Similarities and Differences

A comparison of IFRS and JP GAAP

April 2020

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Contents

Preface

International Financial Reporting Standards (IFRS) have now been adopted in more than 150 countries and territories around the world. The 'Analysis of the profiles by number of domestic listed companies' published on the IFRS Foundation's website shows that more than 31,000, of the approximately 49,000 domestic listed companies on the 77 major securities exchanges in the world have adopted and reported under IFRS as of September 2019.

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 in progress and voluntary adoption of IFRS started from the fiscal year ended in March 2010.

Additionally, the *Japan Revitalization Strategy (revised in 2014) – Japan's challenge for the future,* approved by the Cabinet in June 2014, explicitly stated 'promotion of an increase in the number of companies voluntarily adopting IFRS'. This policy was taken over in the *Follow-up on the Growth Strategy* approved by the Cabinet in June 2019, and the Cabinet is expected to commit to continuing the promotion of voluntary adoption of IFRS as part of the strategy.

In response to this government policy, the Financial Services Agency (FSA) published the *IFRS Adoption Report* in April 2015 regarding the issues arising during transition to IFRS and the benefits of adopting IFRS. With the objective of serving as a useful reference in practice, the FSA also published the *Examples of consolidated financial statements based on IFRS* in December 2009 and the updated *Examples of consolidated financial statements based on IFRS* in March 2016. The FSA is expected to continue updating the examples of disclosures for companies preparing consolidated financial statements based on IFRS. The FSA amended the *Order for the Enforcement of the Banking Act*, and relevant regulatory notices and supervisory guidelines in November 2017. The amendments endorse the application of IFRS-based disclosure, reporting, and other regulations in regards to the *Banking Act*, when a banking group voluntarily adopts IFRS. Furthermore, the FSA issued the amendments to the *Cabinet Office Order on Disclosure of Corporate Affairs* in March 2020 to ease the burden of companies adopting IFRS. While the amendments continue to require a company adopting IFRS to disclose the major differences between IFRS and JP GAAP in its first IFRS consolidated financial statements, the amendments do not require such disclosure from the fiscal year following the fiscal year when the company adopted IFRS, contributing to the promotion of voluntary adoption of IFRS.

The Tokyo Stock Exchange, Inc. (TSE) has requested listed companies to disclose 'Basic Policy Regarding Selection of Accounting Standards' (e.g. whether or not the company considers adopting IFRS) in their financial statements summaries for the year ended in and after March 2015. The TSE released its analysis of these disclosures for the purpose of serving as a useful reference for companies considering adopting IFRS. The analysis, released in August 2019, found that as of the end of June 2019, together with 198 companies adopting IFRS, 16 companies deciding to adopt IFRS and 11 companies scheduling to adopt IFRS, a total of 225 companies are embracing IFRS, and the combined market capitalization of these companies is JPY 220 trillion, 36% of the entire listed market capitalization (JPY 605 trillion) as of the end of June 2019. According to data published on the Japan Exchange Group's website as of March 2020, the total of the number of companies adopting IFRS and the number of companies deciding to adopt IFRS has increased from 207 to 221 for twelve months from the end of March 2019.

In light of these circumstances, we believe the number of companies which voluntarily adopt IFRS will keep increasing, as companies take into account their global business activities and strategies or mid-to-long term business plans. Therefore, IFRS is expected to become more relevant, not only to practitioners and experts in Japanese accounting and finance, but also to the management and investors of Japanese companies.

Based on these circumstances, this publication focuses on explaining the key differences between IFRS and JP GAAP. This publication is not all-encompassing. However, it focuses on those differences that we generally consider to be the most significant or most common. We hope that this publication will be useful in identifying the key differences between the two accounting frameworks and help you gain a broad understanding of IFRS.

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Note: PwC Japan Group represents the member firms of the PwC global network in Japan and their subsidiaries. Each firm of PwC Japan Group operates as an independent corporate entity and collaborates with each other in providing its clients with auditing and assurance, consulting, deal advisory, tax and legal services.

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 *Recent developments* at the last section of each chapter provide the overview of the new standards and exposure drafts.

No summary publication can do justice to the many differences of detail that exist between 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 FSA or local stock exchange listing rules.

This publication takes account of authoritative pronouncements and other developments under IFRS and JP GAAP up to 31 December 2019. 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 an entity's first IFRS-based financial statements. IFRS 1 was created to help entities transition to IFRS and provides practical accommodations intended to make first-time adoption cost-effective. It also provides application guidance for addressing difficult transition topics.

What does IFRS 1 require?

The key principle of IFRS 1 is full retrospective application of all IFRS standards that are effective at the end of reporting period of the first IFRS financial statements. IFRS 1 requires entities 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 effective at the end of the first IFRS reporting period and apply those policies retrospectively to all periods presented in the first IFRS financial statements
- consider whether to apply any of the optional exemptions from retrospective application
- apply 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 optional exemptions (IFRS 1.18, *Appendix C* and *Appendix D*) to ease the burden of retrospective application. These exemptions are available to all first-time adopters, regardless of their date of transition. Additionally, IFRS 1 provides for short-term exemptions (IFRS 1.18, *Appendix E*), which are temporarily available to preparers and address transition issues related to new standards. 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, few exemptions from the disclosure requirements of IFRS, and entities may experience challenges in collecting new information and data for many retrospective disclosures.

Many entities 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

Entities 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 31 March 2021, would have a transition date of 1 April 2019. 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 transition to IFRS in Europe and Asia indicates that Japanese companies may face some challenges in transition 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. Entities 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 entities either to deconsolidate entities or to consolidate entities that were not consolidated under JP GAAP. Subsidiaries that previously were excluded from the consolidated financial statements are to be consolidated as if they were first-time adopters on the same date as the parent. Entities 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 entities to choose between alternative policies. Entities 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. Entities should take this opportunity to evaluate their IFRS accounting policies with a 'clean sheet of paper' mind-set. Although many accounting requirements are similar between JP GAAP and IFRS, entities 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.

Recent developments

Recent proposals – IFRS

Exposure Draft: Annual Improvements to IFRS Standards 2018-2020 affecting IFRS 1 First-time Adoption of International Financial Reporting Standards*

In May 2019, the IASB published the Exposure Draft *Annual Improvements to IFRS Standards 2018-2020* and proposed a narrow scope amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

The Exposure Draft proposed to simplify the application of IFRS 1. If a subsidiary becomes a first-time adopter later than its parent, in its financial statements, the subsidiary is permitted to measure not only its assets and liabilities but its cumulative translation differences, at the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRSs.

The Exposure Draft proposed to be effective for annual reporting periods beginning on or after 1 January 2022, with early application permitted.

* In May 2020, the IASB issued the amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards* as part of *Annual Improvements to IFRS Standards 2018–2020*.

Revenue recognition

Revenue recognition

In May 2014, the IASB issued the standard on revenue recognition converged with US GAAP, IFRS 15 *Revenue from Contracts with Customers*. In the revenue standard, the IASB believes a more consistent application can be achieved by using a single, contract-based model where revenue recognition is based on changes in contract assets (an entity's rights to consideration in exchange for goods or services that the entity has transferred to a customer) and contract liabilities (an entity's obligations to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer). In applying the new model, the entity would follow the five-step process below:

(a) identify the contract with a customer.

(b) identify the performance obligations in the contract.

(c) determine the transaction price.

(d) allocate the transaction price to the performance obligations.

(e) recognise revenue when (or as) each performance obligation is satisfied.

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 generally required 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.

Further details on the foregoing and other selected current differences are described in the following table. The ASBJ considered developing a new comprehensive accounting standard for revenue recognition based on IFRS 15 *Revenue from Contracts with Customers.* In March 2018, the ASBJ issued the *Accounting Standard for Revenue Recognition*, etc. The 'Recent changes－JP GAAP' section at the end of this chapter covers these developments in further detail.

Standard	Issue	IFRS	JP GAAP
IFRS 15 *Revenue from Contracts with Customers*			
IFRS 15	The core principle	The core principle of IFRS 15 is that an entity recognises revenue to depict a transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognised by applying the following 5 steps: Step 1: Identify the contract(s) with a customer Step 2: Identify the performance obligations in the contract Step 3: Determine a transaction price Step 4: Allocate the transaction price to the performance obligations in the contract Step 5: Recognise revenue when (or as) the entity satisfies the performance obligation (IFRS 15.IN7)	There are no comprehensive accounting standards for revenue recognition. Revenue is recognised based on the 'Realisation principle', in which the related revenue is recognised only when goods are delivered or services are rendered.
IFRS 15	Accounting for non-monetary exchanges (barter transactions)	IFRS 15 would not apply to non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers (for example, a contract between two oil companies that agree to an exchange of oil to fulfil demand from their customers in different specified locations on a timely basis). (IFRS 15.5)	There is no specific guidance.

Standard	Issue	IFRS	JP GAAP
IFRS 15	Identifying the contract	A contract is an agreement between two or more parties that creates enforceable rights and obligations. Contracts can be written, oral or implied by an entity's customary business practices. An entity should account for a contract with a customer only when all of the following criteria are met: • the parties to the contract have approved the contract and are committed to perform their respective obligations; • the entity can identify each party's rights regarding the goods or services to be transferred; • the entity can identify the payment terms for the goods or services to be transferred; • the contract has commercial substance; and • it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. (IFRS 15.9, 10)	There is no specific guidance.
IFRS 15	Collectability	Revenue is recognised to the extent that it is probable that an entity will collect the consideration for goods or services that are transferred to a customer. In evaluating collectability, the entity should consider the customer's ability and intention to pay that amount of consideration when it is due. If the consideration includes a variable amount because of price concessions and others, the entity should estimate the transaction price. Variable considerations should be included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. (IFRS 15.9, 50, 56, Example 1)	There is no specific guidance. One of the criteria of the 'Realisation principle' is that the amount of consideration is received or receivable.

Standard	Issue	IFRS	JP GAAP
IFRS 15	Combination of contracts	An entity should combine two or more contracts entered into at or near the same time with the same customer (or related parties of the customer) and account for the contracts as a single contract if one or more of the following criteria are met: • the contracts are negotiated as a package with a single commercial objective; • the amount of consideration to be paid in one contract depends on the price or performance of the other contract; or • the goods or services promised in the contracts (or some goods or services promised in each of the contracts) are a single performance obligation in accordance with guidance for identifying performance obligations. (IFRS 15.17)	There is no specific guidance. The unit of account for construction contract accounting should be on a transaction basis in order to reflect the substance of the mutual agreement in the construction contract. A transaction containing multiple contracts may need to be combined. Make-to-order software will also be treated according to the guidance for construction contracts.

Standard	Issue	IFRS	JP GAAP
IFRS 15	Contract modifications	A contract modification exists when the parties approve a modification that either creates new or changes existing enforceable rights and obligations. A contract modification could be approved in writing, oral agreement or implied by customary business practices. An entity should account for a contract modification as a separate contract if both of the following conditions are present: • the scope of the contract increases because of the addition of promised goods or services that are distinct; and • the price of the contract increases by an amount of consideration that reflects the entity's stand-alone selling prices of the additional promised goods or services and any appropriate adjustments to that price to reflect the circumstances of the particular contract. If a contract modification is not accounted for as a separate contract, it should be treated as follows: • If the remaining goods or services are distinct from the goods or services transferred on or before the date of contract modification, the contract modification should be accounted for as a termination of the existing contract and the creation of new contract; or • If the remaining goods or services are not distinct from the goods or services transferred on or before the date of contract modification and, therefore, form part of a single performance obligation that is partially satisfied at the date of the contract modification, an adjustment to revenue should be recognised on a cumulative catch-up basis. • If the remaining goods or services are a combination of the two items above, the effects of the contract modification on the unsatisfied (including partially unsatisfied) performance obligations in the modified contract should be accounted for in a manner that is consistent with the objectives of the contract modification. (IFRS 15.18, 20, 21)	There is no specific guidance. If modification of construction contracts are substantively agreed by the parties to the contract (and the modification are not recognised in a different unit of account from the original construction contract), such modification should be accounted for as changes in estimate. In such a case, the effects of changes should be recognised as profit or loss in the period when such changes are made. The modification is made in terms of consideration of the contract only when the substantive agreement between the parties to the contract exists and the consideration is reliably estimated in accordance with the agreement.

