IAFEI Weekly Update

Knowledge, Resources, News, and Announcements

This is an issue of IAFEI Weekly Update for the week of March 4, 2024.

Valued All IAFEI Board members, ExCom members & Advisory Committee members:

The following interesting and useful articles and information await you in this issue. I hope you enjoy reading them. My special thanks to Piergiorgio, Conchita, and Yaguchi-san for their contributions.

Please feel free to circulate this within your organization. I am hoping that this Weekly Update may increase the value of IAFEI membership. If you have any suggestions, or recommendations, or would like to participate to provide articles. Please do not hesitate to contact me.

Thank you for your continuous support and I would love to hear from you.

Tsutomu Mannari
Chairman of IAFEI

(Total 5 pages)

The space sector already contributes to tackling global challenges, but more needs to be done |

The global challenges facing our planet are daunting. Climate change is well underway, bringing in its wake natural disasters of an unprecedented scale, The ocean is warming and its health deteriorating with impacts on sea level rise and the livelihoods of millions of people. Biodiversity is dramatically shrinking, while pollution has become ubiquitous. And still today, 32% of the world's population does not use the internet, as high-speed fixed broadband remains unavailable in remote and sparsely populated regions, including in some OECD countries. → Read the online article

(Source: OECD iLibrary)

Artificial intelligence and the future of scientific research |

Accelerating the productivity of research could be the most economically and socially valuable of all the uses of artificial intelligence (AI). While AI is penetrating all domains and stages of science, its full potential is far from realised. Policy makers and actors across research systems can do much to accelerate and deepen the uptake of AI in science, magnifying its positive contributions to research. This will support the ability of OECD countries to grow, innovate and address global challenges, from climate change to new contagions.

→ Read the online article

(Source: OECD iLibrary)

Issue on Innovative Citizen Participation |

Only 30% of surveyed citizens feel they have a say in what their government does.
See how innovative citizen participation practices can help give citizens a stronger voice. (… …) Call for Innovative Democratic Practices: If you have worked on a project enhancing citizens' voices in democratic decision-making, share your experience with us! The call is open to public officials working in all areas of the public sector, whether at national or local level, as well as civil society organisations and citizen groups contributing to inclusive policymaking.
(Submit by 5 March 2024)

→ Read the online article

(Source: OECD newsletter)

Opening remarks by Erkki Liikanen, Chair of the IFRS Foundation Trustees, at the Trustees' stakeholder dinner in Madrid, Spain (29 February 2024) |

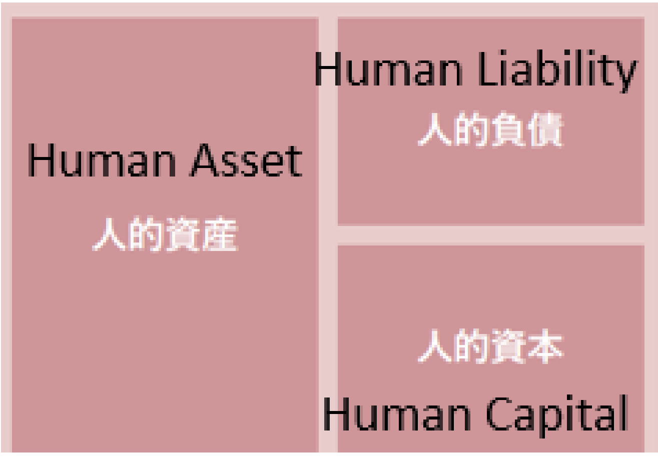
It is a pleasure to be here in Madrid. Thank you to the Comisión Nacional del Mercado de Valores, or CNMV, for helping organise this event—and to IOSCO and the IFRS Foundation's Monitoring Board for your continued support.
My name is Erkki Liikanen, and I serve as Chairman of the IFRS Foundation Trustees. The 22 Trustees are senior figures from around the world who bring expertise to the Foundation in key disciplines. Together, we are responsible for the governance, strategy, funding and oversight of our standard-setting boards. We ourselves are publicly accountable to a Monitoring Board of public authorities—many of whom are here with us this evening. The Trustees meet in person three times a year, and this week we are meeting here in Madrid. It is an honour to be with you this evening in this beautiful city.

→ Read the online article

(Source: IFRS Foundation)

Hard to swallow "Human Capital" Series No.1

This HR Balance sheet concept was first invented by Mr. Hiroshi Yaguchi & introduced at IAFEI Webinar on the 27th of Feb. IAFEI Chairman Mr. Mannari.
IAFEI Weekly update will introduce his concept as a series of 4 weeks by translating into English from the original Japanese article.



In 1989, he graduated from the Faculty of Economics at the University of Tokyo and joined Sumitomo Banking Corporation (currently Sumitomo Mitsui Banking Corporation). After experiencing business research, human resources, and corporate finance at the bank, he established the Japan CFO Association in 2000. CFO, develop an education business to build a network of management and finance departments and train corporate finance professionals. He has served as the Asian representative and president of the International Federation of Financial Executives (IAFEI). Established the Japan CHRO Association in 2018 and the Japan CLO Association in 2020 to strengthen the corporate functions of companies including human resources and legal affairs.

The word "human capital" is now the keyword of corporate management, but even if you read the explanation about human capital, there are many people who feels unconvincing or hard to swallow.

