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Similarities and Differences

A comparison of IFRS and JP GAAP

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Contents

Preface

Starting with the European Union's (EU) compulsory measure for listed companies within the EU to prepare consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), we are witnessing a growing trend towards adoption of IFRS. IFRS is rapidly advancing its position from a set of accounting standards used by investment markets in specific geographic areas such as the EU and Australia, to one now used commonly in more than 100 countries and territories around the world, and the trend will continue into the future.

The joint announcement (Communiqué) of G20, *Group of Twenty Finance Ministers and Central Bank Governors*, held in February 2012 in Moscow, expressed a concern with the delays in the convergence of accounting standards and asked the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) to finalize by the end of 2013 their work on key outstanding projects for achieving a single set of high-quality standards.

In Japan, based on the "Tokyo Agreement" between the Accounting Standards Board of Japan (ASBJ) and the International Accounting Standards Board (IASB) signed in August 2007, convergence between Accounting Principles Generally Accepted in Japan (JP GAAP) and IFRS is under progress. As a result, judgment in accordance with IFRS and conforming accounting treatment is increasingly incorporated into Japanese accounting standards with due consideration to the corporate environment and accounting practices in Japan.

For IFRS adoption in Japan, nine companies have already started to apply IFRS by March 2013, in response to the commencement of voluntary adoption of IFRS from March 2010. The number of companies that elect voluntary adoption of IFRS is highly likely to expand in light of increasing cross-border activities and strategies comprising the mid- and long-term plans of Japanese companies.

In addition, from June 2011, deliberation on IFRS adoption has been re-opened at the Business Accounting Council of the Financial Services Agency. Furthermore, The IFRS Foundation opened a new office in Tokyo. The Asia-Oceania liaison office is expected to serve as a regional hub to facilitate IASB's research and factual surveys. Hence Japan's approach to IFRS assumes an important role in helping both the global activities of Japanese companies as well as IFRS adoption in the Asia-Oceania region.

In light of this trend, IFRS is expected to become more immediately relevant not only to practitioners and experts in Japanese accounting and finance but also to the management and investors of Japanese companies.

Under these circumstances, this publication focuses on and explains the major differences among IFRS and JP GAAP. This publication does not address all the differences between these standards. However it explains the differences we consider specifically important. We hope that this publication will be useful in identifying the key differences between the two standards and help you gain a broad understanding of IFRS.

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Note: PwC Japan refers to the member firms in Japan of the PwC global network and their affiliates. Each member firm conducts its activities as an independent legal entity for which the PwC Japan Territory Senior Partner plays a coordinating role.

How to use this publication

In each chapter, the first section provides a summary of the similarities and differences between IFRS and JP GAAP. It refers to the subsequent section of the document where key differences are highlighted and explained in more detail. In addition, the last section on *Recent Developments* provides the overview of the new standards and exposure drafts.

No summary publication can do justice to the many differences of detail that exist among IFRS and JP GAAP. This publication focuses on the accounting most commonly found in practice. When using this publication, readers should consult all the relevant accounting standards and, where applicable, their national law. Listed companies should also follow relevant securities regulations – for example, requirements regulated by the Financial Services Agency in Japan or the US SEC and local stock exchange listing rules.

This publication takes account of authoritative pronouncements and other developments under IFRS and JP GAAP up to December 2012. However, it is not all encompassing. We have noted certain recent developments or exposure drafts within the detailed text; however, not all recent developments or exposure drafts have been included.

IFRS first-time adoption

IFRS first-time adoption

IFRS 1, *First-Time Adoption of International Financial Reporting Standards,* is the standard that is applied during preparation of a company's first IFRS-based financial statements. IFRS 1 was created to help companies transition to IFRS and provides practical accommodations intended to make first-time adoption cost-effective. It also provides application guidance for addressing difficult conversion topics.

What does IFRS 1 require?

The key principle of IFRS 1 is full retrospective application of all IFRS standards that are effective as of the reporting date of the first IFRS financial statements. IFRS 1 requires companies to:

- Identify the first IFRS financial statements
- Prepare an opening statement of financial position at the date of transition to IFRS
- Select accounting policies that comply with IFRS and apply those policies retrospectively to all of the periods presented in the first IFRS financial statements
- Consider whether to apply any of the optional exemptions from retrospective application
- Apply the mandatory exceptions from retrospective application
- Make extensive disclosures to explain the transition to IFRS

IFRS 1 is regularly updated to address first-time adoption issues. There are currently 18 long-term optional exemptions (IFRS 1.18, *Appendix C* and *Appendix D*) to ease the burden of retrospective application as of December 31, 2012. These exemptions are available to all first-time adopters, regardless of their date of transition. Additionally, the standard provides for short-term exemptions (IFRS 1.18, *Appendix E*), which are temporarily available to preparers and often address transition issues related to new standards. There are currently three such short-term exemptions as of December 31, 2012. There are also certain mandatory exceptions (IFRS 1.14-17, *Appendix B*) for which retrospective application is not permitted.

As referenced above, the exemptions provide limited relief for first-time adopters, mainly in areas where the information needed to apply IFRS retrospectively might be particularly challenging to obtain. There are, however, no exemptions from the disclosure requirements of IFRS, and companies may experience challenges in collecting new information and data for retrospective footnote disclosures.

Many companies will need to make changes to existing accounting policies to comply with IFRS, including in key areas such as revenue recognition, inventory accounting, financial instruments and hedging, employee benefit plans, impairment testing, provisions, and stock-based compensation.

When to apply IFRS 1

Companies will apply IFRS 1 when they transition from their previous generally accepted accounting principles (GAAP) to IFRS and prepare their first IFRS financial statements. These are the first financial statements to contain an explicit and unreserved statement of compliance with IFRS.

The opening IFRS statement of financial position

The opening IFRS statement of financial position is the starting point for all subsequent accounting under IFRS and is prepared at the date of transition, which is the beginning of the earliest period for which full comparative information is presented in accordance with IFRS. For example, preparing IFRS financial statements for the two years ending March 31, 2015, would have a transition date of April 1, 2013. That would also be the date of the opening IFRS statement of financial position.

IFRS 1 requires that the opening IFRS statement of financial position:

- Include all of the assets and liabilities that IFRS requires
- Exclude any assets and liabilities that IFRS does not permit
- Classify all assets, liabilities, and equity in accordance with IFRS
- Measure all items in accordance with IFRS
- Be prepared and presented within an entity's first IFRS financial statements

These general principles are followed unless one of the optional exemptions or mandatory exceptions does not require or permit recognition, classification, and measurement in line with the above.

Important takeaways

The transition to IFRS can be a long and complicated process with many technical and accounting challenges to consider. Experience with conversions in Europe and Asia indicates that Japanese companies may face some challenges in making the change to IFRS, including:

Consideration of data gaps — Preparation of the opening IFRS statement of financial position may require the calculation or collection of information that was not previously required under JP GAAP. Companies should plan their transition and identify the differences between IFRS and JP GAAP early so that all of the information required can be collected and verified on a timely basis.

Consolidation of additional entities — IFRS consolidation principles differ in part from those of JP GAAP, and those differences might cause some companies to consolidate entities that were not consolidated under JP GAAP. Companies also will have to consider the data to be collected from investees to comply with IFRS informational and disclosure requirements.

Consideration of accounting policy — A number of IFRS standards allow companies to choose between alternative policies. Companies should select carefully the accounting policies to be applied to the opening statement of financial position and have a full understanding of the implications to current and future periods. Companies should take this opportunity to evaluate their IFRS accounting policies with a "clean sheet of paper" mind-set. Companies should consider the opportunity to explore alternative IFRS accounting policies that might better reflect the economic substance of their transactions and enhance their communications with investors.

Revenue recognition

Revenue recognition

Income is defined in the IASB's *Conceptual Framework* as encompassing both revenue and gains. IFRS defines revenue as the gross inflow of economic benefits during the period arising in the course of ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants. The standard provides comprehensive guidance on the recognition, measurement and disclosure of revenue. In addition, revenue is categorised as (1) the sale of goods, (2) the rendering of services, (3) the use by others of entity assets (including interest, royalties and dividends) and (4) construction contracts, and is recognised only when specific criteria for each category are met. The revenue recognition criteria common to each of these categories are the probability that the economic benefits associated with the transaction will flow to the entity and that the revenue and costs can be measured reliably. Under IFRS there is guidance for revenue in IAS 18, *Revenue*, IAS 11, *Construction Contracts* and four other interpretations, and as IFRS contains minimal industry-specific guidance, in general, the principles-based approach is applied across all entities and industries. There is also specific guidance in IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*.

On the other hand, under JP GAAP *Business Accounting Principles,* revenue is recognised upon the sale of goods or rendering of services based on the "Realisation principle" and revenue is recognised on a realisation basis. Although there is specific guidance for software transactions and construction contracts under this principle, there is no general comprehensive guidance for revenue. According to the *Statement of opinion for adjustments between tax law and Business Accounting Principles* published by the subcommittee of Business Accounting Council of Economic Stabilisation Board in 1952, it is interpreted that "completion of transfer of goods or rendering of services" and "receipt for corresponding consideration (e.g. in the form of cash or receivables)" are criteria for revenue recognition. In addition, the Discussion Paper, *Conceptual Framework of Financial Accounting*, published by the ASBJ in 2006 defines revenue as items that result in increases in net income or minority interests' share in earnings, and represents the portion of the amount corresponding to increases in assets or decreases in liabilities that have occurred as at the end of a particular period and where there is no further investment risk.

The FASB and the IASB jointly released a second exposure draft, *Revenue from Contracts with Customers*, in November, 2011. The proposed model follows the model proposed in the original exposure draft released in June, 2010 by the boards, and the impact of the new revenue recognition guidance is expected to be significant. As the project addresses revenue arising from all contracts with customers, except those within the scope of other standards, a wide range of industries and transactions might be affected extensively. Refer to further discussions in the *Recent developments* section at the end of this chapter.

Further details on the foregoing and other selected current differences are described in the following table.

Standard	Issue	IFRS	JP GAAP
IAS 11	Revenue recognition method of construction contracts	When the outcome of the construction contract can be estimated reliably, the percentage-of-completion method is applied. When the outcome of the construction contract cannot be estimated reliably, revenue is only recognised to the extent of the contract costs incurred that are expected to be recovered and the rest of the contract costs are recognised as an expense in the period in which they are incurred. The completed contract method is prohibited. (IAS 11.22, 32)	If the certainty of the outcome of the construction contracts (the total amount of construction revenue, total amount of construction costs and the percentage of completion for the portion progressed at the closing date) can be confirmed, the percentage-of-completion method is applied. If the above criterion is not met, the completed contract method is applied.
IAS 11	Subsequent measurement of construction contract revenue when the outcome of the construction contract cannot be estimated reliably	When the uncertainties that prevented the outcome of the contract being estimated reliably no longer exist, the percentage-of -completion method is applied. (IAS 11.35)	The method cannot be changed from the completion method to the percentage of completion method only because the uncertainties that prevent estimating the outcome reliably no longer exist. When the undecided items in the construction arrangement which is supposed to be determined at the commencement of the construction work is subsequently determined, a change in the measurement method is required.
IAS 17 IAS 18	Accounting by an intermediate lessor when both the head lease and the sub-lease are finance leases	There are no specific requirements. Revenue of an intermediate lessor is accounted for individually based on the requirements of a principal and an agent in IAS18. (IAS18.8)	Interests paid, sales, cost of sales and other items are not recorded and the difference between the lease payment received as a lessor and lease payment paid as a lessee is allocated to each period and presented as a separate line item as the sub lease profit margin in the income statement.
IAS 18	Accounting for transactions of trading firms (gross/net)	Depending on whether an entity is acting as a principal or an agent, revenue is presented gross or net. Acting as a principal: gross Acting as an agent: net Indicators that an entity is a principal include the following: • The entity has the primary responsibility for providing the goods or services. • The entity has inventory risk. • The entity has latitude in establishing prices. • The entity bears the customer's credit risk. (IAS 18.8, IE21)	There are no specific requirements.

Standard	Issue	IFRS	JP GAAP
IAS 18	Accounting for consignment sales in intermediaries such as department stores and supermarkets (gross/net)	Depending on whether an entity is acting as a principal or an agent, revenue is presented gross or net. Acting as a principal: gross Acting as an agent: net Indicators that an entity is a principal include the following: • The entity has the primary responsibility for providing the goods or services. • The entity has inventory risk. • The entity has latitude in establishing prices. • The entity bears the customer's credit risk. (IAS 18.8, IE21)	There are no specific requirements.
IAS 18	Accounting for indirect taxes (including excise tax for liquor, gasoline and tobacco) (gross/net)	Depending on whether an entity is acting as a principal or an agent, revenue is presented gross or net. Acting as a principal: gross Acting as an agent: net Indicators that an entity is a principal include the following: • The entity has the primary responsibility for providing the goods or services. • The entity has inventory risk. • The entity has latitude in establishing prices. • The entity bears the customer's credit risk. (IAS 18.8, IE21)	For some indirect taxes (including excise tax for gasoline and liquor) revenue is presented at gross but there are no specific requirements. *Accounting for consumption taxes (Interim Report)* deals with the accounting of consumption taxes.
IAS 18	Accounting for sales incentives	Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates. Sales incentives are deducted from revenue. (IAS 18.9, 10)	There are no specific requirements. In practice, sales incentives may be deducted from revenue or expensed as selling, general and administrative expenses.

Standard	Issue	IFRS	JP GAAP
IAS 18	Accounting for cash rebates	Revenue is measured at the fair value of the consideration received or receivable (taking into account the amount of any discounts and volume rebates). Cash rebates are deducted from revenue. (IAS 18.9, 10)	Cash rebates are accounted for as non-operating expenses.
IAS 18	Accounting for consideration that is collected over a long time (more than one year)	When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue in accordance with the effective interest method. (IAS 18.11)	There are no specific requirements.
IAS 18	Accounting for instalment sale transactions	When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue in accordance with the effective interest method. (IAS 18.11, IE8)	There are no specific requirements. In principle, revenue is recognised when goods are delivered. However, it is permitted to recognise revenue for instalment sales transactions when cash is collected or when payment is due.
IAS 18	Accounting for exchange transactions	When goods or services are exchanged for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction which generates revenue. On the other hand, when goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. (IAS 18.12)	There are no specific requirements for exchange transactions.
IAS 18	Accounting for multiple-element arrangements	It is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. In addition, the recognition criteria are applied to two or more transactions together when they are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole. (IAS 18.13, IFRIC 13.5)	There is no general guidance on multiple-element arrangements, but for such transactions related to software, the entity is required to allocate the transaction price to separate components of a transaction appropriately and recognise revenue.

Standard	Issue	IFRS	JP GAAP
IAS 18	Timing of revenue recognition for sale of goods (including export transactions)	Revenue should be recognised when all the following criteria are met. • The entity has transferred to the buyer the significant risks and rewards of ownership • The entity does not retain continuing managerial involvement • The amount of revenue can be measured reliably • It is probable that the economic benefits will flow to the entity • The costs incurred can be measured reliably (IAS 18.14)	There are no specific requirements. Revenue is recognised in accordance with the "Realisation principle".
IAS 18	Timing of revenue recognition for transactions with a probability of return	Revenue should be recognised when all the following criteria are met. • The entity has transferred the significant risks and rewards of ownership • The entity does not retain continuing managerial involvement • The amount of revenue can be measured reliably • It is probable that the economic benefits will flow to the entity • The costs incurred can be measured reliably When an entity assesses the probability of return, the entity should consider that the entity has transferred the significant risks and rewards of ownership as stated above. Revenue is recognised at the time of sale provided the seller recognises a liability for returns. (IAS 18.14, 16(d), 17)	In Note 18 of *Business Accounting Principles*, an allowance for sales return is provided but there are no specific requirements. Allowances are recognised based on its general principles. In practice, the amount of gross margins for returns on and after the end of reporting periods is commonly recognised as an allowance.
IAS 18	Revenue recognition method for the rendering of services	When the outcome of a transaction can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction. (IAS 18.20)	There are no specific requirements. If the certainty of outcome for the portion progressed of a construction contract can be confirmed, the percentage-of-completion method is applied.

Standard	Issue	IFRS	JP GAAP
IAS 18 IAS 10 IFRIC 17	Dividends	Dividends should be recognised when the shareholder's right to receive payment is established. (IAS 18.30(c)) (IAS 10.12, 13) (IFRIC 17.BC18-BC20)	For shares with a market price, the accrued dividend is recognised on ex-dividend date and if there is a difference between the estimated and the actual dividend paid, the difference is adjusted in the accounting period in which it arises. It is also acceptable for an issuer to account for dividends with the same procedures as for shares which do not have market prices. Such accounting treatment is to recognise a dividend in the accounting period in which a resolution to pay the dividend is made by the decision making body such as a general meeting of the shareholders, and apply it consistently.
IAS 18	Accounting for bill and hold sales	Revenue is recognised when the buyer takes title, provided: • It is probable that delivery will be made • The item is identified and ready for delivery to the buyer • The buyer specifically acknowledges the instructions • The usual payment terms apply (IAS 18.IE1)	There are no specific requirements.
IAS 18	Timing of revenue recognition for a transaction subject to installation and inspection	If installation and inspection are important components of a sales transaction, revenue is recognised when the installation and inspection are complete. (IAS 18.IE2(a))	There are no specific requirements.
IAS 18	Timing of revenue recognition for goods on approval	If there is uncertainty about the possibility of return, revenue is recognised when the shipment has been formally accepted by the buyer or the goods have been delivered and the time period for rejection has elapsed. (IAS 18.IE2(b))	Revenue is recognised when a customer makes his intention clear to buy the shipment.
IAS 18	Timing of revenue recognition on consignment sales	Revenue is recognised by the shipper when the goods are sold by the recipient to a third party. (IAS 18.IE2(c))	In principle, similar to IFRS. However if a sales statement is always sent from the recipient to the shipper, the shipper can recognise revenue when the shipper gets the sales statement.

Standard	Issue	IFRS	JP GAAP
IAS 18	Accounting for a sale and repurchase agreement	When the seller agrees to repurchase the same goods at a later date, or when the seller has a call option to repurchase, or the buyer has a put option to require the repurchase of the goods by the seller and the seller retains the risks and rewards of ownership, revenue is not recognised. The seller has to analyse the contract and consider accounting for it as a financing arrangement. (IAS 18.IE5)	There are no specific requirements.
IAS 18	Accounting for sales to intermediate parties	When the buyer is acting, in substance, as an agent, the sale is treated as a consignment sale. (IAS 18.IE6)	There are no specific requirements.
IAS 18	Accounting for installation fees	Installation fees are recognised as revenue by reference to the stage of completion of the installation. However if they are incidental to the sale of a product, revenue is recognised when the goods are sold. (IAS 18.IE10)	There are no specific requirements.
IAS 18	Accounting for non-refundable initiation and membership fees	• If the fee permits only membership, the fee is recognised as revenue when no significant uncertainty as to its collectability exists. • If the fee entitles the member to various benefits to be provided during the membership period, it is recognised on a basis that reflects the timing, nature and value of the benefits provided. (IAS 18.IE17)	There are no specific requirements.
IAS 18	Accounting for franchise fees	Franchise fees cover the supply of initial and subsequent services, equipment and other tangible assets, and know-how. Franchise fees are recognised as revenue on a basis that reflects the purpose for which the fees were charged. In addition, the franchisor does not recognise revenue on transactions where the franchisor is acting as an agent for the franchisee (e.g. the franchisor orders supplies and arranges for their delivery to the franchisee at no profit). (IAS 18.IE18)	There are no specific requirements.

Standard	Issue	IFRS	JP GAAP
IAS 18	Accounting for fees from the development of customized software	Fees are recognised as revenue by reference to the stage of completion of the development, including completion of services provided for post-delivery service support. (IAS 18.IE19)	If the certainty of outcome for the portion progressed based on the contract can be confirmed, revenue is recognised by the percentage-of-completion. However if the criteria are not met, revenue is recognised by the completed contract method.
IAS 18	Accounting for revenue on licences	Revenue on licences is recognised at the time of sale or over the life of the agreement in accordance with the substance of the agreement. (IAS 18.IE20)	There are no specific requirements.
IFRIC 13	Accounting for customer loyalty programmes such as points (customer award credits)	Customer loyalty programmes are accounted for as multiple-element arrangements. The entity allocates some of the consideration to the award credits and defers the recognition of revenue until such award credits are redeemed or forfeited. (IFRIC 13.5, 6)	There are no specific requirements. In general, the entity recognises the full amount of revenue at initial recognition including the award credits and accounts for the estimated future cost of supplying the awards at the end of the reporting period as a provision and selling, general and administrative expenses.
IFRIC 15	Accounting for the construction of real estate – percentage-of-completion method	When the agreement for the construction of real estate meets the definition of a construction contract, revenue is recognised with reference to the stage of completion of the contract activity. If the arrangement does not meet the definition of a construction contract and is for the rendering of services in accordance with IAS 18, the entity recognises revenue by reference to the stage of completion; or if the agreement is for the sale of goods, the entity recognises revenue in accordance with IAS18.14. (IFRIC 15.10-19)	When the agreement for the construction of real estate meets the definition of a construction contract, *Accounting Standard for Construction Contracts* (refer to pg. 11 under *Revenue recognition method of construction contracts*) is applied. There are no other specific requirements.
IAS 20	Accounting for government grants	A government grant is not recognised until there is reasonable assurance that the entity will comply with the conditions attached to it, and that the grant will be received. In addition, the government grant is recognised in profit or loss (as revenue) on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grant is intended to compensate. (IAS 20.7, 12)	There are no specific requirements. In practice, revenue is recognised at the time when the entity receives the government grant.

Standard	Issue	IFRS	JP GAAP
IAS 20	Accounting for the benefit of government loans	The benefit of the government loan at a below-market rate of interest is treated as a government grant. The benefit is measured as the difference between the initial carrying value of the loan (determined in accordance with IAS39 or IFRS9) and the proceeds received. (IAS 20.10A)	There are no specific requirements.
IAS 20	Accounting for government grants for the purpose of giving immediate financial support	A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs should be recognised in profit or loss in the period in which it becomes receivable. (IAS 20.20)	There are no specific requirements. In practice, revenue is generally recognised when a government grant is received.
IAS 20	Accounting for government grants related to assets acquired	The following two methods are permitted (the reserve fund method is not permitted). • The grant is recognised as deferred income and will be recognised in profit or loss on a systematic basis over the useful life of the asset. • The grant is deducted from the cost of the asset. (IAS 20.24, 25)	By the direct deduction method or the reserve fund method. • Under the direct deduction method, the grant is deducted from the cost of the asset. • Under the reserve fund method, the grant is recognised as a reserve in equity and recognised systematically over the useful life of the asset into retained earnings.
IAS 20	Accounting for repayment of government grants	A government grant that becomes repayable is accounted for as a change in accounting estimate. (IAS 20.32)	There are no specific requirements.

JP GAAP References:

- Accounting Standard for Construction Contracts
- Guidance on Accounting Standard for Construction Contracts
- Guidance on Accounting Standard for Lease Transactions
- Accounting for consumption taxes (Interim Report) (JICPA Report)
- Business Accounting Principles
- Practical Solution on Revenue Recognition of Software Transactions
- Practical Guidelines on Accounting Standards for Financial Instruments
- Accounting Standards for Research and Development Costs
- Audit Treatment for Compressed Entry
- Guidance on Accounting Standard for Statement of Changes in Net Assets

Recent developments

Recent proposals—IFRS

Revised exposure draft, 'Revenue from Contracts with Customers'

In June 2010, the IASB and FASB jointly released an exposure draft, *Revenue from Contracts with Customers*, proposing a model that would have significant impacts on current revenue recognition under both IFRS and US-GAAP. Since then, in order to address the concerns expressed in the comment letters received, the boards published a revised exposure draft, *Revenue from Contracts with Customers*, in November 2011 reflecting the tentative decisions made during the redeliberations.

In the revised exposure draft, the revenue recognition model proposed in the previous exposure draft was confirmed but the individual guidance of how the model is applied was revised. Key areas of revisions from the proposals of the previous exposure draft include identifying separate performance obligations, determining the transaction price, variable consideration, a goods or services satisfied over time, and licenses and warranties.

The proposed revenue recognition model adopts an asset and liability approach, the cornerstone of the IASB's conceptual framework. Current revenue recognition guidance focuses on an "earnings process" but difficulties often arise in determining when revenue is recognised. The boards believe a more consistent application can be achieved by using a model where revenue recognition is based on the satisfaction of a performance obligation by transferring a promised good or service to a customer.

In applying the model, entities would follow the below five-step process:

(1) Identify the contract with a customer.

(2) Identify the separate performance obligations in the contract.

(3) Determine the transaction price.

(4) Allocate the transaction price to the separate performance obligations.

(5) Recognise revenue when (or as) each performance obligation is satisfied.

The following discussion reflects the guidance in the 2011 Exposure Draft and recent redeliberations. The decisions reached by the boards during redeliberations are tentative and subject to change until a final standard is issued. The discussion contained herein reflects the tentative decisions made through December 31, 2012.

(1) Identify the contract with a customer

The model starts with identifying the contract with the customer and whether an entity should combine two or more contracts (including contract modifications). That is, if the contracts are entered into at or near the same time and certain criteria are met, two or more contracts would be combined.

(2) Identify the separate performance obligations in the contract

An entity will be required to identify all performance obligations in a contract. As performance obligations are promises to transfer a good or services to a customer, the proposal broadens the scope of the performance obligation. Performance obligations might not only be explicitly stated in the contract but also can be implied by an entity's customary business practices, published policies or specific statements. This could result in changes in the number of performance obligations within an arrangement, possibly changing the timing of revenue recognition.

(3) Determine the transaction price

The transaction price is the amount of consideration an entity expects to receive in exchange for transferring a good or service to a customer. This amount is measured using either the expected value or the most likely amount; whichever is more predictive. An entity needs to consider the effects of variable consideration, time value of money (as a practical expedient, an entity need not adjust the promised amount of consideration when the period between payment and the transfer of goods or services is less than one year), noncash consideration (generally at fair value) and consideration payable to customers.

An entity should recognise revenue including variable consideration (discounts, rebates and performance bonuses or other similar items) as performance obligations are satisfied only up to an amount that is not subject to significant reversals in the future.

(4) Allocate the transaction price to the separate performance obligations

Once an entity identifies the separate performance obligations in a contract and determines whether to separately account for them, the transaction price is allocated to these separate performance obligations based on relative standalone selling prices (the observable price of a good or service at which the entity sells that good or service separately. If a standalone selling price is not directly observable, the selling price is estimated by some possible estimation methods including (1) expected cost plus a reasonable margin or (2) evaluation by reference to prices from the entity's competitors for the same or similar products, if available. If the standalone selling price is highly variable or uncertain, entities may use a residual approach to estimate the standalone selling price.

(5) Recognise revenue when (or as) each performance obligation is satisfied

An entity recognises revenue when a promised good or service is transferred to the customer. Control of the good or service can transfer at a point in time or over time.

- *Performance obligations satisfied over time*

  If at least one of the following criteria is met, the customer obtains control of an asset (a good or service) over time and hence, the entity satisfies a performance obligation over time.

  (1) the customer receives and consumes the benefits of the entity's performance as the entity performs (i.e., another entity would not need to substantially re-perform the work completed to date);

  (2) the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

  (3) the entity's performance does not create an asset with an alternative use to the entity, and the entity has a right to payment for performance completed to date and expects to fulfill the contract.

  If control of the asset is transferred over time, the entity should apply consistently a method of measuring progress, including output methods or input methods that best depict the transfer of goods or services to the customer.

- *Performance obligations satisfied at a point in time*

  If the criteria of performance obligations satisfied over time are not met, the performance obligation is satisfied at a point in time, and an entity should determine the point when a customer obtains control of the goods or services. The following five indicators may be considered in determining whether the customer has obtained control of the good or service and the entity has satisfied the performance obligation. As a list of these indicators is not a checklist; or all-inclusive, relevant facts and circumstances should be considered to determine whether the customer has obtained control of the good or service.

  - the customer has an unconditional obligation to pay

  - the customer has legal title

  - the customer has physical possession

  - the customer has the risks and rewards of ownership of the good or service

  - the customer has accepted the asset

(6) Other considerations

- *Contract costs*

  Entities should evaluate whether direct costs incurred in fulfilling a contract are in the scope of other standards (e.g. inventory). If so, the entity should account for such costs in accordance with those standards. If not, the entity should capitalise those costs only if the costs relate directly to a contract and future performance (i.e. mobilisation fees or set-up costs) and are expected to be recovered. Capitalised costs would then be amortised as control of the goods or services to which the asset relates are transferred to the customer. An entity should recognise as an asset from the incremental costs of obtaining a contract if the entity expects to recover those costs.

(7) Summary

The proposed standard will permit either full or limited retrospective application. Limited retrospective application would reduce the burden on preparers by (1) not requiring the restatement of contracts that begin and end within the same annual reporting period, (2) allowing the use of hindsight in estimating variable consideration, and (3) not requiring disclosure of the amount of the transaction price allocated to remaining performance obligations in comparative periods. The IASB proposes to allow early application for first-time adopters of IFRS. Although the final standard is planned for issuance within 2013, it would not be effective earlier than for annual reporting period beginning on or after 1 January 2015.

The above commentary is not all inclusive. The impact of the new revenue recognition standard will be extensive and entities will be required to consider the effects of application for contracts arising in the past, present and future reporting periods. Entities should continue to evaluate how the model might change current business activities, contract negotiations, key metrics (including debt covenants), budgeting, controls and processes, information technology requirements and accounting.