Standard	Issue	IFRS	JP GAAP
IFRS 15	Identifying performance obligation	At contract inception, an entity should assess goods or services promised in a contract with a customer and should identify each promise to transfer either of the following to the customer as a performance obligation: • a good or service (or a bundle of goods or services) that is distinct; or • a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. If a good or service that is promised to a customer in a contract is distinct, it is a separate performance obligation. A good or service is distinct if both of the following criteria are met: • The customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer, and • The entity's promise to transfer the good or service is separately identifiable from other promises in the contract. However, a series of distinct goods or services should be identified as a performance obligation as a whole, if they are substantially the same and if both of the following criteria are met: • each distinct good or service in the series that the entity promises to transfer to the customer would be a performance obligation satisfied over time; and • the same method would be used to measure the entity's progress towards complete satisfaction of the performance obligation to transfer each distinct good or service in the series to the customer. A performance obligation can be a unit of account for revenue recognition. (IFRS 15.22, 23, 27, 31)	There is no specific guidance on identifying a separate performance obligation. When multiple software transactions with different timings of revenue recognition are combined in a contract and the details and prices of each good or service sold are specified in that contract and such arrangements are understood between an entity and its customer, revenue would be recognised when each good is delivered or for the contractual period when each service is provided. The unit of account for construction contract accounting should be on a transaction basis in order to reflect the substance of the mutual agreement in the construction contract.

Standard	Issue	IFRS	JP GAAP
IFRS 15	Principal versus agent considerations	An entity is a principal if the entity controls the specified good or service before the entity transfers the good or service to a customer. However, an entity is not necessarily control a specified good if the entity obtains legal title to that good only momentarily before legal title is transferred to a customer. On the other hand, an entity is an agent if the entity's performance obligation is to arrange for the provision of the specified good or service by another party. An entity that is an agent does not control the specified good or service provided by another party before that good or service is transferred to the customer. Accounting for these arrangements should be the following: • a principal recognises revenue in the gross amount of consideration; and • an agent recognises revenue in the net amount of consideration. Indicators that an entity controls the specified good or service before it is transferred to the customer (and is therefore a principal) include, but not limited to, the following: • the entity is primarily responsible for fulfilling the promise to provide the specified good or service. • the entity has inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer (for example, if the customer has a right of return). • the entity has discretion in establishing the price for the specified good or service. (IFRS 15.26, B34-B37)	There is no specific guidance. It is considered not to be appropriate that revenue for software transaction is presented in the gross amount if the entity is not exposed to various risks in the course of ordinary purchases and sales activities (e.g. guarantee against defects, inventory risk, credit risk, etc.)

Standard	Issue	IFRS	JP GAAP
IFRS 15	Determination timing of revenue recognition	An entity should recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset. Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits (i.e. potential cash inflows or savings in cash outflows that can be obtained directly or indirectly in many ways) from, an asset. Transfer of control of goods or services (satisfaction of the performance obligation) by an entity falls into the following two categories and revenue should be recognised in different ways. An entity should determine in which of the following its performance obligation should be categorised: • a performance obligation satisfied at a point in time; or • a performance obligation satisfied over time. An entity satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met: • the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs; • the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or • the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date. If none of the above criteria is met, revenue would be recognised at a point in time. (IFRS 15.31-33, 35, 38)	There is no specific guidance. For construction contracts, the percentage-of-completion method should be applied when the outcome of the construction activity is deemed certain during the course of the activity, otherwise the completed-contract method should be applied.

Standard	Issue	IFRS	JP GAAP
IFRS 15	Timing of revenue recognition for sale of goods	Sale of goods usually does not qualify for a performance obligation satisfied over time. Consequently, it will often be accounted for as a performance obligation satisfied at a point in time. In this case, an entity recognises revenue when it satisfies a performance obligation by transferring a promised good to a customer. A good is considered to be transferred once the customer obtains control of the good. Indicators of the transfer of control include, but are not limited to, the following: • the entity has a present right to payment for the asset. • the customer has legal title to the asset. • the entity has transferred physical possession of the asset. • the customer has the significant risks and rewards of ownership of the asset. • the customer has accepted the asset. (IFRS 15.IN7(e), 31, 32, 38)	There is no specific guidance. Revenue is recognised based on the ‘Realisation principle.’

Standard	Issue	IFRS	JP GAAP
IFRS 15	Revenue recognition for services providing arrangements	An arrangement that provides a service usually qualifies for a performance obligation satisfied over time. Consequently, it will often be accounted for as such. In this case, an entity recognises revenue over time by measuring the progress towards complete satisfaction of that performance obligation. Methods that can be used to measure the progress to depict the performance in transferring control of promised goods or services to a customer include the following: • Output method: revenue is recognised on the basis of direct measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services promised under the contract (for example, units produced or units delivered, milestones in the contract, or surveys of performance completed to date, etc.). • Input method: revenue is recognised on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation (for example, costs incurred, labour hours expended, time elapsed or machine hours used, etc.). However, in some circumstances (for example, in the early stages of a contract), if the progress cannot be measured reliably even though the costs are expected to be recovered, the entity should recognise revenue only to the extent of that cost incurred. (IFRS 15.IN7(e), 35-37, 39, 41, 45, B14, B15, B18)	There is no specific guidance. If an entity provides services continually under a certain contract, revenue should be recognised based on the passage of time. For construction contracts, the percentage-of-completion method should be applied when the outcome of the construction activity is deemed certain during the course of the activity. For the certainty of the outcome to be confirmed, all of the following should be estimated reliably: • total amount of construction revenue; • total amount of construction costs; and • percentage of completion for the portion progressed at the balance sheet date. If the certainty of the outcome cannot be confirmed, the completed-contract method should be applied.

Standard	Issue	IFRS	JP GAAP
IFRS 15	Timing of revenue recognition for sales with a right of return	When an entity determines that control of products sold is transferred to the customer, the entity should recognise revenue for transferred products in the amount of consideration to which the entity expects to be entitled. Therefore, revenue would not be recognised for the products expected to be returned. A refund liability should be recognised for the amount expected to be returned to customers. An entity should update the measurement of the refund liability for changes in expectations about the amount of refunds at the end of each reporting period. An entity should recognise an asset for its right to recover products from customers on settling a refund liability and corresponding adjustment to cost of sales. The asset should be measured by reference to the former carrying amount of the products less any expected costs to recover the products. An entity should update the measurement of the asset at the end of each reporting period. (IFRS 15.38, 55, 56, B20-B25)	In Note 18 of *Business Accounting Principles* (BAP), an allowance for sales return is considered as one example of a provision but no specific guidance exists. Allowances are recognised based on the general principles of the provision in Note 18 of BAP. In practice, the amount of gross margin for sales return expected on and after the end of reporting periods is recognised as an allowance for sales returns based on actual returns in prior periods and other relevant factors.
IFRS 15	Amounts collected on behalf of third parties	The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (i.e. certain sales taxes). (IFRS 15.47)	There is no specific guidance. For consumption taxes, it is appropriate that revenue is presented net, but it is also acceptable that revenue is presented gross if an entity determines that such presentation is reasonable from the entity's business type, category and other factors.

Standard	Issue	IFRS	JP GAAP
IFRS 15	Customer options for additional goods or services	If, in a contract, an entity grants a customer the option to acquire additional goods or services, and the option provides a material right to the customer that it would not receive without entering into that contract (for example, a discount that is incremental to the range of discounts typically given for those goods or services to that class of customer in that geographical area or market), the option should be treated as a performance obligation. Such option include sales incentives, customer loyalty programs, customer award credits (or points), contract renewal options or other discounts for future goods or services. In this case, the customer in effect pays the entity in advance for the material right related to future goods or services. Therefore, an entity allocates the transaction price to the option and recognises revenue for that amount, when those additional goods or services are transferred to customers or when the option expires. (IFRS 15.26, 74, B39, B40, B43)	There is no specific guidance. For points to be awarded to customers, the transaction price is generally not allocated to the points at the time of initial revenue recognition, rather the entire revenue is recognised. The allowance for the points expected to be used in the future is recorded at the end of each reporting period.
IFRS 15	Variable considerations	If the consideration promised in a contract is variable (such as discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, etc.), an entity should estimate the amount of consideration to which it will be entitled in exchange for transferring the promised goods or services to a customer, by using either of the expected value or most likely amount methods, whichever the entity expects to better predict the amount of consideration. An entity should include in the transaction price some or all of an amount of variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. (IFRS 15.50-56)	There is no specific guidance.

Standard	Issue	IFRS	JP GAAP
IFRS 15	Accounting for cash rebates	If a contract contains a significant financing component, in principle, an entity should adjust the promised amount of consideration for the effects of the time value of money. As a practical expedient, an entity need not adjust the promised amount of consideration if the entity expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less. (IFRS 15.60, 61, 63)	Cash rebates are presented as non-operating expenses.
IFRS 15	Accounting for consideration that is collected over a long time (more than one year)	If a contract contains a significant financing component, in principle, an entity should adjust the promised amount of consideration for the effects of the time value of money. In our view, instalment sale transaction contains a significant financing component. (IFRS 15.60, 61)	Accounts receivable (including notes receivable) that contain a significant amount of interest are recognised at their present value at the time of acquisition; the interest portion is separated and included in profit or loss for the period, until the settlement date, using the amortised cost method (interest method or straight-line method). The revenue for instalment sales in principle can be recognised when the goods are delivered but the entity also can elect to recognise the revenue when cash is collected or when payment is due.
IFRS 15	Consideration payable to customer	An entity should account for consideration payable to a customer as a reduction of the transaction price and, therefore, of revenue unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the entity. If the consideration payable to a customer includes a variable amount, an entity should determine the transaction price in accordance with the guidance for estimating variable consideration (including assessing whether the estimate of variable consideration is constrained). (IFRS15.70)	There is no specific guidance. In practice, consideration payable to a customer is presented as either a deduction from revenue or an operating expense.

Standard	Issue	IFRS	JP GAAP
IFRS 15	Allocating transaction price	Transaction price is allocated to each performance obligation on a relative stand-alone selling price basis. The best evidence of a stand-alone selling price is the observable price of a good or service when an entity sells that good or service separately in similar circumstances and to similar customers. If a stand-alone selling price is not directly observable, an entity should consider all information (including market conditions, entity-specific factors and information about the customer or class of customer) that is reasonably available to the entity and maximise the use of observable inputs to estimate the stand-alone selling price. Suitable methods for estimating the stand-alone selling price of a good or service include, but are not limited to, the following: • Adjusted market assessment approach • Expected cost plus a margin approach • Residual approach However, an entity may use the residual approach to estimate the stand-alone selling price of a good or service only if one of the following criteria is met: • the entity sells the same good or service to different customers (at or near the same time) for a broad range of amounts (i.e. the selling price is highly variable because a representative stand-alone selling price is not discernible from past transactions or other observable evidence); or • the entity has not yet established a price for that good or service and the good or service has not previously been sold on a stand-alone basis (i.e. the selling price is uncertain). Generally, an entity should allocate a discount proportionately to all performance obligations in a contract. However, if certain criteria are met, an entity should allocate a discount entirely to one or more, but not all, performance obligations in the contract. (IFRS 15.73, 74, 76-79, 81, 82)	When multiple software transactions with different timings of revenue recognition are combined in a contract and the details and prices of each good or service sold are specified in that contract and such arrangements are understood between an entity and its customer, an entity should allocate the total consideration in the contract in an appropriate manner and then recognise revenue for each. There is no specific guidance other than for software transactions.

Standard	Issue	IFRS	JP GAAP
IFRS 15	Contract costs	The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (for example, a sales commission), and should be recognised as an asset if the entity expects to recover those costs. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained should be recognised as an expense when incurred. If the costs incurred in fulfilling a contract with a customer are not within the scope of another standard (for example, IAS 2 *Inventories*, IAS 16 *Property, Plant and Equipment* or IAS 38 *Intangible Assets*), an entity should recognise an asset from the costs incurred to fulfil a contract only if all of the following criteria are met: • the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify; • the costs generate or enhance resources of the entity that will be used in satisfying performance obligations in the future; and • the costs are expected to be recovered. An asset recognised for incremental costs of obtaining a contract and costs incurred in fulfilling a contract with a customer should be amortised on a systematic basis that is consistent with the transfer to the customer of goods or services to which the asset relates. Impairment loss is recognised in profit or loss as necessary. As a practical expedient, an entity may recognise the incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the asset is one year or less. (IFRS 15.91-95, 99, 101)	There is no specific guidance.

