

【Research Note】

Market Risk Disclosures: A Comparison between Companies in Japan and China

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Abstract

This paper presents a comparative analysis of market risk disclosure by Japanese and Chinese companies whose stocks are traded on New York Stock Exchange (NYSE) as American Depositary Receipts (ADRs) as well as on stock exchange of their own home country. All the companies selected in this study made quantitative disclosures on Item 11 in their 20-F reports to the U.S. Securities and Exchange Commission (SEC). However, in Japan, only two companies made quantitative disclosures outside the financial statements and none of them disclosed information specified for market risks in their notes to the financial statements in their annual securities reports. In China, only one company made quantitative disclosures outside the financial statements in their A-shares reports and the number of companies making quantitative disclosures in the notes to the financial statements in the 20-F reports exceeded those in their A-share reports. It appears that the Japanese companies disclose information specifically required by the SEC but not disclosing them anywhere else. It also appears that the Chinese companies don't disclose identical information in the U.S. and China although the financial statements reported in the U.S. used International Financial Reporting Standards (IFRS) and Hong Kong financial reporting standards and those reported in China used China's accounting standards which are similar to IFRS.

Key words: market risk disclosure, quantitative disclosures, qualitative disclosures

1 . Introduction

In Japan, the Accounting Standards Board of Japan (ASBJ) that is in private sector plays main role in convergence, but there is the other accounting standards setting body, Business Accounting Deliberation Council (BADC) in public sector. In China, the Ministry of Finance of the People's Republic of China (MOF) plays main role.

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On August 8 , 2007 , the Tokyo Agreement between the ASBJ and the International Accounting Standards Board (IASB) was announced on achieving the convergence of Japanese accounting standards with International Financial Accounting Standards (IFRS) by 2011.¹ In Japan, there are 25 Accounting Standards which are published by the ASBJ as well as 8 accounting standards published by BADC. On June 10 , 2011 , the ASBJ and the IASB announced the achievement of convergence under the Tokyo Agreement.²

In 2006 , the MOF issued 38 Accounting Standards for Business Enterprises (ASBE) with full convergence with IFRS. ASBEs are divided into three groups: general accounting standards, special accounting standards and accounting standards for financial reporting. The MOF also published one Basic Accounting Standards that clarifies basic accounting concepts .

Accounting has two functions: one is called operational accounting, the other is called equity accounting. Operational accounting relates to providing decision useful information for investors, and equity accounting relates to reconciliation of interest of stake holders. Style of accounting system in a country depends on the correlation of two functions.³

Both functions relate resource allocation through disclosure of qualitative information as well as quantitative information. The market risk information includes both qualitative and quantitative information. Proper risk disclosure is considered as crucial for investors and other users of financial statements (CESR , 2009) .

The objective of this paper is to compare market risk disclosures of Chinese and Japanese companies and to examine the financial transparency of listed companies in both countries. In order to achieve the objectives, this paper selects Japanese and Chinese non-financial corporations whose stocks are traded on New York Stock Exchange (NYSE) as American Depository Receipts (ADRs) . The stocks of the selected companies are traded on Tokyo Stock Exchange (TSE) or on Shanghai Stock Exchange (SSE) as A-shares. The reason for the selection of the companies whose stocks are traded as ADRs as well as traded on the stock exchange in their home countries is to highlight the institutional differences. Non-financial companies were selected in order to eliminate the effects which may be inherent in the specific characteristics of the financial industry .

This paper is organized as follows. Section 2 summarizes the market risk disclosure requirements of the U.S. Securities Exchange Commission (SEC) , ASBJ, Japan Financial Services Agency (FSA) , China's MOF and China Securities Regulatory Commission (CSRC) . Sec-

1 Press release 8/August/2007 " The ASBJ and the IASB announce Tokyo Agreement on achieving convergence of accounting standards by 2011 " (https://www.asb.or.jp/asb/asb_e/asbj/pressrelease/pressrelease_20070808_e.pdf) (access 2011/10/30)

2 Press release 10/June/2011 " IASB and ASBJ announce their achievements under the Tokyo Agreement and their plans for closer co-operation (13th meeting)" (https://www.asb.or.jp/asb/asb_e/asbj/pressrelease/pressrelease_20110610_e.pdf) (access 2011/10/30) . But the minister of financial service announced that Japan postpones final decision on mandate application of IFRS to Japanese companies .