Recent proposals—JP GAAP

Discussion Paper on Revenue Recognition

In September 2009, the ASBJ released a discussion paper on revenue recognition to examine how best to align JP GAAP on revenue recognition with the IASB and FASB project. The ASBJ will continue its discussion on the topic, including sending comments to the boards.

Expense recognition —share-based payments

Expense recognition—share-based payments

IFRS 2, *Share-based payment*, applies to all share-based payment arrangements including share options.

A share-based payment arrangement is defined as an agreement between the entity (or another group entity or any shareholder of any group entity) and another party (including an employee) that entitles the other party to receive:

- Cash or other assets of the entity for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity, or
- Equity instruments (including shares or share options) of the entity or another group entity.

IFRS 2 sets out measurement principles and specific requirements for three types of share-based payment transactions:

(1) equity-settled share-based payment transactions,

(2) cash-settled share-based payment transactions, and

(3) share-based payment transactions with cash alternatives

Under JP GAAP, *Accounting Standard for Share-based Payment* and *Guidance on Accounting Standard for Share-based Payment* specify guidance only for share-based payment transactions in which the entity receives goods or services as consideration for its own equity shares or share options, which are essentially defined as (1) equity-settled share-based payment transactions under IFRS 2. There is no guidance on cash-settled share based payment transactions and share-based payment transactions with a cash alternative. They are accounted for based on individual business practices.

Further details on the foregoing and other selected current differences are described in the following table.

Standard	Issue	IFRS	JP GAAP
IFRS 2	Scope	IFRS 2 is applied to all share-based payment transactions including: equity-settled share-based payment transactions, cash-settled share-based payment transactions, and share-based payment transactions with cash alternatives. (IFRS 2.2)	*Accounting Standard for Share-based Payment* is applicable only to equity-settled share-based payment transactions. There are no specific requirements for other share-based payment transactions.
IFRS 2	Definition of grant date	IFRS 2 defines the grant date of equity instruments as the date at which the entity and another party including employees agree to a share-based payment arrangement. (IFRS 2.IG2)	The grant date is defined as the date at which share options are granted. Under the Corporate Law, the grant date is referred to as an allotment date of offered subscription rights to shares. (Corporate Law, Article 238, Paragraph 1(4))
IFRS 2	Grant date and service commencement date	The grant date might occur after the point where employees to whom the equity instruments were granted have begun rendering services. In such a case, the entity should estimate the grant date fair value of the equity instruments for the purposes of recognising the services received during the period between service commencement date and grant date. Once the date of grant has been established, the entity should revise the earlier estimate so that the amounts recognised for services received in respect of the grant are ultimately based on the grant date fair value of the equity instruments. (IFRS 2.IG4)	There are no specific requirements.
IFRS 2	Accounting for a transaction in which an entity grants its own share options to parties other than employees	For transactions with parties other than employees, the entity should measure the goods or services received at the fair value of the goods or services received at the date the entity obtains the goods or the counterparty renders the service. If the entity cannot estimate reliably the fair value of the goods or services received, the entity should measure their value by reference to the fair value of the share options granted at the date the entity obtains the goods or the counterparty renders the service. (IFRS 2.10, 11, 13)	The entity should measure the goods or services at either: • the fair value of the share options used as consideration or • the fair value of the goods or services acquired, whichever is more reliable as at the grant date.

Standard	Issue	IFRS	JP GAAP
IFRS 2	Accounting for a transaction in which an entity delivers its own shares to parties other than employees	For transactions with parties other than employees, the entity should measure the goods or services received at the fair value of the goods or services received at the date the entity obtains the goods or the counterparty renders the service. If the entity cannot estimate reliably the fair value of the goods or services received, the entity should measure their value by reference to the fair value of the equity instruments granted. (IFRS 2.10-13)	The entity should measure goods or service received at either: • The fair value of the share used as consideration or • The fair value of the goods or service acquired, whichever is more reliable as at the date of contract.
IFRS 2	Unidentifiable goods or services	If the identifiable consideration received by the entity appears to be less than the fair value of the equity instruments granted or liability incurred, typically this situation indicates that unidentifiable goods or services have been received by the entity. The entity should measure the unidentifiable goods or services received as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received). (IFRS 2.13A)	There are no specific requirements.
IFRS 2	Subsequent adjustment to the vested equity instruments which are forfeited after the vesting date	Having recognised the goods or services received and a corresponding increase in equity, the entity should make no subsequent adjustment to total equity after the vesting date. The entity should not subsequently reverse the amount recognised for services received from an employee to the extent that the vested equity instruments are later forfeited. However, this requirement does not preclude the entity from recognising a transfer within equity. (IFRS 2.23)	When vested share options are forfeited after the vesting date, the corresponding amount of such share options recorded as subscription rights is recognised as a gain.

Standard	Issue	IFRS	JP GAAP
IFRS 2	When the fair value of equity instruments including share options cannot be estimated reliably	In rare cases that the entity may be unable to estimate reliably the fair value of the equity instruments granted at the measurement date, the entity should measure the equity instruments at their intrinsic value initially at the date the entity obtains the goods or the counterparty renders the service. Subsequently at the end of each reporting period and at the date of final settlement, any change in intrinsic value should be recognised in profit or loss. (IFRS 2.24)	Non-public companies may measure share options at the fair value of the share options, or the intrinsic value of the share options per unit measured as at the grant date. The intrinsic value per unit should not be subsequently remeasured.
IFRS 2	Accounting for modifications to the conditions of equity instruments including share options	The entity should include the incremental fair value due to the modification in addition to the fair value granted in the measurement of the amount recognised as consideration for the equity instruments including share options. The incremental fair value granted is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. (IFRS 2.26, B43(a))	If the fair value per unit of the share option at the date of the modification is greater than that at grant date, the difference between those two fair values should be recognised as an incremental expense.
IFRS 2	Accounting for cancellations and settlements of equity instruments including share options	The entity should account for the cancellation or settlement as an acceleration of vesting, and should therefore recognise immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation or settlement of the grant should be accounted for as the repurchase of an equity interest, i.e. as a deduction from equity. If the payment exceeds the fair value of the equity instruments granted, measured at the repurchase date, such amount should be recognised as an expense. (IFRS 2.28)	There are no specific requirements. Under JP GAAP, cancellations and settlements would not be accounted for as an acceleration of vesting. In practice, they are accounted for as modifications to share options as stated above.

JP GAAP References:

- Accounting Standard for Share-based Payment

Recent developments

Recent proposals—IFRS

Annual Improvements to IFRSs 2010-2012 Cycle

In May 2012, the IASB released an exposure draft that proposes amendments to IFRS as part of its Annual Improvements project. The IASB will consider comments received, and finalise amendments with an effective date of January 1, 2014. The board proposed to clarify the definition of "vesting conditions" by separately defining a "performance condition" and a "service condition" in IFRS 2. The amended definitions of service and performance conditions include the concept that the counterparty must complete a specified period of service to earn the award and make clear that a performance target may relate either to the performance of the entity as a whole or to some part of the entity, such as a division or an individual employee. Consequently, conditions that do not relate to the performance of the entity or do not require service for at least the period during which the performance target is being measured would be nonvesting conditions. Nonvesting conditions are taken into account when determining the grant date fair value of the award.

Recent changes—IFRS

Application of IFRS 13, *Fair Value Measurement*

In May 2011, the IASB issued IFRS 13, *Fair Value Measurement*. The new guidance is a new standard creating a definition of fair value. The new fair value guidance specifically indicates, however, that it does not apply to share-based payment transactions. Because IFRS 2 includes a definition of fair value that is specifically applied to share-based payment transactions, this definition has not been affected by the issuance of the new fair value guidance. For a discussion of the new general fair value guidance refer to the *Recent developments* section of the chapter *Assets—financial assets*.

Expense recognition —employee benefits

Expense recognition—employee benefits

IAS 19, *Employee benefits,* applies to the accounting for all employee benefits. Employee benefits are defined as all forms of consideration given by an entity in exchange for services rendered by employees or in exchange for the termination of employment. These benefits include salary-related benefits (such as wages, salaries, profit-sharing, bonuses and compensated absences, such as paid holiday and long-service leave), termination benefits and post-employment benefits. IFRIC 14, *IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction,* provides guidance on assessing the amount that can be recognised as a defined benefit asset. Share-based payments which are not in the scope of IAS 19 are addressed in IFRS 2.

Under JP GAAP, there is no comprehensive guidance for employee benefits which are paid during the term of employment. However there is no significant difference in the accounting for this area between JP GAAP and IFRS because costs are practically recognised on an accrual basis. *Accounting Standard for Retirement Benefits* and *Practical Guidance on Accounting Standard for Retirement Benefits* are applied to post-employment benefits such as pensions and other post-employment benefits. Although the accounting for post-employee benefits under JP GAAP is based on a framework similar to that of IFRS, there are some material differences.

In June 2011, the IASB issued amendments to IAS 19 that significantly changed the recognition, presentation, and disclosures of defined benefit plans, which became effective from the annual periods beginning on and after January 1, 2013. In May 2012, the ASBJ issued *the Accounting Standard for Retirement Benefits* and *the Guidance on Accounting Standard for Retirement Benefits* from the viewpoint of improvements to financial reporting and international convergence. Refer to the *Recent developments* section below for further discussion at the end of this chapter.

Further details on the foregoing and other selected current differences are described in the following table.

Standard	Issue	IFRS	JP GAAP
IAS 19	Recognition of obligation for compensated absences	An entity should recognise an obligation for compensated absences in accordance with the requirements in IAS 19. (IAS 19.13-18)	Current JP GAAP and new accounting standard issued by ASBJ in May 2012 There are no specific requirements.
IAS 19 IFRIC 14	Defined benefit plans – Asset ceiling	IAS 19 limits the measurement of a net defined benefit asset to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. (IAS 19.64,65) (IFRIC 14.11-17)	Current JP GAAP All prepaid pension expenses are recognised as an asset. New accounting standard issued by ASBJ in May 2012 An excess of plan assets over retirement benefit obligations (surplus in retirement benefit plan) is recognised as an asset.
IAS 19 IFRIC 14	Defined benefit plans – Additional liability in respect of minimum funding requirements	Minimum funding requirements normally stipulate a minimum amount or level of contributions that must be made to a plan over a given period. A minimum funding requirement may give rise to an additional liability under certain circumstances. (IAS 19.64-65) (IFRIC 14.18-24)	Current JP GAAP and new accounting standard issued by ASBJ in May 2012 There is no concept of minimum funding requirements.
IAS 19	Defined benefit plans – Attributing benefit to periods of service	As a general rule, an entity should attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity should attribute benefit on a straight-line basis from the date when service by the employee first leads to benefits under the plan until the date when further service by the employee will lead to no material amount of further benefits under the plan. (IAS 19.70)	Current JP GAAP The service-period approach (that is, the amount of retirement benefits to accrue in each period is estimated on the basis of the employee's service period) is adopted in principle. However the ratio of the amount of salary or other factors like age and job grade, and the retirement benefit multiplier might be allowed in some cases. New accounting standard issued by ASBJ in May 2012 The Accounting Standard allows a choice to use either the straight-line basis or the benefit formula basis. If an entity elects the benefit formula basis and an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity should attribute benefit on a straight-line basis from the date when service by the employee first leads to benefits under the plan until the date when further service by the employee leads to no material amount of further benefits under the plan

Standard	Issue	IFRS	JP GAAP
IAS 19	Defined benefit plans – Criteria to determine the discount rate	The rate used to discount post-employment benefit obligations is determined by reference to market yields on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields on government bonds are used. (IAS 19.83)	Current JP GAAP and new accounting standard issued by ASBJ in May 2012 The yield on extremely low-risk long-term debt securities, such as the yield on long-term government bonds, debt securities issued by governmental agencies or bonds of blue-chip corporations, are used as a basis for determining the discount rate. In addition, it is explicitly permitted not to change the discount rate at year end if the effect of the change is less than a certain materiality threshold.
IAS 19	Defined benefit plans – Term assessed to determine the discount rate	The discount rate should reflect the estimated timing of benefit payments. In practice, an entity applies a single weighted average discount rate that reflects the estimated timing and amount of benefit payments and the currency in which the benefits are to be paid. (IAS 19.85)	Current JP GAAP In principle, the average term to expected dates of payment of retirement benefits is used to determine the discount rate. However, in practice, the remaining service period can be used as an approximate period. New accounting standard issued by ASBJ in May 2012 The above-mentioned difference from IFRS is resolved by the amendment issued in May 2012.
IAS 19	Defined benefit plans – Actuarial assumptions: estimated future salary increases	Post-employment benefit obligations should be measured on a basis that reflects estimated future salary increases. Estimates of future salary increases take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market. (IAS 19.87, 90)	Current JP GAAP Variable factors that can reasonably be expected are included in projecting retirement benefits. These include increases in salary that are definitely expected to take place. Such future salary increases should not be reflected in the measurement of retirement benefits unless they are highly probable and can be reliably measured. New accounting standard issued by ASBJ in May 2012 The above-mention differences from IFRS are resolved by the amendment issued in May 2012.

Standard	Issue	IFRS	JP GAAP
IAS19	Defined benefit plans – Accounting for actuarial gains and losses	Remeasurements of the net defined benefit liability (asset) including actuarial gains and losses should be recognised in other comprehensive income in the period that they accrue and should not be reclassified to profit or loss in a subsequent period. (IAS 19. 122, 128)	Current JP GAAP Actuarial gains and losses are not recognised in other comprehensive income. They are recognised over an appropriate number of years within the average of the remaining service periods as expenses in each period. Actuarial gains and losses that have accrued during a period may be deferred and recognised as expenses from the beginning of the following period onwards. New accounting standard issued by ASBJ in May 2012 Actuarial gains and losses are recognised in profit or loss over a certain period not longer than the expected average remaining service periods of the employees. Actuarial gains and losses that are yet to be recognised in profit or loss are recognised in net assets through other comprehensive income, after adjusting for tax effects. Recognising in the current period's profit or loss actuarial gains and losses that were recognised in net assets in prior periods would be treated as a reclassification adjustment (recycling). It is also permitted to recognise in profit or loss from the annual period after the entity recognises actuarial gains and losses in net assets. In non-consolidated financial statements, the new requirements as described above would not be applied for the time being, with the previous requirements remaining applicable.

Standard	Issue	IFRS	JP GAAP
IAS 19	Defined benefit plans – Accounting for past service cost (past service liabilities)	An entity should recognise both vested and unvested past service cost as an expense at the earlier of the following dates: • When the plan amendment or curtailment occurs; and • When the entity recognises related restructuring costs or termination benefits. (IAS 19.102, 103)	Current JP GAAP Past service liabilities that accrue in a period should be recognised over an appropriate number of years within the average of the remaining service periods as expenses in each period. New accounting standard issued by ASBJ in May 2012 Past service costs are recognised in profit or loss over a certain period not longer than the average remaining service periods of the employees. Past service costs that are yet to be recognised in profit or loss are recognised in net assets through other comprehensive income, after adjusting for tax effects. Recognising in the current period's profit or loss past service costs that were recognised in net assets in prior periods would be treated as a reclassification adjustment (recycling). In non-consolidated financial statements, the new requirements as described above would not be applied for the time being, with the previous requirements remaining applicable.
IAS 19	Defined benefit plans – Expected rate of return	The concept of expected return on plan assets is no longer applicable. Net interest expense or income is calculated by applying the discount rate to the defined benefit asset or liability of the plan (IAS 19.123)	Current JP GAAP and new accounting standard issued by ASBJ in May 2012 The expected return on pension assets should be calculated by multiplying the opening balance of pension assets by a reasonably-estimated rate of return ('expected rate of return'). There are no specific requirements for the treatment of administration cost.

Standard	Issue	IFRS	JP GAAP
IAS 19	Defined benefit plans – Costs of managing the plan assets	An entity deducts the costs of managing the plan assets and any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the defined benefit obligation, from the return on plan assets. (IAS 19.130)	Current JP GAAP and new accounting standard issued by ASBJ in May 2012 There are no specific requirements for the treatment of administration cost.
IAS 19	Defined benefit plans – Accounting for curtailments and settlements (the transfer between retirement benefits plans)	Gains and losses arising from curtailment included in past service costs should be recognised as a component of service costs when they occur. Gains and losses on a settlement should be recognised as a component of service costs when they occur. (IAS 19.102, 103, 109, 110)	Current JP GAAP and new accounting standard issued by ASBJ in May 2012 When a retirement benefit plan terminates or a mass retrenchment occurs, the difference between (a) the retirement benefit obligations pertaining to the terminated portion, and (b) the corresponding payment actually made, is accounted for as gains or losses. Any increase or decrease in the retirement benefit obligations is regarded as past service liabilities. The amount of any increase or decrease is to be divided by an appropriate number of years and accounted for as an expense in each of those years.
IAS 19	Accounting for other long-term employee benefits	Employee benefits that are not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service may be accounted for as a liability for other long-term employee benefits. An entity should apply the same requirements to other long-term employee benefits as the entity measures defined benefit plans. However, remeasurements are not recognised in other comprehensive income unlike the accounting required for post-employment benefits. (IAS 19. 153-156)	Current JP GAAP and new accounting standard issued by ASBJ in May 2012 There are no specific requirements.
IAS 19	Recognition and measurement of termination benefits	Termination benefits result from either an entity's decision to terminate the employment or an employee's decision to accept an entity's offer of benefits in exchange for termination of employment. An entity should recognise a liability and expense for termination benefits at the earlier of the following dates: • When the entity can no longer withdraw the offer of those benefits; and • When the entity recognises costs for a restructuring. (IAS 19. 159, 165)	Current JP GAAP and new accounting standard issued by ASBJ in May 2012 There are no specific requirements.

Standard	Issue	IFRS	JP GAAP
IAS 19	Application of a simplified method	There is no explicit guidance of simplified method. However, estimates, averages and computational short cuts may provide a reliable approximation of the detailed computations, depending on the company's pension plan and other circumstances. (IAS 19. 60)	Current JP GAAP and new accounting standard issued by ASBJ in May 2012 Small companies are allowed to apply a simplified method whereby an actuarial valuation method is not used.
IAS 19	Treatment of post-retirement benefits trust	As there are no specific requirements for the treatment of post-retirement benefits trust, an entity assesses if the definition of plan assets is met.	Current JP GAAP and new accounting standard issued by ASBJ in May 2012 Post-retirement benefits trust is treated as pension assets when certain criteria are met.
IAS 19	Defined benefit plans that share risks between various entities under common control	Multi-employer plans are defined contribution plans or defined benefit plans that: • Pool the assets contributed by various entities that are not under common control; and • Use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned. Defined benefit plans that share risks between various entities under common control, e.g. a parent and its subsidiaries, are not multi-employer plans. (IAS 19.8, 40)	Current JP GAAP Multi-employer pension plans refer to corporate pension plans established by a group of employers. Association-type welfare pension funds, combined-type employees' pension funds, tax-qualified pension funds by joint contracts and defined benefit corporate pension plans established jointly are deemed to be multi-employer pension plans in Japan. New accounting standard issued by ASBJ in May 2012 Multi-employer pension plans refer to corporate pension plans established by a group of employers. Association-type welfare pension funds, combined-type employees' pension funds, and defined benefit corporate pension plans established jointly are deemed to be multi-employer pension plans in Japan.

JP GAAP References:

- Accounting Standards for Retirement Benefits
- Practical Guidelines of Accounting Standards for Retirement Benefits
- Guidance on Accounting for the Transfer between Retirement Benefits Plans

Recent developments

Recent proposals—IFRS

IFRS IC current agenda

IFRS IC is currently reconsidering the accounting for employee benefit plans with a promised return on contributions or notional contributions. The Committee has previously considered this issue in 2002-2006. In 2004 it published IFRIC Draft Interpretation D9. In November 2006 it decided to refer the issue to the Board to be included in the Board's project on post-employment benefits. Although the Board initially intended to address contribution-based promises in its project, it later decided to defer this work to a future broader project on employee benefits. In the light of the Board's decision not to address the accounting for contribution-based promises at present and the ongoing concerns about how to account for such pension arrangements, the Committee decided to revisit the issues. Accordingly, the Committee started its discussions in July 2012.

Recent changes—JP GAAP

Accounting Standard for Retirement Benefits and Implementation Guidance on the Accounting Standard for Retirement Benefits

In May 2012, the ASBJ issued *Accounting Standard for Retirement Benefits* (ASBJ Statement No.26) and *Implementation Guidance on Accounting Standard for Retirement Benefits* (ASBJ Guidance No.25). They will replace the current standards and guidelines, namely the *Standard for Presentation of Comprehensive Income* (ASBJ Statement No.25), released in June 2009. The issuance corresponds to Step 1, one of the two steps of the project for Retirement Benefit that the ASBJ is working on currently. The key proposals are as follows:

Unrecognised actuarial gains and losses and unrecognised past service liabilities are required to be recognised in net assets on the balance sheet (that is, in accumulated other comprehensive income) after deferred tax is recognised. The amount of the defined benefit liability (asset) presented on the balance sheet shows the current funded status. However, the accounting for unrecognised actuarial gains and losses and unrecognised past service liabilities will not be changed (that is, in principle, unrecognised past service liabilities and unrecognised actuarial gains and losses that accrue in a period should be recognised over an appropriate number of years within the average of remaining service periods as expenses in each period.) In non-consolidated financial statements, the new requirements as described above are not applied for the time being, with the previous requirements remaining applicable.

The standards permit an entity to attribute projected retirement benefits to periods of service on a straight-line-basis or under the benefit formula. In principle, the discount rate applied in the calculation of retirement benefit obligations should be determined by considering a number of rates that match the estimated maturity of all benefit payments. In practice, a single weighted average discount rate that reflects the estimated timing and amount of benefit payments can be used.

The changes will extend disclosure requirements, including reconciliations for each of the retirement benefit obligation and pension asset which are equivalent to the disclosure requirements under current IFRS.

Other major changes by the abovementioned standards and guidances are shown in the table below. These standards and guidances are effective for financial statements for fiscal years beginning on or after April 1, 2013, though an entity may apply also from the first day of the fiscal years beginning on or after April 1, 2013. However, for items listed in (2) in the table below, an entity may apply in phases because application of those changes may be difficult in practice in a short period of time.

Changes	Schedule for application (for companies with fiscal year ending on March 31)					
	FY March 2014		FY March 2015		FY March 2016	
	Beginning of the year	End of the year	Beginning of the year	End of the year	Beginning of the year	End of the year
(1) other than items listed in (2)						
• Accounting treatment of unrecognised actuarial gains and losses and unrecognised past service cost • Enhanced disclosure • Name changes of line items	Early adoption	Mandatory adoption				
(2) items with specific applicable period						
• attribution of expected retirement benefit over reporting periods	Early adoption		Mandatory adoption			
• calculation basis of discount rate and expected rates of salary increase • presentation of past service cost in extra-ordinary gains/losses • treatment of multi-employer plans					Mandatory adoption*	

* An entity may apply the abovementioned changes from the first day of fiscal years beginning on or after April 1, 2015 given that certain disclosure is provided in notes, if it is impracticable for the company to apply from fiscal years beginning on or after April 1, 2014.

Assets—nonfinancial assets

Assets—nonfinancial assets

With regard to nonfinancial assets (e.g., inventories, property, plant and equipment, intangible assets, leased assets and investment property), IFRS and JP GAAP have differences in the detailed application resulting in potentially significant differences.

Historical cost is the primary basis of accounting for nonfinancial assets under JP GAAP which is similar to IFRS. However, IFRS permits the revaluation of certain nonfinancial assets (property plant and equipment, intangible assets, investment property and inventories in certain industries such as commodity brokers or dealers) while JP GAAP does not permit revaluation of assets, except for certain financial instruments and inventories for trading purposes.

With regard to inventories, IFRS and JP GAAP are generally similar. However, there are some differences in the scope (inventories under JP GAAP is broader to some extent) and the accounting for the write-down of inventories.

JP GAAP and IFRS are generally similar in their treatment of the impairment of fixed assets - assets are grouped into the smallest group that generate cash inflows largely independent from other asset or group of assets, and when there is an indication that an identifiable asset or group of assets may be impaired, impairment is tested and an impairment loss is measured. However there are differences in the recognition of an impairment loss and reversal of the impairment loss.

There is no comprehensive guidance on intangible assets under JP GAAP and the recognition and measurement of intangible assets in practice could differ from the treatments under IFRS in certain areas. Internally generated research and development costs are generally expensed under JP GAAP (under the accounting standard for research and development costs), which is different from IFRS that requires the capitalisation of development costs when certain criteria are met. Under JP GAAP, certain production costs of software for external sales and internal use are capitalised. As mentioned above, there are also differences in the recognition of impairment loss, reversal of impairment loss, amortisation of goodwill and others.

The classification concept for leases is similar between JP GAAP and IFRS, however the criteria are different. There are also some differences such as the treatment of a lease of land. There is no guidance for contingent rent, sale and leaseback transactions, lease incentives and others under JP GAAP, which may cause differences to IFRS in practice.

As further discussed in the *Recent developments* section, the FASB and IASB are carrying out a joint project on lease accounting and issued an exposure draft in August 2010. It is expected that a re-exposure draft will be issued after the boards have completed their redeliberation of the issues based on the feedback received.

Further details on the foregoing and other selected current differences are described in the following table.

Standard	Issue	IFRS	JP GAAP
IAS 2, *Inventories*			
IAS 2	Scope of inventories	Goods consumed within a short period of time through sales and administrative activities are not included in inventory. (IAS 2.6)	Goods consumed within a short period of time through sales and administrative activities are included in inventory.
IAS 2	Items included in the cost of inventories	Production overheads are included in the cost of inventories. Abnormal waste, storage cost and administrative overheads that do not contribute to bringing inventories to their present location and condition are excluded from the cost of inventories and are usually expensed in the period incurred. (IAS 2.10-18)	Production overheads are included in the cost of inventories. Decreases in value due to abnormal conditions are not treated as cost of inventories. Administrative overheads and storage costs may be included in cost.
IAS 23	Borrowing cost of inventories	Borrowing costs attributable to the acquisition (or construction or production) of inventories which are qualifying assets under IAS 23 are capitalised. Unlike JP GAAP, capitalisation under IFRS is not limited to costs for real estate development. Other differences between IFRS and JP GAAP relating to borrowing costs are explained in the IAS 23 discussion in the PPE section below. (IAS 23.5-9)	In principle, borrowing costs attributable to the acquisition (or construction or production) of inventories are expensed. However, when interest payments are related to real estate development and certain criteria are met, they may be capitalised.
IAS 2	Trade discounts	Trade discounts are deducted from the costs of purchase. (IAS 2.11)	Trade discounts are treated as non-operating profit.
IAS 2	Allocation of production overheads	The allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities. Normal capacity is the production expected to be achieved on average over a number of periods or seasons under normal circumstances. (IAS 2.13)	In principle, production overheads are allocated by the planned allocation rate based on the planned level of production under the actual cost accounting method.
IAS 2	Allocation of variances of production overheads	Adverse variances due to low production or idle plant are recognised as an expense in the period incurred. (IAS 2.13)	Variances of fixed production overhead under the actual cost accounting method are, in principle, allocated to the cost of sales of the current period. Significant variances are allocated to both the cost of sales and inventory when such variances are caused by use of an inappropriate estimated cost rate.

Standard	Issue	IFRS	JP GAAP
IAS 2	Cost formula (usage of last purchased price method)	The cost of inventories is assigned using the FIFO or weighted average cost method. Specific identification formula is used for certain specific items. Last purchased price method is not allowed. (IAS 2.23, 25)	The cost of inventories is assigned using the Specific identification formula, FIFO, average cost method and others. Last purchased price method is permitted only in certain cases, e.g. when the year-end balance of inventory is immaterial.
IAS 2	Uniformity of cost formula	The same cost formula should be used for all inventories having a similar nature and use to the entity. (IAS 2.25)	The same cost formula should be used consistently for inventories having a similar class, nature, and use to the entity. It is required that uniform accounting standards are used for companies within the group; however, with regard to the valuation of inventories, use of a different cost formula is permitted.
IAS 2	Retail method	The retail method may be used for convenience if the results approximate to the cost. (IAS 2.21)	The retail method may be used for certain industries.
IAS 2	Write down of raw materials	When a decline in the price of materials indicates that the cost of finished products exceeds net realizable value, the materials are written down to the net realizable value. In such circumstances, the replacement cost of the materials may be the best available measure. The alternative method allowed under JP GAAP (systematic write down) is not permitted. (IAS 2.32)	Similar to IFRS. However, long-outstanding materials which are no longer used in the normal operating cycle or materials to be disposed may be written down systematically.
IAS 2	Unit write down of inventory	In principle, inventories are written down item by item. However, there may be cases when it is appropriate to group similar or related items. There is no specific treatment for items which are supplemental to each other. (IAS 2.29)	In principle, inventories are written down item by item. However, there may be cases when it is appropriate to group items. JP GAAP allows, under certain cases, for the grouping of items which are supplemental to each other.
IAS 2	Accounting for the reversal of a write down	Reversal of a previously recognised write-down is required when there is a subsequent increase in the value of the inventory (only the “reversal method” under JP GAAP is permitted under IFRS). (IAS 2.33)	Either the reversal method or the non-reversal method (in which the write-down is not reversed) may be applied consistently.