Standard	Issue	IFRS	JP GAAP
IFRS 15	Customer's unexercised rights (including vouchers)	Upon receipt of a prepayment from a customer, an entity should recognise a contract liability in the amount of the prepayment for its performance obligation to transfer, or to stand ready to transfer, goods or services in the future. An entity should derecognise that contract liability (and recognise revenue) when it satisfies its performance obligation. If an entity expects to be entitled to an amount of a breakage (i.e. unexercised rights of the customers when they may not exercise all of their contractual rights) in a contract liability, the entity should recognise the expected breakage amount as revenue (derecognise the contract liability) in proportion to the pattern of rights exercised by the customer. If an entity does not expect to be entitled to a breakage amount, the entity should recognise the expected breakage amount as revenue (derecognise the contract liability) when the likelihood of the customer exercising its remaining rights becomes remote. (IFRS 15.B44-B46)	There is no specific guidance.
IFRS 15	Non-refundable upfront fee	A non-refundable upfront fee relates to an activity that an entity is required to undertake at or near contract inception to fulfil the contract, however, it is not a performance obligation because that activity does not result in a transfer of a promised good or service to a customer (for example, joining fees in health club membership contracts and set-up fee in some service contracts). If an upfront fee is non-refundable and is an advance payment for future goods or services, it should be recognised as revenue when those goods or services are provided. (IFRS 15.B48, B49)	There is no specific guidance.

Standard	Issue	IFRS	JP GAAP
IFRS 15	Accounting for licensing revenue	An entity should determine whether a licence is distinct from other goods or services in a contract. If a licence is not distinct from other goods or services promised in a contract, an entity should account for the licence and those goods or services together as a single performance obligation. Examples of licences that are not distinct include a licence that forms a component of a tangible good and that is integral to the functionality of the good (such as software installed on hardware) and a licence that a customer can benefit from only in conjunction with a related service (such as an online service provided by the entity that enables the customer to access content). If the licence is distinct from other goods or services, an entity should determine the nature of the entity's promise in granting the licence to a customer as a performance obligation and recognise revenue either at a point in time or over time (throughout the license period etc.). • If a licence is a right to use the entity's intellectual property, a customer can direct the use of, and obtain substantially all of the remaining benefits from, the licence at the point in time at which the licence is granted and thus an entity recognises revenue for the performance obligation satisfied at a point in time. • If a licence is a right to access the entity's intellectual property, the customer will simultaneously receive and consume the benefit from the entity's performance of providing access to its intellectual property as the performance occurs and thus an entity recognises revenue for the performance obligation satisfied over time throughout the licence period. A licence is a promise to provide a right to access the entity's intellectual property if all of the following criteria are met: • the contract requires, or the customer reasonably expects, that the entity will undertake activities that significantly affect the intellectual property to which the customer has rights; • the rights granted by the licence directly expose the customer to any positive or negative effects of the entity's activities for the intellectual property; and • those activities do not result in the transfer of a good or a service to the customer as those activities occur. (IFRS 15.B54, B56-B61)	There is no specific guidance.

Standard	Issue	IFRS	JP GAAP
IFRS 15	Accounting for a sales-based or usage-based royalty from intellectual properties	An entity should recognise revenue for a sales-based or usage-based royalty promised in exchange for a licence of intellectual property only when (or as) the later of the following events occurs: • the subsequent sale or usage occurs; and • the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied). In this case, the guidance for constraining estimates of variable consideration is not applied. (IFRS 15.58, B63-B63B)	There is no specific guidance.
IFRS 15	Timing of revenue recognition for goods for trial or evaluation purposes	If an entity delivers products to a customer for trial or evaluation purposes and the customer is not committed to pay any consideration until the trial period lapses, the entity should not recognise revenue for the sales until either the customer accepts the product or the trial period lapses. This is because the entity cannot determine that the customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the good or service, and the control of the asset is not transferred to the customer. (IFRS 15.B85, B86)	Revenue is not recognised until a customer indicates her/his intention to purchase the good or service.
IFRS 15	Timing of revenue recognition for arrangement that require customer acceptances	A customer's acceptance of an asset is one of the indicators for the customer obtaining control of the asset. If an entity cannot objectively determine that a good or service provided to a customer is in accordance with the agreed-upon specifications in a contract, then the entity would not be able to conclude that the customer has obtained control until the entity receives the customer's acceptance. That is because in that circumstance the entity cannot determine that the customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the good or service, and that the control of the asset is transferred to the customer. (IFRS 15.38, B83-B85)	There is no specific guidance.

Standard	Issue	IFRS	JP GAAP
IFRS 15	Sales on repurchase agreements	If an entity has an obligation or a right to repurchase the asset (a forward or a call option), the entity should account for the contract as either of the following: • a financing arrangement (if the entity can or must repurchase the asset for an amount that is equal to or more than the original selling price of the asset); or • a lease (if the entity can or must repurchase the asset for an amount that is less than the original selling price of the asset). If an entity has an obligation to repurchase the asset at the customer's request (a put option), the entity should account for the contract as the following: • If the customer has a significant economic incentive to exercise that right (e.g. the repurchase price is expected to significantly exceed the market value of the asset), the entity should account for the agreement as the following: – a financing arrangement (if the entity has an obligation to repurchase the asset for an amount that is equal to or more than the original selling price of the asset); or – a lease (if the entity has an obligation to repurchase the asset for an amount that is less than the original selling price of the asset). • If the customer does not have a significant economic incentive to exercise its right, the entity should account for the agreement as if it were the sale of a product with a right of return. (The entity should account for the contract as a lease in accordance with IFRS 16 *Leases* if the entity has an obligation to repurchase the asset for an amount that is less than the original selling price of the asset, unless the contract is part of a sale and leaseback transaction.) (IFRS 15.38, B64, B66, B70-B74)	There is no specific guidance.

Standard	Issue	IFRS	JP GAAP
IFRS 15	Timing of revenue recognition for sales on consignment agreements	In a consignment arrangement, it is normally considered that control of consigned good remains with consignor until consignee sells the product to end customers, until the good is consumed in manufacturing process or until a specified period expires. Accordingly, an entity should not recognise revenue in a consignment arrangement until the consignee sells or consumes the product or until a specified period expires. Indicators that an arrangement is a consignment arrangement include, but are not limited to, the following: • the product is controlled by the entity until a specified event occurs (such as the sale of the product to a customer of the dealer) or until a specified period expires; • the entity is able to require the return of the product or transfer the product to a third party (such as another dealer) (i.e. control of the product has not been transferred to the dealer); and • the dealer does not have an unconditional obligation to pay for the product. (IFRS 15.38, B77, B78)	The consignor's revenue is recognised on the date when the consignee sells the consigned goods to its customers. However, if a sales statement is sent from the consignee each time the consignee sells, the consignor can recognise revenue when it receives the sales statement as a practical expedient.

Standard	Issue	IFRS	JP GAAP
IFRS 15	Sales to intermediaries	When an entity delivers a product to an intermediary for sale to end customers, the entity should evaluate the indicators that are the same as consignment sales arrangements, and should not recognise revenue if control of such product has not been transferred to the intermediary. (IFRS 15.B77, B78)	There is no specific guidance.
IFRS 15	Sales on bill-and-hold arrangement	For a customer to have obtained control of a product in a bill-and-hold arrangement, an entity should consider indicators of the transfer of control and all of the following criteria must be met: • the reason for the bill-and-hold arrangement must be substantive (for example, the customer has requested the arrangement); • the product must be identified separately as belonging to the customer; • the product currently must be ready for physical transfer to the customer; and • the entity cannot have the ability to use the product or to direct it to another customer. If an entity can determine that control of the product has been transferred to a customer, it should recognise the revenue. (IFRS 15.B81)	There is no specific guidance.
IFRS 15	Contract assets and liabilities	Contract assets and contract liabilities are recognised other than receivables and payables, depending on the timing of revenue recognition. • A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than passage of time (for example, the entity's future performance). • A contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer. Impairment of contract assets should be measured, presented and disclosed on the same basis as financial assets that are within the scope of IFRS 9 *Financial Instruments*. (IFRS 15.105-109, Appendix A)	For construction contracts, unbilled receivable is recognised as a result of applying the percentage-of-completion method and considered to be a financial asset. There is no specific guidance other than for construction contracts.

Standard	Issue	IFRS	JP GAAP
IFRS 15	Warranties	If a customer has the option to purchase a warranty separately, an entity should account for the promised warranty as a performance obligation. If a customer does not have the option to purchase a warranty separately, an entity should account for the warranty as a provision of expenses in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* unless the promised warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications. If the promised warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications, the warranty should be accounted for as a performance obligation. In assessing whether a warranty provides a customer with a service in addition to the assurance or not, the following factors should be considered: • whether the warranty is required by law. • the length of the warranty coverage period. • the nature of the tasks that the entity promises to perform. (IFRS 15.22, B28-B32)	There is no specific guidance.
IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*			
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 attaching 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 is no specific guidance. In practice, revenue is recognised at the time when the entity receives the government grant.
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 IFRS 9 *Financial Instruments*) and the proceeds received. (IAS 20.10A)	There is no specific guidance.

Standard	Issue	IFRS	JP GAAP
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 is no specific guidance. In practice, revenue is generally recognised at the time 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. • Calculating the carrying amount of the asset by deducting the grant. (IAS 20.24-27)	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 is no specific guidance.

JP GAAP References:

- Accounting Standard for Construction Contracts
- Guidance on Accounting Standard for Construction Contracts
- 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
- Audit Treatment for Compressed Entry
- Guidance on Accounting Standard for Statement of Changes in Net Assets

Recent developments

Recent changes - JP GAAP

Accounting Standard for Revenue Recognition, etc.

In March 2018, the ASBJ issued the *Accounting Standard for Revenue Recognition, etc.* (2018 Standard) as a comprehensive accounting standard for revenue recognition in Japan based on IFRS 15 *Revenue from Contracts with Customers*.

The 2018 Standard was developed based on IFRS 15, as a starting point in order for the comparability of financial statements among domestic and foreign companies. However, noting the 2018 Standard was developed as part of JP GAAP, the Standard added the following alternative treatments for certain areas to consider existing Japanese accounting practices, to the extent that comparability is not impaired.

- Provide an exemption for immaterial contract modifications
- Provide an exemption for immaterial goods or services in terms of contracts with customers
- Allow accounting policy choice for shipping and handling activities
- Provide exemptions for construction contracts and make-to-order software where the contract term is very short
- Provide an exemption for transportation services by ship
- Allow entities to recognise revenue on a shipping basis for certain situations
- Provide an exemption for cost recovery basis at the early stage of contract
- Allow the use of the residual approach for immaterial goods or services
- Provide exemptions for the unit of account of revenue recognition based on contract and the related allocation of transaction price
- Provide exemptions for the unit of account of revenue recognition for construction contracts and make-to-order software
- Supply and purchase arrangement

The 2018 Standard is effective for annual reporting periods beginning on or after 1 April 2021, with early application permitted.

Recent proposals - JP GAAP

*Exposure Draft: Proposed amendments to Accounting Standard for Revenue Recognition, etc.**

In October 2019, the ASBJ published the Exposure Draft which proposed amendments to the *Accounting Standard for Revenue Recognition, etc*.

The 2018 Standard provides minimum disclosure requirements in the notes in case of applying it before the effective date. The Exposure Draft proposed to incorporate almost all the presentation and disclosure requirements of IFRS 15, similar to the accounting requirements.

* In March 2020, the ASBJ issued the amendments to the *Accounting Standard for Revenue Recognition, etc*. (2020 Standard). The 2020 Standard is effective for annual reporting periods beginning on or after 1 April 2021, with early application permitted.

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 the following, provided the specific vesting conditions, if any, are met

- 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 recognition and measurement principles and specific requirements for the following three types of share-based payment transactions:

(a) equity-settled share-based payment transactions;

(b) cash-settled share-based payment transactions; and

(c) share-based payment transactions with cash alternatives.

