



POLISHING THE LENS: XBRL ENABLES FINANCIAL RESEARCH

By **CHIE MITSUI**, Nomura Research Institute (NRI)

CHIE MITSUI, NOMURA RESEARCH INSTITUTE (NRI), EXPLAINS HOW XBRL MEETS THE NEEDS OF ASSET MANAGEMENT BUSINESS, INCLUDING THE DIVERSIFIED EVALUATION OF COMPANIES.

NRI'S SERVICE TO THE ASSET MANAGEMENT BUSINESS

Nomura Research Institute is recognized as a research and information provider for the financial sector, within the area of collation of financial reports and their standardization for corporate evaluation. We have quite a broad client base, ranging from sell-side analysts, investment banks and asset management companies to trust banks. With the effect of regulatory changes, investment policy changes, as well as changes to trends in

the overall industry, the data needed for corporate evaluation differ from year to year.

NEEDS OF THE ASSET MANAGEMENT BUSINESS IN JAPAN

Generally speaking, the Japanese buy-side does not come into direct contact with the corporate side, because the sell-side provides communication services such as meeting bookings, etc. However sell-side coverage of

financial reporting is usually limited to large market-cap corporations - around 30% of all listed companies - because of liquidity problems.

There is more potential for growth with small- or mid-cap companies compared to those already designated as 'growth' companies. There is, therefore, a greater requirement for buy-side in-house research capability for those small- or mid-cap stocks. After the Lehman shock the buy-side tends to focus on longer-term investments and they have started introducing new indicators or evaluation methodologies for long-term investments. As investment firms become more diversified, they will need a new and more efficient information source.

HOW DOES XBRL MEET THOSE NEEDS?

Each company runs a distinct business and so there are a variety of financial reports to describe them. Companies may choose line-items on their statements, and then write a story for a large part of their annual reports, such as corporate governance, risks, new business and employees' welfare. Data vendors as well as analysts are reading many of these documents in order to pick up specific, valuable information, which will be useful for investors when making investment decisions.

There tends to be too many disclosure materials, such as CSR reports, ESG reports, etc, but once Principles for Responsible Investment (PRI) are established, analysts will be required to make a comprehensive decision for their clients' evaluation. However, one dilemma still remains. Huge amounts of disclosure material will push up the cost of research, which will have a negative impact on investments in small- to mid-cap investments. Because the amount of a company's shares that can be bought are typically smaller in the case of small- to mid-cap companies, you have to research more companies.

XBRL would be a good solution for just such a dilemma. Tagging means that each piece of information can be defined clearly and information can be broken down into each part of its conceptual element by the issuer side. Tagging can clarify the definition of each element and create a metric value of unstructured information, in addition to overcoming any language barriers. If a tag is designed properly, investors can access the right information easily. In the end, XBRL will help analysts to read disclosure material much more efficiently.

EXPERIMENTING WITH XBRL FOR CORPORATE GOVERNANCE

For long-term investment purposes, understanding the quality of corporate governance is one of the key factors in making investment decisions. Many investors focus on whether or not a particular company has an outside director (many Japanese companies still do not have any outside directors,

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or if they are from outside, they will have come from the parent company), but this information can easily get lost in the vast amount of data in the security report, so an investor has to read from top to bottom to find out if there are outside directors. However, since 2008, the Tokyo Stock Exchange (TSE) has been providing a portal site for listed companies' corporate governance information. A listed company is able to access the website and input information, which will be automatically converted into XBRL format. Investors can then use such data for screening information.

We have been challenged to find out whether XBRL satisfies the demands of fund managers and buy-side analysts. One fund manager, who has been winning against TOPIX (Index of Tokyo market) for the past ten years, said "I never buy companies if they do not have any outside directors". He watches over seven hundred companies every quarter, checking each stock again and again. Another buy-side analyst said "I see quality of management as an important element of our company proxy voting policy". For example, they check the balance of the number of directors against the number of employees, as one of their proxy voting policies.

We have tried to collect such information from XBRL, and have found the TSE taxonomies are quite useful. The TSE decided to include those elements after listening to an opinion that was suggested by a pension fund acting as an advisory board. As a result, we can get what we want by selecting elements; if there is a tag for particular information, you can get the answer within one second. The balance of the number of directors against the number of employees is also available on XBRL. Other examples include 'whether the company has analysts-conferences or not' or 'whether a CEO explains himself at a conference or not'.

WHAT IS NEXT FOR XBRL?

As described above, there are no objections that tagged documents have a higher information value than the original documents. If the taxonomy for corporate governance has only a 'description of corporate governance' tag, instead of more strictly defined tags, such as 'number of outside directors', or 'background of each director', we would not have been able to make comparisons.

HOW CAN YOU CREATE A TAG IN ORDER TO INCREASE THE INFORMATION VALUE?

Tagging is a concept of evaluation, and it must be a reflection of how investors see companies. At the same time, companies need to be aware of the essential point of an evaluation: to make company disclosure more effective. This is real communication between companies and investors. A good level of tagging can be achieved by understanding investors and analysts' opinions.

I hope that taxonomy providers (FASB, Japanese FSA, etc.) are making considerable efforts to understand users' opinions and that this will have a positive impact on the market by increasing the volume of trade and helping to maintain stock prices. **IBR**