Standard	Issue	IFRS	JP GAAP
IAS 16, *Property plant and equipment;* IAS 23, *Borrowing costs;* IAS 37, *Provisions, contingent liabilities and contingent assets;* IFRIC 1, *Changes in existing decommissioning, restoration and similar liabilities*			
IAS 16	Capitalisation of assets	Generally, PPE is recognised as an asset if it is probable that future economic benefits associated with the item will flow to the entity and the cost can be measured reliably. (IAS 16.7)	There is no specific guidance. In practice, the tax basis is often used. Tools, equipment and fixtures with a useful life of 1 year or more and above a certain amount are recognised as property, plant and equipment (PPE).
IAS 16	Spare parts and servicing equipment recognised as property, plant and equipment (PPE)	Spare parts and servicing equipment are: Recognized as PPE when they are expected to be used for more than one period. Otherwise, they are recognized as inventory and expensed when consumed. (IAS 16.8)	Tools, equipment and fixtures with a useful life of less than 1 year, and those with a useful life of one year or more but below a certain amount may be accounted for as inventories (supplies). Tools, equipment and fixtures with a useful life of one year or more and above a certain amount are accounted for as PPE.
IAS 16	Replacement cost of PPE	Replacement cost is recognised as PPE if the recognition criteria are met. The carrying amount of the replaced parts is derecognised. (IAS 16.12,13)	There are no specific requirements. In practice, subsequent costs are often accounted for based on the tax basis and are capitalised when they qualify as capital expenditures. However, it is permitted to expense the replacement cost instead of depreciating PPE. IFRS does not permit expensing such costs.
IAS 16	Accounting for major repairs	The cost of a regular major inspection may be included in the cost of PPE. (IAS 16.14)	When the recognition criteria for provisioning are met, allowances are recognised for the cost of repairs or for the cost of special repairs.
IAS 16	Accounting for purchase taxes related to the acquisition of PPE	Import duties and non-refundable purchase taxes are included in the cost of PPE. (IAS 16.16,22)	Attributable costs are included in the cost of PPE. However, there is no specific guidance with regard to purchase taxes. In some cases, import duties and real estate acquisition taxes are expensed. In practice, the tax treatment is often used.

Standard	Issue	IFRS	JP GAAP
IAS 16	Scope of directly attributable costs related to the acquisition of PPE	The following are directly attributable costs which are included in the cost of PPE: • Costs of employee benefits • Costs of site preparation • Initial delivery and handling costs • Installation and assembly costs • Costs of testing (after deducting net proceeds from selling the samples produced) • Professional fees (IAS 16.16, 17)	Attributable costs such as purchase charges, delivery and handling costs, installation costs and testing costs are included in the cost of PPE. However, some or all of these costs are permitted to be excluded when there is a valid reason.
IAS 16 IAS 37	Discount rate used to calculate an asset retirement obligation (ARO)	The discount rate used should be a pre-tax rate that reflects the current market assessment of the time value of money at the reporting date and risks specific to the liability. Credit risk is not reflected in the discount rate. (IAS 16.16, 18)(IAS 37.47)	The discount rate used should be a pre-tax risk free rate that reflects the time value of money at the time the related liability is recognised.
IAS 16 IAS 37 IFRIC 1	Frequency of ARO reassessment	An ARO is reassessed each period. The following items may impact the ARO: (1) Changes in estimated future cash flows (2) Changes in the market-based discount rate at the end of the reporting period (3) Passage of time The changes of ARO due to (1) and (2) are adjusted to the cost of related PPE and the increase of ARO due to (3) is expensed as a financial cost. (IAS 16.16, 18)(IAS 37.59)(IFRIC 1.3,5,8)	(1) Future cash flow is reassessed when there is a major change in estimate. The change is adjusted to the cost of the related PPE, similar to the treatment of IFRS. (2) Unlike IFRS, the discount rate is not reassessed once a liability is recognized. (3) The increase of ARO due to passage of time is expensed when incurred, similar to IFRS. However, it is recognized under the same classification as the depreciation expense (i.e. operating cost) and not recognized as a financial cost.
IAS 16 IAS 37 IFRIC 1	ARO and rental deposit related to the asset	Unlike JP GAAP, there are no specific requirements on the treatment of the rental deposit relating to the asset with an ARO.	It is permitted to expense a certain portion of the rental deposit for the period instead of recognizing ARO. The amount expensed is the estimated amount of which recovery is not expected.
IAS 16 IAS 23	Identification of qualifying assets for which the borrowing costs are capitalised	Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset which takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. (IAS 16.22)(IAS 23.5, 8)	Borrowing costs that are attributable to self-construction of fixed asset and relate to the period before the asset starts running may be capitalized as part of the cost of that asset. However, capitalisation is rare in practice except for certain industries (such as the power and railway industries).

Standard	Issue	IFRS	JP GAAP
IAS 23	Capitalisation of borrowing costs – general borrowings	For general purpose borrowings, borrowing costs are determined by applying the capitalisation rate (borrowing costs divided by the weighted average outstanding borrowing balance) to the expenditures on the qualified asset. Borrowing costs include the following: • Interest expense calculated using effective interest method • Finance charges of finance leases • Exchange differences arising from foreign currency borrowings regarded as an adjustment to interest costs (IAS 23.6, 14)	There are no specific requirements for general or specific borrowings.
IAS 23	Capitalisation of borrowing costs – specific borrowings	For specific borrowings, investment income earned from the temporary investment of specific borrowings is deducted against actual borrowing costs. (IAS 23.12)	There are no specific requirements for general or specific borrowings.
IAS 16	Cost of a fixed asset acquired in exchange for a non-monetary asset.	In general, the fair value of the asset given up should be the cost of the asset acquired. However, if the exchange transaction lacks commercial substance (e.g. the future cash flows do not change), or if the fair value of neither the asset received nor the asset given up is measureable, the cost of the asset acquired is measured at the carrying amount of the asset given up. (IAS 16.24-26)	When a fixed asset of the same type and for the same use is exchanged, the cost of the asset acquired is measured at the carrying amount of the asset transferred. When different types of assets are exchanged, the cost of the asset acquired is generally measured at the fair market value of the asset transferred or asset acquired.
IAS 16	Measurement of property, plant and equipment	Either the cost model or revaluation model may be chosen and applied to an entire class of PPE. (IAS16.29)	Only the cost model is permitted.
IAS 16	Unit of depreciation	An item of PPE with a cost that is significant in relation to the total cost of the PPE is depreciated separately (component approach). However, parts that have the same useful life and the same depreciation method may be grouped in determining the depreciation. (IAS 16.43, 45)	There are no specific requirements. In practice, the tax treatment is often used.

Standard	Issue	IFRS	JP GAAP
IAS 16	Residual value	The residual value is the estimated amount that an entity would obtain from the disposal of the asset, after deducting the estimated costs of disposal at the end of its useful life. (IAS 16.6)	The residual value is the sales value or remaining value of the asset at the end of its useful life. The residual value based on tax laws may be used unless it is unreasonable to do so in light of an individual entity's situation. Such tax based residual value is often applied in practice.
IAS 16	Useful life	Useful life is either • The period expected to be available for use or • The number of production or similar units expected to be obtained from the asset (IAS 16.6)	If value of the asset decreases due to the passage of time, the useful life is determined based on the expected period available for economic use. If the value decreases due to the usage of the asset, it is determined by the number of units of production. The useful life based on tax laws may be used unless it is unreasonable to do so in light of an individual entity's situation. Such tax based useful life is often applied in practice.
IAS 16	Depreciation method	The depreciation method used reflects the pattern in which the asset's future economic benefits are expected to be consumed. A change in the depreciation method is accounted for as a change in an estimate and is reflected prospectively. (IAS16.60-62) (IAS8.36, 38)	The straight-line method, diminishing balance method, sum-of-the-years'-digits-method and units of production method are all permitted as deprecation methods. An entity's depreciation method is an accounting policy, however, a change in depreciation method is treated similarly to a change in accounting estimate and is reflected prospectively. A valid reason is required when changing the depreciation method subsequently; however there is no strict requirement when initially selecting the depreciation method.
IAS 16	Frequency of review of residual value, useful life and depreciation method	The residual value, useful life and depreciation method are reviewed at least at each financial year-end. (IAS 16.51, 61)	There are no specific requirements for the frequency of review. Unlike IFRS, a periodic review is not required. In practice, when the tax based useful life and residual value are used, review is not required unless, given an individual entity's situation, there is later indication that their continued use may be clearly unreasonable.

Standard	Issue	IFRS	JP GAAP
IAS 17, *Leases,* SIC 15, *Operating leases – Incentives,* IFRIC 4, *Determining whether an arrangement contains a lease*			
IAS 17	Classification of leases	A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership (there is no numerical criteria). (IAS 17.8,10)	A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership Detailed guidance exists for the classification of finance leases. A lease is a finance lease when the present value of the total lease payments represents approximately 90% or more of the estimated cash purchase price, or when the lease term is approximately equal to or greater than 75% of the asset's economic life.
IAS 17	Leases involving land and buildings	In principle, in order to classify and account for a lease of land and buildings, the minimum lease payments are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests at the inception of the lease. (IAS 17.16)	In principle, in order to classify and account for a lease of land and buildings, the total lease payments is allocated between the land and the building elements on a reasonable basis (e.g. the amount of lease payments for land under the lease contract).
IAS 17	Classification of leases of land	A lease of land is classified similarly to other leases. (IAS 17.15A)	A lease of land is assumed to be an operating lease, except in specific cases.
IAS 17	The amount recognised as assets and liabilities of finance leases	Recognise the assets and liabilities at fair value or, if lower, the present value of the minimum lease payments. (IAS 17.20)	When the purchase price by the lessor is determinable, the following amount is recognised: • Finance leases with the transfer of ownership – the purchase price by the lessor • Finance leases without the transfer of ownership – the lower of the purchase price by the lessor or the present value of the total lease payments When the purchase price by the lessor is not determinable, the following amount is recognized: • The lower of the present value of the total lease payments or the estimated cash purchase price
IAS 17	Accounting for low valued finance lease assets	There is no simplified treatment like JP GAAP.	When finance leases without the transfer of ownership are immaterial in light of the nature of operations and the total of lease payments for the leases from a lease contract is not more than 3 million Japanese yen, they may be accounted for in a manner similar to operating leases.

Standard	Issue	IFRS	JP GAAP
IAS 17	Accounting for short term finance leases	There is no simplified treatment like JP GAAP.	Lease transactions with a lease term of no more than one year may be accounted for in a manner similar to operating leases.
IAS 17	Accounting for maintenance expenses (lessee)	Maintenance expense is deducted from the total minimum lease payments. (IAS 17.4)	Maintenance expense is deducted from the total lease payments similar to IFRS. However, when the proportion of the maintenance expense is immaterial to the lease payments, the maintenance expense is not required to be deducted from the total lease payments.
IAS 17	Depreciation method of finance lease assets (lessee)	The depreciation method is consistent with that of other depreciable assets owned by the lessee. (IAS 17.27)	The depreciation method of finance lease assets without the transfer of ownership may be different from other fixed assets owned by the lessee, depending on the circumstances of the lessee. The depreciation method of finance lease assets with the transfer of ownership is consistent with other assets owned by the lessee.
IAS 17	Useful life of finance lease assets (lessee)	When there is no reasonable certainty of the transfer of ownership, the useful life of the lease asset is the shorter of the lease term and its useful life. (IAS 17.27)	When there is no transfer of ownership, the useful life of the lease asset is generally the lease term. However, there are some cases when the re-lease period is included in the lease term. When there is transfer of ownership, the useful life of leases asset is the estimated economically usable period.
IAS 17	Accounting for operating lease payments when the lease payments are not made on a straight-line basis (lessee)	Lease payments under an operating lease are recognised as expenses generally on a straight-line basis over the lease term. (IAS 17.33)	The general guidance for operating leases is applied. There are no specific requirements for operating lease payments when lease payments are not made on a straight-line basis.

Standard	Issue	IFRS	JP GAAP
IAS 17	Accounting for a finance lease (lessor)	A lessor of a finance lease recognises a lease receivable at the commencement of the lease. Finance income is recognized over the lease term on a systematic and rational bases (IAS 17.36, 40)	A lessor of a finance lease recognises lease receivable (lease investment asset) at the commencement of the lease. The interest portion is allocated by either of the following methods consistently: • Recognise sales and cost of sales at the inception of the lease. • Recognise sales and cost of sales when the lease payment is received • Do not recognise sales and only recognise interest over the lease term.
IAS 17	Accounting for a finance lease (lessor) – when the lessor is a manufacturer or a dealer	A lessor who is a manufacturer or a dealer recognises selling profit or loss in the period in accordance with the general accounting for sales. However, whether to recognise revenue at the net amount or gross amount requires consideration of IAS18. (IAS 17. 42)	A lessor who is a manufacturer or a dealer recognises selling profit or loss in the period or by instalment in accordance with the general accounting for sales.
IAS 17	Calculation of finance income on finance leases (lessor)	Finance income is recognised based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease. There is no simplified treatment similar to JP GAAP. (IAS 17.39)	Generally, the effective interest method is used. However, if a lessor is not mainly engaged in lease transactions business, and its finance lease transactions without transfer of ownership are immaterial, the straight-line method may be used.
IAS 17	Accounting for maintenance expense (lessor)	The maintenance expense is deducted from the total minimum lease payments. (IAS 17.4)	Same as IFRS; however, when the proportion of maintenance expense is immaterial to the total lease payments, the maintenance expense is not required to be deducted from the total lease payments.
IAS 17	Review of estimated unguaranteed residual values related to a finance lease (lessor)	Estimated unguaranteed residual values used in computing the lessor's gross investment in the lease are reviewed regularly. (IAS 17.41)	There are no specific requirements.
IAS 17	Accounting for operating lease income when the lease payments are not made on a straight-line basis (lessor)	Lease income from operating leases is generally recognised on a straight-line basis over the lease term. (IAS 17.50)	The general guidance for operating leases is applied. There are no specific requirements for operating lease income when lease payments are not made on a straight-line basis.

Standard	Issue	IFRS	JP GAAP
IAS 17	Accounting for a sale and leaseback transaction that is an operating lease	Sale and operating leaseback transactions transfer substantially all the risks and rewards and therefore are accounted for as a disposal of assets. The amount recognised in profit or loss differs according to the sales price. • Sales price is at fair value – recognise profit or loss immediately. • Sales price is below fair value – recognise profit or loss immediately. However when the loss is incurred and compensated for by future lease payments at below market price, the loss is amortised over the period for which the asset is expected to be used • Sales price is above fair value – the excess over fair value is deferred and amortised over the period for which the asset is expected to be used. (IAS 17.61)	There are no specific requirements.
SIC 15	Accounting for lease incentives (lessee)	Lease incentives provided from the lessor (such as relocation costs and leasehold improvements) are recognised as a reduction of rental expense over the lease term generally on a straight-line basis. (SIC 15.5)	There are no specific requirements.
SIC 15	Accounting for lease incentives (lessor)	Lease incentives provided to the lessee (such as relocation costs and leasehold improvements) are recognised as a reduction of rental income over the lease term generally on a straight-line basis. (SIC 15.4)	There are no specific requirements.
IFRIC 4	Assessment of whether an arrangement contains a lease	Arrangements which convey rights to use an asset, regardless of its legal form, are accounted for in accordance with IAS 17. There is guidance in assessing whether the arrangement conveys a right to use the asset or not. (IFRIC 4.1,5,6)	Assessed by whether an arrangement meets the definition of a lease arrangement, however, there is no detailed guidance similar to that provided under IFRS.
IAS 17	Determination of the lease term	The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which it is reasonably certain that, at the inception of the lease, the lessee will exercise the option to continue to lease the asset. (IAS 17.4)	The lease term is the non-cancellable lease period together with any renewal period when the lessee has a clear intention to continue to lease the asset. When the renewal period is not included in the lease term, payments during the renewed period are generally expensed when incurred.

Standard	Issue	IFRS	JP GAAP
IAS 17	Accounting for contingent rents	Contingent rents are expensed when incurred and not included in the minimum lease payments. (IAS 17.4,25)	There are no specific requirements and contingent rents are accounted for depending on the substance of the transaction.
IAS 17	Accounting for purchase options	When it is reasonably certain that the purchase option (option to purchase at a price sufficiently lower than fair value at the date the option becomes exercisable) will be exercised, the exercise price of the purchase option is included in the minimum lease payments. (IAS 17.4)	When it is certain that the purchase option will be exercised, the exercise price of the purchase option is included in the total lease payment. This is the case for a finance lease with transfer of ownership.
IAS 17 IAS 18	Accounting by the intermediate lessor when both the head lease and the sub lease are finance leases	There are no specific requirements. The recognition of profit and loss of an intermediate lessor follows the guidance of an agency relationship in IAS18 on a case by case basis. (IAS 18.8)	The intermediate lessor does not recognise any interest expense, revenue or cost of sales. The difference between the lease income as a lessor and the lease payment as a lessee is allocated to each period and presented in the statement of profit and loss as a line item, e.g. as a gain on sublease.
IAS 36, Impairment of Assets			
IAS 36	Scope	IAS 36 should be applied to all assets other than assets scoped out of the standard (such as investment property measured at fair value (IAS 40) and non-current assets classified as held for sale (IFRS 5)). (IAS 36.2,3)	"The standard for impairment of fixed assets" is applied to all fixed assets other than fixed assets scoped out of the standard because other impairment guidance exists (such as financial assets and tax assets).
IAS 36 IAS 38	Frequency of impairment testing for intangible assets with indefinite useful life or intangible assets not yet available for use; – Frequency of impairment testing for goodwill	Annual impairment testing is required irrespective of whether there is any indication of impairment or not. It may be performed at any time during an annual period, provided it is performed at the same time every year. Different assets may be tested at different times. Goodwill acquired in a business combination is tested annually. (IAS 38.108)(IAS 36. 10)	There is no concept of intangible assets with an indefinite useful life or intangible assets not yet available for use. All intangible assets, including goodwill, are tested for impairment when there is indication of impairment. Annual impairment testing is not required.

Standard	Issue	IFRS	JP GAAP
IAS 36	Indicators of impairment	IFRS provides a list of impairment indicators. Below are the indicators in IFRS that are not in JP GAAP: • When market interest rates or other market rates of return on investments have increased and those increases are likely to affect the discount rate and consequently decrease the recoverable amount of the asset materially • When the carrying amount of the net assets of the entity is more than its market capitalisation (IAS 36.12)	JP GAAP also provides a list of impairment indicators. Below are the indicators in JP GAAP that are not in IFRS: • When the profit or loss or cash flows from operating activities are continuously negative for 2 years • A "significant decrease in market value" is defined as a 50% or so decrease
IAS 36	Impairment test	An impairment loss is recognised when there is an indication of impairment and when the recoverable amount of an asset is below its carrying amount. (1 step method) (IAS 36.59)	An impairment loss is recognised when there is an indication of impairment and (1) The undiscounted total future cash flow is below its carrying amount; then (2) The recoverable amount of an asset is below its carrying amount. (2 step method)
IAS 36	The length of period used to estimate future cash flows to calculate the value in use for impairment testing	The cash flow projections to calculate the value in use should be estimated over the remaining useful life of the asset. The cash flow projections based on the budgets/forecasts approved by management should cover basically a maximum period of 5 years. Projections beyond the period covered by management's budget/forecast should be estimated in principle using a steady or declining growth rate (the growth rate should not exceed the long-term average growth rate for the industries or markets). (IAS 36.33)	The cash flow projections to calculate the value in use should be estimated over the remaining useful life of the asset. The cash flow projections should be based on the mid to long budgets/forecasts approved by management. Projections beyond the period covered by management's mid to long term budget/forecast should be estimated using, a steady or declining growth rate.
IAS 36	Assessment of the reasonableness of the assumptions used for the future cash flows	IFRS requires an assessment on the reasonableness of the assumptions on which current cash flow projections are based by examining and comparing past cash flow projections and past actual cash flows. (IAS 36.34)	There are no specific requirements.
IAS 36	Recognition of an impairment loss	An impairment loss for assets measured by the cost model is recognised in profit or loss. An impairment loss for assets measured by the revaluation model should first reduce the revaluation surplus with any residual recognised in profit or loss. (IAS 36.60, 61)	An impairment loss is recognised in profit or loss in the period incurred.

Standard	Issue	IFRS	JP GAAP
IAS 36	Method of allocating goodwill for impairment testing	Goodwill is allocated to each cash-generating unit or groups of cash-generating units that is expected to benefit from the synergies of the business combination. Each unit should be the lowest level within the entity at which the goodwill is monitored for internal management purposes; and should not be larger than an operating segment. (IAS 36.80)	As a general rule, goodwill is considered by business units, and is not required but permitted to be allocated to each asset group for assessing impairment.
IAS 36	Method of allocating impairment loss	An impairment loss recognised at a cash generating unit level is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit; and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. The carrying amount of such assets shall not be reduced below the highest of its fair value less costs of disposal (when measureable), its value in use and zero. (IAS36.104, 105)	The increased portion of an impairment loss, resulting from the addition of goodwill to a multiple asset group, is allocated first to reduce the carrying amount of goodwill; and then allocated on a systematic basis using methods similar to those based on the recoverable amount or pro rata carrying amount of each asset group. An impairment loss recognised for each asset group is allocated on a systematic basis such as a method based on pro rata of the carrying amount of each component or a method based on the market value each component.
IAS 36	Impairment testing of partial goodwill	When non-controlling interests are measured at its proportionate interest in the net identifiable assets of the acquiree (partial goodwill), goodwill attributable to the non-controlling interests should be included in the carrying amount (grossed up) of the cash generating unit when comparing with its recoverable amount. The amount of impairment loss for the grossed up goodwill should be allocated to both the parent and the non-controlling interest using their proportionate interest and only the portion related to the parent is recognised as an impairment loss. When non-controlling interests are measured at fair value (full goodwill), the process described above is not necessary. (IAS 36.C4, C8)	There are no specific requirements.

Standard	Issue	IFRS	JP GAAP
IAS 36	Reversal of an impairment loss	For the assets within the scope of IAS 36 (except for goodwill) the recoverable amount should be estimated when there is any indication that an impairment loss previously recognised may no longer exist or may have decreased. If there has been a change in the estimates used to determine the asset's recoverable amount since the recognition of the last impairment loss, such an impairment loss should be reversed. (IAS 36.110, 114)	Reversal of impairment is not permitted for all assets including goodwill.
IAS 36	Allocation of corporate assets	As a general rule, all corporate assets are allocated to each related cash-generating unit. (IAS 36.102)	As a general rule, corporate assets are not allocated to each asset or group of assets. However, it is permitted to assess impairment after allocating corporate assets to each asset or group of assets.
IAS 38, *Intangible assets*			
IAS 38	Definition and recognition criteria of intangible assets	The definition of intangible assets includes the following components. • Identifiability • Control over an asset • Future economic benefits The recognition criteria is as follows: • It is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and • the cost of the asset can be measured reliably When both the definition and recognition criteria are met, an item is recognised as an intangible asset. (IAS 38.10-17, 21)	There is no general definition of intangible assets. Examples of intangible assets, such as leasehold rights, goodwill, patents, rights above ground and trademarks are listed in the standard.

Standard	Issue	IFRS	JP GAAP
IAS 38	Accounting for deferred assets	There is no corresponding concept under IFRS to what JP GAAP defines as deferred assets. Stock issue costs, net of any income tax benefit, are deducted from equity. Bond issue costs are deducted from the fair value of the liability and is reflected in the effective interest rate and amortised. The definition and recognition criteria in IAS 38 should be applied for development costs. Start-up costs (legal and secretarial costs incurred in establishing a legal entity and pre-operating costs) are recognised as expenses. (IAS 38.10-17, 21, 69(a)) (IAS32.37) (IAS39.43) (IFRS9.5.1.1)	There is a list of deferred assets (i.e. stock issue cost, bond issue cost, founding expenses, start-up costs and development costs) in the standard. These deferred assets are expensed in principle, however it is also permitted to capitalize and amortise over a certain period.
IAS 38	Accounting for taxes on the purchase of intangible assets	Import duties, non-refundable purchase taxes and any directly attributable cost of preparing the asset for its intended use are included in the cost of the intangible asset. (IAS 38.27, 28)	Acquisition costs are included in the cost of the intangible asset. However, there is no specific requirement on purchase taxes.
IAS 38	Expense recognition of an interest expense included in cost	If payment for an intangible asset is deferred beyond normal credit terms, its cost is the cash price equivalent (the amount discounted to present value). The difference between this amount and the total payments is recognised as an interest expense over the period of credit unless capitalised in accordance with IAS 23. (IAS 38.32)	There are no specific requirements.
IAS 38 IFRS 3	Identification of intangible assets acquired in a business combination	An intangible asset acquired in a business combination which is separable or arises from contractual or other legal rights is recognised separately from goodwill even if it had not been recognised as an intangible asset by the acquiree. It is presumed that the fair value of an identifiable intangible asset acquired in a business combination can be measured reliably (i.e. brand names, patents and customer list may be recognised as intangible assets). (IAS 38.11-12, 34-37)(IFRS 3.13)	An intangible asset which is separately transferrable (such as a legal right) is recognised separately from goodwill even if it had not been recognised as an asset by the acquiree. An asset is separately transferrable when it can be purchased and sold separately from the entity or business and an independent price can be reliably measured (i.e., patents may be recognised as intangible assets. Corporate brands are generally not considered as intangible assets since they are closely related to the business).

Standard	Issue	IFRS	JP GAAP
IAS 38	Cost of an intangible asset acquired in exchange for a non-monetary asset	In general, the fair value of the intangible asset given up should be the cost of the intangible asset acquired. However, if the exchange transaction lacks commercial substance (e.g. the future cash flows do not change) or if the fair value of neither the asset received nor the asset given up is measurable, the cost of the asset acquired is measured at the carrying amount of the asset given up. (IAS 38.45-47)	When an intangible asset of the same type and for the same use is exchanged, the cost of the asset acquired is measured at the carrying amount of the asset transferred. When different types of assets are exchanged, the cost of the asset acquired is generally measured at the fair market value of the asset transferred or asset acquired.
IAS 38	Accounting for internally generated research and development cost	Expenditure incurred during the research phase is expensed when incurred. Expenditure incurred during the development phase is capitalised from the point when the recognition criteria of an intangible asset are met. (IAS 38.52-64)	Research and development cost is generally expensed.
IAS 38	Identification of internally generated intangible assets	An internally generated intangible asset is recognised if the recognition criteria of IAS38.21, 22, 57 are met. Internally generated software, website costs, and patents may be capitalised if the criteria are met. (IAS 38.48-67)	Software which meets certain criteria is capitalised. However, the recognition criteria are different from IFRS.
IAS 16	Recognition of machinery and equipment used only for the purpose of a specific research and development project.	Machinery and equipment acquired for the purpose of a specific research and development project are recognised as PPE if they meet the definition and recognition criteria of PPE. (IAS 16.6-7)	The acquisition cost of machinery and equipment used solely for the purpose of a specific research and development project which cannot be used for any other purpose is expensed as research and development cost when acquired.
IAS 38	Capitalisation of the cost of software developed for the purpose of sale in a market or for internal use	The software cost incurred (such as costs of materials and services, costs of employee benefits, fees to register a legal right, and amortisation of patents and licenses) are capitalised once the recognition criteria for internally generated intangible assets are met. (IAS 38.66)	• Software developed for the purpose of a sale in a market – Capitalise the prototype cost incurred, except for costs incurred during the research and development phase. • Software for internal use – Capitalise the software cost incurred if revenue or cost reduction is certain.

Standard	Issue	IFRS	JP GAAP
IAS 38	Examples of expenditure expensed when incurred	Expenditure on advertising and promotional activities including mail order catalogues are expensed when incurred. (IAS 38.69,69A)	In practice, there are cases in which expenditure on advertising and promotional activities, such as catalogues are capitalised as supplies until they are actually used for advertising and promotional activities.
SIC 32	Capitalisation of internal expenditure incurred for development of an entity's own web site	Internal expenditure incurred for development of an entity's own web site for internal or external access should be accounted for under IAS 38 if the recognition criteria for internally generated intangible assets are met. (SIC 32.8, 9)	Apply the same accounting treatment as software cost.
IAS 38	Measurement of intangible assets	Either the cost model or revaluation model may be chosen as the accounting policy. (IAS 38.72)	Only the cost model is permitted.
IAS 38	Useful life	An entity should assess whether the useful life is finite or indefinite. If finite, the useful life is the expected period available for use or the number of production or similar units expected to be obtained from the asset. (IAS 38.8, 88)	There is no concept of an intangible asset with indefinite useful life. In practice, the useful life under tax law is often used.
IAS 38	Amortisation method	The depreciable amount is allocated by a systematic method that reflects the pattern in which the asset's future economic benefits are expected to be consumed (e.g. straight-line method, diminishing balance method and unit of production method). If the pattern cannot be determined reliably, the straight-line method should be used. (IAS 38.97, 98)	In practice, the amortisation method under the tax law, generally the straight line method is often used.

