

Abstracts

The Establishment of Inter-Connected Pension Governance Systems based on the UK's Stewardship Code

Aishi Imafuku

This paper sheds light on the inter-connected formation and functioning of the codes governing the activities of the four main parties in the U.K.'s pension system: 1) Pensioners, insurance policyholders, and other beneficiaries; 2) Pension plans; 3) Institutional investors; and 4) Investee companies.

The code governing pension plans is contained in the *Guidelines for Pension Fund Governance* (June 2009) published by the OECD, and is clearly aimed at building risk-based pension system governance. The code governing investee companies is the UK Corporate Governance Code (June 2010) issued by the Financial Reporting Council (FRC). Under this code, the purpose of governance for investees, who are entrusted with the money of beneficiaries, pension plans, and institutional investors, is stated as follows: "The purpose of corporate governance is to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the company."

The most important code in the inter-connected system of governance that is the focus of this paper is *The UK Stewardship Code* (July 2010), issued by the Financial Reporting Council to regulate the activities of institutional investors. Whereas in the past investee governance garnered nearly all the attention directed toward governance issues, *The UK Stewardship Code* functions as an important related set of rules governing the institutional investors and fund managers to whom investment has been entrusted. The governance and stewardship codes took shape as a result of the Walker Review¹, which was issued in response to questions by the British Prime Minister after the onset of the financial crisis from which the world is still recovering.

International Financial Reporting Standards (IFRS) are closely linked to the three codes mentioned above in that they provide rules governing the financial reporting of investee companies. Taken together, these four codes constitute an inter-connected system of pension system governance. One of the most important questions concerning pension systems internationally is how to build such a governance system. It must be considered that IFRS is a key element in the development of inter-connected pension governance systems.

¹ Walker, David, *A review of corporate in UK banks and other financial industry entities: Final recommendations*, 26 November 2009.

Self-consciousness and New Industry in Cyber-space

Yoshihiko Nitta

For many years people are saying today's world is a highly information-oriented society, which however is already outdated because the new concept such as ubiquitous- or crowd-computing society has appeared and established their own place in current world.

In current age we have to live with enormously high-powered computational environment, namely the Internet, which is used to be an information retriever-server but now is the base of "cyber-space". The inhabitants of this cyber-space were at first merely software robots called "agent" programs, which have now some strong partnership with actual human users. And eventually real human users are also changing to homogeneous agents in cyber-space. In other words human beings are being akin to "cyborgs".

This tendency is accelerated by the development of three-dimensional (or four-dimensional if we take "time axis" as the fourth dimension) game machines called "virtual reality", highly powerful mobile terminals and world wide high-speed communication network. Roughly speaking real human-being's self-consciousness is gradually embedded in cyber-space.

Of course it is very plausible to deny this kind of cyber-cultural tendency and try to build a so-called sound guard to protect human-beings from excessively cyber-addicted environment.

But in this paper we try to investigate the bright side of cyber-space and propose some affirmative possibility of new cyber-space industry. Briefly speaking our view is that new cyber-space industry will act as a meta-industry over the various traditional industries and will provide many beneficial effects both on global economic situation and individuals' daily life style.

The Reliability of Narrative Information and External Assurance for Integrated Financial Reporting

Osamu Furushou

Amid a changing global business environment and increasingly complex transactions, there is now clear awareness of the need for disclosure of narrative information, which supplements and complements financial statements, adding information that gives them integrated meaning in fulfilling the purpose of financial reporting.

The placement of disclosure information in the financial reporting framework not only limits the parameters of accounting standards but also impacts the scope and level of assurance related to the reliability of disclosure information.

The rising demand for disclosure of narrative information as an accompaniment to financial statements is based on the realization that financial statements alone are insufficient for explaining a company's value creation process and communicating future prospects. Narrative information promotes understanding of a company's performance by providing information that financial statements alone cannot, or fundamentally should not be expected to, provide, and is widely recognized as forming an important part of an annual report.

Nevertheless, narrative information accompanying financial statements includes information that in fulfilling the role of disclosure is essentially very subjective and offers little opportunity for testing in an audit. This paper, in considering issues concerning the securing of reliability for this kind of information external to financial statements, goes beyond the discussion of assurance approaches for "other information" that has taken place in the realm of audit theory to show that the state of the governance structure for the financial reporting process impacts the reliability of narrative information. It also considers, as regards the role of the Financial Reporting Review Panel (FRRP), which is an integral part of the U.K.'s accounting standards setting structure, the significance of, and procedures relating to, external assurance regarding reliability, which in recent years has been extended from financial statements to directors reports.

This paper, as a part of the integrated financial reporting approach the writer envisions, addresses issues surrounding the financial reporting conceptual framework - its scope and boundaries - from the perspective of auditability, and attempts to clarify the goals and issues concerning a regulatory framework for the assurance of narrative information.