3 Tax accounting also has an influence on accounting practice in each country.

tion 3 introduces twelve selected Japanese companies as sample and compares the market risk disclosures between the annual reports of foreign corporations (20-F) filed with SEC and the annual security report filed with FSA for the financial period ended December 31, 2008 or March 31, 2009. Section 4 introduces nine Chinese companies as sample and compares the market risk disclosures between the annual reports of foreign corporations (20-F) filed with SEC and the annual report of A-shares filed with CSRC for the financial period ended December 31, 2008.

2 . Comparison of Market Risk Disclosure Requirements among Japan, China and US

In 1997, the SEC issued Financial Reporting Release No. 48 "Qualitative and Quantitative Market Disclosure" (FRR 48). FRR 48 defines market risk as "the risk of a loss arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates, commodity prices, and other relevant market rate or price changes (e.g., equity prices)" (SEC, 1997, p.5, footnote [12]) and requires companies to disclose the following four types of market risks: interest rates, foreign exchange rates, commodity prices, and equity prices (SEC, 1997, p.8).

These disclosures are presented within the section of "Management Discussion and Analysis" (MD & A) under Item 17 in form 20-F for foreign corporations trading in the U.S. as ADRs (SEC, 1997, p.57).⁴ FRR 48 requires companies to disclose potential loss in one of three formats: tabular disclosure (SEC, 1997, pp.68-69), sensitivity analysis (SEC, 1997, pp.70-71), and value at risk (VaR) (SEC, 1997, pp.71-73). For sensitivity analysis and VaR, a company may report the potential loss/gain in terms of income, cash flow or fair value. Therefore, for any type of risk, a company may choose any one of the seven distinct formats as shown in Table 1.

The ASBJ released a revised Accounting Standard Statement No. 10 "Accounting Standard for Financial Instruments" (AS 10) and issued revised Implementation Guidance No. 19 "ASBJ Guidance on Disclosures about Fair Value of Financial Instruments" (IG 19) on March 25, 2011.⁵ AS 10 requires the disclosure of qualitative information on financial instruments and quantitative disclosures on the fair value of financial instruments. Qualitative disclosures include the objectives of holding financial instruments, the description and risks of financial instruments, risk management etc. as items of note to financial statements (para.40-2(1)). For this requirement, IG 19 requires quantitative disclosures of market risks. The

4 "Qualitative Disclosure about Market Risk" part of FRR48 says that SEC believes qualitative information about market risk is important to investors and shows examples of information (SEC, 1997, pp.76-78).

5 The revision of IG19 relates to the revision of AS 12 "Accounting Standards for Quarterly Financial Reporting".

Table1: Formats Used to Disclose Market Risk

A	Use tabular format
B1	Use VaR for fair value
B2	Use VaR for cash flow
B3	Use VaR for income
C1	Use sensitivity analysis for fair value
C2	Use sensitivity analysis for cash flow
C3	Use sensitivity analysis for income

market risks include currency risk, interest rate risk, and others (para.3) . According to this paragraph, companies, whose assets and liabilities are made up mostly of financial instruments which are sensitive to changes in market risks, should disclose information based on quantitative analysis used in risk management of the financial instruments or sensitivity analysis in the disclosures of fair value of financial instruments (para.3 (3)) . The annual security report, Form 3 , submitted to prime minister is regulated by the Cabinet Office Ordinance on Disclosure of Corporate Information etc . (COOD) . COOD requires companies to disclose all the risk factors which may affect the decision of investors in Item 2-4 titled “ Business Risk ” of Form 3 . Such factors may include unusual changes in the financial position, the results of operations and cash flows of the company; and disclose any dependence on specific customers, suppliers, products and technologies.

