

# Speech

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## XBRL: Its Exponential Role in the Global Economy

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I am very pleased that Tokyo was chosen as the venue for the sixth international meeting of the XBRL. I extend my warmest welcome to all of you, and it is indeed an honor for me to be given the opportunity to speak in front of you.

The conference, which will be held whilst the world is being said to have changed since the September 11 attacks on the United States last year, is believed to have even greater significance than ever.

The war against terrorism that started from the horrendous act on September 11 of last year continues to date. It will go on for a while, until the people of the world are able to feel assured that a new peace is in place. The nature of the war can be described as “a never ending battle against enemies that cannot be seen”.

The world is yet to decide on how to deal with this. But a growing number of people already feel that the conflict had been a trigger for the world to start changing. In fact, I am one of them.

One of the changes is the start of a search for new global governance. What lies behind this is the awareness that the concept of peace and the ways in which people pursue peace, have changed dramatically since the Cold War era.

Although much dependence will likely remain on the strong leadership of the United States, many countries of the world are now required to take part, more voluntarily and actively, in global governance.

During the Cold War, Japan’s involvement in global governance was described as “standing quietly behind the shadow of the United States”. But since 911, Japan has moved in the direction of making clearer commitment to the world, as represented by the dispatch of the Self Defense Forces to the Indian Sea, the Japan-North Korea summit meeting on September 17, and the start of bilateral normalization talks that followed.

The second change is in the globalization of the economy.

It is often pointed out that terrorism stems from the fact that there are people in this world that are not blessed by economic globalization, resulting in poverty and the widening of the gap between the rich and poor.

This is probably a correct assessment. But when I think about the essence of the issue, I

believe it gets to a more deep-rooted problem of a conflict of values among the inhabitants of earth.

Economic globalization in the latter half of the 1980s, and especially in the 1990s, was led by the overwhelming performance of the US economy. This brought about drastic changes in the world's currents, but beneath them, I think marked the beginning of the conflict between US values and those of the rest of the world.

I believe the 911 terrorist attacks and the collapse of the US hi-tech bubble that started before that, have led to the evolution of globalization into a more complicated form, in which values at a higher level are sought through clashes of values of all the people on the planet.

The progress of globalization and ICT revolution that caused sea changes in the global economies and societies since the latter half of 1980s, has intensified competition among companies on a global scale, even prior to 911. The consequent loss of price control forced many firms to pursue added value creation as a source of revenue.

Amid the complicated globalization since September 11 last year, the weight of knowledge creation, in addition to technology, in innovation that produces added value, is certain to rise.

In other words, what will be in demand from now on would be realization of new values people have discovered, which, refers to, creative business development. This is impossible to achieve without the innovation of technology and knowledge.

As I said, ICT have progressed dramatically since the latter half of 1980s, in parallel with globalization. But in the second half of 1990s, they created a speculative bubble.

The progress of ICT, in particular the diffusion of internet in Japan and other countries has been remarkable. But in many countries the advancements are not being leveraged in full by companies.

The 21st century is expected to be an era in which companies will be fiercely competing with each other in the frontline of added value creation. In these circumstances, ICT will facilitate knowledge creation and the process for added value creation, and by reconstructing infrastructure, its full potential will be displayed in supporting corporate activities at high levels of quality and self-discipline.

I now want to touch upon the current state of Japan's economy.

Japan's economy has been on a path of mild recovery since the beginning of the year, helped by developments of the global economy. But it has not reached a stage where future sustainability is assured.

The ample liquidity supplied by the Bank of Japan is not being used in a way that stimulates the activity of companies and financial institutions, which implies that the economy has not yet fully escaped from the "liquidity trap."

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In other words, Japan's economy, now in transition from the old economic model of the high-growth era to a new model based on knowledge creation, faces many difficulties, holding back the movement of resources.

We have been striving to move to a new economic model, but it is also true that we have wasted an excessive amount of time during the "lost decade." But given that Japan is the most mature economy in the world, and the fact that the total population will start contracting due to the demographic changes, it has become an urgent task for Japan to accelerate the transfer process to become "an economy with a strong core even without high growth."

This has been the backdrop for the review of the overall structural reform policies by the reformed Koizumi Cabinet, which includes acceleration of the disposal of non-performing loans.

In our country, the spread of ICT has progressed at a rapid speed in recent years. In particular, internet has reached nearly 100 percent of the companies in Japan. As the speed of structural reform in the economy accelerates, companies will become even more active in implementing BPR, CRM, SCM, and knowledge management, taking advantage of their internet base. The emergence of new businesses will increase dramatically, resulting in the blossoming of the flowers of value creation.

Here is my understanding of XBRL (eXtensible Business Reporting Language).

The processing of financial data stored in computers, which currently uses the HTML (Hyper Text Making Language), the basic language for home pages, will be altered to be processed using a new language called XML (eXtensible Markup Language).

And also, by promoting standardization of the new language, financial data stored in databases in PCs around the world can be treated as if they are located in a single place (which is equivalent to creating an information supply chain). This is how I understand XBRL.

As experts have explained, the change will have revolutionary effects far surpassing expectations on wide-ranging areas, including the method of business reporting by companies, financial data disclosure by listed companies, improvement in credit information of unlisted small, medium-sized, and second-tier companies, processing of corporate credit information by financial institutions, off-site monitoring by financial supervisory authorities, and even the mechanism of electronic tax payment.

Especially in our country, XBRL is believed to have a decisive impact in the area of processing corporate credit information by financial institutions.

As you are aware, Japan is going through extensive reform in all areas of politics, economy, and society. In the financial arena, the change is being encouraged from a system of indirect financing that was valid in the high-economic growth era, to a system that takes advantage of market mechanism, one that more suits the era of knowledge creation.

The essence of this is, whether it be in indirect financing in the form of loans from financial institutions or direct financing, it is important to accurately discern the value and the risk profile of companies and adopt appropriate risk-taking and diversification measures.

The challenges we face in the financial sector include disposal of bad loans and correcting over-banking, which entail a gloomy tone. But if we overcome them despite the pains, I am confident of the bright prospect that we will arrive at the new financial system.

There are concerns that the shift in the weight of finance from bank loans to equity market would put small and medium-sized companies in a disadvantageous position. XBRL is possible of playing an important role in this realm as well.

If access to financial data of small and mid-size companies becomes open, banks will not need to depend so much on collateral, but will be able to focus on the soundness of the company's financial status and the prospective cash flow, when extending loans. By offering objective and reliable credit information to investors, XBRL will contribute overwhelmingly to the start of new market-oriented facility in the finance of small and mid-size companies, such as liquefying of account receivables.

Such features of XBRL have the potential to improve the financial system into a more desirable state not only in Japan, which is going through structural reforms, but also in other countries, including the United States, which is trying to put an end to the series of corporate accounting scandals.

I've been told that Japan has the technological accumulation necessary for promoting the standardization of XBRL. I hope to make this international XBRL meeting a trigger for us to further enhance our learning and efforts, so that XBRL will enjoy its future predominance on the stage of the global economy; and especially, enhance financial efficiency and strengthen the self-disciplinary nature of the financial community.

I would like to close my remarks by hoping for the success of the XBRL meeting in Tokyo, and I thank you for your kind attention.