Standard	Issue	IFRS	JP GAAP
IAS 38	Residual value	The residual value is assumed to be zero unless: • There is a commitment by a third party to purchase the asset at the end of its useful life; or • There is an active market for the asset and certain criteria are met (IAS 38.100)	There are no specific requirements. It is considered reasonable to assume that the residual value of an intangible asset is zero, since it is rare that an intangible asset, unlike a tangible asset, is sold for proceeds at the end of its useful life.
IAS 38	Frequency of review of amortisation period and amortisation method	The amortisation period and amortisation method for an intangible asset with a finite useful life should be reviewed at each financial year-end. (IAS 38.104)	There are no specific requirements for the frequency of review. Unlike IFRS, a review at each financial year-end is not required. In practice, when the tax law is followed, a review is not required unless it is unreasonable to use useful life or residual value in light of the entity's situation.
IAS 38	Identification of an intangible asset with an indefinite useful life and its amortisation	An intangible asset with an indefinite useful life (such as broadcasting license, airline route, and trademark) is not amortised. Its useful life is reviewed each period as indefinite does not mean infinite. If there is a change in circumstances, the asset should be changed to one with a finite life. (IAS 38.89, 91, 107, 109)	There is no concept of an intangible asset with indefinite useful life.
IAS 38	Expensing subsequent expenditure	Subsequent expenditure on brands, mastheads, publishing titles, customer lists and items similar in substance is always recognised in profit or loss as incurred. Subsequent expenditure on the development of a research and development project acquired in a business combination is capitalised if the recognition criteria for internally generated intangible assets are met. (IAS 38.20, 43, 63)	There are no specific requirements. However, subsequent expenditure for research and development acquired through a business combination is expensed.
IAS 40, *Investment property*			
IAS 40	Subsequent measurement	An entity should choose either the fair value model or the cost model as its accounting policy for an investment property held to earn rentals or for capital appreciation or both. An entity should apply that policy to all of its investment properties, except for certain cases. When the cost model is applied, disclosure of certain information on its fair value is required. (IAS 40.30, 79)	Investment and rental property should be measured at cost (cost less any accumulated depreciation) and certain information on its fair value should be disclosed.

Standard	Issue	IFRS	JP GAAP
IAS 40	Scope	Property occupied by employees is not investment property (whether or not the employees pay rent at market rates). (IAS 40.9)	A property occupied by employees is not an investment and rental property if it is for managerial use.
IAS 40	Property held for multiple use	When a property comprises a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes, if these portions could be sold separately (or leased out separately under a finance lease), the portions are accounted for separately, and the portion that is held to earn rentals or for capital appreciation is accounted as an investment property. If the portions could not be sold separately and only an insignificant portion is held for its own use, such property is treated as investment property as a whole. If a significant portion is held for its own use, such property is treated as an owner-occupied property as a whole. (IAS 40.10)	When a property comprises both a portion used as an investment and rental property and a portion used in the production or supply of goods or services or for others, the portion used as an investment and rental property is accounted for separately. However, if the portion used as an investment and rental property is insignificant, it is permitted not to account for that portion as an investment and rental property.
IAS 40	Property held for supply of services	If an entity provides ancillary services to the occupants of a property it holds, the level of significance of the services should be considered; when it is insignificant, the property is treated as an investment property and when it is significant, the property is treated as an owner-occupied property. (IAS 40.11-12)	A rental property is accounted for as an investment and rental property regardless of the significance of the ancillary services provided.
IAS 41, *Agriculture*			
IAS 41	Scope	There is a specific standard for biological assets and agricultural produce at the point of harvest. (IAS 41.1)	There are no specific requirements.
IAS 41	Recognition and measurement	Biological assets and agricultural produce are measured at their fair value less cost to sell on initial recognition and at the end of each reporting period (or at the point of harvest for agricultural produce). (IAS 41.12, 13)	There are no specific requirements; such assets are usually measured at cost.

JP GAAP References:

- Ordinance on Terminology, Forms and Presentation Methods of Financial Statements, etc.
- Cost Accounting Standard
- Audit Treatment for Borrowing Costs Related to Real Estate Developments Business.
- Accounting Standard for Measurement of Inventories
- Accounting Standard for Consolidated Financial Statements
- Business Accounting Principle
- Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements
- Guidelines on Ordinance on Terminology, Forms and Presentation Methods of Financial Statements, etc.
- Accounting Standard for Asset Retirement Obligations
- Guidance on Accounting Standard for Asset Retirement Obligations
- Audit Treatment for Compressed Entry
- Tentative Auditing Treatment for Depreciation Expenses
- Accounting Standard for Accounting Changes and Error Corrections
- Accounting Standard for Lease Transactions
- Guidance on Accounting Standard for Lease Transactions
- Accounting Standard for Impairment of Fixed Assets
- Guidance on Accounting Standard for Impairment of Fixed Assets
- Tentative Solution on Accounting for Deferred Assets
- Accounting Standard for Business Combinations
- Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures
- Accounting Standard for Research and Development Costs
- Discussion Paper on Intangible Assets
- Accounting Standard for Disclosures about Fair Value of Investment and Rental Property
- Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property

Recent developments

Recent proposals—IFRS

Lease project by the IASB and FASB

The IASB and FASB are carrying out a joint project with the objective of recording assets and liabilities arising from leasing transactions on the balance sheet. This project comprehensively reconsiders the guidance in IAS 17, *Leases*, along with related interpretations. The boards issued an exposure draft in August 2010 and redeliberated the issues based on the feedback received on the exposure draft. IASB finished its major redeliberation on July 2012. The boards have made tentative decisions to change the proposals in a number of key areas and re-exposure is expected.

The boards' objective as of December 31, 2012, is to have a dual accounting model for both the lessee and the lessor. The tentative conclusion made so far requires the lessee to recognise the rights and obligations of all leases on the balance sheet (besides short term leases).

Amendments to IAS 36 and IAS 38 Clarification of deprecation methods and amortisation methods

The IASB released an Exposure Draft of proposed amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* on December 2012. The exposure draft proposes that the depreciation or amortisation methods should generally be based on the expected pattern of consumption of the future economic benefits embodied in the asset, as opposed to being based on revenue.

Assets—financial assets

Assets—financial assets

The FASB and IASB are working on a joint project on financial instruments. Once finalised, the new guidance will replace all of the FASB's and IASB's respective financial instrument guidance. The two boards have, however, been working on different timetables. The IASB has been conducting its work in three separate phases (that is, classification and measurement, impairment and hedge accounting), the first of which resulted in the November 2009 issuance of IFRS 9, *Financial Instruments*, on requirements on financial assets followed in 2010 with classification and measurement requirements for financial liabilities. Taking into account the current progress of the remaining two phases, the effective date of IFRS 9 was changed from annual periods beginning on or after January 1, 2013 to annual periods beginning on or after January 1, 2015, with early application permitted. In January 2012, the FASB and the IASB decided to jointly redeliberate selected aspects of the classification and measurement model for financial instruments to reduce key differences between their respective models. After the joint redeliberations, IASB released an exposure draft titled "Classification and measurement (limited amendment to IFRS 9) in November 2012. In this ED, requirements related to equity instruments and financial liabilities were not changed, however, a third category of "fair value through other comprehensive income for debt instruments" was introduced. The FASB is expected to release its exposure draft in the first quarter of 2013. For details, please refer to the *Recent developments* section. While in Japan, the ASBJ issued *Discussion Paper on Revision of Accounting Standards for Financial Instruments (Classification and Measurement for Financial Assets)* in August 2010 as part of its convergence project based on the "Tokyo Agreement" with the IASB, and is undertaking a full review of the ASBJ Statement No. 10, *Accounting Standards for Financial Instruments*, with the goal of converging with IFRS 9. Deliberations, however, are currently on hold.

Although existing IFRS (before IFRS 9 is applied) and JP GAAP are basically similar, key differences in classification, measurement and derecognition are as follows:

- Firstly, under IAS 39, financial instruments are classified into one of four categories: assets held for trading or designated at fair value, with changes in fair value reported in earnings; held-to-maturity investments; loans and receivables; and available-for-sale financial assets. Under JP GAAP, in principle, financial assets are classified based on their legal form, such as securities (securities held for trading, bonds held to maturity, investments in subsidiary and affiliates and other securities), bonds, money trust, derivatives etc. The classification could result in different accounting because classification can drive differences in measurement subsequent to initial recognition.

- As to the measurement of financial assets, with regards to equity investments, fair value is the general rule under IFRS and cost is an exception. While under JP GAAP, unlisted financial instruments are measured at cost. There are more cases under JP GAAP where financial instruments are measured at cost.

- Under IFRS and JP GAAP, fundamental differences exist in how to assess derecognition of financial assets. These differences may have an impact on many transactions including securitisations. IFRS requires the assessment to be based on whether or not the risks and rewards are transferred. In addition, when it is unclear whether substantially all the risks and rewards have been transferred or retained, assessment is made on whether control over the asset is retained. JP GAAP focuses on whether control (including legal and substantial control) is relinquished over the asset.

IFRS 9 is more simplified with respect to the categories of classification of financial assets. The current multiple categories under IAS 39 have been narrowed down to two; amortised cost and fair value. Debt securities may be measured at amortised cost provided certain conditions are met, otherwise at fair value through profit or loss. On the other hand, equity investments are required to be measured at fair value through profit or loss, however, at initial recognition, an entity may make an irrevocable election to present subsequent changes in the fair value in other comprehensive income. With regards to financial liabilities, similar to IAS 39, financial liabilities are measured at fair value through profit or loss (held for trading or designated under the fair value option) or amortised cost.

Further details on the foregoing and other selected current differences are described in the following table. In addition, the differences with JP GAAP related to the changes from current requirements to IFRS 9 are also included.

Standard	Issue	IFRS	JP GAAP
IAS 39, *Financial Instruments: Recognition and Measurement*			
IAS 39	Classification of financial assets	Classification of financial assets is determined not based on their legal form but according to the definitions of: fair value through profit or loss (held for trading or designated under the fair value option), held-to-maturity investments, loans and receivables and available-for-sale assets. (IAS 39.9)	Financial assets are classified to securities, receivables, money held in trust, derivatives etc., based on their legal form in principle. Furthermore, securities are classified into securities held for trading, securities held to maturity, equity investment in subsidiaries and affiliates, and "other securities" (similar to available-for-sale category under IFRS). Both IFRS and JP GAAP specify the method of measurement subsequent to initial recognition for each category. Therefore, the differences in classification result in differences in the accounting. For example, debt securities classified as "other securities" under JP GAAP may meet the definition of loans and receivable under IFRS. Financial assets classified as held-to-maturity under JP GAAP may not be classified the same under IFRS unless there is an active market for the asset and hence require a different classification under IFRS.
IAS 39	Designation under the fair value option	The fair value option is available under IFRS. The fair value option is to allow, only at initial recognition, a one-time election to designate a financial instrument to be measured at fair value through profit or loss when: • It eliminates or significantly reduces an accounting mismatch, • A group of financial liabilities and/or financial assets is managed and evaluated on a fair value basis in accordance with a documented risk management policy, or • One or more embedded derivatives are contained in a hybrid instrument and an entity designates the entire instrument as at fair value through profit or loss. (IAS 39.9, 11A)	There is no concept of the fair value option.

Standard	Issue	IFRS	JP GAAP
IFRS5 IFRS11 IAS 39 IAS 27 IAS 28	Subsidiaries, affiliates and joint arrangements	In separate financial statements, interests in subsidiaries, affiliates and joint arrangements are measured at cost or in accordance with IAS 39. However, an interest in a subsidiary classified as held-for-sale under IFRS 5 is measured at the lower of its carrying amount and fair value less cost to sell. Interests in associates or joint arrangements held by a venture capital entity (which are designated under the fair value option or classified as held for sale) may be measured at fair value through profit or loss. (IAS 11.24-27)(IAS 27.10)(IAS 28.18) (IFRS 5.6-8A)	In separate financial statements, interests in subsidiaries and affiliates are measured at cost. There are no specific requirements on interests in joint arrangements.
IAS 39	Initial recognition of financial instruments (assets)	An entity should recognise a financial instrument (asset) when, and only when, the entity becomes a party to the contractual provisions of the instrument. IFRS specifies that normal sale/purchase transactions involving financial assets should be recognised or derecognised on the transaction date or the settlement date. In addition, there is no such additional requirement for financial liabilities. (IAS 39.14, 38)	In principle, sales/purchase transactions involving securities are recognised or derecognised on the transaction date, if the period between the transaction date and the delivery date is considered a normal length of period in accordance with market rules or regular practice. In addition, instead of this transaction date basis, a “modified delivery date basis” may be applied in which a buyer may recognise only the changes in fair value between the transaction date and the delivery date, by each category based on the objectives of holding the securities; and a seller may only recognise the gain/loss on sale on the transaction date. Loans should be recognised on the date of borrowing, and derecognised on the maturity date.
IAS 39	Held-to-maturity investments	An entity should not classify any financial assets as held-to-maturity if the entity has, during the current financial year or during the two preceding financial years, sold or reclassified held-to-maturity investments (tainting rule). (IAS 39.9, 52)	An entity should not classify any financial assets as held-to-maturity if the entity has changed the objective of holding held-to-maturity financial assets (e.g. to disposal) in the current or prior fiscal year. Therefore, the applicable period for the tainting rule under JP GAAP is 1 year shorter than IFRS.

Standard	Issue	IFRS	JP GAAP
IAS 39	Derecognition of financial assets	An entity should evaluate whether or not the risks and rewards of ownership of a financial asset has transferred. If it is not clear, the entity should further evaluate whether control over the asset has transferred. The derecognition of a financial asset in its entirety is achieved when an entity has transferred substantially all the risks and rewards of ownership or the entity neither transfers nor retains substantially all the risks and rewards but the transferee has the practical ability to sell the asset. In addition, when an entity neither transfers nor retains substantially all the risks and rewards and the transferee does not have the practical ability to sell the asset, the entity should continue to recognise the asset to the extent of its continuing involvement. (IAS 39.15-37, AG36 (flowchart))	In accordance with the "Financial component approach", a financial asset should be derecognised when, and only when, all of the following criteria are met: • The contractual rights of the transferee over the transferred financial assets are secured legally from the transferors and their creditors; • The transferee can enjoy contractual rights on the transferred financial assets in an ordinary manner, directly or indirectly. For example, the transferee must be entitled to recover all, or almost all of the funds invested by means of repayments of the principal, payments of interest or dividends; and • The transferor does not substantially have the right or the obligation to repurchase the transferred financial assets before their maturity date.
IAS 39	Partial derecognition of financial assets	Derecognition is appropriate for a part of a financial asset if the part comprises specifically identified or a proportionate share of cash flows from the asset. In all other cases, derecognition should be evaluated for a financial asset in its entirety. (IAS 39.16)	There are no specific requirements on the unit to apply the derecognition requirements for financial assets.
IAS 39	Accounting for loan participations	IFRS does not provide a special treatment for loan participations like JP GAAP and financial assets are derecognised only when the pass through requirements under IAS 39.19 are satisfied. (IAS 39.19)	Loan participations, which do not meet derecognition criteria, may be kept off-balance sheet as a transitional treatment until a further pronouncement is issued.
IAS 39	Derecognition of notes receivable (promissory notes) under JP GAAP	When notes receivable are transferred to a third party at a discount or by means of an endorsement in Japan, they do not satisfy the derecognition criteria as they generally have full recourse (unless they are endorsed with a declaration of non-recourse). (IAS 39.20)	Notes receivable are extinguished when transferred to a third party at a discount or by means of an endorsement in Japan.

Standard	Issue	IFRS	JP GAAP
IAS 39	Amortised cost of held-to-maturity investments	Held-to-maturity investments should be measured at amortised cost using the effective interest rate method. The straight-line method is not permitted. When calculating the effective interest rate method, an entity generally takes into account any fees, transaction costs and the premium or discount to adjust the coupon rate. Unlike JP GAAP, items which should be considered in the effective interest rate calculation are not limited to the interest rate element within the difference between the cost and face value of an investment. In addition, the amortisation period for these adjustment items is the expected remaining period of the investment or a shorter period to which the adjustment items relate to (if the premium or discount is reset until it is repriced to the market rate). (IAS 39.9, 46, AG6)	Held-to-maturity bonds are measured at amortised cost using the "interest method" in principle. However, the straight-line method is also permitted if applied consistently. To calculate the effective interest rate, the coupon rate will be adjusted with the interest rate element within the difference between the cost and face value of the bond. As to the classification of held-to-maturity bonds, IFRS specifies that the difference between the cost and face value may be generally considered as the difference arising from different interest rates (i.e. there is no risk factor) because such bonds are expected to be redeemed at face value and have lower credit risks.
IAS 39	Amortised cost of loans and receivables	Similar to the measurement of held-to-maturity investments after initial recognition described above. (IAS 39.9, 46, AG6)	Receivables are measured at amortised cost using the interest method in principle. However, the straight-line method is permitted if the principal and interest are repaid as a lump sum on maturity or on the due date, or in accordance with the payment schedule. Effective interest rate is calculated to align the future cash flows reflecting credit risk with the cost.
IAS 39	Amortised cost method for available-for-sale assets (debt securities)	Similar to held-to-maturity investments with regard to the calculation of the effective interest rate. The difference between the fair value and amortised cost calculated based on the effective interest rate will be recorded in other comprehensive income. (IAS 39.9, 46, AG6)	Similar to held-to-maturity bonds with regard to the calculation of the effective interest rate. The difference between the fair value and amortised cost calculated based on the effective interest rate will be recorded in" valuation difference of other securities" or other comprehensive income.
IAS 39	Financial instruments measured at cost – equity instruments	If investments in equity instruments do not have a quoted market price in an active market and cannot be measured reliably, it shall be measured at cost. Fair value is not reliably measurable when it can be estimated but the range of the fair value estimates is significant and the probabilities of the various estimates within the range cannot be reasonably assessed. Unlike JP GAAP, measurement of equity instruments at cost solely on the grounds of being unlisted is not permitted. (IAS 39.46(c), AG80, AG81)	Unlisted shares are treated as securities whose fair values are extremely difficult to obtain and are measured at cost.

Standard	Issue	IFRS	JP GAAP
IAS 39	Financial instruments measured at cost – derivative instruments	Derivatives that are linked to and must be settled by delivery of equity instruments measured at cost shall also be measured at cost. The only derivatives that should be measured at cost are those that are linked to equity instruments measured at cost. (IAS 39.46(c), AG 80, AG 81)	Unlisted derivative instruments may be measured at cost if it is extremely difficult to calculate the fair value, such as weather derivatives or certain derivatives with no prevalent method to measure the fair value because the market for such instruments is not developed.
IAS 39	Financial instruments measured at cost – debt instruments	An entity cannot justify the measurement of debt instruments classified as available-for-sale, such as bonds, at cost because the fair value cannot be measured reliably. A debt instrument classified as available-for-sale is measured at fair value. (IAS 39.46)	A security classified as “other securities” (similar to the available-for-sale category under IFRS) may be measured similar to receivables (i.e. at amortised cost) when its fair value is difficult to obtain.
IFRS 13	Fair value	When financial instruments are traded in an exchange market, closing prices are both readily available and generally representative of fair value. In a market such as a dealer market, bid and ask prices are typically more readily available than closing prices. The price within the bid-ask spread that is most representative of fair value in the circumstances is used to measure fair value. However, the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements are not precluded. (IFRS 13,70, 71,B34)	For fair value measurement of receivables or payables arising from securities and derivatives transactions, closing quotes by security exchanges and OTC markets are preferred. If such closing quotes are not available, bid and asking prices will be used. The lowest of the asking price or the highest of the bid price is considered as the indicative price, however, the mid price of the two will be used when both are available.

Standard	Issue	IFRS	JP GAAP
IFRS 13	Fair value of financial instruments without market prices	Valuation techniques are required to be used to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. (IFRS 13.62)	When a financial asset does not have a market price and if an entity can reasonably calculate a price that can be considered as a quasi-quoted price, such price may be used for that financial asset as a market price. "The reasonably calculated price" represents, basically, the price based on reasonable estimates by management.
IAS 39	Transaction costs	Transaction costs are incremental costs that are directly attributable to transactions such as an acquisition of a financial asset. Except for financial instruments measured at fair value through profit or loss (such as those held for trading and derivatives), transaction costs are included in the acquisition cost. (IAS 39.9, 43)	Ancillary costs incurred at acquisition of financial assets (excluding derivatives) are included in the cost of the acquired asset. However, an ancillary cost may be excluded from the cost if it is recurring and its attribution to individual financial asset is unclear.
IFRS 13	Fair value measurement of financial assets/liabilities with offsetting positions in market risks or counterparty credit risk	When an entity manages a group of financial assets and financial liabilities on the basis of its net exposure, if certain conditions are met, the entity is permitted to measure the fair value of a group of financial assets and financial liabilities on the basis of the price to sell or transfer a net exposure for a particular risk between market participants. (IFRS 13.48-56)	There are no specific requirements.
IAS 39	Day 1 gain/ loss	The best evidence of the fair value of a financial instrument at initial recognition is the transaction price unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. If this type of market information is available, the financial instrument is measured at the fair value and the difference between the valuation technique and the transaction price will be recognised as a day 1 gain/ loss. Therefore, any difference between the valuation technique that does not satisfy the conditions described above and the transaction price will not be recognised as a day 1 gain/ loss and the financial instrument is measured at the transaction price. (IAS 39.AG76, AG76A)	There are no specific requirements. Day 1 gain/ loss should be accounted for depending on the substance of the transaction.

Standard	Issue	IFRS	JP GAAP
IAS 39	Reclassification	Provided certain criteria are met, an entity should or may reclassify its financial instruments in the following ways. • If a financial asset meets the definition of loans and receivables and the entity has the intention and ability to hold it for the foreseeable future or until maturity, it may be reclassified out of the fair value through profit or loss category to loans and receivables. For other financial assets, if they are no longer held for the purpose of selling or repurchasing in the near term, they may be reclassified out of the fair value through profit or loss category only in rare circumstances. However, a derivative asset or a financial asset that is designated at fair value through profit or loss at initial recognition cannot be subsequently reclassified to the loans and receivables category, held-to-maturity category or available-for-sale category. (IAS 39.50(c), 50B, 50D) • There are no specific requirements in IAS 39 on the reclassification from the loans and receivables category to the available-for-sale category. • Reclassification from the held-to-maturity category to the available-for-sale category is required if as a result of a change in intention or ability, the classification as held-to-maturity is no longer appropriate or whenever there are sales or reclassification of more than an insignificant amount of held-to-maturity investments, the remaining held-to-maturity investments should be reclassified as available-for-sale. (IAS 39.51- 52) • Reclassification from available-for-sale category to loans and receivables category is possible when the financial asset meets the definition of loans and receivables and the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If, as a result of a change in intention or ability or in the rare circumstance that a reliable measure of fair value is no longer available or because the "two preceding financial years" under the tainting rule have passed, an available-for-sale financial instrument may be reclassified to the held-to-maturity category. (IAS 39.50E, 54) (IAS 39.50-54)	In principle, reclassification is not permitted under JP GAAP except in limited circumstances. As described in *Held-to-maturity investments* on p.65, the classification of bonds as held-to-maturity is prohibited if the entity has changed the objective of holding held-to-maturity financial assets (e.g. to disposal) in the current or prior fiscal year. An entity may reclassify all of its held-for-trading securities to "other securities" (similar to the available-for-sale category under IFRS) when the entity decides to discontinue the trading activity due to changes in the entity's funds management policy, revision or application of applicable laws or accounting standards. On the contrary, an entity should reclassify its securities as held-for-trading when it decides to commence security trading or when the entity's frequent trading of securities is objectively observed. In addition, reclassification due only to a change in fund management policy is not permitted under IAS 39.

Standard	Issue	IFRS	JP GAAP
IAS 39	Reclassification due to a change in reliability of measurement	If a reliable measure becomes available for an equity instrument or a derivative indexed to an equity instrument whose fair value was not reliably measurable, they should be remeasured at fair value. (IAS 39.53)	There are no specific requirements.
IAS 39	Accounting for foreign exchange differences on available-for-sale financial assets	With regard to foreign exchange differences of a monetary available-for-sale financial asset denominated in a foreign currency, the foreign exchange differences arising from changes in amortised cost are recognised in profit or loss, and other changes are recognised in other comprehensive income. (IAS 39.AG83)	Foreign currency denominated bonds are, in principle, accounted for in accordance with the requirements on foreign exchange differences in *the Accounting Standards for Financial Instruments*. However, an entity may use the foreign exchange differences arising from the changes of fair value in the foreign currency (the difference in the foreign currency amount translated by the spot rate at the date of closing) as the valuation difference, and account for the remainder as a foreign exchange gain/ loss.
IAS 39	Fair value gain or loss on available-for-sale financial assets	The gain or loss from the change in fair value of an available for sale financial asset (except impairment loss) should be recognised in other comprehensive income until the financial asset is derecognised. (IAS 39.55(b))	The total amount of valuation differences is recognised directly in equity in principle (the "entire method"). However, provided consistent application, an entity may recognise only the gain directly in equity but treat the loss as a loss for the period in the profit and loss account (the "partial method").
IAS 39	Recognition of impairment of financial assets	If there is objective evidence that a financial asset measured at amortised cost (i.e. loans and receivables and held-to-maturity investments) or an available-for-sale asset is impaired, an entity should measure the amount of impairment loss. IAS 39.59 provides guidance on objective evidence of impairment. For equity instruments, a significant or prolonged continuous decline in fair value below cost (not the cost after impairment) should also be considered as an objective evidence of impairment, i.e. an impairment loss should be recognised if there is a significant or prolonged continuous decline in value. In addition, once there has been a significant decline in value and any further decline follows, a further impairment loss should also be recognised regardless of the extent of the decline. Market conditions or forecasts after the reporting date should not be taken into account. (IAS 39.58-70)	If the fair value of a security (other than a trading security) for which there is a market price has significantly declined, an impairment loss should be recognised unless the fair value is expected to be recovered. Guidance on the definition of a significant decline is provided (i.e. a decline of more than approximately 50%). In addition, JP GAAP states that, in the case of equity securities, fair value can be deemed to be recovered when it can be expected with reasonable evidence that the decline is temporary and the fair value will nearly, or fully, recover to the level of the acquisition cost approximately within one year after the closing date. For an equity security whose quoted price is extremely difficult to obtain, an impairment loss should be recognised when the real value (as calculated by multiplying the net asset per share by the number of shares owned) of such equity security significantly declines due to a deterioration in the financial condition of the issuer. JP GAAP provides guidance on the definition of a significant decline (i.e. a decline of more than approximately 50% in the real value).

Standard	Issue	IFRS	JP GAAP
IAS 39	Measurement of impairment	The amount of impairment loss on a financial asset carried at amortised cost is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of impairment loss on a financial asset carried at cost is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. (IAS 39.58-70)	For a bond whose quoted price is extremely difficult to obtain, any unredeemable amount corresponding to credit risk should be estimated with reference to the requirements on receivables. Receivables are separated into three categories according to the financial condition and business performance of the debtor, namely: normal receivables, doubtful receivables and uncollectible receivables. Uncollectible amounts should be estimated based on the above categories. For an equity security whose market value is considered to be extremely difficult to obtain, an impairment amount should be based on differences between the acquisition cost and a real value. The real value is a net asset value per share multiplied by the number of shares held. The net asset value per share is derived based on financial statements prepared under generally accepted financial principles and is by considering, in principle, reflective of valuation differences. Excess earning power or controlling interests could be reflected in the real value.
IAS 39	Unwinding the effect of discounting on impaired financial assets	When a financial asset measured at amortised cost has been impaired, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. (IAS 39.AG93)	The effect of discounting will not be unwound even when the future cash flows of a financial asset is remeasured by its discounted present value. In addition, an entity should not recognise interest income on receivables with significantly delayed payment and those in bankruptcy.
IAS 39	Bifurcation criteria for embedded derivatives	An embedded derivative should be separated from the host contract and measured at fair value if, and only if • The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; • A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and • The hybrid instrument is not measured at fair value with changes in fair value recognised in profit or loss. (IAS 39.11)	An embedded derivative included in a compound instrument should be bifurcated from the host contract and measured at fair value if, and only if: • The risks of the embedded derivative could affect the host financial asset and/ or host financial liability; • A separate instrument with the same terms as the embedded derivative has characteristics of a derivative; and • The compound instrument is not measured at fair value with changes in fair value recognised in profit or loss. However, even when the conditions above are not satisfied, a derivative may be separated from the host contract and accounted for as a derivative if it is managed separately for management purposes.

Standard	Issue	IFRS	JP GAAP
IAS 39	When a non-financial instrument is a host contract	If a non-financial instrument includes an embedded derivative, an entity should consider whether or not the embedded derivative needs to be separated. (IAS 39.11)	There are no specific requirements for embedded derivatives with a non-financial host.
IFRS 9, *Financial Instruments*			
IFRS 9	Classification of financial assets	• Debt instruments Debt instruments are measured at amortised cost if both of the following conditions are met; otherwise, they are measured at fair value: – the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows – the contractual cash flows are solely payments of principal and interest where interest is defined as compensation for time value of money and credit risk • Equity instruments Equity instruments should be measured at fair value through profit or loss. However, at initial recognition, an entity may irrevocably elect to present changes in fair value of an equity instrument not held for trading in other comprehensive income. It is prohibited to subsequently reclassify the amount presented in other comprehensive income to profit or loss. However the entity may reclassify the cumulative gain/loss within equity. (IFRS 9.4.1.1- 4.1.4, 5.7.5, B.5.7.1)	See *Classification of financial assets* on p.64 in this chapter.
IFRS 9	Measurement of equity instruments at cost	Equity instruments and derivative instruments that were measured at cost under IAS39 are required to be measured at fair value. However, IFRS indicates that cost may be an appropriate estimate of fair value in limited circumstances. (IFRS 9.4.1.4, B5.4.14-B5.4.17)	Unlisted securities are defined as securities whose fair value is difficult to obtain and are measured at cost.