In China, the MOF in 2006 issued the ASBE No . 37 (ASBE 37) “ Presentation of Financial Instruments ”. ASBE 37 is in full convergence with IFRS 7 “ Financial Instruments: Disclosures ”. It requires sensitivity analysis of the impact of a change in each type of market risk on income statement or owners equity (Article 43) . When VaR or similar method is used in sensitivity analysis, ASBE 37 requires the disclosure of the objectives, main parameters, assumptions of the model used, and the disclosure of any possibility of not capturing the fair value of financial instruments (Article 44) . In 2007 , CSRC announced the prospectus about “ the Standard Concerning the Contents and Formats of Information Disclosure Offering Securities to the Public No.1 ” (SCF) . SCF requires that companies should disclose all the significant risk factors that may adversely affect the achievement of the company’s future strategy and operating objectives, including macro policy risk, market or business risk, financial risk, technology risk, and others (Section 4) . The concept of market risk in SCF is different from that of FRR 48 .

3 . Market Risk Disclosures of Japanese Companies

The selected Japanese companies for this study have ADRs traded on NYSE and shares (J-Shares) traded on TSE. Table 2 shows the name of the companies, in Japanese and English, as

Table 2: Sampled Japanese Companies

English Name	Japanese Name	Industry	NYSE Symbol	TSE Code
Advantest Corporation	株式会社アドバンテスト	Semiconductors	ATE	6857
Canon Inc.	キヤノン株式会社	Electronic Office Equipment	CAJ	7751
Hitachi, Ltd. *	株式会社日立製作所	Electronic Equipment	HIT	6501
Honda Motor Co. , Ltd.	本田技研工業株式会社	Automobiles	HMC	7267
Konami Corporation	コナミ株式会社	Toys	KNM	9766
Kubota Corporation	株式会社クボタ	Commercial Vehicles & Trucks	KUB	6326
Kyocera Corporation	京セラ株式会社	Electrical Components & Equipment	KYO	6971
Nippon Telegraph and Telephone Corp.	日本電信電話株式会社	Fixed Line Telecommunications	NTT	9432
NTT DOCOMO Inc.	株式会社エヌ・ティ・ティ・ドコモ	Mobile Telecommunications	DCM	9437
Panasonic Corp.	パナソニック株式会社	Consumer Electronics	PC	6752
Sony Corp.	ソニー株式会社	Consumer Electronics	SNE	6758
Toyota Motor Corp.	トヨタ自動車株式会社	Automobiles	TM	7203

* Hitachi released announcement that delisting of its ADR from NYSE became effect from April 27 , 2012 . (http://www.hitachi.com/New/cnews/f_120427a.pdf) (access 2012/05/27)

well as their symbols on NYSE and their codes on TSE .

The financial statements filed by the Japanese companies with the SEC and FSA are all based on U.S.GAAP. It is reasonable to conclude that the financial statements in annual reports of the ADRs and the J-shares filed with the FSA are equivalent. If there are any differences in market risk disclosures, they must be caused by regulations other than those of the SEC, and/or the intention of managements .

Table 3 shows information about the disclosures of market risks in their reports of the ADRs filed with the SEC. The 20-F form is used by foreign corporations to file their annual reports with the SEC. Item 11 on 20-F form is used to report quantitative and qualitative information required by the SEC in respect to market risk disclosures. Item 17 or 18 on 20-F are used to file the financial statements and their notes .

Table 3 shows that all companies made quantitative disclosures in Item 11 and none of the companies made quantitative disclosures within Item 17 . Ten companies use the tabular format. Sony (SNE) used value at risk (VaR) for the three types of risks; equity price risk, currency risk and interest rate risk. Toyota Motor (TM) used sensitivity analysis for fair value for equity price risk and interest rate risk, and used value at risk (VaR) for currency risk.