Under JP GAAP, the *Accounting Standard for Share-based Payment* and the *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 granted to its employees, which are essentially defined as (a) equity-settled share-based payment transactions under IFRS 2. There is no guidance on cash-settled share based payment transactions or share-based payment transactions with cash alternatives. 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 the following types of equity-settled share-based payment transactions: • an entity grants share options to its employees; • an entity grants its own equity share options as consideration when acquiring goods or services; and • an entity grants its own equity shares as consideration when acquiring goods or services. *Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions, etc.* covers transactions in which an entity grants to its employees share options with vesting conditions in exchange for payment of a certain amount of cash by its employees. There is no specific guidance for other types of 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 an employee) agree to a share-based payment arrangement. (IFRS 2.Appendix A)	The grant date is defined as the date at which share options are granted. Under the *Companies Act*, the grant date is referred to as an allotment date of offered subscription rights to shares.
IFRS 2	Grant date and service commencement date	The grant date might occur after the employees to whom the equity instruments were granted have begun rendering services. In this situation, 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 grant date 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 is no specific guidance.

Standard	Issue	IFRS	JP GAAP
IFRS 2	Share options with graded vesting features	Where share options granted might vest in instalments over the vesting period, each instalment that has a different vesting period should be accounted for as a separate share option. (IFRS 2.IG11)	JP GAAP has similar guidance to IFRS, employee share options that have different vesting periods should be accounted for as separate share options. However, share options with graded vesting features may be accounted for as one single share option.
IFRS 2	Accounting for a transaction in which an entity grants its own equity share options to parties other than employees	For transactions with parties other than employees, the entity should measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received at the date the entity obtains the goods or the counterparty renders the service. In rare cases when the entity cannot estimate reliably the fair value of the goods or services received, the entity should measure the goods or services received indirectly, by reference to the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. (IFRS 2.7, 10, 13)	Goods or services acquired should be recorded as assets or expenses, with corresponding credit to subscription rights to shares. The entity should measure the acquisition cost of the goods or services at either: • the fair value of its own equity share options used as consideration; or • the fair value of the goods or services acquired, whichever is more reliable as at the grant date.
IFRS 2	Accounting for a transaction in which an entity grants its own equity shares to parties other than employees	For transactions with parties other than employees, the entity should measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received at the date the entity obtains the goods or the counterparty renders the service. In rare cases when the entity cannot estimate reliably the fair value of the goods or services received, the entity should measure the goods or services received indirectly, by reference to the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. (IFRS 2.7, 10, 13)	Goods or services acquired should be recorded as assets or expenses, with corresponding credit to paid-in capital. The entity should measure the acquisition cost of goods or services at either: • the fair value of its own equity share used as consideration; or • the fair value of the goods or services 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 (or will be) 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 is no specific guidance.

Standard	Issue	IFRS	JP GAAP
IFRS 2	Vesting conditions	A vesting condition is either a service condition or a performance condition and is defined as follows. <u>Service condition</u> A vesting condition that requires the counterparty to complete a specified period of service during which services are provided to the entity. <u>Performance condition</u> A vesting condition that requires: (a) the counterparty to complete a specified period of service (i.e. a service condition); the service requirement can be explicit or implicit; and (b) specified performance target(s) to be met while the counterparty is rendering the service required in (a). (The period of achieving the performance target(s) should not extend beyond the end of the service period. However they may start before the service period on the performance condition.) A performance target is defined by reference to: • the entity's own operations (or activities); or • the price (or value) of the entity's equity instruments or the equity instruments of another entity in the same group (including shares and share options) (i.e. a market condition). Non vesting conditions are conditions other than service and performance conditions. (IFRS 2 Appendix A)	A vesting condition is either a service condition or a performance condition and defined as follows. <u>Service condition</u> Conditions in terms of continuation of employment or execution of business duties provided by employees that are applicable to employee share options, vesting of which is subject to certain conditions. <u>Performance condition</u> Conditions in terms of achievement or non-achievement of certain performance measures (including share price) that are applicable to employee share options, vesting of which is subject to certain conditions. There is no specific guidance for distinguishing market conditions from other performance conditions based on the type of performance target. There is also no specific guidance for non-vesting conditions.
IFRS 2	Treatment of vesting conditions	Market conditions should be taken into account when estimating the fair value of the equity instruments at the measurement date. Vesting conditions, other than market conditions, should not be taken into account when estimating the fair value of the shares or share options at the measurement date. Instead, vesting conditions, other than market conditions, should be taken into account by adjusting the number of equity instruments that are expected to vest during the vesting period. (IFRS 2.19, 21, 33A, Appendix A)	When the stock option number is determined or remeasured, the number of forfeited options that are not vested (due to non-achievement of service conditions or performance conditions) or are expired or unexercised needs to be reflected in the number of the options that are expected to vest. There is no specific guidance for distinguishing between market conditions and non-market conditions.

Standard	Issue	IFRS	JP GAAP
IFRS 2	Treatment of the length of the vesting period which varies depending on when a performance condition is satisfied	If the length of the vesting period varies depending on when a performance condition is satisfied, the entity should presume that the services to be rendered by the employee as consideration for the share options will be received in the future, over the expected vesting period. If the vesting period is subject to change due to a market condition, the estimate of the length of the expected vesting period should be consistent with the assumptions used in estimating the fair value of the share options granted, and should not be subsequently revised. (IFRS2.15, IG14)	When a vesting condition is attached and the period required to satisfy the condition is not fixed, a date that can be reasonably estimated as the vesting date should be deemed to be the vesting date. If the vesting date cannot be reasonably estimated for some reason, such as with a certain market condition, and as a result such estimation is not performed, no requisite service period is considered to exist and the related expenses should be recorded as a lump sum on the grant date.
IFRS 2	Accounting for unexercised share options after vesting date	Having recognised the goods or services received, 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 if the vested equity instruments are later forfeited. However, this requirement does not preclude the entity from transferring within equity (i.e. a transfer from one component of equity to another). (IFRS 2.23)	When share options are unexercised after the vesting date, the portion of the amount recorded as subscription rights to shares corresponding to the unexercised expiration should be recognised as gain.
IFRS 2	Accounting treatment of equity instruments including share options when the fair value of the equity instruments cannot be estimated reliably	In rare cases, an 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 service and subsequently at the end of each reporting period and at the date of final settlement, with any change in intrinsic value recognised in profit or loss. (IFRS 2.24)	Non-public companies may account for share options based on the intrinsic value of share options per unit, instead of the fair value of the options per unit at the grant date. The intrinsic value per unit should be measured as of the grant date, and should not subsequently be remeasured.

Standard	Issue	IFRS	JP GAAP
IFRS 2	Accounting for modifications to the terms and conditions of equity instruments including share options	Changes in fair value of equity instruments If the modification increases the fair value of the equity instruments granted, the incremental fair value granted is included in the measurement of the amount recognised for services received over the period from the modification date until the date when the modified equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognised over the remainder of the original vesting period. 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 If the modification reduces the fair of the equity instruments granted, the entity should continue to measure the amount recognised for services received based on the grant date fair value of the equity instruments granted. Change in number of share options If the modification increases the number of equity instruments granted, the fair value of the additional equity instruments granted is measured at the date of the modification and the fair value of the additional equity instruments granted is included in the measurement of the amount recognised for services received over the period from the modification date until the date when the additional equity instruments vest, in addition to the amount based on the grant date fair value of the equity instruments originally granted. If the modification reduces the number of equity instruments granted to an employee, that reduction should be accounted for as a cancellation of that portion of the grant. Change in vesting conditions If the entity modifies the vesting conditions in a manner that is beneficial to the employee, for example, by reducing the vesting period, the entity should take the modified vesting conditions into account. If the entity modifies the vesting conditions in a manner that is not beneficial to the employee, for example, by increasing the vesting period, the entity should not take the modified vesting conditions into account. Change in classification from cash-settled to equity-settled If the terms and conditions of a cash-settled share-based payment transaction are modified with the result that it becomes an	Changes in fair value of share options per unit If the modification date fair value of share options per unit is greater than that on the grant date, the original expense that has been recognised until the modification date should be continued to be recognised based on the grant date fair value of share options per unit. Additionally, incremental expenses which relate to the increase in the fair value of share options corresponding to the excess of the modification date fair value of share options per unit over the grant date fair value of share options per unit should be recognised over the remaining period. If the fair value of share options per unit on the modification date is less than that on the grant date, the original expense measured based on the grant date fair value share options per unit should be continued to be recognised. Change in number of share options If modifications to the terms and conditions of employee share options cause a change in the share options number, the original expense that has been recognised until the modification date should be continued to be recognised. Additionally, any change in the fair value of share options corresponding to the change in the number of share options resulting from the modification should be recognised over the remaining vesting period of the share options based on a reasonable method. Change in service period The amount that had been expected to be expensed over the original remaining vesting period prior to the modifications should be expensed over the revised remaining vesting period based on a reasonable method.

Standard	Issue	IFRS	JP GAAP
		equity-settled share-based payment transaction, the transaction is accounted for as such from the date of the modification. The equity-settled share-based payment transaction is measured by reference to the fair value of the equity instruments granted at the modification date and recognised in equity on the modification date to the extent to which goods or services have been received. The liability for the cash-settled share-based payment transaction as at the modification date is derecognised on that date. Any difference between the carrying amount of the liability derecognised and the amount of equity recognised on the modification date is recognised immediately in profit or loss. (IFRS2.26, 27, B42-B44, B44A)	
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, any such excess should be recognised as an expense. (IFRS 2.28, 29)	There is no specific guidance. 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.

Standard	Issue	IFRS	JP GAAP
IFRS 2	Share-based payment with a net settlement feature for withholding tax	If under tax law or regulations, an entity is required to withhold the number of equity instruments equal to the monetary value of the employee's tax obligation from the total number of equity instruments and transfer that amount to the tax authority (i.e. the share-based payment arrangement has a 'net settlement feature'), it should be part of the share-based payment transaction that is classified in its entirety as equity-settled. (IFRS 2.33E-33H)	There is no specific guidance.
IFRS 2	Non-public entities	No practical expedient is prescribed for non-public entities. All entities are required to estimate fair values. With regard to estimating expected volatility used in option pricing models, IFRS 2 sets out alternative factors that unlisted entities are allowed to consider. (IFRS 2.B27-B30)	A non-public company may account for share options by using their estimated intrinsic value per unit, instead of their fair value per unit.
IFRS 2	Share-based payment transactions among group entities (rights to a parent's equity instruments granted to the employees of its subsidiary)	The parent accounts for the transaction as an equity contribution to the subsidiary, not as expenses. The subsidiary should measure the services received from its employees as compensation expense and recognise a corresponding increase in equity as a contribution from the parent. (IFRS 2.43B, 43C, B45, B53, B54)	A parent company should record the consumption of services received from its subsidiary's employees, in exchange for its own equity share options, as expenses in the parent company's separate financial statements. If such equity share options of the parent company are considered to be a part of the subsidiary's compensation to its employees, it should be recorded as an expense also in the separate financial statements of the subsidiary, with corresponding extraordinary gain from being exempt from compensation charges. If such options are not considered to be a part of the subsidiary's compensation to its employees, no accounting treatment is necessary in the subsidiary's separate financial statements.

JP GAAP References:

- Accounting Standard for Share-based Payment
- Guidance on Accounting Standard for Share-based Payment
- Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions, etc.

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 short-term employee benefits (e.g. wages, salaries, profit-sharing, bonuses and paid annual leave), post-employment benefits, other long-term benefits (e.g. long-term paid absence such as long-service) and termination 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 and interpreting the impact of minimum funding requirements. Share-based payments are addressed in IFRS 2 *Share-based Payment* and thus are outside of the scope of IAS 19.

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 *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.

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 when certain conditions are met. (IAS 19.13-18)	There is no specific guidance.
IAS 19 IFRIC 14	Defined benefit plans Recognition of prepaid pension assets (Asset ceiling)	When an entity has a surplus in a defined benefit plan, it should measure the net defined benefit asset at the lower of the surplus in the defined benefit plan and the 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 14.11-22)	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 Minimum funding requirements	Minimum funding requirements are any requirements to fund a post-employment or other long-term defined benefit plan. Such 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 14.2, 5, 23, 24)	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. This straight-line attribution is only during such a period that would otherwise lead to a materially higher level of benefits in earlier years and thus different from the straight-line basis under JP GAAP. (IAS 19.70)	JP GAAP 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.
IAS 19	Defined benefit plans Criteria for 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)	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 from the previous year end if the effect of the change is less than a certain materiality threshold.

<table>
<tr><th>Standard</th><th>Issue</th><th>IFRS</th><th>JP GAAP</th></tr>
<tr><td>IAS 19</td><td>Defined benefit plans

Treatment of the discount rate used to measure post-employment benefit obligations when the bond yield is negative</td><td>There is no specific guidance.</td><td>When bond yields are negative and are being used as a reference to determine the discount rate to measure post-employment benefit obligations, either a zero rate as the lower limit or the negative rate is used for discounting of pension liabilities.</td></tr>
<tr><td>IAS 19</td><td>Defined benefit plans

Accounting for actuarial gains and losses</td><td>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 arise and should not be reclassified to profit or loss in a subsequent period.

