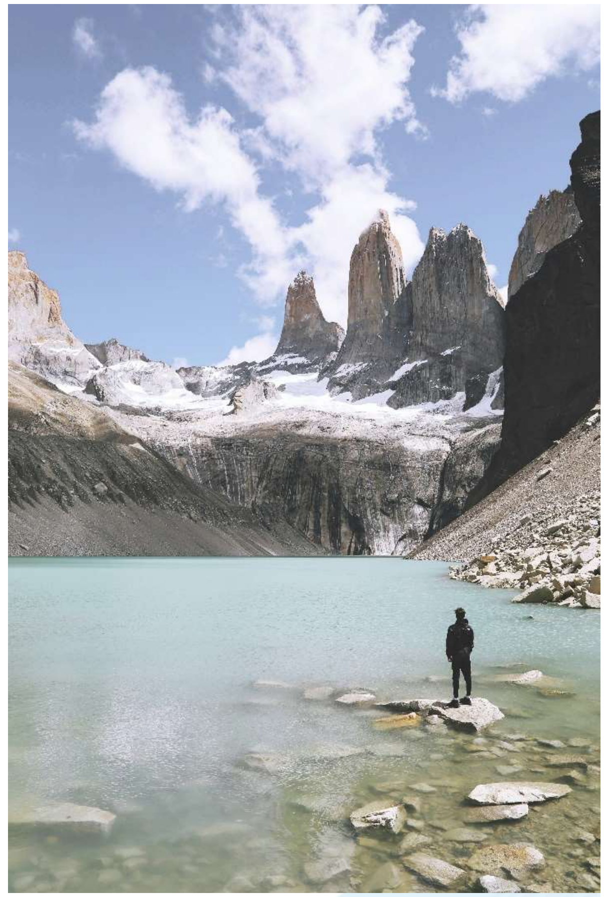
Editor’s Afterword

Mid-February felt like Spring on some days and while it was a pleasant break from Winter, it seems to be further proof that global warming continues.

According to a Nikkei article, the Financial Services Agency is considering a mandate on Tokyo Stock Exchange Prime listed companies to disclose GHG emissions and to further prompt decarbonization. There has also been more discussion about sustainability disclosures on annual securities reports and assurance on such information. Perhaps there will be more ESG-related investments to be made for the country.

With a lot of uncertainty in the world right now, a keen “eye” for investments and business is necessary and an “eye” to accurately evaluate. Without being blinded or distracted, I feel it’s important to keep an eye out for relevant and timely information.

by Jun Murata, Corporate Officer



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