Table3: Market Risk Disclosure in the Annual Reports (20-F) for the Japanese ADRs Filed with the SEC

NYSE Symbol	Equity price risk	Currency risk	Interest risk	Commodity price risk
ATE Item 11 Item 17	A -	A Qualitative & A	No long-term debt -	-
CAJ: Item 11 Item 17	A -	A Qualitative & A	Insignificant -	- -
HIT: Item 11 Item 17	A -	A Qualitative & A	A Qualitative & A	- -
HMC: Item 11 Item 17	Qualitative -	A Qualitative & A	A Qualitative & A	- -
KNM: Item 11 Item 17	A -	A Qualitative & A	A -	No open derivative -
KUB: Item 11 Item 17	A -	A Qualitative & A	A Qualitative & A	- -
KYO: Item 11 Item 17	A -	A Qualitative & A	A Qualitative & A	- -
NTT: Item 11 Item 17	A -	Not material Qualitative & A	A Qualitative & A	- -
DCM: Item 11 Item 17	A -	No forward contract Qualitative & A	A Qualitative & A	- -
PC: Item11 Item17	A -	A Qualitative & A	A -	A Qualitative & A
SNE: Item 11 Item 17	B1 -	B1 Qualitative & A	B1 Qualitative & A	- -
TM: Item 11 Item 17	C1 -	B3 Qualitative & A	C1 Qualitative & A	No derivative -
Note : No information was provided A: Use tabular format B1: Use Value at Risk (VaR) for cash flow B3: Use Value at Risk (VaR) for income C1: Use sensitivity analysis for fair value				

Table 4 provides information on the disclosures of market risks in their annual security reports filed with the FSA. All the information is for fiscal years ended March 31, 2009, except for Canon Inc. whose fiscal year ended on December 31, 2008. Table 4 shows that the J-shares reports also have two locations for market risk disclosures: one is Item 2-4 "Business Risk" or Item 2-7 "Analysis of Financial Position, Operation Result and Cash Flow"; the other is Item 5-1 "Consolidated Financial Statements" under "Financial Conditions". Item 2

-4 is not specified for market risk disclosures. In fact, the qualitative information is the same to that of Item 3D in 20-F reports.

Table 4: Market Risk Disclosure in the Annual Reports for J-Shares Filed with the FSA

NYSE Symbol	Equity price risk	Currency risk	Interest risk	Commodity price risk
ATE: Item2-4 Item5-1	- -	Qualitative Qualitative & A	- -	- -
CAJ: Item2-4 Item5-1	Qualitative -	Qualitative Qualitative & A	Qualitative -	- -
HIT: Item2-4 Item5-1	- -	Qualitative Qualitative & A	- Qualitative & A	- -
HMC: Item2-4 Item5-1	Qualitative -	A Qualitative & A	A Qualitative & A	- -
KNM: Item2-4 Item5-1	- -	- Qualitative & A	- -	- -
KUB: Item2-4 Item5-1	Qualitative -	Qualitative Qualitative & A	Qualitative Qualitative & A	Qualitative -
KYO: Item2-7 Item5-1	Qualitative -	A & A Qualitative & A	A Qualitative & A	- -
NTT: Item2-4 Item5-1	- -	- Qualitative & A	- Qualitative & A	- -
DCM: Item2-4 Item5-1	- -	- Qualitative & A	- Qualitative & A	- -
PC: Item2-4 Item5-1	Qualitative -	Qualitative Qualitative & A	Qualitative -	Qualitative Qualitative & A
SNE: Item2-4 Item5-1	- -	Qualitative Qualitative & A	Qualitative Qualitative & A	- -
TM: Item2-7 Item5-1	- -	Qualitative Qualitative & A	- Qualitative & A	- -