(IAS 19.122, 128)</td><td>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 separate financial statements, the requirements as described above would not be applied for the time being, with the previous requirements remaining applicable (i.e. actuarial gains or losses are not recorded on the balance sheet and will be recognised in profit or loss over a certain period not longer than the expected average remaining service period).</td></tr>
<tr><td>IAS 19</td><td>Defined benefit plans

Accounting for past service cost</td><td>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)</td><td>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 separate financial statements, the requirements as described above would not be applied for the time being, with the previous requirements remaining applicable (i.e. past service cost is not recorded on the balance sheet and will be recognised in profit or loss over a certain period not longer than the expected average remaining service period).</td></tr>
</table>

Standard	Issue	IFRS	JP GAAP
IAS 19	Defined benefit plans Expected rate of return	The concept of expected return on plan assets does not exist. Net interest expense or income is calculated by applying the discount rate to the net defined benefit liability (assets) of the plan. (IAS 19.123)	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 long-term return').
IAS 19	Defined benefit plans Estimates of mortality improvement	An entity should determine its mortality assumptions by reference to its best estimate. In order to estimate the ultimate cost of the benefit, an entity takes into consideration expected changes in mortality, for example by modifying standard mortality tables with estimates of mortality improvements. (IAS 19.81, 82)	There is no specific guidance.
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)	There is no specific guidance 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 an expense immediately as a component of service costs when they occur. Gains and losses on a settlement should be recognised as an expense immediately as a component of service costs when they occur. (IAS 19.102, 103, 109, 110)	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 recognised in profit or loss. Any increase or decrease in the retirement benefit obligations is regarded as past service costs (see above).
IAS 19	Defined benefit plans Application of a simplified method	There is no explicit guidance of a simplified method. However, estimates, averages and computational short cuts may provide a reliable approximation of the detailed computations, depending on an entity's pension plan and other circumstances. (IAS 19.60)	Small entities are allowed to apply a simplified method whereby an actuarial valuation method is not used, if it is difficult to make reliable estimates from actuarial calculation or if the accounting impact of defined benefit plans is not material.
IAS 19	Defined benefit plans Post-retirement benefit trust	As there is no specific guidance for the treatment of post-retirement benefit trusts, an entity should assess if the definition of plan assets is met.	Post-retirement benefit trusts are treated as pension assets when certain criteria are met.

Standard	Issue	IFRS	JP GAAP
IAS 19	Accounting for risk sharing pension plan	There is no specific guidance for a risk sharing pension plan. The risk sharing pension plan is classified as a defined contribution plan if the plan meets the definition of a defined contribution plan. Otherwise, the plan is classified as a defined benefit plan.	A risk sharing pension plan is classified as a defined contribution plan if in substance the employer has no obligation to pay additional contributions other than normal contribution, special contribution, and contributions for contingency reserves which are pre-determined under the terms of a pension plan. Otherwise, the plan is classified as a defined benefit plan.
IAS 19	Other long-term employee benefits	Employee benefits that are not expected to be settled wholly before 12 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)	There is no specific guidance.
IAS 19	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 that involves payment of termination benefits. (IAS 19.159, 165)	There is no specific guidance. .

JP GAAP References:

- Accounting Standard for Retirement Benefits
- Guidance on Accounting Standard for Retirement Benefits
- Guidance on Accounting for the Transfer between Retirement Benefits Plans
- Practical Solution on Accounting for Risk Sharing Pension Plan
- Practical Solution on the Tentative Solution Regarding the Discount Rate Used to Measure Post-employment Benefit Obligations When the Bond Yield is Negative

Assets—non-financial assets

Assets—non-financial assets

With regard to non-financial 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 non-financial assets under JP GAAP which is similar to IFRS. However, IFRS permits the revaluation of certain non-financial 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 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.

With regard to leases, a lessee classifies leases as finance leases that are on-balance sheet, or operating leases that are off-balance sheet under JP GAAP. Under IFRS, a lessee makes all the leases on-balance, in principle, based on the Right-of-Use model, and recognises right-of-use assets and lease liabilities on the statement of financial position in accordance with IFRS 16 *Leases* (effective for annual reporting periods beginning on or after 1 January 2019). However, a lessee may elect to use recognition exemptions for short-term leases and leases for which the underlying asset is of low value. On the other hand, the classification for leases by a lessor is similar under JP GAAP and IFRS, however the criteria are different. There are also some differences such as the treatment of a lease of land. In addition, under JP GAAP, there is no guidance for variable lease payments, sale and operating leaseback transactions, lease incentives and others, which may cause differences to IFRS in practice.

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. Inventories that are manufactured, or otherwise produced, over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets. Unlike JP GAAP, capitalisation under IFRS is not limited to costs for real estate development. Refer to the issue *Capitalisation of borrowing costs* for other differences between IFRS and JP GAAP relating to borrowing costs. (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 recognised as non-operating income.
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. On the other hand, in periods of abnormally high production, favourable variances are allocated to both the cost of sales and inventories. (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 inventories when such variances are caused by use of an inappropriate estimated cost rate.

Standard	Issue	IFRS	JP GAAP
IAS 2	By-products	When by-products are immaterial, they are often measured at net realisable value and this value is deducted from the cost of the main product. (IAS2.14)	When by-products are immaterial, consideration from the sale of them is recognised as revenue.
IAS 2	Cost formula (usage of last purchase 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 purchase 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 purchase 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. For inventories with a different nature or use, different cost formulas may be justified. (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 entities within the group; however, with regard to the valuation of inventories, use of a different cost formula is permitted.
IAS 2	Provisions for firm sales contracts in excess of inventory quantities held	Provisions may arise from firm sales contracts in excess of inventory quantities held or from firm purchase contracts, depending on the nature of contracts. Such provisions are dealt with under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. (IAS2.31)	There is no specific guidance.
IAS 2	Retail method and standard cost method	The retail method and the standard cost 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. The standard cost method is permitted in the cost accounting standards. (Standard cost has to be regularly reviewed and, if necessary, revised taking current conditions into account.)
IAS 2	Write down of raw materials	When a decline in the price of materials indicates that the cost of finished products in which the materials will be incorporated exceeds net realisable value, the materials are written down to the net realisable value. In such circumstances, the replacement cost of the materials may be the best available measure. (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.

Standard	Issue	IFRS	JP GAAP
IAS 2	Unit of 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.
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, property, plant and equipment (PPE) are 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 one year or more and above a certain amount are recognised as PPE.
IAS 16	Spare parts and servicing equipment	Items such as spare parts, stand-by equipment and servicing equipment are recognised as PPE when they meet the following criteria. PPE are tangible items that: • are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and • are expected to be used during more than one period. Otherwise, they are classified as inventories. (IAS 16.6, 8)	Tools, equipment and fixtures with a useful life of less than one 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.

Standard	Issue	IFRS	JP GAAP
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 is no specific guidance. 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	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	Taxes on the acquisition of PPE	Import duties and non-refundable purchase taxes (e.g. real estate acquisition 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 for purchase taxes. In some cases, import duties and real estate acquisition taxes are expensed. In practice, the tax treatment is often used.
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.

Standard	Issue	IFRS	JP GAAP
IAS 16 IAS 37 IFRIC 1	Frequency of ARO reassessment	An ARO is reassessed at the end of each reporting period. The following items may impact on the ARO: (a) changes in estimated future cash flows (b) changes in the market-based discount rate at the end of the reporting period (c) passage of time The changes of ARO due to (a) and (b) are adjusted to the cost of related PPE and the increase of ARO due to (c) is expensed as a financial cost. (IAS 16.16, 18) (IAS 37.59) (IFRIC 1.3, 5, 8)	(a) 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. (b) Unlike IFRS, the discount rate is not reassessed once a liability is recognised. (c) The increase of ARO due to passage of time is expensed when incurred, similar to IFRS. However, it is recognised under the same category as the depreciation expenses (i.e. operating expenses) and is not recognised as a financial cost.
IAS 16 IAS 37 IFRIC 1	ARO and rental deposit related to the asset	Unlike JP GAAP, there is no specific guidance 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 attributable to the current period instead of recognising ARO. The amount expensed is the amount that is not expected to be refunded.
IAS 16 IAS 23	Capitalisation of borrowing costs Identification of qualifying assets	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 a fixed asset and relate to the period before the asset starts running may be capitalised as part of the cost of that asset. However, capitalisation is rare in practice except for certain industries (e.g. power and railway industries).
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 is no specific guidance for general or specific borrowings.

Standard	Issue	IFRS	JP GAAP
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. An entity treats, as part of general borrowings, any borrowing originally made to develop an asset when the asset is ready for its intended use or sale. (IAS 23.12, 14)	There is no specific guidance 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 PPE	Either the cost model or revaluation model may be chosen and applied to an entire class of PPE. (IAS 16.29)	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 is no specific guidance. 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, after deducting certain costs such as the estimated costs of disposal, 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 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, the useful life 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 entity's situation. Such tax based useful life is often applied in practice.
IAS 16 IAS 8	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 accounting estimate and is reflected prospectively. (IAS 16.60-62) (IAS 8.36, 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 is no specific guidance 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 entity's situation, there is an indication that their continued use may be clearly unreasonable.
IAS 16	Ceasing depreciation of idle assets	Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. (IAS 16.55)	Depreciation of idle assets are not ceased. In principle, depreciation of idle assets is treated as non-operating expenses.

Standard	Issue	IFRS	JP GAAP
IFRS 16 *Leases*			
IFRS 16	Assessment of whether a contract is, or contains, a lease	Lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. There is detailed guidance for the assessment. (IFRS 16.9, B9-B31, Appendix A)	Lease is defined as a contract whereby a lessor, an owner of the leased asset, grants a lessee the right to use and benefit from the leased asset over the lease term and the lessee pays the lease payments to the lessor. There is no detailed guidance for the assessment.
IFRS 16	Reassessment of whether a contract is, or contains, a lease	A reassessment of whether a contract is, or contains, a lease is made only if the terms and conditions of the contract are changed. (IFRS 16.11)	There is no specific guidance.
IFRS 16	Separating components of a contract	The consideration allocated to non-lease components is not included in lease payments. • Lessee There is comprehensive guidance for a lessee to separate lease components and non-lease (service) components, and also to allocate the consideration in the contract to those components. As a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component. • Lessor A lessor should separate lease components and non-lease (service) components, and then allocate the consideration in the contract applying paragraphs 73-90 of IFRS 15, *Revenue from Contracts with Customers*. (IFRS 16.12-17, B32, B33, B56, B57)	There is no specific guidance except for that for maintenance expense. Maintenance expense is not included in the lease payments. However, when the proportion of the maintenance expense is immaterial to the total lease payments, the maintenance expense is not required to be excluded from the total lease payments.

Standard	Issue	IFRS	JP GAAP
IFRS 16	Allocation of considerations to components of an arrangement	The consideration in the contract is allocated to each lease component and the non-lease components based on the relative stand-alone price (lessee) or on the relative stand-alone selling price (lessor). For a lessor, in order to classify and account for a lease of land and buildings, lease payments are generally allocated between the land and the buildings in proportion to the relative fair values of the leasehold interests in the land and buildings of the lease at the inception date. (IFRS16.12-17, B32, B33, B56, B57) (IFRS15.76)	In order to classify and account for a lease of land and buildings, the lease payments are generally allocated between the land and the buildings based on reasonable methods.
IFRS 16	Combination of contracts	Two or more contracts entered into at or near the same time with the same counterparty (or related parties of the counterparty) are combined and should be accounted for as a single contract if one or more of the following criteria are met: • the contracts are negotiated as a package with an overall commercial objective that cannot be understood without considering the contracts together; • the consideration in one contract depends on the price or performance of the other contract; or • the rights to use underlying assets conveyed in the contracts form a single lease component. (IFRS 16.B2)	There is no specific guidance.
IFRS 16	Lease term	Lease term is defined as the non-cancellable period of a lease together with both: • periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and • periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. When assessing whether a lessee is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease, all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease should be considered. (IFRS 16.18, 19, B37-B40)	Lease term is defined as the non-cancellable period of a lease plus the period of the renewed lease contract if the lessee's intention to renew the lease contract is clear.

