Aoyama Sogo Accounting Firm Innovation Speed Quality

NewsLetter

～The latest in alternative investments～

Aoyama Sogo Accounting Firm

Vol.37 2024.9.30

CEO's Column

ASA Group will *De-vrand*

Thank you for reading our newsletter. Established in 1999, ASA Group has been in business for 25 years. We are truly grateful for everyone's support. Thank you very much.

Starting out as an accounting firm, we have expanded our services catered towards the investment fund business. Leveraging our experience in fund vehicle administration, we are taking on the numerous challenges of investment funds, including the labor shortage in the industry and digitalization.

Our first endeavor is TDL (Theseus Data Lake) being developed with Peregrine Consulting under the joint venture ASA Platform K.K. This system will streamline reporting for investment assets from underwriting to point of sale. We will incrementally add capabilities to this system in 2025. The premise of the system is to simplify and smooth out the flow of information with the support of our experienced ASA Group professionals. We will also be providing additional support in reporting for PMs and AMs.

To continue evolving and to provide solutions for our clients with a global mindset, ASA Group is renamed under what we call *De-vrand* ("Develop Brand"). The three letters of ASA signify the founding spirit of Aoyama Sogo Accounting, which began as an

accounting firm in Aoyama, Tokyo. In conjunction, our accounting firm and tax firm will be renamed as well. We apologize for any additional procedures that this change may necessitate. For further details, please view ASA Group's website.

Enabling the world's capital to flow
for a hopeful future for everyone

With this new Group Philosophy in mind, we will continue to evolve. We hope you look forward to ASA Group's continued progression as your trusted provider.

by Masaki Aguni, Chief Executive Officer

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J-REIT

J-REITs look to Joint Ventures as one way to grow

REITs acquire income-producing property and distribute the profits to investors. External growth is achieved by acquiring assets to increase profitability and diversify risk. Internal growth is achieved by increasing rents and reducing management costs.

Since the 2009 tax reform, the implications on a joint venture have become minimal. As a result, in August of the same year, the first J-REIT joint venture was announced. 15 joint ventures have since formed. In 2023, Kenedix as the sponsor, led a joint venture of three stocks. In August 2024, the first joint venture between two logistics REITs was announced. The stock's meeting notes describe three main objectives, including
1) increasing market presence through acquisition
2) stabilizing through portfolio diversification
3) developer and trading company as double sponsors.

The newly formed joint venture combined for 49 properties and 576.5 billion yen in assets. As the overall J-REIT market struggles with external growth, the joint venture aims for external growth through acquisitions, combined increase in properties, and stabilization of financial performance through portfolio diversification.

The two sponsors also look to capitalize on their platforms and networks to fortify the sourcing pipeline and tenant leasing capabilities, which should result in external and internal growth. The strong demand for logistics facilities will also provide tailwinds for the joint venture.

Meanwhile, asset management firms seemingly have less time to manage the increase in properties. In recent times, asset managers have spoken of a shortage of workers. For PMs and administrators, the situation is no different. As standardization of middle office work and systemization becomes more crucial, we hope to provide services to stabilize work for all parties involved with REITs.

by Kenichi Shimizu, ASA REIT Partners

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Japan News

The use of the SPAC to go public

In a previous volume, I explained the small-lot investment product "Everyone is a Landlord." On August 19, there was news that the sales company "Everyone is a Landlord Sales Company" went public on the London Stock Exchange through a SPAC (market cap of 8 billion yen).

What is a SPAC (special purpose acquisition company)? Simply put, it is an empty company made solely to acquire another company. A SPAC does not have normal business activities, so it gets listed on a stock exchange to raise funds. It then acquires a non-listed company. Once the non-listed company is acquired, it automatically becomes a listed company.

For a company that wants to go public faster than with an IPO, the SPAC provides a time-saving alternative. The investors of the SPAC do not know what company will be acquired, and subsequently become shareholders of the acquired company.

Among Japanese companies, Softbank has used the SPAC to invest in various technology companies through their Vision Fund. Developer of flying bikes and drones, A.L.I. Technologies also made its NASDAQ debut in 2022.

According to the press release, Kyosei Bank, the parent entity of "Everyone is a landlord sales company" exchanged 97.41% of shares of "Everyone is a landlord sales company" for 80.69% of Bowen Fintech Plc's (renamed MOH NIPPON PLC after being listed) newly issued shares after additional investment (capital relationship: Kyosei Bank holds 80.69% of MOH NIPPON PLC, which holds 97.41% of "Everyone is a landlord sales company"). In the future, the company is expected to raise capital in the market through sales and issuance of shares.