Until now, "human" or "people" has been regarded as costs and expenses such as labour costs and SGA and in any case, they have been regarded as a negative image for the company. People are not Human Resources that are consumed or wasted but valuable Human Capital that creates future corporate value, and if people invest, their talents, abilities, and skills are growing, we have to invest in human capital, which is a general explanation of human capital.

But it's hard to understand. Capital is the fund that serves as the source for conducting business activities, and there is a great sense of incongruity in the expression of investing in capital. Isn't the target of investment an asset? If it's human capital, not human resources, shouldn't it be called human assets in the first place?
The word intangible assets is also a word that is often used. However, intangible assets are becoming more important these days, so they are now called intangible capital, so apparently the words assets and capital are used emotionally regardless of economics and accounting

terms. Same thing happens between the term of Human capital and Human assets. This could be the reason why “investment in human capital” becomes to be difficult to understand.
Then, how will you answer the next question?

<Question>
Talking about the term of “Human capital investment”, Who should be the one to make investment to human capital?

1. Investor
2. Management
3. Company
4. Society
5. Vender or Customer
6. Employees
7. All of these
8. None of these

From the generally said context, managers and companies invest in people and increase corporate value, your answer may be “a manager" or "company". If so, I would like you to think about it again.
It is "employees" or people who make human capital investment.

"human capital" and "human assets"

Most people don't understand the meaning of people investing in human capital. By the way, when a person invests in human capital, the investment target is the company. It is human capital investment that people invest in the company. I would like to try a specific explanation below.

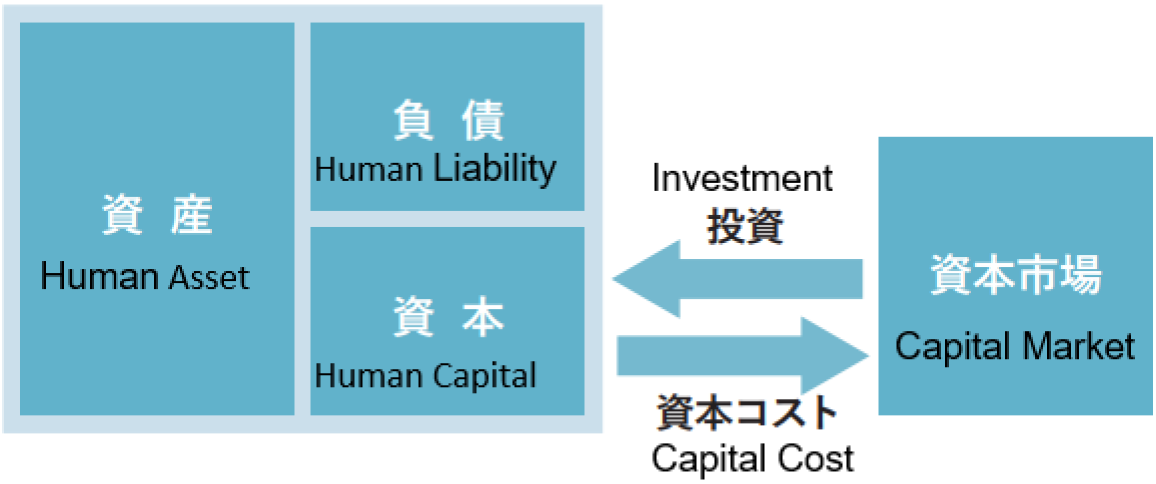
Balance sheet and capital

First of all, I want you to think of the balance sheet. It's okay for people who are not good at balance sheets. I don't need any difficult knowledge at all. The balance sheet is roughly divided into assets on the left, liabilities on the right, and capital on the bottom right [see Chart 6-1]. Roughly speaking, management is to raise funds from the right side, shape the funds raised into various assets, and generate cash from there. In procurement, there are debts borrowed from banks, and there is capital invested by investors. How to raise funds and what kind of assets will be invested in the funds raised, whether to make a factory, whether to make things and become inventory, or whether to invest in financial products, the contents are various, but roughly speaking, they are all the same. The job of the CFO is to raise funds on the right side, how to throw the funds into the real assets on the left side, maximize the future cash flow generated from the assets, and how to shorten the rotation period of the assets. It is to comprehensively manage corporate activities. It can be said that the management of the balance sheet is the job of the CFO. In the so-called “Ito report” in Japan, the light was given to capital efficiency, including ROE, and the importance of the balance sheet was once again recognized. In addition to capital efficiency, the concept of capital cost was also highlighted. To be precise, the cost of capital includes the cost of both debt and capital, but here I would like to focus on the cost of shareholder capital.

Capital cost

The initial focus should have been about human capital, but now it comes to balance sheets and capital costs, you might be confused and feel that the story has suddenly deviated, but in order to understand human capital correctly, it is necessary to understand these. Pleases hang out with me.

A long time ago, speaking of the cost of shareholder capital, you would have imagined the dividend paid to shareholders, but the cost of shareholder capital is not about dividends. The cost of shareholder equity is the cost of capital raised by shareholders when the company conducts its business, and it is the minimum expected rate of return (so-called hurdle rate) for shareholders. If the company cannot make a return that exceeds this expected rate of return to shareholders, shareholders will sell their shares and bring back funds. The company can provide investors the base for their investment decision by correctly disclosing information on risks along with future business stories through dialogue with investors, and as a result, the expected rate of return will decrease, and the so-called shareholder capital cost will also be reduced.



(to be continued to No. 2)