Standard	Issue	IFRS	JP GAAP
IFRS 16	Portfolio application	As a practical expedient, an entity may apply IFRS 16 to a portfolio of leases with similar characteristics if the entity reasonably expects that the effects on the financial statements would not differ materially from applying IFRS 16 on a lease-by-lease basis. (IFRS 16.B1)	There is no specific guidance.
IFRS 16	Lessee Classification of leases	A lessee should recognise right-of-use assets and lease liabilities for all leases (excluding exemptions for short-term leases and leases for which the underlying asset is of low value) without classifying the leases as finance leases or operating leases. (IFRS 16.5, 22)	A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. There is numerical criteria on 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.
IFRS 16	Lessee Short-term leases	A short-term lease is defined as a lease with a lease term of 12 months or less. A lessee may elect the recognition exemption for short-term leases whereby the lease payments are recognised as an expense on either a straight-line basis over the lease term or another systematic basis that is more representative of the pattern of the lessee's benefit. The lease term includes periods covered by an option to extend if the lessee is reasonably certain to exercise the extension option. A lease that contains a purchase option is not a short-term lease. (IFRS 16.5-8, Appendix A)	A finance lease whose lease term is one year or less may be accounted for in a manner similar to an operating lease.
IFRS 16	Lessee Leases for which the underlying asset is of low value	A lessee may elect the recognition exemption for leases for which the underlying asset is of low value whereby the lease payments are recognised as an expense on either a straight-line basis over the lease term or another systematic basis that is more representative of the pattern of the lessee's benefit. The above election can be made on a lease-by-lease basis. IFRS 16 does not define the term 'low value', but paragraph BC 100 in the Basis for Conclusions explains that the IASB had in mind leases of underlying assets with a value, when new, in the order of magnitude of US$ 5,000 or less. (IFRS 16.5, 6, 8, B3-B8, BC100)	The lessee may account for the following lease transactions in a manner similar to an operating lease; • lease transactions in which the total amount of lease payments is less than the base amount applied to insignificant depreciable assets if insignificant depreciable assets are expensed at the time of purchase • a finance lease that is qualitatively immaterial for the lessee's business, whose total lease payments for each lease contract is JPY 3 million or less, and whose title is not transferred to the lessee by the end of the lease term

Standard	Issue	IFRS	JP GAAP
IFRS 16	Lessee Lessee accounting	Refer to the issue *Lessee – Classification of leases* for lessee accounting.	A lessee of a finance lease recognises leased assets and corresponding obligations as lease assets and lease liabilities, respectively. A lessee of an operating lease recognises lease payments as expenses over the lease term.
IFRS 16	Lessee Initial measurement of a right-of-use asset and a lease liability	A right-of-use asset and a corresponding lease liability is measured at an amount equal to the present value of the lease payments during the lease term that are not yet paid. (IFRS 16.23, 24, 26)	For a finance lease without transfer of ownership (i.e. the title of the leased asset is not transferred to the lessee by the end of the lease term), lease assets and liabilities are recognised at the following amount; • if the purchase price of the lessor is known by the lessee, the lower of the present value of the total lease payments and the purchase price of the lessor; or • if the purchase price of the lessor is not known by the lessee, the lower of the present value of the total lease payments and an estimated cash purchase price. For a finance lease with transfer of ownership (i.e. the title of the leased asset is transferred to the lessee by the end of the lease term), lease assets and liabilities are recognised at the following amount; • if the purchase price of the lessor is known by the lessee, the purchase price of the lessor; or if the purchase price of the lessor is not known by the lessee, the lower of the present value of the total lease payments and an estimated cash purchase price.
IFRS 16	Lessee Initial direct costs	Initial direct costs are incremental costs of obtaining a lease that would not have been incurred if the lease had not been obtained (e.g. incremental costs that are directly attributable to negotiating and arranging a lease). Initial direct costs are included in the initial measurement of the right-of-use asset. (IFRS 16.24(c), Appendix A)	There is no specific guidance.
IFRS 16	Lessee Restoration costs	An estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease are included in the right-of-use asset, unless those costs are incurred to produce inventories. (IFRS 16.24(d), 25)	Restoration costs for the asset held on a finance lease are added to the carrying amount of the asset when they are considered to be an asset retirement obligation.

Standard	Issue	IFRS	JP GAAP
IFRS 16	Lessee Lease incentives received from a lessor	Lease incentives are payments made by a lessor to a lessee associated with a lease, or the reimbursement or assumption by a lessor of costs of a lessee. Any lease incentives received at or before the commencement date are excluded from the lease payments which are used for measuring the lease liability and are allocated over the lease term through amortisation of right-of-use assets. (IFRS 16.27(a), Appendix A)	There is no specific guidance.
IFRS 16	Lessee Variable lease payments	Variable lease payments that depend on an index or a rate are included in the lease payments which are used for measuring the lease liability (however, the other variable lease payments which are in-substance fixed payments are included in the lease payments). Other variable lease payments not included in the measurement of the lease liability are recognised in profit or loss in the period in which the event or condition that triggers those payments occurs, unless they are included in the carrying amount of another asset applying other applicable Standards. (IFRS 16.27(a)(b), 28, 38(b), B42)	There is no specific guidance.
IFRS 16	Lessee Residual value guarantee	Amounts expected to be payable by the lessee under residual value guarantees are included in the lease payments which are used for measuring the lease liability. (IFRS 16.27(c))	The maximum amount guaranteed by the lessee under a residual value guarantee is included in the lease payments.
IFRS 16	Lessee Lessee's purchase option	The exercise price of a purchase option is included in the lease payments which are used for measuring the lease liability if the lessee is reasonably certain to exercise the option. When assessing whether a lessee is reasonably certain to exercise a purchase option, all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option should be considered. (IFRS 16.27(d), B37-B40)	If it is certain that the purchase option will be exercised, the exercise price of the purchase option is included in the total lease payment. In this case, the finance lease is a finance lease with transfer of ownership.
IFRS 16	Lessee Lessee's payments of penalties for terminating leases	Payments of penalties for terminating the lease are included in the lease payments which are used for measuring the lease liability, if the lease term reflects the lessee exercising an option to terminate the lease. (IFRS 16.27(e))	There is no specific guidance.

Standard	Issue	IFRS	JP GAAP
IFRS 16	Lessee Depreciation method	A lessee should apply the depreciation requirements in IAS 16 *Property, Plant and Equipment* in depreciating the right-of-use asset. (IFRS 16.31)	For a finance lease without transfer of ownership, the depreciation method may be different from that for depreciable assets owned by the lessee if the chosen method reflects the circumstances of the lessee. For a finance lease with transfer of ownership, the depreciation method should be the same with that for depreciable assets owned by the lessee.
IFRS 16	Lessee Depreciation period	The depreciation period of the right-of-use asset is from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the depreciation period of the right-of-use asset is from the commencement date to the end of the useful life of the underlying asset. (IFRS 16.32)	For a finance lease without transfer of ownership, the depreciation period is the lease term, including the period of the renewed lease contract if the lessee's intention to renew the lease contract is clear. For a finance lease with transfer of ownership, the depreciation period is the useful life of the leased asset.
IFRS 16	Lessee Reassessment of the lease liability	A lessee should remeasure the lease liability to reflect changes to the lease payments as an adjustment to the right-of-use asset in any of the following cases: • there is a change in the lease term; • there is a change in the assessment of whether it is reasonably certain for the lessee to exercise a purchase option; • there is a change in the amounts expected to be payable under a residual value guarantee; or • there is a change in the future payments resulting from a change in an index or a rate used to determine those payments. (IFRS 16.36(c), 39-43)	There is no specific guidance.

Standard	Issue	IFRS	JP GAAP
IFRS 16	Lessee Lease modifications	A lease modification is defined as a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease (for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term). A lessee should account for a lease modification as a separate lease if both: • the modification increases the scope of the lease by adding the right to use one or more underlying assets; and • the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract. For a lease modification that is not accounted for as a separate lease, the lessee should account for the remeasurement of the lease liability by: • decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The lessee should recognise in profit or loss any gain or loss relating to the partial or full termination of the lease. • making a corresponding adjustment to the right-of-use asset for all other lease modifications. (IFRS 16.44-46, Appendix A)	There is no specific guidance.

Standard	Issue	IFRS	JP GAAP
IFRS 16	Lessor Classification of leases	A lease is classified as a finance lease by lessors if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease include: • the lease transfers ownership of the underlying asset to the lessee by the end of the lease term. • the lessee has the option to purchase the underlying asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception date, that the option will be exercised. • the lease term is for the major part of the economic life of the underlying asset even if title is not transferred. • at the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset. • the underlying asset is of such a specialised nature that only the lessee can use it without major modifications. There is no numerical criteria. (IFRS 16.61-65)	A lessor classifies a lease as a finance lease or an operating lease, similar to a lessee. Refer to the issue *Lessee - Classification of leases*.
IFRS 16	Lessor Classification of leases of land	A lease of land is classified in the same way as leases of other assets. In determining whether the land element is an operating or a finance lease, an important consideration is that land normally has an indefinite economic life. (IFRS 16.B55)	A lease of land is assumed to be an operating lease, except in specific cases.
IFRS 16	Lessor Reassessment of lease classification	Lease classification is made at the inception date and is reassessed only if there is a lease modification. (IFRS 16.66)	There is no specific guidance.

Standard	Issue	IFRS	JP GAAP
IFRS 16	Lessor: Finance leases Lessor accounting for finance leases	At the commencement date, a lessor should recognise a finance lease receivable at an amount equal to the net investment in the lease which is the present value (discounted at the interest rate implicit in the lease) of lease payments and any unguaranteed residual value. (IFRS 16.67, Appendix A)	A lessor of a finance lease recognises lease receivable (lease investment asset) at the commencement date of the lease. The lessor should consistently apply either one of the following methods, depending on the economic substance of a finance lease transaction: • recognise sales and cost of sales at the commencement date 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. The interest income recognised in each period will be the same for all the methods above.
IFRS 16	Lessor: Finance leases Initial direct costs	Initial direct costs are included in the initial measurement of the net investment in the lease. Costs incurred by manufacturer or dealer lessors in connection with negotiating and arranging a lease are excluded from the definition of initial direct costs. Those costs are recognised as an expense when the selling profit is recognised. (IFRS 16.69, 74, Appendix A)	There is no specific guidance.
IFRS 16	Lessor: Finance leases Lease incentives paid to a lessee	Any lease incentives payable are excluded from the lease payments which are used for measuring the net investment in the lease. (IFRS 16.70(a), Appendix A)	There is no specific guidance.
IFRS 16	Lessor: Finance leases Variable lease payments	Variable lease payments that depend on an index or a rate are included in the lease payments which are used for measuring the net investment in the lease (however, the other variable lease payments which are in-substance fixed payments are included in the lease payments). Other variable lease payments not included in the measurement of the lease payments are recognised in profit or loss in the period in which the event or condition that triggers those payments occurs. (IFRS 16.70(b))	There is no specific guidance.

Standard	Issue	IFRS	JP GAAP
IFRS 16	Lessor: Finance leases Lessee's purchase option	The exercise price of a purchase option is included in the lease payments which are used for measuring the net investment in the lease if the lessee is reasonably certain to exercise the option. When assessing whether a lessee is reasonably certain to exercise a purchase option, all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option should be considered. (IFRS 16.70(d))	If it is certain that the purchase option will be exercised, the exercise price of the purchase option is included in the lease payments. In this case, the finance lease is a finance lease with transfer of ownership.
IFRS 16	Lessor: Finance leases Lessee's payments of penalties for terminating leases	Payments of penalties for terminating the lease are included in the lease payments which are used for measuring the net investment in the lease if the lease term reflects the lessee exercising an option to terminate the lease. (IFRS 16.70(e))	There is no specific guidance.
IFRS 16	Lessor: Finance leases Manufacturer or dealer lessors	At the commencement date, a manufacturer or dealer lessor should recognise selling profit or loss in accordance with its policy for outright sales to which IFRS 15 *Revenue from Contracts with Customers* applies. (IFRS 16.71)	Manufacturer or dealer lessors should recognise selling profit or loss in the period, either at once or in instalments in accordance with their policy for outright sales.
IFRS 16	Lessor: Finance leases Recognition of finance income	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. (IFRS 16.75, 76)	Finance income is generally recognised based on the effective interest method. However, if the lease transactions as a lessor are not the predominant business of the entity and they are immaterial, finance income for finance leases without transfer of ownership can be recognised based on the straight line method.
IFRS 16	Lessor: Finance leases Review of estimated unguaranteed residual values	Estimated unguaranteed residual values used in computing the lessor's gross investment in the lease are reviewed regularly. (IFRS 16.77)	There is no specific guidance.

