

Disclosure Regarding a Corporate Entity's Ability to Continue as a Going Concern and the Role of Auditing in this Regard

Kiyoshi Aoyagi

Recent cases of corporate bankruptcy and management insolvency, ultimately attributable to the many internal and external uncertainties faced by businesses today, are beginning to produce discrepancies among the various vested interests, particularly investors, regarding expectations of accounting and auditing procedures. One issue generated by these differences in expectations is the question of how accounting and auditing procedures should deal with problems with the entity's ability to continue as a going concern. This paper considers the proper response of auditing procedures to this particular issue.

New auditing criteria introduced into Japan in response to international developments in the auditing industry give auditors responsibility for assessing whether or not a corporation has the ability to continue as a going concern. However, auditors are not required to design or perform auditing procedures in adjudging the existence of phenomena or circumstances that raise grave concerns about the corporation's ability to continue. The new criteria also allow auditors to report on the grave concerns in the explanatory section of the auditors' report rather than in the opinion section.

This is an extremely poor, even irresponsible, response when considered in the light of the self-responsibility principle applied to investors and the responsibilities of auditors. In this paper, I argue that we need to redress the situation by formalizing the disclosure of future predictions and by encouraging auditors to take a more active role in assessing the corporation's ability to continue and offering responsible opinions and recommendations. Auditing needs to move with the times, and to this end we need to expand and deepen the functions of auditing.

Lessons for Modern Corporate Management in the Family Precepts of Edo-period Merchants: The Role of Enterprises as Public Institutions

Koji Arata

The mainstream view is that the joint-stock company is owned by its shareholders and that shareholder value management maximizing shareholder profits is the fundamental principle of management. But shareholder value management is not the one and only way to manage a business, as proved by the collapse of major American companies like energy giant Enron and the WorldCom telecommunications conglomerate, which relentlessly pursued shareholder value.

People basically want to live healthy, enjoyable and fulfilling lives, and to live as long as possible. For that purpose, they consume many goods. Thus, consumption of goods is the ultimate purpose of production as a whole, and people produce goods for the sake of consumption. Goods consumed in daily life are usually provided in the combined form of products and services. It is enterprises (for-profit organizations) and organizations (non-profit bodies) that produce the goods people need in daily life and that enterprises and organizations require for production.

Bringing together stakeholders who work cooperatively, enterprises function as public institutions engaged in activities helpful to people in their daily lives. Stakeholders include customers, shareholders, suppliers of capital, suppliers of materials and services, workers, employers, local communities, municipalities and the nation. Enterprises and organizations should remember that they are part of society and of nature.

In Japan, many Edo-period merchants operated under precepts that put their customers first and gave priority to the public interest. Those family precepts and rules of business have been passed down to us today.

Rather than hoping that strong economic growth will resume, enterprises and organizations should do business in ways that will steadily enrich everyone's life, while being environmentally aware and working to better society. Learning from the family precepts of Edo-period merchants, enterprises as public institutions should reject shareholder value management pursuing maximum shareholder value creation. Under the leadership of sound employers, they should conduct their business based on management for stakeholders, in

which all stakeholders can take part.

European Court Of Justice Decision Challenges the Chicago Regime: Affects on Asia – A Flock of Small Fishes Facing a Giant Whale

Benjamin T. Kinoshita

It is not uncommon to see some systemic change in an industry. Since the change is systemic, the change does not have direct influence to day-to-day operations. However, the judgment delivered by the European Court of Justice on November 5, 2002, will change the shape of aviation which the world had been accustomed to as the Chicago Regime for almost 60 years.

The Commission of the European Communities (EC) brought action against seven Member States (Denmark, Sweden, Finland, Belgium, Luxembourg, Austria and Germany) which are signatories to “open skies” agreements with the United States, as well as an action against the United Kingdom (EC contested the UK/US bilateral agreement concluded in 1977, the “Bermuda ”, as carrying provisions contrary to Community law as regards to right of establishment).

EC alleged, in particular that, these agreements infringed the external competence of the Community since only the Community has competence to conclude such an agreement (this complaint was not raised against the U.K.), and infringed the provisions of the EU treaties concerning the right of establishment by permitting the United States to refuse traffic rights in its airspace to air carriers designated by the Member State which is party to the agreement, if a substantial part of ownership and effective control of that carrier are not vested in that Member State or its nationals (clause on the ownership and control of airlines).

The Court decided while the Commission does not have the power to negotiate and conclude air agreements on behalf of its Member States, it concluded that some of the provisions relating to the establishment of fares and rates on intra-Community routes and those relating to computerized reservations systems and the allocation of airport slots infringed upon the Community’s exclusive external competence. The Court also concluded that the clause on the ownership and control of airlines in those “open skies” agreements constitute a discrimination excluding carriers of other Member States from the benefit of national treatment in the host Member State, which is forbidden by the Community rules on the right of establishment.