Rationalization of Production and Citizen's Life

Kazuhiko Murata

To have consumers purchase their products in a competitive market, companies must continuously reconsider their products and production methods, make changes, and strive to produce and supply good quality products at low prices. In this paper, efforts to improve products and production methods are referred to as “rationalization of production,” which exists in two forms – “rationalization of product determination ” and “rationalization of production method.”

Citizen's life can be viewed as consisting of two parts – production and consumption. Today, citizens carry out their production lives inside companies by performing a role assigned to them as part of the company's production activities. They carry out their consumption lives by using in their homes products produced by companies. To smoothly carry out their production lives, citizens must acquire the skill necessary to perform their work well, and to smoothly carry out their consumption lives they must acquire the skill necessary to use products well.

The production rationalization efforts of companies, however, through changes to products and production methods, compel citizens to update the skills they need to carry out their lives. This paper, then, focuses on and illuminates the impacts, and relationships, of the characteristics of production rationalization on, and with, the skills citizens need to smoothly carry out their production lives in companies and their consumption lives in their homes

An Empirical Study of Option Pricing under Bull and Bear Market Conditions

Kiyotaka Satoyoshi, Hidetoshi Mitsui

Observations of long-term data for the Nikkei 225 stock index show that it has periods during which it displays an upward trend (bull period) and periods when it conversely displays a downward trend (bear period). Modeling the bull-bear transition in rates of return makes it possible to express skewness in the distribution of asymmetric rates of return. Furthermore, the EGARCH model, which captures variability characteristics like volatility asymmetry, in which volatility on days immediately following a stock price drop exceeds volatility on days immediately following a stock price rise, and which has been long observed in the Nikkei 225 stock index, may be better for option pricing than the GARCH model. Given that the MSGARCH model, which is better at capturing switching than the GARCH model, is excellent for option pricing, that volatility asymmetry has been observed, and other considerations, the Markov Switching EGARCH (MSEGARCH) model, which includes switching in the EGARCH model, could perform exceptionally well in the pricing of Nikkei 225 options.

In this study, we employed an EGARCH model in which not only volatility in the underlying assets but also expected rates of return give rise to Markov switching - in other words, an MSEGARCH model - to evaluate Nikkei 225 option prices and determine whether the MSEGARCH model performs better than other ARCH models. Prices for European options like Nikkei 225 options can be easily derived, assuming the investor is risk neutral, through Monte Carlo simulation. Empirical analysis results clearly showed that in pricing call options, the MSEGARCH model proposed in this study produced the least bias relative to market prices and results in more appropriate pricing than the Black-Scholes model, traditional GARCH, and other models. For put options, the MSEGARCH model displayed less bias than the Black-Scholes model and GARCH model, but virtually the same result as the MSEGARCH model with rate of return as a constant. In addition, whereas the traditional GARCH model and Black-Scholes model performed very poorly in pricing options during the period of elevated volatility following the Lehman shock, the MSEGARCH model and EGARCH model performed extremely well.

Study of the Behavioral Characters of Company Employees via the Diary Method

Shin Ohmori

The purpose of this study is to examine the behavior of company employees via the diary method. It aims to elucidate characteristics of the behavior of employees who work at a company that cleans its own offices and are engaged in cleaning activities on a daily basis. In the end, it suggests several implications by exposing how employees actually behave rather than how they think they should behave. This study made the following five discoveries regarding employee behavior. First, employees tended to suppress their “at-home” behaviors while at work and to suppress their “at-work” behaviors on their days off. In other words, “at-home” behaviors and “at-work” behaviors tended to be mutually exclusive. Second, not a few employees engaged in cleaning activities not only during the weekdays at the company but also on weekends while at home. Third, cleaning activities did not pose an obstacle to any work activities. And, on the other hand, there were not as many specific connections between cleaning and work activities as employees imagined or expected. Fourth, the greater the years of work experience, the more serious were employees in their engagement in cleaning activities. And fifth, the lesser the years of work experience, the more attention employees paid to the cleaning activities of others. It was also discovered that with greater amounts of cleaning experience, employees were more likely to examine how they had changed by engaging in cleaning work. Conversely, the less cleaning experience employees had, the more likely they were to observe others through cleaning work and make comparisons to themselves. These discoveries suggest three implications. The first is the possibility that cleaning activities can be introduced and their benefits gained regardless of country or industry. This is because cleaning activities do not interfere with any work or home activities. The second is that group adhesiveness can be increased when cleaning activities are undertaken in a concerted, organized manner. Cleaning activities not only existed in harmony with all types of work activities but also helped to promote greater organizational unity and avoid divergence and conflicts among job functions and positions. The third implication is that organizations require not shared values and knowledge but shared activities.