Standard	Issue	IFRS	JP GAAP
IFRS 16	Lessor: Finance leases Lease modifications	A lessor should account for a modification to a finance lease as a separate lease if the same criteria as lease modifications for a lessee are met. Refer to the issue *Lessee – Lease modifications*. For a modification to a finance lease that is not accounted for as a separate lease, a lessor should account for the modification as follows: • if the lease would have been classified as an operating lease had the modification been in effect at the inception date, the lessor should: (a) account for the lease modification as a new lease from the effective date of the modification; and (b) measure the carrying amount of the underlying asset as the net investment in the lease immediately before the effective date of the lease modification. • otherwise, the lessor should apply the requirements of IFRS 9 *Financial Instruments*. (IFRS 16.79, 80)	There is no specific guidance.
IFRS 16	Lessor: Operating leases Lessor accounting for operating leases	Lease payments are recognised as income on a straight-line basis over the lease term or another systematic basis that is more representative of the pattern in which benefit from the use of the underlying asset is diminished. (IFRS 16.81)	Lease payments are recognised as income over the lease term. There is no specific guidance on how to allocate the income to each period during the lease term.
IFRS 16	Lessor: Operating leases Initial direct costs	Initial direct costs incurred by a lessor in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as an expense over the lease term on the same basis as the lease income. (IFRS 16.83)	There is no specific guidance.
IFRS 16	Lessor: Operating leases Lease incentives paid to a lessee	Lease incentives are deducted from lease payments. Lease payments are recognised as income on a straight-line basis over the lease term or another systematic basis that is more representative of the pattern in which benefit from the use of the underlying asset is diminished. (IFRS 16.81, Appendix A)	There is no specific guidance.

Standard	Issue	IFRS	JP GAAP
IFRS 16	Lessor: Operating leases Lease modifications	A lessor should account for a modification to an operating lease as a new lease from the effective date of the modification. (IFRS 16.87)	There is no specific guidance.
IFRS 16	Sale and leaseback transactions	If the transfer of an asset by the seller-lessee satisfies the requirements of IFRS 15 *Revenue from Contracts with Customers* to be accounted for as a sale of the asset, the seller-lessee should measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right-of-use retained by the seller-lessee. Accordingly, the seller-lessee should recognise only the amount of gain or loss that relates to the rights transferred to the buyer-lessor. If the transfer of an asset by the seller-lessee does not satisfy the requirements of IFRS 15 to be accounted for as a sale of the asset, the sale and leaseback transaction is accounted for as a financing transaction. (IFRS 16.98-103)	• Sale and finance leaseback transactions Any gain or loss arising from the sale is deferred and amortised over the lease term. However, if it is clear that the loss arises because an estimated market price falls below the carrying amount, the loss is recognised in profit or loss immediately. • Sale and operating leaseback transactions There is no specific guidance.
IFRS 16	Subleases	A sublease is classified as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset. However, if the head lease is a short-term lease, the sublease should be classified as an operating lease. (IFRS 16.B58)	If both of a head lease and a sublease are classified as a finance lease, lease receivables or lease investment assets and lease liabilities are recorded in the balance sheet. In the income statement, the difference between the total lease payments received as a lessor and the total lease payments paid as a lessee is treated as commission revenue and allocated over the lease term. Such revenue is presented in the appropriate account such as net sublease revenue.

Standard	Issue	IFRS	JP GAAP
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 *Investment Property*), non-current assets classified as held for sale (IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*) and financial assets (IFRS 9 *Financial Instruments*) etc.). (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 goodwill, intangible assets with indefinite useful life or intangible assets not yet available for use	Annual impairment testing for goodwill, intangible assets with indefinite useful life or intangible assets not yet available for use is required irrespective of whether there is any indication of impairment. 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. However, if they were acquired in a business combination during the current annual period, they should be tested for impairment before the end of the current annual period. (IAS 36.9, 10, 96) (IAS 38.108)	There is no concept of intangible assets with an indefinite useful life or intangible assets not yet available for use. Both intangible assets and goodwill should be tested for impairment when there is an indication of impairment. Annual impairment testing is not required.
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 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 two 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 (a) the undiscounted total future cash flow is below its carrying amount; then (b) the recoverable amount of an asset is below its carrying amount. (2 step method)

Standard	Issue	IFRS	JP GAAP
IAS 36	Length of period used to estimate future cash flows to calculate the value in use	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 five years. Projections beyond the period covered by management's budget/forecast should be estimated in principle using a steady or declining growth rate (unless justified otherwise, the growth rate should not exceed the long-term average growth rate for the industries in which the entity operates or for the markets in which the asset is used). (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 reasonableness of 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 is no specific guidance.
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.
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.

Standard	Issue	IFRS	JP GAAP
IAS 36	Method of allocating an 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 should not be reduced below the highest of its fair value less costs of disposal, its value in use and zero. (IAS 36.104, 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 of 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 is no specific guidance.
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.

Standard	Issue	IFRS	JP GAAP
IAS 38 *Intangible Assets,* SIC 32 *Intangible Assets-Web Site Costs*			
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 An intangible asset should be recognised if • 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. (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 standards.
IAS 38	Accounting for deferred assets	There is no corresponding concept under IFRS to what JP GAAP defines as deferred assets. In accordance with applicable IFRS Standards, expenditure is accounted for as follows: • 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 are reflected in the effective interest rate and amortised. • Development costs are accounted for according to the definition and recognition criteria of intangible assets. • Start-up costs (legal and secretarial costs incurred in establishing a legal entity, pre-opening costs and pre-operating costs) are recognised as expenses. (IAS 38.10-17, 21, 69(a))	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 be capitalised and amortised over a certain period.
IAS 38	Taxes on the acquisition of intangible assets	Acquisition costs including 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 guidance on purchase taxes.
IAS 38	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 is no specific guidance.

Standard	Issue	IFRS	JP GAAP
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 (e.g. 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. For example, patents may be recognised as intangible assets. Corporate brands are generally not considered as intangible assets since they are closely related to the business.
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 IAS 38 is met. Internally generated software, website costs, and patents may be capitalised if the criteria are met. (IAS 38.21, 48-67) (SIC 32.8)	Software which meets certain criteria is capitalised. However, the recognition criteria are different from IFRS.
IAS 16	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.

Standard	Issue	IFRS	JP GAAP
IAS 38	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 38.65, 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.
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	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)	There is no specific guidance. In practice, expenditure incurred for development of an entity's own web site that correspond to software for internal use may be capitalised to the extent that they are certain to increase future revenue or reduce future costs of the entity.
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. An intangible asset has an indefinite useful life when there is no foreseeable limit (different from infinity) to the period over which the asset is expected to generate net cash inflows for an entity. (IAS 38.8, 88)	There is no concept of an intangible asset with indefinite useful life. In practice, the useful life based on 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 is no specific guidance. 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 is no specific guidance 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 the useful life in light of the entity's situation.
IAS 38	An intangible asset with an indefinite useful life	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 is no specific guidance. In practice, it is normally recognised as expenses. Subsequent expenditure for research and development acquired through a business combination is expensed.

Standard	Issue	IFRS	JP GAAP
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.
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.

Standard	Issue	IFRS	JP GAAP
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 is no specific guidance.
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). Notwithstanding the foregoing, bearer plants, such as oil palms should be accounted for in the same way as PPE under IAS 16 instead of IAS 41. The produce growing on bearer plants is within the scope of IAS 41 and subject to accounting of biological assets and agricultural produce above. (IAS 41.1, 2, 12, 13)	There is no specific guidance; such assets are usually measured at cost.

JP GAAP References:

- Regulation on Terminology, Forms, and Preparation Methods of Financial Statements
- Guidelines for Regulation on Terminology, Forms, and Preparation Methods of Financial Statements
- 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
- Audit Treatment for Unification of Accounting Applied to Subsidiaries
- Business Accounting Principles
- 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

*Exposure Draft: Proceeds before Intended Use (Proposed amendments to IAS 16 Property, Plant and Equipment)**

In June 2017, the IASB published the Exposure Draft *Property, Plant and Equipment – Proceeds before Intended Use*, which proposed amendments to IAS 16 *Property, Plant and Equipment*.

The Exposure Draft proposed to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity would recognise those sales proceeds in profit or loss.

The Exposure Draft proposed to be effective for annual reporting periods beginning on or after 1 January 2022, with early application permitted.

* In May 2020, the IASB issued *Property, Plant and Equipment – Proceeds before Intended Use*, which amended IAS 16 *Property, Plant and Equipment*.

Assets—financial assets

Assets—financial assets

In July 2014, the IASB issued the complete version of IFRS 9 *Financial Instruments* which replaces most of the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces new classification and measurement categories of financial assets which are significantly changed from those in IAS 39. IFRS 9 also introduces an expected credit loss model for the impairment of financial assets, which replaces the incurred loss model in IAS 39.

Key differences between IFRS 9 and JP GAAP in classification, measurement and derecognition are as follows:

- as to the classification of financial assets under IFRS 9, debt instruments are classified into one of following three categories based on business model and contractual cash flow characteristics: amortised cost, fair value through other comprehensive income (FVOCI); and fair value through profit or loss (FVPL). Equity instruments are generally classified into the category to be measured at fair value through profit or loss, however an entity can designate the category of equity instruments to be measured at fair value through other comprehensive income. Under JP GAAP, in principle, financial assets are classified based on their legal form, such as securities, receivables, derivatives etc. Securities are further classified into securities held for trading, bonds held to maturity, investments in subsidiaries and affiliates and other securities based on the holding purpose. The differing classification guidance may result in different accounting as it will drive differences in measurement subsequent to initial recognition.

- for impairment (allowance for credit losses) of debt instruments, IFRS 9 requires an assessment as to whether there has been a significant increase in credit risk since initial recognition. Based on the outcome of the assessment either a 12-month or life time expected credit loss is recognised (forward looking). While under JP GAAP, receivables are classified into following three categories based on its credit risk as at the reporting date: Normal, Doubtful; and Legally or substantially bankrupt, and the amount of allowance is measured accordingly (event driven).

- IFRS 9 requires equity instruments to be measured at fair value. Under JP GAAP, unquoted shares are deemed as securities whose fair value is difficult to obtain and are measured at cost. Therefore, there are more cases under JP GAAP where financial instruments are measured at cost. Note that, according to the *Accounting Standard for Fair Value Measurement, etc*. issued in July 2019, the requirements regarding securities whose fair value is difficult to obtain would be deleted, but unquoted shares continue to be measured at cost. Refer to *Recent developments* at the end of this chapter for the overview of the *Accounting Standard for Fair Value Measurement, etc.*

- under IFRS and JP GAAP, fundamental differences exist in how to assess the derecognition of financial assets. These differences could 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.

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

Standard	Issue	IFRS	JP GAAP
IFRS 9	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. Normal sale/purchase transactions involving financial assets should be recognised or derecognised on the transaction date or the settlement date. (IFRS 9.3.1.1, 3.1.2, B3.1.2)	An entity should recognise a financial asset when it becomes a party to the contract. 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 funding date and derecognised on the repayment date.
IFRS 9	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. (IFRS9.3.2.1-23, B3.2.1)	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.
IFRS 9	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. (IFRS 9.3.2.2)	There is no specific guidance on the unit to apply the derecognition requirements for financial assets.
IFRS9	Accounting for loan participations	IFRS does not provide a special treatment for loan participations like JP GAAP and financial assets are derecognised only if all of the derecognition requirements including the pass through requirements are met. (IFRS 9.3.2.5)	Loan participations, which do not meet derecognition criteria but satisfy certain other criteria, may be kept off-balance sheet as a transitional treatment until a further pronouncement is issued.