The Commission ordered the eight Member States to renegotiate an air agreement which will be in line with the EU principles and the Court decision but the U.K. spontaneously refused to renounce the 20-year old Bermuda .

The ownership and control of any designated airline to be authorized to fly air services under a bilateral air treaty had been an unpronounced understanding when air traffic benefits were exchanged between two interested countries that such ownership and control would rest with either one of the

countries who are party to the air agreement. The Court decision have opened a Pandora's box as it implies all bilateral agreements concluded by the 15 Member States, some 1,200 agreements in all, are void as they contain airline ownership and control limitations.

ICAO will host their World Air Transport Conference during March 24 to 29 in Montreal where the issue of airline nationality (ownership and control) will be tabled. The Court decision challenges the 1944 Chicago regime where the United States and the Netherlands' proposal for a free "open sky" was rejected in favor of controlled skies necessitating the inking of bilateral air agreements between interested countries desiring to start air services between each other.

The 9/11 terrorists' attack have weakened the financial position of world airlines and consequently there are increasing need to seek capital injection even crossing the borders blurring a distinctive nationality of an airline. As far as the EU is concerned (including the ten new Members from Eastern Europe who are expected to join), the Court decision have virtually removed national borders and placed cross border mega mergers a possibility. With the already large US bloc and the equally large EU bloc, the lack of an Asian common interest bloc forces a weak negotiating platform for the Asian countries. The Court's decision has also kindled the resurrection of the controversial Transatlantic Common Aviation Area (TCAA).

It is the author's opinion that the European Commission will eventually secure the blessings of the European Parliament the power and right to negotiate and conclude air traffic agreements on behalf of its Member States, singularly or collectively. Chances of the creation of a multi-national common aviation area is likely resulting to a formation of a powerful Atlantic area bloc.

The world is not going to wait for the Asia-Pacific nations to form a similar common bloc centering on air traffic interests. The absence of such a bloc means an extremely weak negotiating position for one single Asian country.

New Services in International Transport and Logistics

Yoshiaki Hirata

Cargo imports and exports are expected to grow more as international business unfolds on a global scale. Over the long term, the basic forms of cargo transport, by container aboard sea-going vessels, and by air cargo, will expand.

The American market is characterized by the growth of combined transport through the development of double-stack trains (DST), and integrators and third-party logistics (3PL), which arose in response to market needs and as a result of deregulation. In Europe, combined transport has been actively promoted on a sustained basis, leading to changes in the transport and logistics markets within a unified EU market.

Both the United States and Europe, which have promoted combined transport to improve efficiency and reduce transport costs, have taken active steps to upgrade their infrastructure, including roads and harbors. Infrastructure improvements are being made, to boost international competitiveness. Customs clearance procedures also need to be streamlined, to improve cargo flow efficiency and reduce costs. The United States and the EU have simplified import/export procedures, helping to improve the flow of import and export cargo.

The global issues now being faced are to improve supply chain efficiency and to reconcile cost reductions with security measures.

Meanwhile, as international business grows, multinational shippers are looking for supply chain efficiency and cost reductions. To meet their demands, major integrators, postal services, forwarders and others are unfolding strategies to expand their global market share.

What measures and strategies should Japanese companies adopt for boosting their global competitiveness under these circumstances? Reforming customs clearance procedures, promoting combined transport by rail and developing the logistics business are some of the steps needed for meeting global standards. Additionally, Japanese international transport companies should enter the international market. Ideally, they should be engaged in strategic activities for developing new markets like China and other countries. Japanese international transport companies need to establish overseas bases and become active players in the global market, to compete with European, American and emerging Asian companies and to expand their share in the rapidly changing international transport and logistics market.

Bayesian Inference on Option Pricing Models Using the Gibbs Sampler

Hidetoshi Mitsui

This paper describes two surveys we conducted regarding the theory of Bayesian Inference on option pricing models using the Gibbs Sampler. Previous experimental studies of option evaluation have used Maximum Likelihood method (ML) and Method of Moments (MM) to estimate the parameters of the models, with methods using numerical analysis to derive option prices being the most common. In the fields of econometrics and finance, experimental studies of Bayesian Inference using the Markov Chain Monte Carlo (MCMC) method have increased dramatically in recent years, and in the future, this method is expected to gain extensive use in experimental research on option markets as well. The first half of the paper describes our survey regarding the Gibbs Sampler, a representative MCMC method; the second half of the paper describes our survey regarding Bayesian Inference using the Gibbs Sampler and its application in option evaluation.