As shown on Table 4, under Item 2-4 or Item 2-7 of their J-shares reports, ten companies provided qualitative disclosures for one or more types of risks, and two companies, Honda Motors (HMC) and Kyocera Corporation (KYO), provided quantitative data using the tabular format for currency risk and interest rate risk and qualitative information for the other market risks. Under Item 5-1, all the companies provided qualitative information and quantitative information presented in a tabular format. The qualitative information are disclosed in note under the heading "Derivative Financial Instruments" or "Derivatives and Hedging Activities", including the discussion of objectives for derivatives, description of the general way risk is

managed and the types of derivatives and instruments used. The quantitative information presented in a tabular format includes contract amounts or fair values of derivative instruments. There are two types of disclosures. One type is to disclose the types of risk, for example separate disclosure of foreign currency exchange rate risk management and interest rate risk management. The other type is to disclose information without indicating the types of risk. None of the disclosures are forward looking information specified for market risk.

Table 5 presents comparative data on the sampled Japanese companies in their market risk disclosures in their ADRs reports and those filed with the FSA. The majority of companies use the tabular format in their ADRs reports. The tabular format used in ADRs reports differed by

Table 5: Number of Japanese Companies Providing Risk Disclosures by the Disclosure Type in their reports to the SEC and the FSA

Type of Risk	Type of Annual Report			
	ADRs		J-shares	
	Item 11	Item 17	Item2-4	Item5-1
Equity risk				
Qualitative disclosure only	1	0	5	0
Tabular format (A)	9	0	0	0
Sensitivity analysis (B1)	1	0	0	0
Value at risk (C1)	1	0	0	0
Total	12	0	5	0
Currency risk				
Qualitative disclosure only	2	0	6	0
Tabular format(A)	8	12	2	12
Sensitivity analysis (B1&B3)	2	0	0	0
Value at risk	0	0	0	0
Total	12	12	8	12
Interest risk				
Qualitative disclosure only	2	0	4	0
Tabular format (A)	8	8	2	12
Sensitivity analysis (B1)	1	0	0	0
Value at risk (C1)	1	0	0	0
Total	12	8	6	12
Commodity price risk				
Qualitative disclosure only	2	0	2	0
Tabular format (A)	1	1	0	1
Sensitivity analysis	0	0	0	0
Value at risk	0	0	0	0
Total	3	1	2	1

the type of market risk disclosed. The tabular format used for disclosures of interest rate risk as required by the SEC disclosed debt, for example, for each of the next five years and, under one column, for years after the fifth. Companies have the discretion of selecting the information reported when using the tabular format for disclosures on the risk of changes in foreign currency exchange rates.

4 . Market Risk Disclosures of Chinese Companies

Table 6 shows the name of sampled companies, in Chinese and English, as well as their symbols on NYSE and codes of A-shares on SSE.

Table 6: Sample Chinese Companies

English Name	Chinese Name	Industry	NYSE Symbol	SSE Code
Aluminum Corporation of China, Ltd.	中国铝业股份有限公司	Aluminum	ACH	601600
China Eastern Airlines Corp. Ltd.	中国东方航空股份有限公司	Airlines	CEA	600115
China Petroleum & Chemical Corp.	中国石油化工股份有限公司	Integrated Oil & Gas	SNP	600028
China Southern Airlines Co. Ltd.	中国南方航空股份有限公司	Airlines	ZNH	600029
Guangshen Railway Co. Ltd.	广深铁路股份有限公司	Travel & Tourism	GSH	601333
Huaneng Power International Inc.	华能国际电力股份有限公司	Conventional Electricity	HNP	600011
PetroChina Co. Ltd.	中国石油天然气股份有限公司	Integrated Oil & Gas	PTR	601857
Sinopec Shanghai Petrochemical Co. Ltd.	中国石化上海石油化工股份有限公司	Commodity Chemicals	SHI	600688
Yanzhou Coal Mining Co. Ltd.	兖州煤业股份有限公司	Coal	YZC	600188

The financial statements filed by the sampled Chinese companies with the SEC are based on IFRS except for Aluminum Corporation of China (ACH) which is based on Hong Kong Financial Reporting Standards. The auditing standards used in these reports are Auditing Standards by PCAOB except for Aluminum Corporation of China which used Hong Kong Standards on Auditing.