Standard	Issue	IFRS	JP GAAP
IFRS 9	Reclassification	An entity should reclassify all affected financial assets when and only when it changes its business model for managing financial assets. Such reclassification should be applied prospectively from the reclassification date. (IFRS 9.4.4.1, 5.6.1)	Classification according to an entity's objective to hold securities should be based on the entity's original intent and should not be changed without reasonable grounds. Please refer to *Reclassification* under IAS 39, on p.70 in this chapter.
IFRS 9	Fair value option	• Financial assets IAS 39 permits designation of a financial asset as measured at fair value through profit or loss (fair value option) for the following three cases; however, IFRS 9 allows designation under the fair value option only for (1) below: (1) It eliminates or significantly reduces an accounting mismatch, (2) A group of financial liabilities and/or financial assets is managed and evaluated on a fair value basis in accordance with a documented risk management policy, or (3) One or more embedded derivatives are contained in a hybrid instrument and an entity designates the entire instrument as fair value through profit or loss. • Non-financial instruments A non-financial instrument may apply the fair value option if it contains an embedded derivative (IFRS 9.4.1.5, 4.2.2, 4.3.5)	There is no concept of the fair value option.

Standard	Issue	IFRS	JP GAAP
IFRS 9	Bifurcation criteria for embedded derivatives	• Financial assets When the host contract is a financial asset within the scope of IFRS 9, an entity should determine the classification of the hybrid instruments in their entirety without separating their embedded derivatives. • Non-financial assets Similar to IAS 39, i.e. an embedded derivative included in a hybrid instrument should be separated and measured at fair value separately from the host contract if, and only if: – The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host; – A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and – The hybrid instrument is not measured at fair value with changes in fair value recognised in profit or loss. (IFRS 9.4.3.2-4.3.3)	An embedded derivative included in a compound instrument should be separated from the host contract and measured at fair value if, and only if: • The risks related to the embedded derivatives could affect individual financial assets and/or financial liabilities; • A separate instrument with the same terms as the embedded derivative has characteristics of a derivative; and • The compound instrument is not measured at fair value with changes in fair value recognised in profit or loss. However, even when the conditions above are not satisfied, an embedded derivative may be separated from the host contract and accounted for as a derivative if it is managed separately for management purposes. There are no specific requirements for embedded derivatives with a non-financial host.
Industry-specific guidance			
–	Industry-specific guidance	There is no industry-specific accounting guidance under IFRS.	There is industry-specific guidance, such as guidance for the banking and insurance industry issued by the audit committee of the Japanese Institute of Certified Public Accountants that specifies accounting and audit treatments when applying the *Accounting Standards for Financial Instruments*.

JP GAAP References:

- Accounting Standards for Financial Instruments
- Practical Guidelines on Accounting Standards for Financial Instruments
- Practical Guidelines on Accounting Standards for Foreign Currency Transactions
- Audit Treatment for Accounting and Presentation of Debt Guarantee and Similar Guarantee Obligations
- Guidance on Accounting for Other Compound Financial Instruments (Compound Financial Instruments Other than Those with an Option to increase Paid-in Capital)

Recent developments

Recent changes—IFRS

Amendments to IAS 32 and IFRS 7, *Disclosures—Offsetting Financial Assets and Financial Liabilities*

The IASB has issued an amendment to the application guidance in IAS 32, *Financial instruments: Presentation*, to clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. However, the clarified offsetting requirements for amounts presented in the statement of financial position continue to be different from US GAAP. As a result, the IASB has also published an amendment to IFRS 7, *Financial instruments: Disclosures*, reflecting the joint requirements with the FASB to enhance current offsetting disclosures. These new disclosures are intended to facilitate comparison between those entities that prepare IFRS financial statements and those that prepare financial statements in accordance with US GAAP.

The amendments do not change the current offsetting model in IAS 32, which requires an entity to offset a financial asset and financial liability in the statement of financial position only when the entity currently has a legally enforceable right of set-off and intends either to settle the asset and liability on a net basis or to realise the asset and settle the liability simultaneously.

The amendments clarify that the right of set-off must be available today – that is, it is not contingent on a future event. It also must be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendments also clarify that gross settlement mechanisms (such as through a clearing house) with features that both (i) eliminate credit and liquidity risk and (ii) process receivables and payables in a single settlement process, are effectively equivalent to net settlement; they would therefore satisfy the IAS 32 criterion in these instances. Master netting agreements where the legal right of offset is only enforceable on the occurrence of some future event, such as default of the counterparty, continue not to meet the offsetting requirements.

The converged offsetting disclosures in IFRS 7 are to be retrospectively applied, with an effective date of annual periods beginning on or after 1 January 2013. However, the clarifications to the application guidance in IAS 32 are to be retrospectively applied, with an effective date of annual periods beginning on or after 1 January 2014.

IFRS 13, *Fair Value Measurement*

The IASB completed the joint project with the FASB on fair value measurement and issued IFRS 13, *Fair Value Measurement*. IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures; it does not say when to measure fair value or require additional fair value measurements. The project converges IFRS and US GAAP requirements on how to measure fair value, although there will continue to be differences in certain respects, including when fair value measurements are required and when day 1 gains and losses can be recognised. IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Fair value is measured using the same assumptions and taking into account the same characteristics of the asset or liability as market participants would. Fair value is a market-based, not entity-specific measurement. The fair value of a liability reflects non-performance risk (that is, own credit risk).

A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. The principal market is the market with the greatest volume and level of activity for the asset or liability that can be accessed by the entity. For non-financial assets only, fair value is determined based on the highest and best use of the asset as determined by a market participant.

Fair value measurements are categorised into a three-level hierarchy, based on the type of inputs to the valuation techniques used, as follows:

- Level 1 inputs are quoted prices in active markets for items identical to the asset or liability being measured. Consistent with current IFRS, if there is a quoted price in an active market (that is, a Level 1 input), an entity uses that price without adjustment when measuring fair value;
- Level 2 inputs are other observable inputs; and
- Level 3 inputs are unobservable inputs that nevertheless must be developed to reflect the assumptions that market participants would use when determining an appropriate price for the asset or liability.

These requirements are similar to those in IFRS 7, *Financial instruments: Disclosures*, but enhance those requirements and apply to all assets and liabilities measured at fair value and not just financial assets and liabilities (including footnotes).

Recent proposals—IFRS

Joint FASB/IASB Financial Instruments Project

Overview

The FASB and the IASB are working on a joint project on financial instruments. Once finalised, the new guidance will replace the FASB's and IASB's respective financial instrument guidance. Although the project is a joint project, the FASB and IASB have been working on different timetables. The IASB has been conducting its work in separate phases: (1) classification and measurement of financial instruments, (2) impairment, and (3) hedge accounting. The FASB elected to issue one comprehensive exposure draft on financial instruments.

Phase 1: Classification and measurement (IFRS 9, Financial Instruments)

IFRS 9 replaces the multiple classification and measurement bases in IAS 39 with a simplified model that has two classification categories: amortised cost and fair value. Classification under IFRS 9 is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The reclassification between categories is prohibited except in circumstances where the entity's business model changes.

Financial assets are measured at amortised cost if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and such contractual cash flows solely represent payments of principal and interest; otherwise the financial asset is measured at fair value.

The new standard further indicates that all equity investments should be measured at fair value. IFRS 9 removes the cost exemption for equities at cost whose fair value cannot be reliably measured and derivatives on such equities but provides guidance on when cost may be an appropriate estimate of fair value. Management may elect the option to designate equity investments at fair value through OCI. Such designation is available on initial recognition on an instrument-by-instrument basis and is irrevocable. There is no recycling of subsequent changes in fair value to profit or loss; however, dividends from such investments should be recognised in profit or loss if they represent a return on investment.

Under the new model, management may still designate a financial asset at fair value through profit or loss on initial recognition but only if this significantly reduces an accounting mismatch. The new standard removes the requirement to separate embedded derivatives from financial asset hosts. It requires a hybrid contract whose host is an asset to be classified in its entirety at either amortised cost or fair value.

Financial liabilities are classified into two measurement categories: fair value through profit or loss (held for trading or designated under the fair value option) and amortised cost. If a financial liability is designated under the fair value option, changes in fair value related to changes in an entity's own credit risk are presented in OCI unless it creates an accounting mismatch. This is in response to feedback from financial statements users that changes in own credit risk of a financial liability should not affect profit or loss unless the financial liability is held for trading. In addition, the new requirements prohibit any recycling through profit or loss of amounts recognised in OCI. The above accounting will not be applied to financial guarantees and loan commitments designated under the fair value option. All fair value movements are recognised in profit or loss.

In November 2012, the IASB published its exposure draft proposing limited amendments to IFRS 9. The reasons for the proposed amendments are to address issues that have arisen in practice since the issuance of IFRS 9, to consider the interaction with the insurance project and to reduce differences with the FASB's classification and measurement model. The significant changes from IFRS 9 in the ED include the introduction of a third classification category for debt instruments (fair value through other comprehensive income), clarification of the business model for the existing amortised cost category, clarification of the contractual cash flow test, consequential changes as a result of the limited amendments and revised transition guidance. Other areas of IFRS 9 remain unchanged such as scope, the classification and measurement model for equity instruments held as financial assets, financial liabilities and the model for hybrid financial assets (that is, those instruments that contain an embedded derivative). The comment period was until March 28, 2013. FASB also published its exposure draft on classification and measurements titled "Recognition and Measurement of Financial Assets and Financial Liabilities" in February 2013.

Phase 2: Impairment methodology

In November 2009, the IASB issued an exposure draft that proposed fundamental changes to the current impairment guidance for financial assets accounted for at amortised cost. The proposed model was built upon the premise that interest charged on financial instruments includes a premium for expected losses, which should not be included as part of interest revenue/income. This resulted in an allocation of the initial estimate of expected credit losses over the expected life of the financial asset. This IASB model was different from the FASB's exposure draft in May 2010, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*. Subsequently, for convergence purposes, the boards jointly deliberated and issued a joint supplementary document to gather feedback on new impairment approaches in January 2011.

Since then, the boards had been deliberating on a new impairment approach referred to as the three bucket model which classifies financial assets including loans and debt instruments into three buckets based on their credit risk. The boards completed their joint deliberation in July 2012. IASB is expected to release its exposure draft in the first quarter of 2013. The following is a summary of the three bucket model:

- Financial assets will be placed into three buckets for the purposes of measuring impairment. Assets (excluding purchased financial assets for which credit losses are explicitly expected) will start in Bucket 1 and the measurement of impairment will be based on full lifetime expected losses for loss events expected over the next 12 months.

- Assets will be transferred to either the second or third bucket when the entity determines that there has been significant deterioration in credit quality since initial recognition. The measurement of impairment in Bucket 2 and 3 will be based on full lifetime expected losses for the remaining lifetime of the assets. As an exception to the general model, if the credit risk of a financial instrument is low, the transfer to the second or third bucket would be limited only when the credit quality deteriorated to the level below investment grade. This exception would be introduced with the aim of reducing complexity and cost for assessing deterioration in credit quality.

- The difference between Bucket 2 and Bucket 3 is simply a "unit of evaluation" difference. Bucket 2 includes financial assets evaluated collectively and Bucket 3 includes financial assets evaluated individually.

As for trade receivables, if they have significant financing components, an entity should apply the full three bucket model or a simplified approach (measure the loss allowances at an amount equal to the lifetime expected losses both at initial recognition and through the life of the assets. In other words, the assets are classified in either Bucket 2 or 3 and the entity does not need to track the deterioration in credit quality). As for trade receivables without significant financing components, the simplified approach should be applied.

On the other hand, during the summer of 2012, the FASB decided to develop a different model to the three-bucket model. This decision was taken as a result of feedback received by the FASB. The FASB issued its ED on the Current Expected Credit Loss (CECL) model in December 2012, which recognizes allowance for credit losses based on the current estimate of the amount of contractual cash flows not expected to be collected. Both the IASB and the FASB's models are based on the concept of expected losses, however, the FASB model does not include a threshold that must be met prior to recognizing a credit loss. That is, the IASB's model is a dual measurement model and the FASB's model is a single measurement model. Therefore, we currently do not have a converged model with each board exposing different models.

Phase 3: Hedge accounting

Hedge accounting under current IAS 39 is prescribed in detail and entities are not always able to reflect their risk management activities on the financial statements appropriately. Therefore, in December 2010, an exposure draft that addresses general hedge accounting (not including macro hedge accounting) was issued to improve the decision-usefulness of financial statements for users by eliminating the rule-based requirements and to reflect an entity's risk management practices. The IASB continued redeliberations based on comments received on the exposure draft and its outreach activities which were completed in September 2011. The IASB issued a review draft on general hedge accounting in September 2012. The final standard is expected to be issued in the second quarter of 2013. Please refer below for the summary of the review draft. Macro hedge accounting is now considered to be a separate project. The IASB has been continuing its discussion on macro hedge accounting based on the interest rate risk management protocols used at financial institutions. A discussion paper is expected in the first half of 2013.

Under current IAS 39, whether a hedge is highly effective or not is based on a "bright line" quantitative test; a hedge is highly effective when the actual results of the hedge are within a range of 80-125%. However, the review draft removed these numerical criteria and adopted a principle-based approach for the effectiveness assessment. More specifically, an entity's designation of the hedge relationship should be based on an economic relationship between the hedged item and hedging instrument which gives rise to an offset. There is also a requirement that an entity should not designate a hedging relationship in order to achieve an accounting outcome that is inconsistent with the purpose of hedge accounting through a disproportionate weighting between the hedged items and hedging instruments. In addition, only a prospective assessment is required and retrospective verification is no longer necessary. Measurement of the hedge ineffectiveness, however, is necessary as it should be recorded in profit or loss. Although hedge effectiveness is not ensured, adjustment of the hedge ratio (rebalancing) is required if it ensures the effectiveness. Voluntary termination is not permitted. Termination of the hedging relationship is permitted only if it is no longer viable for risk management purposes.

For hedging instruments, under IAS 39, the time value of purchased options and the forward points of forward contracts can create significant volatility in profit or loss. Therefore, in order to eliminate such effects, accounting similar to insurance contracts is applied. For example, the initial time value will be recognised in profit or loss – either over the period of the hedge if the hedge is time related, or at the point in time when the hedged transaction affects profit or loss if the hedge is transaction related. Any changes in the option's fair value associated with subsequent time value will only be recognised in OCI.

As to the eligibility of hedged items, a number of changes are proposed to remove the restrictions under IAS 39 today that prevent some economically rational hedging strategies from qualifying for hedge accounting. For example, the review draft proposes that risk components can be designated for non-financial hedged items provided the risk component is separately identifiable and measurable. The exposure draft also proposes allowing hedge designation of net positions and relaxing the criteria for group hedges which makes application of the rules more flexible.

Instruments at FVTPL can be designated to hedge the credit risks for loans. In addition, transactions meeting the "own use" scope exception (if transactions that meet the definition of derivatives also meet certain conditions of the "own use" scope exception, they will not be accounted for as a derivative) can be designated as at fair value through profit or loss.

Furthermore, to provide information regarding the relationship between the entity's risk management practice and use of hedge accounting and hedge effectiveness, the board has decided to add and revise some of the disclosure requirements.

Recent proposals—JP GAAP

As part of the convergence project, the Issue Paper on Improvements to the Accounting Standard for Financial Instruments (Classification and Measurement of Financial Assets) was issued in August 2010. The Exposure Draft of the Accounting Standard for Fair Value Measurements and Disclosures was also issued in July 2010 and deliberations soon followed.

Issue Paper on Improvements to the Accounting Standard for Financial Instruments (Classification and Measurement of Financial Assets)

In August 2010, the ASBJ issued *Issue Paper on Improvements to the Accounting Standard for Financial Instruments (Classification and Measurement of Financial Assets)*. The issue paper is a result of a comprehensive review of the ASBJ Statement No. 10, *Accounting Standard for Financial Instruments*, which is part of the convergence project based on the Tokyo Agreement between the IASB and the ASBJ in order to converge with IFRS 9. The ASBJ sought comments from interested parties on the definition of derivative instruments and classification and measurement of financial assets.

The Issue Paper not only followed IFRS 9 in general but also identified issues arising from specific accounting rules in Japan, such as the measurement of unquoted equity instruments at cost and recycling valuation differences in other comprehensive income to profit or loss upon the sale of the instrument.

Exposure Draft of the Accounting Standard for Fair Value Measurements and Disclosures

In July 2010, the ASBJ issued an Exposure Draft, *Accounting Standard for Measurement and Disclosure of Fair Value" (the ED).*

This is also an ongoing project that is part of the convergence project based on the Tokyo Agreement between the IASB and the ASBJ. The purpose of this ED was to set out the concept of fair value and provide guidance on fair value disclosure in the note of financial statements.

The ED basically contains similar guidance as IFRS 13, a summary of the ED is provided below:

- The ED defines fair value, in conformity with IFRS and U.S. GAAP, as the price that market participants would receive by selling assets or the price they would pay for transferring liabilities in an orderly transaction between them, and clarifies that fair values are exit prices.
- When fair value is measured, it is clarified that selection of a valuation technique should be based on the appropriateness for the transaction and whether sufficient data is available. Inputs used for fair value measurement are categorized into 3 levels and the order of preference is from Level 1 to Level 3.
- The ED clearly indicates points to consider in the calculation of fair value when it is determined that the volume and frequency of transactions for the asset or liability has decreased or when the transaction is not orderly.
- the ED proposes to enhance disclosure regarding fair value. Key disclosures in the footnotes that are proposed for assets and liabilities recorded at fair value on the balance sheet at every reporting date include the following:
  - The calculation method of fair value: valuation technique used for calculating fair value; inputs and information used to set those inputs; any changes in valuation techniques and the effect on fair value at the measurement date
  - Breakdown of fair value by fair value levels
  - Detailed information on Level 3 fair value in the notes to the financial statements

Derivatives and hedge accounting

Derivatives and hedge accounting

“Derivatives and hedge accounting” represents one of the most complex areas within both JP GAAP and IFRS. Although IFRS is often considered to be principles-based and short on detailed rules, the guidance provided in this area includes a relatively high degree of application guidelines. .

In the area of derivatives, there are differences in the definitions and the bifurcation criteria for embedded derivatives. In addition, IFRS sets out requirements whether day one gains and losses can be recognised at initial recognition. Under JP GAAP, there are no specific requirements on day one gains and losses.

Under IFRS, hedging relationships are classified into three types: fair value hedge, cash flow hedge, and hedges of a net investment in a foreign operation, and specifies the accounting model of each hedging relationship. JP GAAP states that the purpose of hedging is to manage risks of changes in fair value and cash flows. JP GAAP requires deferral hedge accounting for both hedges against risks of changes in fair value and cash flows in principle, and allows fair value hedge accounting as an exception. Therefore, hedge accounting model is fundamentally different.

In addition, JP GAAP allows more flexibility than IFRS in respect of hedge designation and the effectiveness test. In addition, JP GAAP includes guidance from the Audit Committee Reports by industry (bank, insurance etc.) which takes into account specific requirements of each industry and specify accounting and audit treatments on the application of the *Accounting Standards for Financial Instruments*.

Further details on the foregoing and other selected current differences are described in the following table.

Standard	Issue	IFRS	JP GAAP
IAS 39	Definition of a derivative	A derivative is a financial instrument with all three of the following characteristics: • Its value changes in response to the change in a basic index such as interest rates, provided in the case of a non-financial variable that the variable is not specific to a party to the contract; • It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and • It is settled at a future date (net settlement feature is not required). (IAS 39.9)	A derivative is a financial instrument with all three of the following characteristics: • It refers to a basic index such as interest rates and the contract has either notional value or a fixed or determinable settlement amount or both a notional and settlement amount. • It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and • It requires or permits net settlement and can be settled net easily by means that are not specified in the contract or the effect is substantially the same as net settlement. Because JP GAAP requires a net settlement feature, the scope of derivative is considered narrower than IFRS.
IAS 39	"Own use" exception	Contracts to purchase or sell a non-financial item that are settled net are treated as derivatives; however, they are treated as normal purchase/sales transactions if they qualify for the "own use" exception. Guidance on net settlement is provided (IAS 39.6) and use of the "own use" exception should not be applied to cases where there is a practice of settling similar contracts net in cash or another financial instrument or the entity has a purpose of generating short term profit. (IAS 39.5)	Contracts related to future purchase, future sale or usage requirements for which the physical delivery is apparent at inception and where the objective of such transaction is not for trading purposes, are scoped out of the Accounting Standard for Financial Instruments.
IAS 39	Fair value option for financial instruments with one or more embedded derivatives	An entity may designate only at initial recognition an entire financial instrument with one or more embedded derivatives as a financial asset or financial liability at fair value through profit or loss (designated under fair value option); unless the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited for a similar hybrid instrument. (IAS 39.11A)	There is no concept of the fair value option.

Standard	Issue	IFRS	JP GAAP
IAS 39	Types of Hedging relationships	Hedge relationships are classified into three types based on the purpose of the hedge: fair value hedge, cash flow hedge and net investment hedge in a foreign operation. • Fair value hedge A hedge of the exposure to changes in fair value of a recognised asset or liability or a firm commitment. Both the hedging instrument and the hedged item are recognised at fair value through profit or loss, and the carrying amount of the hedged item is adjusted. • Cash flow hedge A hedge of the exposure to variability in cash flows associated with a recognised asset or liability or a highly probable forecast transaction. The effective portion of the changes in fair value of the hedging instrument is recorded in other comprehensive income and when it is subsequently recycled to profit or loss depends on the hedged item. The ineffectiveness is recorded in profit or loss. • Net investment hedge in a foreign operation A hedge of foreign exchange risk arising from the translation of a foreign operation from its functional currency to the presentation currency. The accounting treatment is similar to cash flow hedges. (IAS 39.86, 89, 95, 102)	The objective of hedge accounting is to manage exposures to fluctuation in fair value and cash flows. In principle, a deferred hedge is applied, and a fair value hedge is allowed as an exception. • Deferred hedge Gain or loss on the hedging instrument is not recognised when occurred but presented in equity and reclassified to profit or loss when a gain or loss on the hedged item is recognised. • Fair value hedge Both the hedged item and the hedging instrument are measured at fair value and their gain or loss is recognised in profit or loss. The fair value hedge is permitted only for “other securities” (similar to available-for-sale category under IFRS) under existing rules. • Hedge in equity interests in a foreign subsidiary If the interest in a foreign subsidiary is designated as a hedged item, the gain or loss on the exchange difference on the hedging instrument may be accounted for in the cumulative translation adjustment account. In addition, the criteria set forth in the Accounting Standard for Financial Instruments should be met when applying hedge accounting. In addition, the assessment of hedge effectiveness may be omitted if the hedged item and the hedging instrument are denominated in the same currency.
IAS 39	Documentation of hedging relationships	At the inception of the hedge, formal designation and documentation of the hedging relationship, the entity’s risk management objective and the strategy for undertaking the hedge are required. Omission of such documentation is not permitted. (IAS 39.88)	If specific documentation of the relationship between an individual hedge transaction and the risk management policy is difficult because the entity undertakes many hedge transactions, it is permitted to omit individual documentation of the hedge transactions. However, the entity should have in place internal rules and internal control systems to account for such hedge transactions appropriately.

Standard	Issue	IFRS	JP GAAP
IAS 39	Hedging instruments – non-derivative financial instruments	A non-derivative financial asset or non-derivative financial liability may be designated as a hedging instrument only for a hedge of a foreign currency risk. (IAS 39.72)	An entity may designate receivables and payables denominated in foreign currencies and securities as hedging instruments for hedging the entity's exposure to foreign currency risk on forecast transactions, other securities and investments in foreign subsidiaries. In addition, an entity may designate margin sales or short-selling of securities as hedging instruments to hedge the fair value change of other securities held.
IAS 39	Hedging instruments – hedge designation for a portion of a time period	A hedging relationship may not be designated for only a portion of the time period during which a hedging instrument remains outstanding. (IAS 39.75)	There are no specific requirements.
IAS 39	Hedging instruments – exception to exclude the time value of an option and the interest element of a forward contract	Specific components of a hedging instrument may not be designated as a hedging instrument (needs to be designated in its entirety); however, an exception is permitted for the time value of an option contract and premium or discount of a forward contract (e.g. interest element etc.) may be excluded from hedged risks. For a hedge of a one-sided risk (a hedge of cash flow risk or fair value of a hedged item above or below a specified price), time value of an option contract should not be included as a hedged risk. A dynamic hedging strategy (e.g. delta neutral) that assesses both the intrinsic value and time value of an option contract can qualify for hedge accounting. (IAS 39.74, AG99BA, IG.F.1.9)	Similar to IFRS. However, no specific requirements on one-sided risks of an option or dynamic hedges.

Standard	Issue	IFRS	JP GAAP
IAS 39	Hedging instruments – hedging of more than one type of risk	A single hedging instrument may be designated as a hedge of more than one type of risk. (IAS 39.76)	There are no specific requirements.
IAS 39	Hedged item – held to maturity investment	For a held-to-maturity investment, an exposure to interest rate risk or early redemption risk may not be designated as a hedged risk. (IAS 39.79)	An exposure to interest rate risk (fair value risk and cash flow risk) in a held-to-maturity bond may be a hedged item if it qualifies for the criteria to apply the special treatment for interest rate swaps upon acquisition. Under the special treatment for interest rate swaps, the interest rate swap is not fair valued and the interest rate swap and the relevant asset or liability is combined and treated as a single item, and the net amount received or paid from the interest rate swap is added to, or deducted from, the interest on the relevant asset or liability.
IAS39	Hedged item – business combination	Foreign exchange risk of a firm commitment to acquire a business in a business combination can be designated as a hedged item (other risks cannot be hedged). (IAS 39.AG98)	There are no specific requirements.
IAS 39	Hedged item – designation of a specific risk component of a financial instrument	The risks associated with only a portion of the cash flows or fair value may be a hedged item (e.g. a portion of the interest rate exposure of a financial instrument such as a risk-free interest rate or benchmark interest rate). In addition, the cash flows of the hedged risk (a portion of the cash flows) may not be designated as a hedge item if it exceeds the total cash flows of the hedged item. (IAS 39.81, AG99C)	When applying the fair value hedge and the objective of the hedge is to address certain risk components (interest rate, foreign currency exchange, credit, etc.) of the hedged item, subsequent to the inception of the hedge transaction, an entity should record the portion of changes in fair value attributable to a hedged risk component in profit or loss and the remaining portion that is attributable to other risk components should be recorded in equity.

Standard	Issue	IFRS	JP GAAP
IAS 39	Hedged item – designation of a specific risk component of a non-financial instrument	If the hedged item is a non-financial asset or a non-financial liability, a specific risk, other than foreign currency risk, may not be designated as a hedged risk. All risks should be designated as a hedged item in its entirety. (IAS 39.82)	There are no specific requirements.
IAS 39	Hedge of the foreign currency risk of a firm commitment	If a hedged item is a firm commitment, the hedge relationship should be accounted for as a fair value hedge. It can also be accounted for as a cash flow hedge if the foreign currency risk in the firm commitment is designated as a hedged item. (IAS 39.87)	A firm commitment that is outstanding should be included in a forecast transaction and accounted for as a deferred hedge.
IAS 39	Effectiveness testing	IFRS requires a prospective test of effectiveness (whether the hedge is expected to be effective for future hedging periods) at the inception of the hedge, as well as a prospective test and retrospective test (whether hedge effectiveness was ensured during the past hedging period) to be undertaken on a qualitative and quantitative basis in subsequent periods. For the prospective test, a qualitative test only may be sufficient in the case where critical terms between the hedged item and hedging instrument are met. (IAS 39.88, AG105, AG108, IG.F.4.7)	An entity is required to forecast the hedge to be effective for future hedging periods at inception and also test effectiveness on an ongoing basis in subsequent periods (no explicit requirements on prospective testing in subsequent periods). However, in general, an entity may omit the effectiveness test when the critical terms and conditions are identical in the hedging instruments and hedged items which are recognised assets and liabilities or forecast transactions.

Standard	Issue	IFRS	JP GAAP
IAS 39	Determination of effectiveness	If the changes in the hedged item and hedging instrument are compared in assessing hedge effectiveness, evaluation based on a cumulative basis or separately by each reporting period is permitted. When the hedge is not expected to be highly effective and consistent with the originally documented risk management strategy at inception, the hedge accounting should be discontinued. (IAS 39.88, IG.F4.2)	Hedge effectiveness is determined by comparing the changes in fair value or cash flows of both the hedged item and the hedging instrument, in principle, during the period from the inception of the hedge to the date of the effectiveness test. As long as the result of the prospective test at the inception of the hedge is highly effective, an entity may continue applying the hedge accounting even when the changes do not show a high level of correlation if they are temporary and the fluctuation is narrow.
IAS 39	Accounting for ineffectiveness	The ineffective portion of the gain or loss on the hedging instrument should be recognised in profit or loss. (IAS 39.95)	When a hedge is determined as effective in its entirety and criteria for hedge accounting are met, the portion of the gain or loss on the hedging instrument that resulted from the ineffectiveness may also be deferred as a part of the hedge accounting.
IAS 39	Basis adjustment	If a forecast transaction involving a non-financial asset or a non-financial liability actually occurred and results in the recognition; or the forecast transaction becomes a firm commitment, the entity should adopt one of the following treatments: • Reclassify the associated changes on the hedging instrument recorded in other comprehensive income to profit or loss in the same period or periods during which the hedged item affects profit or loss. • Reclassify the associated changes on the hedging instrument recorded in other comprehensive income as an adjustment to the carrying amount (basis adjustment). (IAS 39.98)	A basis adjustment for an asset acquisition is not an option; it is a requirement. There are no specific requirements in cases where a forecast transaction results in a non-financial liability.