The use of SPACs grew rapidly between 2020 and 2021. They have gained attention as a means for startups to quickly go public. While many U.S. firms used this method to raise capital, the SPAC market has quickly gone cold from 2022 onward, resulting from sponsor conflict of interest, intransparency of target companies, and falling financial performance. The SEC has also tightened regulation. It's also said that declining investor trust could result in less use of SPACs.

by Shigeru Hirai, Fund Services Division

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Tax Update

Accounting rule amendments and effects on Limited Partnerships

The accounting rule amendment that took effect on December 5, 2023, abolished the “Accounting Rule for Small and Medium-sized Limited Partnerships” and implemented the “Accounting Rule for Limited Partnerships”. The accounting rule change was the first in a quarter century.

During this time, investments have become more global and accounting standards including IFRS that measure fair value of non-listed companies has been implemented. The investment environment and disclosures have changed dramatically. J-GAAP methods and disclosures for asset valuation have also changed. An example is the “Accounting standard for fair value measurement” that began for consolidated accounting years or fiscal years that begin on April 1, 2021, and after.

1. Summary of Amendment

The pages and paragraphs below are changes to Guidance No. 38 of the Industry-Specific Committee, "Accounting and Auditing Treatment for Limited Partnerships":

① The framework for financial reporting for limited partnerships has been revised, in correspondence to the clarified definition of fair value under Article 7, Paragraph 2 of the Limited Partnership Accounting Rules (Page 9).

② Regarding the fair value measurement in compliance with the Limited Partnership Accounting Rules, the description has been revised in accordance with clarifying the definition of fair value under Article 7, Paragraph 2 of the Limited Partnership Accounting Rules (Sections 24 and 24-2).

③ Regarding the acceptability of the financial reporting framework applicable to financial statements under the Limited Partnership Act (LPA), the description has been revised to reflect the clarified definition of fair value under Article 7, Paragraph 2 of the Limited Partnership Accounting Rules (Section 58).

④ Based on current practices, the term "appraisal" has been revised to "valuation" (from Section 79 to Section 92).

⑤ Audit considerations related to the estimation of fair value of unlisted shares when applying the IPEV Guidelines under the Investment Asset Fair Value Measurement Standards have been added as Sections 93-2 to 93-18. Additionally, the term "fair value" has been revised to "market value" to align with the wording of the Limited Partnership Accounting Rules.

2. Timing and future impact of Amendments

In principle, this amendment will apply to audits for the fiscal year or accounting period that begin on October 1, 2024 and after. In addition, for reports filed after October, there may be a need to make changes in notes to the annual report or for the requirement that the limited partnership report investment assets at fair value.

Meanwhile, under the Limited Partnership Act, the Limited Partnership Accounting Rule employs the fair value method for recording non-listed shares, therefore the Guidance states that unrealized gains/losses are to be recorded in the income statement. However, the Financial Instruments Accounting Standards only considers fair value to be the price determined by the market, which differs from the description under the Limited Partnership Accounting Rule. In addition, under the Financial Instruments Accounting Standards, those classified as other investments are recorded for their valuation difference in the equity section of the balance sheet. Thus, the limited partnership will have different profit and loss statements under the Limited Partnership Accounting Rule and Financial Instruments Accounting Standards. It is worth keeping an eye out for developments.

by Hiroki Yaguchi, Knowledge Management Office

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From the Editor

September 1 is disaster prevention day in Japan. Taking the lessons learned from the Great Kanto Earthquake, the day was declared in 1960 that nationwide cities and towns learn about disaster prevention and heighten awareness. Emergency drills are also performed.

After the Great Kanto Earthquake, a figure named Shinpei Goto led the capital's reconstruction. It's said that he led Tokyo's road construction despite requiring a massive national budget and strong opposition from politicians.

He left the words, "Leaving (behind) wealth is the lowest, leaving business is the middle, leaving people is the highest." In any period, training people is an important challenge. Just the other day, our Chairman Matsuzawa and I attended a Prime Global conference in Hong Kong, where yet again, the importance of training and recruiting talent were discussed. I will be explaining in detail in the next volume.

by Jun Murata, Editor-in-chief

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