The financial statements filed by the Chinese companies with CSRC are based on ASBE. The auditing standards used in these reports are Auditing Standards for CPAs of China. Since ASBE is equivalent to IFRS, it is reasonable to say that the financial statements in ADRs annual reports and A-shares annual reports are equivalent. If there are any differences in market risk disclosures, they must be caused by regulations other than those of the SEC, and/or the intention of management.

Table 7 provides information on the disclosures of market risk by the Chinese companies in

Table 7: Market Risk Disclosure by the Chinese Companies in their 2008 Annual Report to the SEC

NYSE Symbol	Equity price risk	Currency risk	Interest risk	Commodity price risk
ACH: Item11 Item17	- -	Not significant Same above	A C3(post-tax profit)	A C3(post-tax profit)
CEA: Item11 Item17	- -	C3(profit and loss) A	C3(interest costs) C3(profit and loss)	C1 C3(profit and loss)
SNP: Item11 Item17	- C3(net income and retained earnings)	A C3(net income and retained earnings)	A C3(net income and retained earnings)	- -
ZNH: Item11 Item17	- -	A C3(loss after taxes and accumulated losses)	A C3(loss after taxes and accumulated losses)	Same below All the fuel option expired in 2008
GSH: Item11 Item17	- Qualitative	C1 A & C3(post-tax profit)	C3(post-tax profit) Same above	Qualitative -
HNP: Item11 Item17	Qualitative Same above	A C3(exchange gains)	A C3(interest expenses)	A Qualitative
PTR: Item11 Item17	- -	A Qualitative	A Qualitative	Qualitative Same above
SHI: Item11 Item17	- -	A A&C3(net profit and retained earnings)	A C3(net profit and retained earnings)	- -
YZC: Item11 Item17	Not significant Same above	C3(profit and loss) A&C3(profit and loss)	C3(net income) Not significant	Qualitative -
Note: ___: No information was provided A: Use tabular format C1: Use sensitivity analysis for fair value C3: Use sensitivity analysis for income				

their 2008 ADRs reports filed with the SEC. As shown on Table 7, Chinese companies used qualitative information, tabular format and sensitivity analysis of fair value and income within both Item 11 and Item 17. Eight of the companies used the tabular format.

Table 8 provides information on the disclosures of market risk by the Chinese companies in their 2008 A-shares reports filed with the CSRC. Just like the annual reports of J-shares, the A-share reports also have two locations for market risk disclosures: one is outside the financial statements within the section of management discussion and analysis (MD&A); the other is under the Notes of Financial Statements. The location outside the financial statements is not specified for market risk disclosures. For example, Aluminum Corporation of China disclosed price risks within the part of the Chairman's Statement under Item of Risk Factors.

Table 8: Market Risk Disclosure in 2008 Annual Report by the Chinese Companies in their A-Shares Filed with the CSRC

NYSE Symbol	Equity price risk	Currency risk	Interest risk	Commodity price risk
ACH:				
Item	-	-	-	-
Item	-	-	-	-
CEA:				
Item8-1	-	Qualitative	Qualitative	C1
Item12	-	Qualitative	Qualitative	C3, C1
SNP:				
Item12-14	-	Qualitative	Qualitative	Qualitative
Item16	C3(net income and retained earnings)	C3net income and retained earnings)	C3(net income and retained earnings)	-
ZNH:				
Item	-	-	-	-
Item11	-	C3(net income and equity)	C3(net income and equity)	All the fuel option expired in 2008
GSH:				
Item7-2	-	Qualitative	Qualitative	Qualitative
Item10	-	C3(income & equity)	Not significant	-
HNP:				
Item8-1	-	Qualitative	Qualitative	Qualitative
Item	-	-	-	-
PTR:				
Item12-2	Qualitative	-	Qualitative	
Item16	Qualitative	Not significant	Same above	
SHI:				
Item9-1	-	-	-	Qualitative
Item12	-	C3(profit and retained earnings)	C3(profit and retained earnings)	-
YZC:				
Item8-2	-	-	-	Qualitative
Item	-	-	-	-
Note:				
___: No information was provided				
A: Use tabular format				
C1: Use sensitivity analysis for fair value				
C3: Use sensitivity analysis for income				