Standard	Issue	IFRS	JP GAAP
IAS 39	Discontinuation and termination of a hedge	When a hedge is no longer effective (e.g. the hedge no longer meets the hedge accounting criteria, extinguishment of the hedging instrument or hedged item, etc.), an entity should discontinue prospectively the hedge accounting from the last date on which compliance with hedge effectiveness was demonstrated. • Fair value hedge The measurement of the hedging instrument would be kept at fair value through profit or loss and the adjustment to the carrying amount of the hedged item for the changes in fair value would be terminated. The adjusted amount would be amortised if the hedged item is an interest bearing instrument; if not, it would be included in the carrying amount until the carrying amount is realised. • Cash flow hedge If the hedge accounting criteria requiring the hedge to be highly probable is not satisfied, hedge accounting will be discontinued prospectively and the amount recognised in other comprehensive income when the hedge was effective will remain separately in equity until the forecast transaction occurs. If the forecast transaction is no longer expected to occur, any related cumulative gain or loss on the hedging instrument should be reclassified from equity to profit or loss. (IAS 39.91, 92, 101, AG113)	When a hedge is no longer effective (e.g. the hedge no longer meets the hedge accounting criteria, extinguishment of the hedging instrument or hedged item, etc.), the gain or loss that was deferred on the hedging instrument while the hedge was effective will continue to be deferred until a gain or loss on the hedged item is recognised, and the subsequent changes on the hedging instrument will be recorded in profit or loss. If the hedged item is an interest-bearing financial instrument, the deferred gain or loss on the hedging instrument will be recognised in profit or loss up to maturity of the hedged item. If the hedged item expires or it is clear that the forecast transaction is no longer expected to occur, the deferred gain or loss on the hedging instrument will be recognised as a profit or loss in the current period.
IAS 39	Special accounting treatment provided for interest-rate swaps	Not permitted under IFRS. (IAS 39)	Provided that certain conditions are met, a special accounting treatment for interest rate swaps is allowed under which an entity may omit the assessment of hedge effectiveness and fair value measurement of the interest rate swap as the hedging instrument. See *Hedged item – held to maturity investment* on p.90 for additional explanation on the special accounting treatment for interest rate swaps.

Standard	Issue	IFRS	JP GAAP
IAS 39	Allocation of the exchange differences arising from a foreign exchange forward contract among accounting periods	Not permitted under IFRS. (IAS 39)	Receivables and payables denominated in foreign currencies hedged with foreign exchange forward contracts to fix the future cash flows can be translated by using the forward rate. Under this method, an entity can omit evaluation of hedge effectiveness and fair value measurement of the hedging instrument. In addition, the exchange differences arising from the change in the spot rates between the transaction date and the date of the forward contract will be allocated to the period in which the forward contract was made. The remaining exchange differences arising from the difference between the spot rate and the forward rate at the date of the forward contract will be allocated to the period of the settlement.

JP GAAP References:

- Accounting Standard for Financial Instruments
- Practical Guidelines on Accounting Standards for Financial Instruments
- Accounting Standard for Foreign Currency Transactions
- Practical Guidelines on Accounting Standards for Foreign Currency Transactions

Recent developments

Recent proposals—IFRS

IASB review draft, *Hedge accounting*

See *Recent developments* section at the end of the chapter *Assets—financial assets* for details.

Recent proposals—JP GAAP

Issue Paper on improvements of Accounting Standard for Financial Instruments

See *Recent developments* section at the end of the chapter *Assets—financial assets* for details.

Liabilities—taxes

Liabilities—taxes

Under IFRS, IAS 12, *Income Taxes*, applies to the accounting for current tax liabilities and current tax assets, and deferred tax liabilities and deferred tax assets. The assets-liabilities method is applied to the accounting for deferred tax liabilities and deferred tax assets. Deferred tax is recognised for temporary differences that are differences between the carrying amount of an asset or liability and its tax base.

The current tax expense for a period is determined based on the taxable and deductible amounts that are filed in the tax return for the current year. In respect of the current tax expense for the current and prior periods, an entity recognises a liability on the balance sheet to the extent unpaid and if current tax has been overpaid, it recognises an asset. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be paid to (or recovered from) tax authorities, using the tax rates and tax laws that have been enacted or substantially enacted by the end of the reporting period. Under IFRS, deferred tax is recognised for all temporary differences between the carrying amount of an asset or liability and its tax base, except for some exceptions of temporary differences (e.g. goodwill arising on a business combination). A deferred tax asset for deductible temporary differences is recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Under JP GAAP, *Guidance on Accounting, Presentation and Audit Treatment related to Taxes* and the *Accounting Standard for Tax Effect Accounting* applies to the accounting for current tax and deferred tax respectively. The accounting for current tax and deferred tax under JP GAAP is not fundamentally different from that under IFRS. However, with respect to the accounting for deferred tax, JP GAAP provides detailed guidance on assessing the recoverability of deferred tax assets. Such guidance is provided in the *Practical Guidelines on Accounting Standards for Tax Effect Accounting in Non-Consolidated Financial Statements*, the *Practical Guidelines on Accounting Standards for Tax Effect Accounting in Consolidated Financial Statements* and *Audit Treatment for Judgment of Recoverability of Deferred Assets,* whereby an entity is classified into a certain category by its profitability and the extent of the recoverability of deferred tax assets and the length of estimated future periods to assess the recoverability of deferred tax assets are determined by such category. On the other hand, IFRS requires substantial judgement as there is no specific guidance.

Further details on the foregoing and other selected current differences are described in the following table.

Standard	Issue	IFRS	JP GAAP
IAS 12	Recognition of deferred tax liability	A deferred tax liability should be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). (IAS 12.15)	Deferred tax liabilities should be recognised for all temporary differences unless the temporary differences arise from the initial recognition of goodwill or the amount of income taxes that are not expected to be paid in future accounting periods.
IAS 12	Recognition of deferred tax asset	A deferred tax asset should be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). (Refer to row below on "Tax effects on goodwill") (IAS 12.24)	Deferred tax assets should be recognised for all temporary differences unless the temporary differences arise from the initial recognition of goodwill or the amount of income taxes that are not expected to be recoverable in future accounting periods.
IAS 12	Tax effects on goodwill	If the carrying amount of goodwill is less than its tax base, the difference between the carrying amount and its tax base gives rise to a deferred tax asset to the extent that it is probable that taxable profit will be available against which the deductible temporary difference could be utilised. There is a debate whether goodwill for Japanese tax purposes ("asset adjustment account") is regarded as the tax base of goodwill under IFRS 3, Business combinations. (IAS 12.32A)	A deferred tax asset or deferred tax liability is recognised on "goodwill for Japanese tax purposes" in a non-qualified business combination (i.e. "asset adjustment account" or "differential liability adjustment account"). This is because temporary differences exist. In this case, upon acquisition, the difference between the consideration and net assets (inclusive of the deferred tax assets and deferred tax liabilities recognised on "goodwill for Japanese tax purposes") is accounted for as goodwill for accounting purposes.

Standard	Issue	IFRS	JP GAAP
IAS 12	Recoverability of deferred tax assets	There is no detailed guidance like JP GAAP on the recoverability of deferred tax assets. An entity recognises deferred tax assets for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. (IAS 12.27-31)	Based on guidance from *Audit Treatment for Judgment of Recoverability of Deferred Assets*, entities are classified into five categories mainly based on past performance to determine the recoverability of the deferred tax assets. Specifically, an entity in the third category would have variable performance and insufficient taxable income against which deductible temporary differences can be utilised. Such entities are required to estimate taxable income generally for the next five years. In the fourth category, entities have significant tax losses and such entities are only able to recognise deferred tax assets which can be recovered based on an estimate of the taxable income for the next year (one year).
IAS 12	Tax effects of eliminating unrealised profit from intercompany transactions	Under the assets-liabilities method, the tax rate applied to temporary differences of unrealised gains or losses is the tax rate that is expected to apply in the period when the temporary differences reverse in the standalone financial statements of a buyer. In addition, an entity should remeasure deferred taxes at the amended tax rate when there is a subsequent change in the tax rate. There are no requirements that deferred tax assets are limited to the seller's taxable income for the year when the assets are sold to the buyer, and similar to other deferred tax assets, an entity is required to assess at the end of every period whether it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. (IAS 12.47)	The deferral method is applied on the unrealised profit from intercompany transactions. Under the deferral method, the tax rate applied to temporary differences of unrealised gains or losses is the statutory effective tax rate applied to the seller's taxable income in the year of sale. Therefore, a subsequent change in the tax rate does not affect the tax effects. There is a requirement that deferred tax assets are limited to the seller's taxable income in the year of sale. However, an entity is not required to assess the recoverability of the deferred tax assets for the unrealised gains that are eliminated as part of consolidation.
IAS 12	The treatment of the value added component of enterprise tax that is included in the pro forma standard taxation.	The value added component is considered by some as an income tax and presented within income tax expense in the statement of comprehensive income. It is included in the calculation of the effective tax rate used for deferred tax assets and liabilities since the value added component has characteristics of an income tax. (IAS 12.47)	Given the fact that JP GAAP views the value added component as not having characteristics of an income tax, it is accounted for as a sales administrative expense (or cost of sales). Furthermore, the value added component of enterprise tax is the tax calculated based on amounts of revenue and some items other than income. It is not included within the scope of income tax accounting. Therefore it is not included in the calculation of the effective tax rate used for deferred tax assets and liabilities.

Standard	Issue	IFRS	JP GAAP
IAS 12	Timing of reflecting a change in tax rates	In some jurisdictions, announcements of tax rates (and tax laws) by the government have the same effect as a substantive enactment and tax assets and liabilities are measured using the revised tax rate. With regard to Japanese tax laws, tax rates (and tax laws) are substantively enacted when the Diet passes the revised legislation. (IAS 12.48)	If an amended tax law has been promulgated as of the closing date and a new tax rate for the future is finalised, the new tax rate is to be used. Therefore, if an amended tax law is promulgated after the closing date, the tax rate to be used is the tax rate specified by the tax laws effective as of the closing date and the effect of the change in tax rate for the subsequent periods is disclosed separately in the notes.
IAS 12	Deferred taxes of investment properties measured at fair value	Deferred tax assets or liabilities arising from investment property that is measured using the fair value model are measured based on the rebuttable presumption that its carrying amount will be recovered entirely through sale. (IAS 12.51C)	Under JP GAAP, there are no special requirements as there are no differences in tax rates applied to the profits generated from using and selling an asset in Japan.

JP GAAP References:

- Accounting Standards for Tax Effect Accounting
- Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures
- Audit Treatment for Judgment of Recoverability of Deferred Assets
- Practical Guidelines on Accounting Standards for Tax Effect Accounting in Consolidated Financial Statements
- Practical Guidelines on Accounting Standards for Tax Effect Accounting in Non-Consolidated Financial Statements
- Practical Solution on Presentation of Pro Forma Standard Taxation of Corporate Enterprise Taxes on the Income Statement

Recent developments

Recent proposal—IFRS

In March 2009, the IASB released an exposure draft that proposes changes to its income tax accounting standard. After reviewing comments received on the exposure draft, and giving further consideration to income tax guidance as a whole, the IASB indicated that a fundamental review of the scope of the current project on accounting for income taxes should be considered and abandoned the exposure draft. Subsequently, the IASB took on a limited scope project to amend IAS 12's certain specific issues such as uncertain tax positions, valuation allowances, and allocation of taxes within a group filing a consolidated tax return. This project resulted in the 2010 amendment to IAS 12, Income Taxes—deferred accounting for investment properties. Furthermore, the IASB does not intend to consider uncertain tax positions until after the revisions to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, are finalised (see *Recent/proposed guidance* section of the chapter *Liabilities—Other*).

Liabilities—other

Liabilities—other

IAS 37, *Provision, Contingent Liabilities and Contingent Assets*, prescribes the accounting for provisions. The *Conceptual Framework* defines a liability as a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. IAS 37 defines a provision as a liability of uncertain timing or amount. IFRS requires the probable outflow of resources embodying economic benefits. IAS 37 interprets "'probable'" as "more likely than not". The best estimate of a liability is measured by "expected value" in which the obligation is estimated by weighting all possible outcomes by their associated probabilities where the provision being measured involves a large population of items. The midpoint of the range is used when several outcomes are equally likely, whereas the individual most likely outcome is used where a single obligation is being measured.

With regard to restructuring provisions, IAS 37 provides detailed guidance. The IFRS guidance on termination benefits in relation to restructuring provisions was amended in June 2011, and it is applied for annual periods beginning on or after 1 January 2013. Refer to the chapter *Expense recognition – employee benefit*.

Under JP GAAP, a provision should be recognised when an expense or loss will probably be incurred as a result of past events, and a reliable estimate can be reasonably made. However there is no common practice or specific guidance. The recognition criteria for a provision under JP GAAP are similar to that of IFRS, although the 'present obligation' criterion is not required under JP GAAP.

In January 2010, the IASB issued an exposure draft titled *Measurement of Liabilities* in IAS 37. Then in February 2010, the IASB published a working draft of a proposed new IFRS titled *Liabilities*. The working draft incorporated the measurement changes discussed within the January 2010 exposure draft as well as the recognition and disclosure changes from a 2005 exposure draft (and related subsequent deliberations). Redeliberations on the new exposure draft have been postponed as part of the agenda consultation project. Refer to the *Recent developments* section of this chapter for additional discussion.

Further details on the foregoing and other selected current differences are described in the following table.

Standard	Issue	IFRS	JP GAAP
IAS 16 IAS 37	Discount rate used to calculate an asset retirement obligation (ARO)	Refer to the issue *Discount rate used to calculate an asset retirement obligation (ARO)* in the chapter *Assets – nonfinancial assets*. (IAS 16.16, 18) (IAS 37.47)	Refer to the issue *Discount rate used to calculate an asset retirement obligation (ARO)* in the chapter *Assets – nonfinancial assets*.
IAS 16 IAS 37 IFRIC 1	Frequency of ARO assessment	Refer to the issue *Frequency of ARO assessment* in the chapter *Assets – nonfinancial assets*. (IAS 16.16, 18) (IAS 37.59) (IFRIC 1.3, 8)	Refer to the issue *Frequency of ARO assessment* in the chapter *Assets – nonfinancial assets*
IAS 16 IAS 37 IFRIC 1	ARO and rental deposit related to the asset	Refer to the issue *ARO and rental deposit related to the asset* in the chapter *Assets – nonfinancial assets*.	Refer to the issue *ARO and rental deposit related to the asset* in the chapter *Assets – nonfinancial assets*.
IAS 37	Requirements for recognition of provisions	A provision should be recognised when: (1) An entity has a present obligation as a result of a past event; (2) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (3) A reliable estimate can be made of the amount of the obligation. "Probable" is interpreted as "more likely than not" in IAS 37. (IAS 37.14, 23)	A provision should be recognised when an expense or loss will probably be incurred as a result of a past event and a reliable estimate can be reasonably made. However, no common practice or definition exists for the likelihood of occurrence.
IAS 37	Present obligation and constructive obligation	A present obligation includes not only a legal obligation but also a constructive obligation. A constructive obligation derives from a valid expectation of other parties, by an established pattern of past practice, published policies or a sufficiently specific current statement, that an entity's commitment will be fulfilled. (IAS 37.10, 14)	There are no specific requirements.

Standard	Issue	IFRS	JP GAAP
IAS 37	When there is no present obligation	An entity does not recognise a provision when there is no present obligation. (IAS 37.15, 16)	An entity recognises a provision when requirements for the recognition criteria are satisfied even though there is no present obligation.
IAS 37	Best estimate	Where the provision being measured involves a large population of items, the obligation is estimated by calculating the "expected value", which is weighting all possible outcomes by their associated probabilities. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range is used. Where a single obligation is being measured, the individual most likely outcome may be the best estimate of the liability. (IAS 37.39, 40)	There are no specific requirements.
IAS 37	Necessity for discounting provisions such as warranties	Provisions are discounted, where the effect of the time value of money is material. (IAS 37.45,)	There are no specific requirements. Liabilities are generally not discounted; however discounting is required for asset retirement obligations.
IAS 37	Discount rate	The discount rate should be a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The discount rate should not reflect risks for which future cash flow estimates have been adjusted. It is generally interpreted that the risk in the context of the provision does not include an entity's own credit risk. (IAS 37.47)	A discount rate for liabilities, except for ARO, is not specified under JP GAAP.

Standard	Issue	IFRS	JP GAAP
IAS 37	Gains from the expected disposal of assets	Gains from the expected disposal of assets should not be taken into account in measuring a provision. (IAS 37.51)	There are no specific requirements.
IAS 37	Reimbursements (such as through insurance contracts)	Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognised as a separate asset when, and only when, it is virtually certain that reimbursement will be received. The expense relating to a provision may be presented net of the amount recognised for a reimbursement in profit or loss. (IAS 37.53, 54)	There are no specific requirements. However the asset should be recognised when it is virtually certain that the reimbursement will be received.
IAS 37	Onerous contracts	If an entity has a contract that is onerous, the present obligation under the contract should be recognised as a provision. (IAS 37.66-69)	There are no specific requirements except for *the Accounting Standard for Construction Contracts* (ASBJ Statement No. 15). In practice, a loss provision might be recognised in some cases.
IAS 37	Recognition of a restructuring provision	When an entity has a detailed formal plan and has raised a valid expectation in those affected that it will carry out the restructuring, a provision is recognised. (IAS 37.71, 72)	There are no specific requirements for a restructuring provision. A provision is recognised in accordance with the general requirements for a provision. In practice a restructuring provision might be recognised.
IAS 37	Costs of restructuring	A restructuring provision should include only the direct expenditures arising from the restructuring, which are those that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity. Identifiable future operating losses up to the date of a restructuring are not included in a provision unless they relate to onerous contracts. Gains on the expected disposal of assets are not taken into account in measuring a restructuring provision, even if the sale of assets is envisaged as part of the restructuring. (IAS 37.80-83)	There are no specific requirements for a restructuring provision. In practice, various expenditures arising from a restructuring might be included in a provision. Gains on the expected disposal of assets might be offset with losses in measuring a provision.
IAS 37	Accounting for provision for sales returns	When a retail store has a policy of refunding purchases by dissatisfied customers even though it is under no legal obligation to do so, its policy of making refunds is generally known and this gives rise to a constructive obligation. A provision is recognised for the best estimate of the costs of refunds. (IAS 37 C Example 4)	There are no specific requirements except that a provision for sales returns is exemplified in *the Company Accounting Ordinance* and *the Business Accounting Principles*. It is recognised in accordance with the general requirements for a provision. In practice the amount of profit margin corresponding to sales returns after the period end would be recognised as a provision.

Standard	Issue	IFRS	JP GAAP
IAS 37	Accounting for a guarantee contract	Refer to the issues *Measurement of financial guarantee contracts at initial recognition* and *Measurement of financial guarantee contracts after initial recognition* in the chapter *Financial liabilities and equity*. (IAS 37 C Example 9)	Refer to the issues *Measurement of financial guarantee contracts at initial recognition* and *Measurement of financial guarantee contracts after initial recognition* in the chapter *Financial liabilities and equity*.
IAS 37	Timing of recognition of a provision for a court case and disclosure requirements as a contingent liability	When there is no obligation as a result of past events at the end of the reporting period, a provision for a court case should not be recognised. An entity discloses a contingent liability unless the possibility of an outflow of resources embodying economic benefits is remote. A provision is recognised when it subsequently becomes clear that there is a present obligation. (IAS 37 C Example 10)	There are no specific requirements. A provision is recognised in accordance with the general requirements for a provision.

JP GAAP References:

- Accounting Standard for Asset Retirement Obligations
- Guidance on Accounting Standard for Asset Retirement Obligations
- Business Accounting Principles
- Accounting Standard for Construction Contracts
- Company Accounting Ordinance
- Practical Guidelines on Accounting Standards for Financial Instruments

Recent developments

Recent proposals—IFRS

IASB Exposure Draft, *Measurement of Liabilities in IAS 37*, and Working Draft, IFRS X, *Liabilities*

In January 2010, the IASB issued an exposure draft titled *Measurement of Liabilities in IAS 37*. Then in February 2010, the IASB published a working draft of a proposed new IFRS titled *Liabilities*. The working draft incorporated the measurement changes discussed within the January 2010 exposure draft as well as recognition and disclosure changes from a 2005 exposure draft (and related subsequent deliberations). The working draft proposals would affect the recognition and/or measurement of most provisions and would be relevant to almost every entity reporting under IFRS.

After receiving more than 200 comment letters on its proposals, the IASB began considering the feedback in September 2010. Soon after beginning redeliberations, the IASB decided in November 2010 to postpone further discussion and analysis on the project. The delay was attributed to the ongoing joint priority projects and the IASB's desire to give proper consideration to the matters raised by respondents. The IASB tentatively decided that if it reaches decisions on all aspects of the proposals, it will re-expose any proposed revised IFRS in its entirety for further comment. The timing of any new guidance in this area is unclear, since the project has been put on hold until the conclusion of the IASB's ongoing deliberations about its future work plan as part of the agenda consultation project.

Financial liabilities and equity

Financial liabilities and equity

As discussed in the *Recent developments* section later on in this chapter, the FASB and the IASB are working jointly on the financial instruments with characteristics of equity project. However, the boards are currently placing higher priority on other projects and the future plan for this project will be determined based on the prioritisation of other standard setting projects and the agenda for the next 3 years. In addition, the FASB and the IASB are working on a joint project on financial instruments. The IASB has been conducting its work in three phases (Classification and measurement, impairment and hedging), the first of which resulted in the November 2009 issuance of IFRS 9, *Financial Instruments*, on requirements on financial assets and in 2010 added classification and measurement requirements for financial liabilities. The details are discussed in the chapter *Assets—financial assets*. While in Japan, the ASBJ issued a *Discussion Paper on Revision of the Accounting Standard for Financial Instruments (Classification and Measurement for Financial Liabilities)* in February 2011.

IFRS requires the classification of financial instruments based on the definitions of financial liabilities, financial assets and equity. Financial liabilities are classified as financial liabilities measured at fair value through profit or loss (liabilities held for trading and designated under the fair value option) or those measured at amortised cost. On the other hand, JP GAAP does not have specific requirements which provide clear differences between equity and financial liabilities but classifies them based on their legal form. In addition, financial liabilities are measured at the amount borrowed or at amortised cost. Therefore, differences exist not only in their classification but also in measurement after initial recognition. There are also differences between IFRS and JP GAAP in the derecognition of financial liabilities for debt assumptions, accounting for transactions exchanging financial liabilities with substantially different terms, substantial modifications of financial liabilities and the presentation of offsetting financial instruments.

In addition, under IFRS 9, similar to IAS 39, financial liabilities are classified into financial liabilities measured at fair value through profit or loss (liabilities held for trading or designated under the fair value option) or those measured at amortised cost. If a financial liability is designated under the fair value option, fair value changes that are attributable to changes in an entity's own credit risk are recorded in other comprehensive income, unless it creates an accounting mismatch. The IASB proposed in the Exposure Draft for the limited amendments to IFRS 9 that entities still applying IAS 39 should be permitted to early apply their own credit provisions only when it is finalized.

Further details on the foregoing and other selected current differences are described in the following table. In addition, differences on the changes from current requirements to IFRS 9 are also included.

Standard	Issue	IFRS	JP GAAP
IAS 32	Classification of financial liabilities and equity	To determine whether a financial instrument is an equity instrument rather than a financial liability, the instrument is an equity instrument if, and only if, both conditions below are met; otherwise it is a financial liability: • The instrument includes no contractual obligation: – To deliver cash or another financial asset, or – To exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable • The instrument will or may be settled in the issuer's own equity instrument and is – A non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments – A derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments. In addition, a financial liability is treated as an equity instrument if it meets the conditions described in IAS 32.16A-16D. Further, a contractual obligation to deliver a fixed number of its equity instruments for a fixed amount of cash or another financial asset is also classified as an equity instrument. (IAS 32.11,16)	Financial liabilities are defined as monetary payables and net obligations arising from derivative transactions. In principle, they are classified based on their legal form. The amount of the legal capital should be presented in the share capital category.

Standard	Issue	IFRS	JP GAAP
IAS 32	Exception for puttable financial instruments	A puttable financial instrument (a financial instrument that includes a contractual obligation for the issuer to repurchase or redeem that instrument) is classified as an equity instrument if it meets certain conditions. Otherwise, it is treated as a financial liability. Contractual obligations that entitle the holder to a pro rata share of the entity's net assets in the event of the entity's liquidation is classified as an equity instrument if it meets certain conditions. Otherwise, it is treated as a financial liability. (IAS32.16A – 16D)	There are no specific requirements. In principle, classification is based on the legal form of the instruments.
IAS 39	Classification of financial liabilities	Financial liabilities are classified as financial liabilities measured at fair value through profit or loss (held for trading and designated using the fair value option) or those measured at amortised cost. The fair value option is to allow, only at initial recognition, a one-time election to designate a financial instrument to be measured at fair value through profit or loss when: • It eliminates or significantly reduces an accounting mismatch, • A group of financial liabilities and/or financial assets is managed and evaluated on a fair value basis in accordance with a documented risk management policy, or • One or more embedded derivatives are contained in a contract and an entity designates the entire contract as at fair value through profit or loss (IAS39.9, 11A)	Monetary payables such as notes payable and accounts payable should be measured and recorded at the face amounts outstanding. Bonds should be measured at amortised cost if they are issued at amounts which are higher or lower than their face amounts. There is no concept of the fair value option.
IAS 39	Initial recognition of a financial liability	An entity should recognise a financial liability when, and only when, it becomes a party to the contractual provision of the instrument. (IAS 39.14)	Borrowings are recognised on the date when the funds are borrowed and extinguished on the date of repayment.
IAS 39	Derecognition of a financial liability	A financial liability is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expires. These criteria can be satisfied with the discharge or legal release from primary responsibility for the liability. In general, an in-substance defeasance does not meet the derecognition criteria because the debtor continues to assume its legal obligation to the liability. (IAS 39.39, AG57, AG59)	The derecognition criteria for a financial liability are the same as under IFRS. A debt assumption is a type of in-substance defeasance and does not meet the criteria for an extinguishment of a financial liability. However, an extinguishment of a debt assumption is permitted when certain conditions are met as a transitional measure until a further pronouncement is issued.

Standard	Issue	IFRS	JP GAAP
IAS 39	Accounting for an exchange of financial liabilities or a substantial modification of the terms of a financial liability	An exchange between an existing borrower and a lender of debt instruments with substantially different terms, or a substantial modification of the terms of an existing financial liability should be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of the financial liabilities should be recognised in profit or loss. IFRS provides a quantitative threshold as a guidance to determine whether the terms are substantially different: if the difference between the present value of the cash flows under the new terms discounted using the original effective interest rate and the current carrying amount is at least 10%. (IAS 39.40, 41, AG62)	There are no specific requirements.
IAS 39	Transaction costs for an exchange of financial liabilities or substantial modification of the terms of a financial liability	The costs directly related to the modification mentioned above are recognised in profit or loss if the modification is accounted for as an extinguishment. When the modification is accounted for as a modification (i.e. not as an extinguishment), the costs adjust the carrying amount of the liability and are included in the effective interest rate. (IAS 39.40, 41, AG62)	There are no specific requirements.
IAS 39	Accounting for a repurchase of a part of a financial liability	If an entity repurchases a part of a financial liability, the entity should allocate the previous carrying amount of the financial liability proportionately based on the relative fair value of the derecognised part and the part that continues to be recognised. (IAS 39.42)	There are no specific requirements.
IFRIC19	Extinguishment of a financial liability by issuing own equity shares	When an entity issues its own equity instruments to extinguish a financial liability, the difference between the carrying amount of the financial liability and the consideration paid should be recognised in profit or loss and disclosed as a separate line in profit or loss or in the notes. The consideration is typically the fair value of the equity instruments issued. If the fair value of the equity instrument cannot be reliably measured, then the equity instrument should be measured to reflect the fair value of the financial liability extinguished (this is not applicable to financial liabilities with a demand feature (IAS 39.49)). (IFRIC 19)	For debt equity swap transactions, the equity instruments issued may be measured at the carrying amount of the financial liability extinguished (i.e. the face value approach), as well as at fair value. This approach is similar to IFRIC 19.