As shown on Table 8, Chinese companies used tabular format, qualitative information, and sensitivity analysis of fair value and income to disclose their market risks within notes of financial statements. As on Table 8, only one company, China Eastern Airlines (CEA), made quantitative disclosures related to the risk of changes in prices of commodities outside of financial statements voluntarily. China Eastern Airlines reported large unrealized losses from the fair value changes of the fuel hedging derivatives. It made sensitivity analysis that if the oil price decreased or increased by 5% compared to the closing price as December 31, 2008, the fair value losses would increase or decrease by approximately RMB 500 million. Obviously, the disclosures are good explanation for the losses incurred in 2008 as well as a signal that the losses will be reduced with the recovery from the worst situation of oil market in 2009. It may in-

dicating that companies will voluntarily make market risk disclosures when it is helpful in explaining unfavorable situations.

Table 9 presents the methods used to disclose market risks for each type of market risk by the sample Chinese companies. It showed that for the currency risk and interest risk the general qualitative and quantitative disclosure requirements of FRR 48 and IFRS 7 were followed by almost all the sample Chinese companies. However, not all the nine companies made quantitative disclosures required by ASBE. As shown on Table 9, three companies did not make any market risk disclosures within the financial statements in 2008. There are several reasons for companies not to disclose any information on any market risk: they do not use derivatives; they have no significant exposure to market risk; the management is reluctant to disclose information because of the desire not to disclose or the lack of transparency. The information disclosed in ADRs reports can be used as observable information to verify why the companies do not disclose the same information in their reports to the CSRC. As shown on Table 8, nine companies made quantitative disclosures in Item 11 and 17 in their reports to the SEC. This may indicate that the Chinese companies disclose different information under different jurisdictions.

Table 9: Number of Chinese Companies Providing Risk Disclosures by the Disclosure Type in their reports to the SEC and the CSRC

Type of Risk	Type of Annual Report			
	ADRs		A-shares	
	Outside	Within	Out	Within
Equity risk				
Qualitative disclosure only	2	3	0	0
Sensitivity analysis	0	1	0	1
Total	2	4	0	1
Currency risk				
Qualitative disclosure only	1	2	5	2
Tabular format	5	1	0	0
Sensitivity analysis	3	6	0	4
Total	9	9	5	6
Interest risk				
Qualitative disclosure only	0	2	5	3
Tabular format	6	0	0	0
Sensitivity analysis	3	7	0	3
Total	9	9	5	6
Commodity price risk				
Qualitative disclosure only	4	3	6	2

Tabular format	2	0	0	0
Sensitivity analysis	1	2	1	1
Total	7	5	7	3

5 . Concluding Remarks

This study examined the variations of disclosures made by Japanese and Chinese companies in disclosing market risks in their 20-F in NYSE and security reports in home markets. The findings in this study illustrate that the sample companies made different disclosures for the SEC, FSA, and CSRC.

In their ADRs reports, all the selected companies made quantitative disclosures on Item 11 in their 20-F reports. Even though the companies have observable information (disclosures in ADRs reports) , most of the companies did not make quantitative disclosure outside financial statements with their reports for shares traded in TSE or SSE except two Japanese companies and one Chinese company. On the basis of the facts, Japanese and Chinese companies response to mandated disclosures requirements actively, but are reluctant to disclose information which are not mandatory.

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