Standard	Issue	IFRS	JP GAAP
IAS 39	Measurement of financial guarantee contracts at initial recognition	Financial guarantee contracts are measured at fair value at initial recognition. Such fair value is assumed to be equal to the guarantee premium received. However, if an issuer of financial guarantee contracts has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, the issuer may elect to account for it either as a financial instrument or as an insurance contract. The issuer may make that election contract by contract, but the election for each contract is irrevocable. (IAS 39.2(e), AG4(a))	Financial guarantee contracts are not measured at fair value, unless they are related to a derecognition of a financial asset or a financial liability (which includes the financial guarantee contract) based on the financial component approach.
IAS 39 IAS 37	Measurement of financial guarantee contracts after initial recognition	Financial guarantee contracts are measured at fair value if they are designated under the fair value option or they meet the definition of a derivative. Except for the above (fair value through profit or loss) or when financial contracts are accounted for as insurance contracts, an issuer of such a contract should measure it at the higher of: (i) the amount determined in accordance with IAS 37; and (ii) the amount initially recognised less the cumulative amortisation recognised. The amount determined in accordance with IAS 37 is based on the best estimate of the expenditure required to settle the financial guarantee contract at the end of the reporting period. (IAS 39.2, 47, AG 4(a), IAS 37.36, IAS 37C Example 9)	An allowance should be recorded when it is probable that a loss will occur and the amount of loss can be reasonably estimated. Guarantee premiums would be accounted for on an accrual basis.
IAS 39 IAS 37	Measurement of loan commitments at initial recognition	At initial recognition, loan commitments are measured at fair value if they are designated under the fair value option, meet the definition of a derivative, or the loan is provided at a below-market interest rate. Other than the above, the loan commitments would be measured based on the best estimate of the expenditure required to settle the commitments at the end of the reporting period in accordance with IAS 37. (IAS 39.4, IAS 37.36)	Loan commitments are recorded off-balance sheet. As to agreements for overdrafts (including contracts of similar nature) and loan commitments, financial institutions and the lenders should disclose the facts and the limit or committed amounts less outstanding balance of executed loans to the debtor.
IAS 39 IAS 37	Measurement of loan commitments after initial recognition	Subsequent to initial recognition, loan commitments are measured at fair value through profit or loss if they are designated under the fair value option or they meet the definition of a derivative. When the loan is provided at a below-market interest rate, an issuer of such a contract should measure it at the higher of: (i) the amount determined in accordance with IAS 37; and (ii) the amount initially recognised less cumulative amortisation recognised. Other than the above, the loan commitments would be measured based on the best estimate of the expenditure required to settle the commitments at the end of the reporting period in accordance with IAS 37. (IAS 39.47, IAS 37.36)	See *Measurement of loan commitments at initial recognition* above.

Standard	Issue	IFRS	JP GAAP
IAS 39	Fair value of a financial liability with a demand feature	The fair value of a financial liability with a demand feature is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid. (IAS 39.49)	There are no specific requirements. However, liabilities are required to be recorded at the face amount of the entity's obligation.
IAS 32	Presentation of interest, dividends, losses and gains – equity transaction	Transaction costs of an equity transaction are accounted for as a deduction from equity net of any related income tax benefit. Income taxes related to distributions to holders of an equity instrument and its transaction costs should be accounted for in accordance with IAS 12, following the amendment to IAS 32 in the Annual Improvements to IFRS 2009 – 2011 cycle which is applied retrospectively for annual periods beginning on or after January 1, 2013. (IAS 32.35, 37)	Ancillary costs of an equity transaction are in principle, accounted for as expenses (non-operating expenses). However, the costs may be deferred if they are incurred on financing activities for the purposes of business expansion, and be amortised over the period during which the expenditure is effective, up to 3 years.
IAS 32	Presentation of interest, dividends, losses and gains – compound instruments with equity components	Issuance costs of a compound financial instrument are allocated to the liability and equity components of the instrument in proportion to the allocation of the proceeds. (IAS 32.38)	There are no specific requirements.
IAS 32	Presentation of off-setting financial assets and financial liabilities	A financial asset and a financial liability should be offset and presented as a net amount when, and only when, an entity currently has a legally enforceable right to offset and intends either to settle on a net basis or to settle the asset and the liability simultaneously. Generally, a master netting agreement may not be presented net because there is no legally enforceable right to offset other than on default. (IAS 32.42-50)	Net presentation of financial assets and financial liabilities is permitted if the following criteria are met: (1) They are monetary receivables and payables to the same counter party (2) The entity has a legally enforceable right and the ability to offset. (3) The entity intends to settle on a net basis. In addition, net presentation of a master netting agreement is permitted even when the entity does not intend to settle on a net basis other than on default.
IAS 39 IFRS 9	Bifurcation criteria of embedded derivatives	An embedded derivative included in a hybrid instrument should be separated and measured at fair value separately from the host contract if, and only if: • The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host; • A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and • The hybrid instrument is not measured at fair value with changes in fair value recognised in profit or loss. In addition, IFRS 9 requires the same accounting treatment as under IAS39. (IAS 39.11, 11A, 12, 13)(IFRS 9.4.3.3-4.3.6)	An embedded derivative included in a compound instrument should be bifurcated and measured at fair value separately from the host contract provided that all of the following conditions are met: (1) The risks related to the embedded derivative could affect the host financial asset and/ or host financial liability; (2) A separate instrument with the same terms as the embedded derivative has characteristics of a derivative; and (3) The compound instrument is not measured at fair value with changes in fair value recognised in profit or loss. However, even when (1) and (3) are not satisfied, an embedded derivative may be separated from the host contract and accounted for as a derivative if it is managed separately for management purposes.

Standard	Issue	IFRS	JP GAAP
IFRS 9	Classification of financial liabilities	Similar to IAS 39, financial liabilities are classified as financial liabilities measured at fair value through profit or loss (liabilities held for trading and designated under the fair value option) or financial liabilities measured at amortised cost. (IFRS 9.4.2.1, 4.2.2, 5.7.7)	Monetary payables such as notes and accounts payable should be measured and recorded at the face amounts outstanding. Bonds should be measured at amortised cost if they are issued at an amount higher or lower than their face value.
IFRS 9	Fair value option	Similar to IAS 39, designation under the fair value options is permitted if: • It eliminates or significantly reduces an accounting mismatch; • A group of financial liabilities and/or financial assets is managed and evaluated on a fair value basis in accordance with a documented risk management policy, or • One or more embedded derivatives are contained in a hybrid instrument and an entity designates the entire instrument as at fair value through profit or loss. When a financial liability is designated as the fair value options, changes in fair value attributable to changes in the credit risk should be presented in other comprehensive income, unless this treatment would create or enlarge an accounting mismatch-- in which case, all gains or losses should be presented in profit or loss. (IFRS 9.4.2.2, 4.3.5, 5.7.7, 5.7.8)	There is no concept of the fair value option.

JP GAAP References:

- Accounting Standard for Financial Instruments
- Practical Guidelines on Accounting Standards for Financial Instruments

Recent developments

Recent proposals—IFRS

Joint IASB/FASB project on Financial Instruments with Characteristics of Equity

The FASB and the IASB are working jointly to develop a comprehensive standard that will simplify and improve financial reporting requirements for financial instruments with characteristics of equity. In November 2007 and February 2008, the FASB and the IASB, respectively, issued their Preliminary Views, *Financial Instruments with Characteristics of Equity*, as a first major step toward convergence. However, the boards acknowledged that they do not have the capacity currently to devote the time necessary to deliberate the project issues. Consequently, the boards decided not to issue an exposure draft in the near term as originally planned.

In July 2011, the IASB launched an agenda consultation to seek input from stakeholders on the strategic direction of the IASB's future work plan which includes this project. After a number of public debates, extensive and focused discussion with investors, consideration of over 240 comment letters and online discussion forums across more than 80 countries, the IASB released a Feedback Statement in December 2012. The Feedback Statement summarises the responses received across key themes and outlines three initiatives by the IASB to address the issues highlighted in the responses. The three initiatives consist of 1) Implementation and Maintenance (including Post-implementation Reviews), 2) The Conceptual Framework and 3) Major IFRS Projects. The IASB identified nine priority projects that it will explore over the next three years and "Financial Instruments with the Characteristics of Equity" is included in those projects. The IASB intends to investing significant effort to define the problem and establish a path toward achieving an adequate solution.

IFRS 9, *Financial Instruments*

See *Joint IASB/FASB project on Financial Instruments* in the *Recent Developments* section of the chapter *Assets—financial assets* for the details.

Recent proposals－JP GAAP

While as part of the convergence project with IFRS, an Issue Paper on Improvements to the Accounting Standard for Financial Instruments (Classification and Measurement of Financial Liabilities) was released in February 2011, deliberations on this issue are currently on hold. The following is a summary of the issue paper.

Issue Paper on improvements to the Accounting Standard for Financial Instruments (Classification and Measurement of Financial Liabilities)

The issue paper relates to a comprehensive review of the ASBJ Statement No. 10, Accounting for Financial Instruments which is part of the convergence project based on the Tokyo Agreement between the IASB and the ASBJ. The ASBJ started a review based on IFRS9 in light of convergence with IFRS on financial liabilities as well as financial assets and sought comments from the interested parties.

The issue paper proposes to measure financial liabilities at fair value at initial recognition, and subsequently measure them at amortised cost in principle, and also to permit a fair value option. Those proposals are in line with guidance under IFRS9. On the other hand, under IFRS9, when the fair value option is applied to a financial liability and the portion of the changes in fair value of the financial liability that is attributable to the changes in the credit risk will be presented in other comprehensive income. Recycling of the amount recognised in accumulated other comprehensive income when the financial liability is extinguished before its maturity is prohibited. This prohibition of reclying is treated as an issue to be considered.

Consolidation

Consolidation

IFRS is a principles-based framework and the approach to consolidation reflects that framework. Indicators of control are provided, some of which individually require the need to consolidate. However, where control is not apparent, consolidation is based on an overall assessment of all relevant facts, including the allocation of risks and benefits between the parties. The indicators provided under IFRS help the reporting entity in making that assessment. Consolidation is required under IFRS when an entity has the ability to govern the financial and operating policies of another entity to obtain benefits.

JP GAAP is similar to IFRS in that the scope of consolidation is based on the concept of control (substance over form); however, there are more precise criteria compared to IFRS which may cause a difference in the scope of consolidation in practice.

Differences in consolidation under JP GAAP and IFRS may arise when a subsidiary's accounting policies differs from that of the parent. While JP GAAP permits the use of financial statements applying US GAAP or IFRS of foreign subsidiaries with certain exceptions, IFRS does not permit the use of different GAAP within a group and requires a consolidated group to consistently apply the same accounting policies. In addition, the nature of adjustments may differ in situations where a parent company has a fiscal year-end different from that of a consolidated subsidiary. Under JP GAAP, adjustments on significant differences relating to intra-group transactions which occurred between the ends of the reporting periods are required, whereas IFRS requires adjustments of significant transactions, not limited to significant differences relating to intra-group transactions, which occurred between the ends of the reporting periods in the consolidated financial statements

In May 2011 the IASB issued IFRS10, *Consolidated Financial Statements*, which replaced all guidance on control and consolidation in IAS 27, *Consolidated and Separate Financial Statements*, and SIC–12, *Consolidation—Special Purpose Entities*. IFRS 10 changes the definition of control such that the same consolidation criteria are applied to all entities. This definition is supported by application guidance that addresses the different ways in which a reporting entity (investor) might control another entity (investee). The changed definition and application guidance could result in a significant change in the consolidation conclusions for some entities, such as for certain structured entities.

For jointly controlled entities, current IFRS provides an option between equity accounting and proportionate consolidation; however proportionate consolidation is not allowed under JP GAAP. In May 2011, the IASB issued IFRS 11, *Joint arrangements*. Changes in the definitions have reduced the types of joint arrangements to two: joint operations and joint ventures. At the same time, the current IFRS policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting will be mandatory for participants in joint ventures once IFRS 11 is adopted. Entities that participate in joint operations will recognise in relation to their interest in the assets, liabilities, revenue and expenses resulting from the joint operation. .

In addition, the IASB also issued IFRS 12, *Disclosure of Interests in Other Entities* in May 2011, setting out the required disclosures for entities reporting under the two new standards, IFRS 10 and IFRS 11. IFRS 12 replaces the disclosure requirements currently found in IAS 28, *Investments in Associates*, and others and requires entities to disclose information that helps financial statements readers evaluate the nature, risks, and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements, and unconsolidated structured entities.

Reference should be made to the *Recent developments* section for further discussion of IFRS 10, IFRS 11, and IFRS 12 as well as other standard-setting activities.

Further details on the foregoing and other selected current differences are described in the following table.

Standard	Issue	IFRS	JP GAAP
IAS 28, *Investments in Associates and Joint Ventures*			
IAS 28	Significant influence	In general, if 20% or more of the voting power is held directly or indirectly, it is presumed that significant influence exists, in the absence of evidence which indicates otherwise. (IAS 28.5, 6)	The judgement criteria are similar to IFRS; however, more detailed criteria are provided compared to IFRS.
IAS 28	Changes in other net assets of the investee	There are no specific requirements on the accounting treatment for the changes in net assets of the investee that are not recognised in profit or loss or other comprehensive income, or that are not distributions received. (IAS 28.10)	Changes in net assets of the investee due to a capital increase are recognised as goodwill (or negative goodwill) when it results in an increase of the investor's proportionate share. When it results in a decrease of the investor's proportionate share, these changes are recognised in extraordinary profit or losses. However, it is permitted for an entity to recognise the change directly in retained earnings when the recognition in profit or loss may lead interested parties to inappropriate decision.
IAS 28	Exception of applying the equity method to investments in associates (remeasurement at fair value)	Investments in associates held by venture capital organisations, mutual funds, unit trusts and similar entities may be measured at fair value through profit or loss in accordance with IAS 39 (IFRS 9) if designated as such on initial recognition. (IAS 28.18,19)	Investments held by venture capital organisations and similar investment companies are not treated as associates when certain criteria are met.
IAS 28	Potential voting rights	Potential voting rights are considered when assessing significant influence. (IAS 28.7, 8)	There are no specific requirements to consider potential voting rights.
IAS 28	Accounting for an associate held for sale	For an entire investment or a portion of an investment in an associate classified as held for sale, use of the equity method is discontinued and the investment is accounted for under IFRS 5. (IAS 28.20, BC26, BC27)	There are no specific requirements for an associate held for sale. Certain associates are excluded from the scope of the equity method, e.g. if the influence is temporary.
IAS 28	Accounting for the changes in ownership interest in an associate which do not result in a loss of significant influence	There are no specific requirements. However, the following treatment is applied in practice. When additional interest is acquired, the difference between the additional interest in the associate and the investment cost of the additional interest is accounted for as goodwill (or negative goodwill). When interest is sold, the difference between the carrying amount of the decrease in interest and the proceeds from the sales of interest is recognised in profit or loss. The proportionate share of the gain or loss previously recognised in other comprehensive income relating to the reduction in interest is reclassified to profit or loss except for items which would never be recycled to profit or loss such as gains on revaluation of property, plant and equipment. (IAS 28.25)	Similar to IFRS in the treatment of an increase (acquisition of additional interest) and decrease (disposal) of interest. There is no concept of items in other comprehensive income which would never be recycled to profit or loss.

Standard	Issue	IFRS	JP GAAP
IAS 28	Accounting for the changes in ownership interest in an associate which result in a loss of significant influence	An investor should measure the retained investment in the former associate at fair value. If a gain or loss previously recognised in other comprehensive income by the associate is reclassified to profit or loss on the disposal of the related assets or liabilities, the investor should reclassify the gain or loss from equity to profit or loss except for items which would never be recycled to profit or loss such as gains on revaluation of property, plant and equipment. (IAS 28.22, 23)	The retained investment is measured at the carrying amount in the separate financial statements. The retained earnings and other comprehensive income after acquisition attributable to the investor are presented as an increase or decrease in retained earnings.
IAS 28	Amortisation of goodwill relating to an associate	Goodwill relating to an associate is not amortised. (IAS 28.32)	Positive goodwill relating to an associate is amortised over a period of 20 years or less.
IAS 28	Uniform reporting dates for the associate and the investor	Unless impracticable, the reporting dates should be the same. (IAS 28.33, 34)	It is permitted to use a different reporting period.
IAS 28	Transactions for which the adjustments are required due to the difference in the reporting date	When it is impracticable to use the same reporting date, the difference should be no more than three months. Adjustments are made for the effects of significant transactions or events that occur between the end of the reporting period of the investor and that of the associate. (IAS 28.34)	Adjustments or disclosures are made as appropriate when significant transactions or events occurred between the different reporting dates of the investor and the associate.
IAS 28	Uniform accounting policies for the associate and the investor	The investor's financial statements are prepared using uniform accounting policies for like transactions and events in similar circumstances. The same accounting policies are used for the associate. (IAS 28.35, 36)	In general, uniform accounting policies are used. However, when it is confirmed that obtaining necessary information to apply uniform accounting policies is extremely difficult, it is permitted not to use a uniform accounting principle. It is also permitted to use accounting policies following IFRS or US GAAP for foreign associates, except for certain items such as amortisation of goodwill, accounting for development cost and others.
IAS 28	Impairment of investments in associates (equity method investments)	Assess whether there is any indication of impairment loss following the requirements in IAS 39 for the entire carrying amount of investments in associates including goodwill and test for impairment following the requirements in IAS 36. An impairment loss can be reversed. (Same as the issue described in IAS 28 —Impairment of investments in associates) (IAS 28.41, 42)	The carrying amount in the consolidated financial statements is reduced to the carrying amount in the separate financial statements by recognising in profit or loss the amortisation of goodwill included in the carrying amount of the consolidated financial statements. An impairment loss cannot be reversed.

Standard	Issue	IFRS	JP GAAP
IFRS 10, *Consolidated Financial Statements*			
IFRS 10	Unconsolidated subsidiaries	All subsidiaries are included in the scope of consolidation (including a subsidiary over which control is temporary). (IFRS 10.BCZ20)	All subsidiaries are included in the scope of consolidation in principle. However, certain investees are excluded from the scope of consolidation, including those where control is temporary and small-sized investees. For unconsolidated but controlled investees, the equity method is generally applied.
IFRS 10	Concept of control	Apply the same control criteria for all entities including SPEs. Similar to JP GAAP in the concept of control, however, there are many differences in specific guidance. (IFRS 10.4, 7)	The concept of control is applied. However, unlike IFRS, there is a "bright line" rule that depends on whether or not an investor has 40% or more of voting rights, which may cause different results in the assessment of control.
IFRS 10	Application of control	An investor who has less than a majority of the voting rights may meet the control criteria depending on other facts and circumstances such as the size and dispersion of holdings and the voting patterns at previous shareholders' meetings. (IFRS 10.B41, B42)	It is permitted (but not required) to consider the size and dispersion of holdings.
IFRS 10	Investments in a trust	Depending on the substance, a trust may be required to be consolidated. (IFRS 10.4, 7)	Generally, a trust is considered as a mechanism to manage trust assets and is not considered as an entity that is required to assess consolidation (and therefore, in many cases, it is not subject to consolidation). However, for some trusts including a money trust with multiple beneficiaries, it may be treated as a subsidiary or an associate if it meets certain criteria.

Standard	Issue	IFRS	JP GAAP
IFRS 10	Investments in an investment partnership	Those who hold the decision making rights over operations of an investment partnership should consider certain factors such as the scope of its decision-making authority, the rights held by other parties, remuneration and the variability of returns from other interests in determining whether it is an agent. Therefore, in some cases, those who hold the execution rights may not be required to consolidate an investment partnership. (IFRS 10.B60)	In general, the entity which holds decision making authority over operations of an investment partnership (i.e. a general partner) would consolidate that partnership except for certain circumstances.
IFRS 10	Potential voting rights	Potential voting rights are considered when assessing control. (IFRS 10.10, B15, B47-B50)	There are no specific requirements to consider potential voting rights.
IFRS 10	Judgement on whether to consolidate an SPE	The general concept of control that is applied to normal operating entities is also applied to SPEs. An entity should consider the purpose and design of an SPE, identify its relevant activities and assess how decisions about those activities are made. Agency relationships should also be considered. (IFRS 10.5-18, B3)	An investor or a transferor of an SPE is not required to consolidate the SPE when certain criteria are met.
IFRS 10	Exception to consolidation (Investment entities)	Entities which meet the definition of investment entities do not consolidated its subsidiaries and instead measure those investments at fair value with changes recognised in profit or loss, except for those subsidiaries which provide services that relate to investment entity's investment activities to the parent. (IFRS 10.31, 32)	Investees by an investment company (for example, a venture capital organisation) are not treated as subsidiaries if certain criteria are met. In such cases, the investment company's investments in those investees are not necessarily required to be measured at fair value.

Standard	Issue	IFRS	JP GAAP
IFRS 10	Control of specified assets	An investor should consolidate a portion of an investee (specified assets) separately from the investee when certain criteria are met. (IFRS 10.B76-B79)	There are no specific requirements.
IFRS 10	Uniform reporting dates for the subsidiary and the parent	Unless impracticable, the reporting dates should be the same for the subsidiary and the parent. (IFRS 10.B92)	It is permitted to use a different reporting date provided the difference is no more than three months.
IFRS 10	Transactions that require adjustments due to a difference in the reporting dates	Adjustments are made for the effects of significant transactions or events that occur between the end of the reporting period of the parent and that of the subsidiary. (IFRS 10.B93)	Adjustments are required only for significant differences relating to intra-group transactions.
IFRS 10	Uniform accounting policies for the subsidiary and the parent	Applying uniform accounting policies is required for like transactions and other events in similar circumstances. (IFRS 10.B87)	In general, uniform accounting policies are required to be applied for the same transactions in the same circumstances. However, tentatively it is permitted to use US GAAP or IFRS for foreign subsidiaries, except for five specific items.
IFRS 3 IFRS 10	Deemed acquisition date, deemed date of loss of control	The acquisition date is the date when control is obtained. Consolidation should commence at the acquisition date and cease at the date of loss of control. Unlike JP GAAP, no specific requirements exist on the deemed acquisition date or the deemed date of loss of control. However, IFRS 3.BC110 mentions the use of a “convenience” date, unless events between the “convenience” date and the actual acquisition date result in material changes in the amounts recognised. (IFRS 3.8, BC110)(IFRS10.20)	The nearest interim reporting date from the actual acquisition date or the actual date of loss of control may be used.

Standard	Issue	IFRS	JP GAAP
IFRS10	Presentation of non-controlling interest	Presented within equity as "non-controlling interests". (IFRS 10.22)	Presented within the section of net assets as "minority interests."
IFRS10	Attribution of losses of a subsidiary to non-controlling interests (resulting in a deficit balance)	Losses are attributed to the owners of the parent and to the non-controlling interests even if it results in the non-controlling interests having a deficit balance. (IFRS 10.B94)	Losses are attributed only to the parent unless otherwise arranged.
IFRS10	Changes in a parent's ownership interest which do not result in a loss of control	Changes in a parent's ownership interest in a subsidiary which do not result in a loss of control are accounted for as equity transactions. Goodwill or a gain/loss is not recognised when additional interest is acquired or remaining interest is sold. (IFRS 10.B96)	When additional ownership interest is acquired, goodwill is recognised. When ownership interest is reduced, a gain or loss is recognised in profit or loss on sales.
IFRS10	Changes in a parent's ownership interest which result in a loss of control	When a parent loses control of a subsidiary, any investment retained in the former subsidiary is remeasured at its fair value with any gain or loss recognised in profit or loss. (Same as the issue described in IAS 27 —Changes in a parent's ownership interest which result in a loss of control) (IFRS 10.B98)	When a subsidiary ceases to be a subsidiary and it does not become an associate, the investment is measured at the carrying amount in the separate balance sheet. When a subsidiary becomes an associate, the interest retained in the former subsidiary is measured at the carrying amount in the consolidated financial statements at the time of loss of control.

Standard	Issue	IFRS	JP GAAP
IFRS 11, *Joint Arrangements*			
IFRS11	Classification of joint arrangements	A joint arrangement is classified as a joint venture or a joint operation depending on the substance of the arrangement. A joint arrangement may be classified as a joint operation even when the joint arrangement is structured through a separate vehicle. (IFRS 11.14, 15, 16, 17)	Concept of an entity structured under an arrangement which is jointly controlled by independent multiple entities exists. However, there is no concept of 'joint operation' like IFRS.
IFRS 11	Accounting for joint operations	An entity that has joint control of a joint operation should recognise, in relation to its interest, its assets, its liabilities, its revenue and its expenses from the joint operation. (IFRS 11.20)	There are no specific requirements
IFRS 11	Assessment of investment without having joint control	Entities which participate in joint operation but do not have joint control of the joint operation, although have rights to assets and have obligations to liabilities of the joint operation, should recognise the related assets, liabilities, revenue and expenses from the joint operation. (IFRS 11.23)	There are no specific requirements.
IFRS 11 IAS 28	Accounting for an interest in a joint venture	An interest in a joint venture is accounted for using the equity method. An investment in a joint venture held by a venture capital organisation, a mutual fund, unit trust and similar entities may elect to measure investments in those joint ventures at fair value through profit or loss in accordance with IAS 39 (IFRS 9). (IFRS 11.24, IAS 28.18)	In general, the equity method is applied.
IFRS 11	Accounting for an interest in a joint venture when joint control is lost	When an entity does not have joint control of an investee and the investee is not a subsidiary or an associate of the entity, it accounts for its interest in the investee at fair value when control is lost. (IFRS 11.25)	There are no specific requirements. In practice, such investment is accounted for in accordance with the accounting for associates. Retained investment is measured at the carrying amount in the separate financial statements.

JP GAAP References:

- Accounting Standard for Consolidated Financial Statements
- Accounting Standard for Equity Method of Accounting for Investments
- Guidance on Determining a Subsidiary and an Affiliate
- Guidance on Disclosures about Certain Special Purpose Entities
- Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements
- Practical guidelines on Accounting for Capital Consolidation Procedures in Preparing consolidated Financial Statements
- Practical guidelines on Accounting under the Equity Method
- Accounting Standard for Presentation of Comprehensive Income
- Accounting Standard for Business Combinations
- Practical Solution on Accounting for Trusts
- Practical Solution on Application of the Control Criteria and Influence Criteria to Investment Associations

Recent developments

Recent releases—IFRS

IFRS 10, *Consolidated Financial Statements*

IFRS 10 issued by IASB in May 2011, changes the definition of control, such that the same consolidation criteria will apply to all entities. The revised definition of control and associated guidance in IFRS 10 replaces not only the definition and guidance in IAS 27, *Consolidated and Separate Financial Statements*, but also the indicators of control in SIC12, *Consolidation–Special Purpose Entities*. IAS 27 (Amended) is renamed *Separate Financial Statements* and guidance on consolidation is now removed from this standard. The existing guidance for separate financial statements in IAS 27 remains unchanged.

The new definition of control states that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The new definition of control within IFRS 10 is supported by application guidance that addresses the different ways in which a reporting entity (investor) might control another entity (investee).

IFRS10 could change previous consolidation conclusions for structured entities. An investor with variable returns and power over an investee that previously concluded it did not consolidate because it had less than the majority of the risks and rewards may now have to consolidate the investee as a SPE. Similarly, an investor that previously concluded it had to consolidate an SPE on the basis that the investor is exposed to substantially all the risks incident to the SPE's activities and that it obtains all the benefits from the SPE's activities may now have to deconsolidate the SPE if it does not have control as defined under the new guidance.

The revised definition of control focuses on the need to have both power and variable returns for control to be present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be only positive, only negative, or both.

The determination of power is continuously assessed based on facts and circumstances (including substantive potential voting rights). The fact that control is intended to be temporary over any controlled investee does not lead to the conclusion that it does not need to be consolidated by the investor with control. Voting rights or contractual rights may be evidence of power, or a combination of the two may give an investor power. Power does not have to be exercised in order to exist. An investor with more than half of the voting rights would meet the power criteria in the absence of restrictions or other circumstances.

The application guidance includes examples illustrating when an investor may have control with less than half of the voting rights. When assessing if it controls the investee, an investor should consider potential voting rights, rights from other contractual arrangements, and the size of its shareholding in comparison to other holdings, together with other facts and circumstances such as voting patterns at shareholder meetings. The notion of “de facto” control is clarified within the consolidation standard.

IFRS10 also includes guidance on substantive and protective rights. Substantive rights give an investor the ability to direct the activities of an investee that significantly affect the returns. Protective rights (often known as veto rights) may restrict an investor’s ability to control if the rights apply to decisions in the ordinary course of business.

The new standard includes guidance on agent/principal relationships. An investor (the agent) may be engaged to act on behalf of a single party or a group of parties (the “principals”). Certain power is delegated to the agent—for example, to manage investments.

The investor may or may not have control over the pooled investment funds. IFRS 10 includes a number of factors to consider when determining whether the investor has control or is acting as an agent. If an investor acts as an agent, it might not be required to consolidate the investee.

IFRS 11, *Joint Arrangements*

The IASB issued IFRS 11 in May 2011, which supersedes IAS 31, *Interests in Joint Ventures*. IFRS 11 defines a joint arrangement as an arrangement where two or more parties contractually agree to share control. Joint control exists only when the decisions about activities that significantly affect the returns of an arrangement require the unanimous consent of the parties sharing control. All parties to a joint arrangement must recognise their rights and obligations arising from the arrangement. The focus is no longer on the legal structure of joint arrangements, but rather on how the rights and obligations are shared by the parties to the joint arrangement.

IFRS 11 eliminates the existing policy choice of proportionate consolidation for jointly controlled entities. In addition, the standard categorises joint arrangements as one of the following:

- Joint operations—Parties to the arrangement have direct rights to the assets and obligations for the liabilities. A joint operator will recognise its interest based on its involvement in the joint operation (i.e. based on its direct rights and obligations) rather than on the participation interest it has in the joint arrangement. A joint operator in a joint operation will therefore recognise in its own financial statements its:
    - Assets, including its share of any assets held jointly
    - Liabilities, including its share of any liabilities incurred jointly
    - Revenue from the sale or use of its share of the output and revenues earned jointly
    - Expenses, including its share of any expenses incurred jointly
- Joint ventures—Parties to the arrangement have rights to the net assets or outcome of the arrangement. A joint venturer does not have rights to individual assets or obligations for individual liabilities of the joint venture. Instead, joint venturers share the net assets and, in turn, the outcome (profit or loss) of the activity undertaken by the joint venture. Equity accounting is required for joint venturers.

IFRS 12, *Disclosure of Interests in Other Entities*

IFRS 12 issued by IASB in May 2011, sets out the required disclosures for entities reporting under IFRS 10 and IFRS 11. It replaces the disclosure requirements currently found in IAS 28, *Investments in Associates*. The new standard requires entities to disclose information that helps financial statement readers to evaluate the nature, risks, and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements, and unconsolidated structured entities.

To meet this objective, disclosures are required for significant judgments and assumptions as well as interests in subsidiaries, joint arrangements and associates, and unconsolidated structured entities.

Recent changes—IFRS

IAS 28 (Amended), *Investments in Associates and Joint Ventures*

The fundamental approach to the equity method of accounting has not been changed, but IAS 28(Amended) incorporates joint ventures and provides more specific provisions. It clarifies, for example, that when a portion of an investment in an associate or a joint venture meets the held for sale criteria in accordance with IFRS 5, any retained portion of the investment is not classified as held for sale.

Investment entities - Amendments to IFRS 10, IFRS 12 and IAS 27

The IASB issued an amendment to IFRS10, IFRS 12 and IAS 27 regarding investment entities in October 2012. The amendment introduces the definition of an investment entity and requires the investment entity to measure its controlled investments at fair value with changes recognized in profit or loss rather than to consolidate those investees. However, the parent of the investment entity (if the parent is not an investment entity itself) is required to consolidate the controlled investments of the investment entity.

An entity is required to assess whether the entity meets (after considering all typical characteristics) the definition of an investment entity.

Definition of an investment entity:

(a) Obtains funds from one or more investors for the purpose of providing those investors with investment management services

(b) Commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and

(c) Measures and evaluates the performance of substantially all of its investments on a fair value basis.

Typical characteristics of an investment entity include the following. However, the absence of any of these typical characteristic does not necessarily disqualify an entity from being classified as an investment entity.

- it has more than one investment;
- it has more than one investor;
- it has investors that are not related parties of the entity; and
- it has ownership interests in the form of equity or similar interests

Recent proposals—IFRS

Amendments to IAS 28, *Investments in Associates and Joint Ventures –"Equity method: Share of other net asset changes"*

In November 2012, the IASB issued an exposure draft of amendments to IAS 28"Equity method: Share of other net asset changes' with proposals to amend IAS 28(2011)"Accounting for associates and joint ventures".

The exposure draft proposes that an investor's share of certain net asset changes in the investee (other net asset changes of the investee that are not recognised in profit or loss or other comprehensive income of the investee, or that are not distributions received ('other net asset changes')) is recognised in the investor's equity with recycling of the amount recognised when equity accounting ceases.

Amendments to IFRS 11 *Joint Arrangements*

In December 2012, the IASB issued an exposure draft of amendments to IFRS 11 "Joint Arrangements" with proposals to amend the accounting for the acquisition of interests in joint operations.

The exposure draft clarifies that an acquisition of an interest in a joint operation that meets the definition of a business in IFRS 3 "Business Combination" is not a business combination (as the acquiring party does not obtain control), however, it proposes that business combination accounting should be applied to such an acquisition.

Amendments to IAS 28 (2011) *Investments in Associates and Joint Ventures* and IFRS 10 *Consolidated Financial Statements - "Sale or contribution of assets between and investor and its associate or joint venture"*

In December 2012, the IASB issued an exposure draft "Sale or contribution of assets between an investor and its associate or joint venture" with proposals to amend IFRS 10" Consolidated financial statements" and IAS 28(2011)"Accounting for associates and joint ventures".

The exposure draft proposes that if the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business (as defined in IFRS 3 "Business Combination") the full gain or loss is recognised by the investor, while the gain or loss on assets that do not meet the definition of a business is recognised by the investor to the extent of the other investor's interest in the associate or joint venture.

Business combinations

Business combinations

IFRS and JP GAAP are largely converged in this area, including the acquisition method for business combinations and accounting treatment for step acquisitions. However, certain differences still remain, these include the treatment of all acquisition costs, accounting for non-controlling interest and amortisation of goodwill.

Further details on the foregoing and other selected current differences are described in the following table.

Standard	Issue	IFRS	JP GAAP
IFRS 3	Scope of IFRS 3	IFRS 3 does not apply to the formation of a joint venture, the acquisition of an asset or a group of assets that does not constitute a business and a combination of entities or businesses under common control. (IFRS 3.2)	The formation of a jointly controlled entity and a combination of entities or businesses under common control are included in the scope of the business combinations standard although the accounting requirements are different from that for other business combinations.
IFRS 3	Accounting for business combinations	The acquisition method is applied. (IFRS 3.4)	The acquisition method is applied. However, in the formation of a jointly controlled entity, assets and liabilities are recognised and measured at the appropriate carrying amounts of the investor's share of the jointly controlled entity immediately before the transfer. In a combination of entities or businesses under common control, assets and liabilities are recognised and measured at the previous carrying amounts.
IFRS 3	Amortisation of goodwill	Goodwill is not amortised. (IAS 36.BC131A)	Goodwill is recognised as an asset and amortised on a systematic basis over a period in which effects are expected occur, not to exceed 20 years.
IFRS 3	Remeasurement of previously held interest in the acquiree in a business combination achieved in stages	The acquirer remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and recognises the resulting gain or loss in profit or loss or other comprehensive income as appropriate. The amount the acquirer recognised in other comprehensive income relating to the previous interest in the acquiree (equity method investments), such as change in value of available-for-sale financial assets and currency translation differences, are recycled to profit or loss. However, non-recycling items such as revaluation gain or loss of fixed assets applying the revaluation model under IAS 16 are not recycled. (IFRS 3.42)	Similar to IFRS. However, there are no items that are presented as other comprehensive income that would never be recycled to profit or loss.
IFRS 3	Determining a business combination transaction	There is guidance on the determination of whether the transaction is part of a business combination (whether it is part of an exchange transaction for the acquiree), or whether the transaction is separate from a business combination (whether it is a transaction which in effect settles pre-existing relationships that existed before the business combination, for example). Factors to consider include (1) the reason for the transaction, (2) who initiated the transaction and (3) the timing of the transaction. (IFRS 3.51, 52, B50-B62B)	There are no specific requirements on the determination of what is part of a business combination transaction.

Standard	Issue	IFRS	JP GAAP
IFRS 3	Accounting for acquisition-related costs	In general, acquisition-related costs are expensed. However, the cost to issue equity securities is deducted from equity and the cost to issue a financial liability (debt) is reflected in the effective interest rate and amortised. (IFRS 3.53)	Acquisition-related costs such as fees and charges paid to external advisors and others are included in the acquisition cost. Other expenditures are expensed in the period incurred.
IFRS 3	Recognition and measurement of contingent consideration	Contingent consideration is measured at fair value on the acquisition date and included in the consideration for the business combination. The consideration and goodwill are not subsequently adjusted except for changes that result from additional information obtained by the acquirer during the measurement period about facts and circumstances that existed at the acquisition date. (IFRS 3.39, 58)	Contingent consideration is included in the consideration (and in certain cases, goodwill may be adjusted) when its issuance or delivery is certain and its fair value is reasonably determinable. Such adjustment is not limited to the tentative measurement period.
IFRS 3	Recognition and measurement of identifiable assets and liabilities	In principle, an acquirer recognises and measures the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values. An acquirer classifies or designates the identifiable assets and liabilities as required by other IFRSs (such as tax and employee benefit related items) at the acquisition date ; also recognises and measures them in accordance with relevant IFRS (such as IAS 12 and IAS 19) at that date. (IFRS 3.10, 18, 24-31)	An acquirer allocates the purchase price to the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values. Separately identifiable assets and liabilities such as financial instruments and employee benefit related liabilities are measured at fair value or other measurement basis specified under a relevant standards.
IFRS 3	Accounting for non-controlling interest	For each business combination, the acquirer measures non-controlling interests at either (a) fair value (full goodwill) or (b) the present ownership instruments' proportionate share of the acquiree's identifiable net assets (partial goodwill). (IFRS 3.10, 19)	Partial goodwill is recognised. The recognition of full goodwill is not allowed.
IFRS 3	Allocation of goodwill	The per-share value attributable to the non-controlling interest may be different from that of the parent's when the non-controlling interest is measured at fair value since for example the control premium is included in the parent's goodwill. (IFRS 3.B45)	There are no specific requirements for the allocation of goodwill since non-controlling interests are measured at the present ownership instruments' proportionate share of the acquiree's identifiable net assets.

Standard	Issue	IFRS	JP GAAP
IFRS 3 IAS 38	Identification of intangible assets acquired in business combinations	Refer to the issue *Identification of intangible assets acquired in a business combination* in the chapter *Assets-Nonfinancial assets*. (IAS 38.11-12, 34-37) (IFRS 3.13)	When an asset obtained through a business combination includes an intangible asset which is separately transferable, such as legal rights, the intangible asset is treated separately as an identifiable asset from goodwill when its value is reasonably measurable.
IFRS 3	Reacquired rights	The acquirer measures the value of a reacquired right recognised as an intangible asset (an identifiable intangible asset recognised separately from goodwill) on the basis of the remaining contractual term of the related contract. Examples of such reacquired rights include a right to use the acquirer's trade name under a franchise agreement or technology license. (IFRS 3.29, B35)	There are no specific requirements.
IFRS 3	Accounting for costs expected to be incurred after the acquisition	Costs which the acquirer expects but is not obliged to incur are not recognised as identifiable liabilities at the acquisition date and not included in the consideration for the acquisition. Instead, these costs are recognised in the acquirer's post-combination financial statements. (IFRS 3.11)	An expense or loss expected to be incurred after the acquisition relating to specified circumstances is recognised as a liability ("special account relating to business combinations") if its probability of occurrence is reflected in the determination of the consideration for the acquisition, even when it would not be recognised if it does not arise from business combinations.
IFRS 3	Recognition criteria of contingent liabilities	A contingent liability assumed in a business combination is recognised as an identifiable liability if it is a present obligation that arises from past events and its fair value can be measured reliably, even if the probability criterion in IAS 37 is not met. (IFRS 3.23)	A contingent liability is recognised as a liability if the recognition criteria of provisions are met.

Standard	Issue	IFRS	JP GAAP
IFRS 3	Measurement period adjustments (Provisional accounting)	During the measurement period (within one year from the acquisition date), the provisional amounts recognised at the acquisition date are adjusted retrospectively to reflect new information obtained about facts and circumstances that existed as of the acquisition date. Additional assets or liabilities are also recognised and goodwill is adjusted. (IFRS 3.45)	Allocation of the acquisition cost is made within one year from the acquisition date. When the acquisition cost is modified in the following fiscal year after the business combination, generally, the effect of change (such as amortisation of goodwill) is presented as an 'extraordinary profit or loss' (adjustment of profit or loss of the previous period) and not retrospectively adjusted.
IFRS 3	Measurement of identifiable assets classified as assets held for sale	An acquired non-current asset or disposal group classified as held for sale at the acquisition date is measured at fair value less costs to sell in accordance with IFRS 5. (IFRS 3.31)	There are no specific requirements.

JP GAAP References:

- Accounting Standard for Business Combinations
- Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestures

Recent developments

Recent proposals—JP GAAP

On December 26, 2008, the ASBJ issued the *Revised Accounting Standard for Business Combinations and its Revised Implementation Guidance,* as a result of its convergence project with IFRS. In July 2009, the ASBJ issued a *Discussion Paper on Accounting for Business Combinations,* which covers the remaining differences between IFRS and JP GAAP, such as the determination of acquisition cost, accounting for goodwill and the treatment of minority interest; however an exposure draft has not been released as of December 2011. In January 2013, the ASBJ issued an exposure draft that proposes to change some of current requirements regarding business combination and consolidation to be largely in line with the corresponding requirements under IFRS, including accounting for minority interests (non-controlling interests), acquisition cost and provisional accounting.

Other accounting and reporting topics

Other accounting and reporting topics

In addition to the issues discussed in previous chapters, there still exist several other differences between JP GAAP and IFRS, including presentation and disclosure of annual financial statements, accounting for discontinued operations, translations of foreign currency transactions, and calculation of earnings per share.

Under JP GAAP, *the Accounting Standard for Presentation of Comprehensive Income* became effective for consolidated financial statements so as to converge with IFRS. However, JP GAAP requires "special gains/losses" to be presented in the income statement, resulting in a difference with IFRS. In addition, in the consolidated income statement, the profit or loss under JP GAAP refers to the profit or loss after deducting the portion attributable to minority interests whereas under IFRS, it refers to that attributable to both the non-controlling interests and owners of the parent.

Furthermore, JP GAAP does not provide accounting standards for discontinued operations. There is no specific accounting for non-current assets held for sale or specific disclosures required for discontinued operations. However, the requirements for impairment of fixed assets are applied.

As to the translation of foreign currency transactions, JP GAAP specifies procedures for translating financial statements of subsidiaries and branches located in a foreign country into Japanese yen but there is no concept of functional currency or presentation currency. The determination of the functional currency of a foreign operation under IFRS may result in differences in accounting for foreign exchange differences between IFRS and JP GAAP.

In Japan, *the Accounting Standard for Earnings per Share* is effective for annual periods starting on and after April 1, 2011. This accounting standard was revised with the implementation of *the Accounting Standard for Accounting Changes and Error Corrections*, with the objective of convergence with IFRS. In addition, JP GAAP does not provide specific guidance for cases where an entity has the option to settle with equity or cash like IFRS.

Further details on the foregoing and other selected current differences are described in the following table.

Standard	Issue	IFRS	JP GAAP
IAS 1, *Presentation of Financial Statements*			
IAS 1	Components of consolidated financial statements	Consolidated financial statements comprise: • A consolidated statement of financial position • A consolidated statement of profit or loss and other comprehensive income (a consolidated statement of comprehensive income) • A consolidated statement of changes in equity • A consolidated statement of cash flows • Notes An entity may present either a single statement of profit or loss and other comprehensive income or two separate, but consecutive statements of profit or loss and of comprehensive income, which shall begin with profit or loss. An entity may use titles for the statements other than those stated above. (IAS1.10,10A,81A)	Consolidated financial statements comprise: • A consolidated balance sheet • A consolidated statement of income • A consolidated statement of comprehensive income • A consolidated statement of changes in net assets • A consolidated statement of cash flows • A consolidated schedule (a consolidated table for detailed statement) An entity may present two separate statements of income and of comprehensive income (two-statement format), or a single statement of comprehensive income (one-statement format).
IAS 1	Statement of financial position (balance sheet)	There are certain minimum line items which should be presented separately in the statement of financial position. The presentation of a classified balance sheet is required, except when a liquidity presentation is more relevant. (IAS 1.54,60)	*Ordinance on Terminology, Forms and Preparation Methods of Financial Statements, etc.* and guidelines under the *Financial Instruments and Exchange Act* require items to be presented in more detail compared to IFRS. The presentation of a classified balance sheet is required.
IAS 1	Statement of comprehensive income (income statement) – Classification and presentation of expenses	An entity should present an analysis of expenses recognised in profit or loss using a classification based on either their nature or their function within the entity. An entity classifying expenses by function should disclose additional information on the nature of the expenses. While certain minimum line items are required, no prescribed statement of comprehensive income format exists. An entity should not mix functional and nature classifications of expenses by excluding certain expenses from the functional classifications to which they relate. (IAS 1.102,103)	Expenses are in principle classified and presented by function, such as cost of sales, selling, general and administrative expenses, non-operating expense and extraordinary loss. Financial statements regulations and guidelines under the Financial Instruments and Exchange Act have more detailed rules for the presentation of the income statement.

Standard	Issue	IFRS	JP GAAP
IAS 1	Statement of comprehensive income (income statement) – Presentation of profit and loss	The statement of comprehensive income should present the following items: • Profit or loss • Total other comprehensive income • Comprehensive income for the period, being the total of profit or loss and other comprehensive income There is no further requirement to disclose additional line items. (IAS1.81A)	The income statement must include the following items: • Gross profit or loss • Operating profit or loss • Profit or loss from ordinary activities • Pre-tax profit or loss • Net profit or loss
IAS 1	Statement of comprehensive income (income statement) – Presentation of non-controlling interests in profit or loss and comprehensive income	The statement of comprehensive income should present the following items: • Profit or loss for the period attributable to non-controlling interests and owners of the parent. • Comprehensive income for the period attributable to non-controlling interests and owners of the parent. (IAS1.81B)	While net profit or loss for the period should be presented after adjusting minority interest, comprehensive income for the period should be presented before adjusting minority interest on the statement of comprehensive income.
IAS 1	Statement of comprehensive income (income statement) – OCI items (those that might be reclassified and those that will not be reclassified)	An entity is required to group items presented in OCI on the basis of whether they are potentially be reclassified into profit or loss in future periods and to be presented the above-mentioned items separately from those that will not be reclassified. (IAS1.82A)	An entity is not required to group items presented in OCI on the basis of whether they are potentially reclassifiable to profit or loss subsequently.
IAS 1	Statement of comprehensive income (income statement) – Exceptional (significant) items and extraordinary items	The term exceptional items is not used or defined. However, separate disclosure is required (either on the face of the comprehensive income statement or in the notes) when it is necessary for an entity to explain its performance for the period due to the size, nature or incidence of certain items of income and expense. Extraordinary items are prohibited to be presented. (IAS 1.85,87,97)	Exceptional items are required to be presented as “special gains and losses” on the face of the income statement. The definition of “special” is broader compared to IFRS and includes some extraordinary items.

Standard	Issue	IFRS	JP GAAP
IFRS 5, *Non-current assets held for sale and discontinued operations*			
IFRS 5	Measurement of non-current assets held for sale	Assets should be classified as held for sale when certain criteria are met and measured at the lower of their carrying amount and fair value less costs to sell. Assets should not be depreciated while classified as held for sale. (IFRS 5.1, 6, 15, 25)	There is no particular requirement for non-current assets held for sale. General impairment rules for fixed assets are applied to such assets.
IFRS 5	Carrying amount of an asset on classification as held for sale	Assets should be measured in accordance with applicable IFRS (e.g. IAS 36) immediately before the initial classification as held for sale. (IFRS 5.18)	There is no particular requirement for non-current assets held for sale. General impairment rules for fixed assets are applied to such assets.
IFRS 5	Reversal of impairment loss	Any subsequent increase in fair value less costs to sell should be recognised as a gain but not in excess of the cumulative impairment loss previously recognised. The cumulative impairment loss should take into account the depreciation had no impairment loss been recognised for the asset in the prior years. (IFRS 5.21)	There is no particular requirement for non-current assets held for sale. General impairment rules for fixed assets are applied to such assets.
IFRS 5	Presentation of non-current assets held for sale	Non-current assets and disposal groups (including liabilities) held for sale are presented separately from other assets and liabilities in the statement of financial position. (IFRS 5.1(b), 38)	There is no particular requirement for non-current assets held for sale. General impairment rules for fixed assets are applied to such assets.
IFRS 5	Presentation of discontinued operations	An operation which meets certain criteria is classified as a discontinued operation and its results should be presented separately from continuing operations. (IFRS 5.1(b), 33)	There is no particular requirement for non-current assets held for sale. General impairment rules for fixed assets are applied to such assets.
IFRS 5	Subsidiary over which the control is temporary	When an entity is committed to a sale plan of a subsidiary involving loss of control and the control is temporary, the subsidiary should not be excluded from the scope of consolidation and be accounted for under IFRS 5. The results of the subsidiary should be presented as a discontinued operation, separately from continuing operations in the statement of comprehensive income. Assets and liabilities of the subsidiary should be measured at the lower of the carrying amount and fair value less costs to sell and should be presented as those held for sale. (IFRS 5.1(b),8A, 32, 33, 33A, 38)	A subsidiary over which the control is temporary is not included in the scope of consolidation.

Standard	Issue	IFRS	JP GAAP
IAS 21, *The Effects of Changes in Foreign Exchange Rates*			
IAS 21	General	The results and financial positions of foreign operations that are included in the financial statements of the entity by consolidation or the equity method are translated into the entity's functional currency. The entity's results and financial position in functional currency is translated into a presentation currency. (IAS 21.3)	JP GAAP prescribes the process of translating financial statements of a foreign subsidiary operating in a foreign currency into Japanese yen; however, there is no concept of functional currency or presentation currency.
IAS 21	Definition of the closing rate used for translation	The closing rate is the spot exchange rate at the end of the reporting period. (IAS 21.8)	Other than the spot exchange rate at the end of the reporting period, an entity may use the average exchange rate calculated based on the spot rates during a certain period before and/or after the end of the reporting period under certain conditions.
IAS 21	Definition of foreign currency	The foreign currency is a currency other than the functional currency of the entity. (IAS 21.8)	The foreign currency is a currency other than Japanese yen.
IAS 21	Definition of foreign operation	A foreign operation is an entity that is a subsidiary, associate, joint arrangement or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity. (IAS 21.8)	There is no concept of foreign operation. However, a foreign branch and foreign subsidiary (i.e. subsidiary or associate located in a foreign country) generally correspond to the term.
IAS 21	Functional currency	The functional currency is the currency of the primary economic environment in which the entity operates. Once determined, the functional currency is not changed unless there is a change in those underlying transactions, events and conditions. (IAS 21.8, 13)	There is no concept of functional currency.
IAS 21	Definition of foreign currency transaction	A foreign currency transaction is a transaction that is denominated or requires settlement in a foreign currency. (IAS 21.20)	Only transactions denominated in a foreign currency are foreign currency transactions. Exchange differences arising from export and import transactions typically with trading companies that are borne by the entity also meet the definition of foreign currency transactions.

Standard	Issue	IFRS	JP GAAP
IAS 21	Exchange rate used on initial recognition of a foreign currency transaction	A foreign currency transaction should be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. (IAS 21.21)	In principle, a foreign currency transaction should be recorded in Japanese yen by applying to the foreign currency amount the spot exchange rate between the foreign currency and Japanese yen at the date of the transaction.
IAS 21	Translation at the end of each reporting period subsequent to initial recognition	• Monetary item Translated using the closing rate at the end of each reporting period. • Non-monetary item Non-monetary items that are recorded at historical cost in a foreign currency should be translated using the exchange rate at the date of the transaction. Those measured at fair value in a foreign currency should be translated using the exchange rate at the date when the fair value was measured. (IAS 21.23)	In principle, financial instruments are recorded in Japanese yen by applying the spot exchange rate at the end of the reporting period. However, the entity's own convertible debt securities that have not expired should be translated at the rate on the date of issuance. The carrying amounts of the equity shares of subsidiaries and affiliates in the individual financial statements of the parent should be translated at the rate on the date of acquisition. In addition, if the monthly average market price before the end of a reporting period is used to evaluate the market price of other securities (under the condition of consistent application), such securities are translated at the monthly average rate before the end of the reporting period as a general rule. However, translation at the exchange rate at the end of the reporting period is also permitted under the condition of consistent application.
IAS 21	When several exchange rates are available/ temporary lack of exchangeability	When several exchange rates are available, the rate used is that at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date. If exchangeability between two currencies is temporarily lacking, the rate used is the first subsequent rate at which exchanges could be made. (IAS 21.26)	There are no specific requirements.

Standard	Issue	IFRS	JP GAAP
IAS 21	Recognition of exchange differences	When a monetary item is settled or translated, the resulting exchange difference should be recognised in profit or loss. When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss should be recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss should be recognised in profit or loss. (IAS 21 28, 30)	As a general rule, the exchange difference arising from translation of foreign currency dominated receivables/payables at the period closing should be recorded as an exchange gain/loss for the current period in profit or loss. In addition, foreign currency bonds classified as “other securities” under JP GAAP are, in principle, accounted for in accordance with the requirements on exchange differences in the Accounting Standard for Financial Instruments. However, an entity may use the exchange differences arising from the changes of fair value in the foreign currency (the difference between the carrying amount and the fair value in the foreign currency amount translated by the spot rate at the date of closing) as the valuation difference, and account for the exchange difference of the carrying amount due to the change in the exchange rate as an exchange gain/ loss.
IAS 21	Exchange differences arising on a monetary item that forms part of the net investment in a foreign operation	When a monetary item that is receivable from or payable to a foreign operation is neither planned nor likely to be settled in the foreseeable future, it is treated as a part of the entity’s net investment in that foreign operation. Exchange differences arising on a monetary item that forms part of a reporting entity’s net investment in a foreign operation should be recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment. (IAS 21.15, 32)	There is no concept of exchange differences arising on a monetary item that forms part of the net investment in a foreign operation.
IAS 21	Gain/loss on disposal of a foreign operation – subsidiary	Accounting for the cumulative amount of the exchange differences on a foreign subsidiary is different depending on whether the disposal transaction is a disposal or a partial disposal. • When the entity retains control over the subsidiary (partial disposal): Re-attribute the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income to the non-controlling interests in the foreign operation. • When the disposal involves the loss of control of the subsidiary (disposal) Reclassify the full cumulative amount of the exchange differences recognised in other comprehensive income to profit or loss. (IAS 21.48-49)	The decrease in the cumulative amount of the exchange differences resulting from the change (decrease) in equity interest in foreign subsidiaries is recognised in profit or loss.

Standard	Issue	IFRS	JP GAAP
IAS 21	Gain/loss on disposal of a foreign operation – associates	Accounting for the cumulative amount of the exchange differences on a foreign associate is different depending on whether the disposal transaction is a disposal or a partial disposal. • When the entity retains significant influence over the associate (partial disposal) Reclassify the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income to profit or loss. • When the disposal involves the loss of significant influence over the associate (disposal) Reclassify the full amount of the cumulative amount of the exchange differences recognised in other comprehensive income to profit or loss. (IAS 21.48-49)	The decrease in the cumulative amount of the exchange differences resulting from the change (decrease) in equity interest in foreign associates is recognised in profit or loss.
IAS 21	Functional currency of a hyperinflationary economy	Translation of the results and financial position of an entity whose functional currency is the currency of a hyperinflationary economy should be restated in accordance with IAS 29. (IAS 21.42, 43)	There is no concept of functional currency of a hyperinflationary economy.
–	Treatment of debt securities in foreign currency upon acquisition of a non-monetary asset	There are no specific requirements.	When an entity holds the proceeds from foreign currency bonds without changing to Japanese yen for reinvestment (such as properties in foreign currency), the entity may defer the exchange differences on such bonds to adjust the cost of a non-monetary asset acquired in the foreign currency, provided the following conditions are met: • Reinvestment has been planned since the time of acquisition of the foreign currency bonds and the plan is clearly stated in a formal document • The reinvestment transaction is denominated in the same foreign currency

Standard	Issue	IFRS	JP GAAP
IAS 33, *Earnings per Share*			
IAS 33	When ordinary shares are issued but not fully paid	Where ordinary shares are issued but not fully paid, they are treated in the calculation of basic earnings per share as a fraction of an ordinary share to the extent that they were entitled to participate in dividends during the period relative to a fully paid ordinary share. If they are not entitled to participate in dividends during the period they are treated as the equivalent of warrants or options in the calculation of diluted earnings per share. (IAS 33.A15, A16)	There are no specific requirements. (Under the Companies Act of Japan, an acquirer of shares should pay in full the amount due to the issuer).
IAS 33	Options to settle in ordinary shares or in cash	If the options to settle in ordinary shares or in cash reside with the issuing entity, the entity should presume that the contract will be settled in ordinary shares and the resulting potential ordinary shares should be included in diluted earnings per share. If the settlement choice is at the holder's option, the more dilutive of cash settlement or share settlement should be used in calculating diluted earnings per share. (IAS 33.58-61)	There are no specific requirements.

Standard	Issue	IFRS	JP GAAP
IAS 33	Purchased options	Purchased put options and purchased call options held by the entity on its own ordinary shares are not included in the calculation of diluted earnings per share because they are antidilutive. (IAS 33.62)	There are no specific requirements.
IAS 33	Written put options	Written put options on the entity's own shares are reflected in the calculation of diluted earnings per share if the effect is dilutive. (IAS 33.63)	There are no specific requirements.
IAS 33	Presentation	Basic earnings per share and diluted earnings per share should be presented in the statement of comprehensive income. If basic and diluted earnings per share are equal, dual presentation can be accomplished in one line item, such as "basic and diluted earnings per share". (IAS 33.66, 67)	Instead of presenting earnings per share in the statement of profit and loss, it should be disclosed as footnote information.

JP GAAP References:

- Accounting Standard for Foreign Currency Transactions
- Practical Guidelines on Accounting Standards for Foreign Currency Transactions
- Accounting Standard for Earning Per Share
- Ordinance on Terminology, Forms and Preparation Methods of Financial Statements, etc.
- Guideline for Ordinance on Terminology, Forms and Preparation Methods of Financial Statements, etc.
- Guideline for Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements
- Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements
- Accounting Standard for Consolidated Financial Statements
- Accounting Standard for Presentation of Comprehensive Income

Index

Index

IFRS first-time adoption

Revenue recognition

Expense recognition—share-based payments

Expense recognition—employee benefits

Assets—nonfinancial assets

IAS 2, *Inventories*

Liabilities—taxes

Liabilities—other

Financial liabilities and equity

Consolidation

IAS 28, *Investments in Associates and Joint Ventures*

IFRS 10, *Consolidated Financial Statements*

Other accounting and reporting topics

PwC Japan

In addition to audit related services, PwC Japan provides advice to clients wishing to transition to IFRS as well as advisory services on the implementation of new or amended Japanese accounting standards as they converge with IFRS. IFRS technical team has been established within Accounting Consulting Services group of PricewaterhouseCoopers Aarata to technically support high quality IFRS services to our clients leveraging the PwC network.

- For more information on IFRS, please visit website below:

  www.pwc.com/jp/ifrs

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