Standard	Issue	IFRS	JP GAAP
IFRS 9	Derecognition of notes receivable (promissory notes)	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). (IFRS9.3.2.6)	Notes receivable are derecognised when transferred to a third party at a discount or by means of an endorsement in Japan.
IFRS 9	Classification of financial assets	• Investments in debt instruments Investments in debt instruments are classified into the following three measurement categories based on business model and contractual cash flow characteristics. – Amortised cost: (a) the financial asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. – Fair value through other comprehensive income (FVOCI): (a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. – Fair value through profit or loss (FVPL): the financial assets that do not fall into either of the above two categories. • Investments in equity instruments Investments in 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 (OCI). It is prohibited to subsequently reclassify the amount presented in other comprehensive income to profit or loss. However, the cumulative gain or loss may be reclassified within equity. (IFRS 9.4.1.1-4.1.4, 5.7.5, B5.7.1, B5.7.1A)	Financial assets are classified as 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 investments in subsidiaries and affiliates, and 'other securities' (similar to available-for-sale category under IAS 39, *Financial Instruments: Recognition and Measurement*). Both IFRS and JP GAAP specify the method of measurement subsequent to initial recognition for each category. Therefore, the differences in classification result in different accounting.

Standard	Issue	IFRS	JP GAAP
IFRS 9	Fair value option Financial assets and non-financial instruments	The fair value option means an irrevocable designation of a financial asset as measured at fair value through profit or loss at initial recognition. The fair value option is allowed to be applied to both cases below: • Financial assets If electing fair value option eliminates or significantly reduces a measurement or recognition inconsistency (accounting mismatch). • Non-financial instruments If a non-financial instruments contains an embedded derivative (unless the embedded derivative does not significantly modify the cash flows or it is clear with little or no analysis when a similar hybrid instrument is first considered that separation of the embedded derivative is prohibited). (IFRS 9.4.1.5, 4.3.5)	There is no concept of the fair value option.
IAS 27 IAS 28 IFRS 5 IFRS 9 IFRS 10 IFRS 11	Interests in subsidiaries, affiliates and joint arrangements	In separate financial statements, interests in subsidiaries, affiliates and joint arrangements are measured at cost, in accordance with IFRS 9 (fair value through profit or loss or OCI option), or using the equity method. However, an interest in a subsidiary classified as held-for-sale under IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations,* is measured at the lower of its carrying amount and fair value less cost to sell. Investments in subsidiaries held by an investment entity and investments in associates or joint arrangements held by a venture capital entity may be measured at fair value through profit or loss. (IAS 27.10-11A) (IAS 28.18)（IFRS 5.6-8A）（IFRS 9.2.1(a)）(IFRS 10.31) (IFRS 11.26,27)	In separate financial statements, equity investments in subsidiaries and affiliates are measured at cost. There is no specific guidance on interests in joint arrangements.

Standard	Issue	IFRS	JP GAAP
IFRS 9	Embedded derivatives Bifurcation criteria when the host contract is a financial asset	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. (IFRS 9.4.3.2)	An embedded derivative included in a compound instrument should be separated from the host contract and measured at fair value if, and only if: (a) the risks related to the embedded derivatives could affect the host financial assets; (b) a separate instrument with the same terms as the embedded derivative has characteristics of a derivative; and (c) the compound instrument is not measured at fair value with changes in fair value recognised in profit or loss. However, even when (a) or (c) 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.
IFRS 9	Embedded derivatives Bifurcation criteria when the host contract is a non-financial instrument	An embedded derivative included in a hybrid instrument should be separated and accounted for as a derivative 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 9.4.3.3)	There is no specific guidance for embedded derivatives with a non-financial host instrument.
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, 5.6.1-7, B4.4.1-3, B5.6.1-2)	In principle, JP GAAP does not permit an entity to change the initial objective to hold securities after acquisition, with some limited exceptions. Additionally, there is a provision that prohibits reclassifying debt securities back to being held-to-maturity in the event of reclassification from held-to-maturity debt securities. All trading securities can be reclassified to other securities when the entity decides not to conduct the trading transactions of securities due to the change in the asset management policy or the revision/application of regulations or accounting standards, However, in contrast, if the entity starts trading transaction of securities, or if it is recognised objectively that the entity has repeatedly traded securities, it must reclassify them to trading securities.

Standard	Issue	IFRS	JP GAAP
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 securities and derivatives transactions, closing quotes by security exchanges and over-the-counter markets are preferred. If such closing quotes are not available, indicative 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.* *According to the *Accounting Standard for Fair Value Measurement*, etc. issued in July 2019, similar to IFRS, if an asset or a liability measured at fair value has a bid price or an ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances should be used to measure fair value. This does not preclude the use of a mid price as a practical expedient for fair value measurements. The *Accounting Standard for Fair Value Measurement* is effective from the fiscal year beginning on or after 1 April 2021, with early application permitted.
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 should be deemed as a market price for the financial asset. The 'reasonably calculated price' represents, basically, the price based on reasonable estimates by management.* *According to the *Accounting Standard for Fair Value Measurement*, etc. issued in July 2019, similar to IFRS, an entity is required to measure the fair value, which is defined as 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. However, unquoted shares are measured at cost. The *Accounting Standard for Fair Value Measurement* is effective from the fiscal year beginning on or after 1 April 2021, with early application permitted.

Standard	Issue	IFRS	JP GAAP
IFRS 13	Fair value measurement of a group of financial assets and financial liabilities exposed to 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. The scope exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis applies to all contracts (including contracts to buy or sell non-financial instruments which are settled net) that are within the scope of IFRS 9 even if they do not meet the definitions of financial assets or financial liabilities in IAS 32 *Financial Instruments: Presentation*. (IFRS 13.48-56)	There is no specific guidance.* *According to the *Accounting Standard for Fair Value Measurement*, etc. issued in July 2019, similar to IFRS, if certain conditions are met, an entity is permitted to measure the fair value of a group of financial assets and financial liabilities on the basis of its net exposure (after offsetting positions) to a particular market risk or the credit risk of a particular counterparty. The *Accounting Standard for Fair Value Measurement* is effective from the fiscal year beginning on or after 1 April 2021, with early application permitted.
IFRS 9	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, transaction costs are included in the acquisition cost. （IFRS9.5.1.1, Appendix A）	Ancillary costs incurred at acquisition of a financial asset (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 the individual financial asset is unclear.
IFRS 9	Day 1 gain or loss	The best evidence of the fair value of a financial instrument at initial recognition is the transaction price. However, if an entity determines that the fair value at the initial recognition differs from the transaction price, an entity should account for that instrument at that date as follows: • if the fair value is evidenced by a quoted price in an active market for an identical financial instrument or based on a valuation technique that uses only data from observable markets, the difference between the fair value at initial recognition and the transaction price are recognised as a gain or loss. • if the fair value is based on the valuation technique that uses unobservable inputs, the difference between the fair value at initial recognition and the transaction price are not recognised as a gain or loss. (IFRS 9.B5.1.2A, B5.2.2A)	There is no specific guidance. Day 1 gain or loss should be accounted for depending on the substance of the transaction.

Standard	Issue	IFRS	JP GAAP
IFRS 9	Investments in debt instruments measured at cost	An entity cannot justify the measurement of investments in debt instruments at cost because the fair value cannot be measured reliably. (IFRS 9.5.2.1)	A security classified as 'other securities' (similar to the available-for-sale category under IAS 39 *Financial Instruments: Recognition and Measurement*) may be measured similar to receivables (i.e. at amortised cost) when its fair value is difficult to obtain. However, it is considered a limited case that it would be difficult to obtain a fair value.* *According to the *Accounting Standard for Fair Value Measurement*, etc. issued in July 2019, bonds whose fair value is difficult to obtain are not assumed, and the exception for fair value measurement of bonds would be deleted. The amendment is effective from the fiscal year beginning on or after 1 April 2021, with early application permitted.
IFRS 9	Measurement of investments in equity instruments at cost	Investments in equity instruments are required to be measured at fair value. However, IFRS 9 indicates that cost may be an appropriate estimate of fair value in limited circumstances. (IFRS 9.4.1.4, B5.2.3-6)	Unquoted shares are deemed as securities whose fair value is difficult to obtain and are measured at cost.* *According to the *Accounting Standard for Fair Value Measurement*, etc. issued in July 2019, the requirements regarding securities whose fair value is difficult to obtain would be deleted, but unquoted shares continue to be measured at cost. The amendment is effective from the fiscal year beginning on or after 1 April 2021, with early application permitted.
IFRS 9	Timing of recognition of dividend income	Dividends are recognised in profit or loss only when: • the entity's right to receive payment of the dividend is established; • it is probable that the economic benefits associated with the dividend will flow to the entity; and • the amount of the dividend can be measured reliably. (IFRS 9.5.7.1A)	For unquoted shares, dividends are recognised in the fiscal year in which dividend declaration comes into force. However, it is also permitted to recognise the dividends in the fiscal year in which the dividends are received if this method is applied consistently. For quoted shares, dividends are recognised on the ex-dividend date. However, the same method as unquoted shares is also permitted if this method is applied consistently.
IFRS 9	Fair value gain or loss on financial assets classified as FVOCI	A gain or loss on a financial asset classified as FVOCI are recognised in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognised. (IFRS9.5.7.10)	For other securities, the total amount of valuation differences is recognised directly in equity in principle ('entire method'). However an entity may elect to recognise only the gain directly in equity but treat the loss in profit or loss for the period ('partial method').

Standard	Issue	IFRS	JP GAAP
IFRS 9	Accounting for foreign exchange differences on financial assets classified as FVOCI	With regard to financial asset classified as FVOCI 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. (IFRS9, B5.7.2, B5.7.2A)	Translation differences relating to the acquisition or amortised cost of other securities denominated in foreign currencies are recognized as the valuation difference. However, for foreign currency-denominated bonds, the translation 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 closing date) may be accounted for as the valuation difference, and the other translation differences may be accounted for as foreign exchange gains and losses.
IFRS 9	Interest income of financial assets Amortised cost and effective interest rate	With regard to financial assets measured at amortised cost, the amortised cost should be calculated by using the effective interest method. As for financial asses measured at FVOCI, the amortised cost should be calculated by using the effective interest method, and the difference between fair value and amortised cost is recognised in other comprehensive income. The calculation of effective interest rate should include all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. Therefore, items to be included in the calculation of the effective interest rate are not only interest adjustments of the difference between the acquisition cost and face value. Amortisation period of the items to be included in the calculation is expected life, or if appropriate, is shorter than expected life. （IFRS 9.5.4.1, 5.7.10, Appendix A, B5.4.4）	Amortised cost method is applied to receivables and held-to-maturity bonds if the nature of the difference between the cost and receivables (face value of bond) is considered as an interest adjustment when the receivables (bonds) are acquired at prices which are higher or lower than the face value. Amortised cost is using the interest method in principle. However, the straight-line method is also permitted if applied consistently. If bonds are classified as other securities and the nature of the difference between the cost and face value of bond is considered as an interest adjustment, the bonds are firstly measured at amortised cost and the difference between the amortised cost and fair value is accounted for as the valuation difference.
IFRS 9	Interest income of financial assets Credit-impaired financial assets	Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset. However, the interest income of the following credit-impaired financial assets is calculated by applying the effective interest rate to amortised cost of the financial assets. • purchased or originated credit-impaired financial assets • financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets Refer to the issue *Impairment - Measurement of expected credit loss (ECL) - Definition of credit-impaired financial assets* for credit-impaired financial assets. (IFRS 9.5.4.1)	Interest income on bonds is calculated for the interest calculation period and the amount of interest attributed to the period is recorded. However, with respect to loans to borrowers who are legally or substantially bankrupt, accrued interest is reversed into loss and interest income is no longer recognised after the borrower becomes legally or substantially bankrupt.

Standard	Issue	IFRS	JP GAAP
IFRS 9	Impairment Scope	The impairment requirements are applied to: • investments in debt instruments measured at amortised cost (IFRS 9.4.1.2) • investments in debt instruments measured at fair value through other comprehensive income (IFRS 9.4.1.2A) • lease receivables within the scope of IFRS 16 *Leases* • contract assets within the scope of IFRS 15 *Revenue from Contracts with Customers* • certain loan commitments not measured at fair value through profit or loss (IFRS 9.2.1(g), 4.2.1(d)) • financial guarantee contracts not measured at fair value through profit or loss (IFRS 9.4.2.1(c)) (IFRS 9.5.5.1) The impairment requirements are not applied to financial assets classified as FVPL and equity instruments for which the OCI option is applied.	• Financial instruments for which loan loss allowance is provided are those that have a legal form of receivables (trade receivables, notes receivable, loans, lease receivables, etc.). Loan loss allowance is also provided for corporate bonds whose fair value is difficult to obtain.* • The *Accounting Standard for Financial Instruments* is applied to overdraft facilities and loan commitments. An issuer of those instruments discloses unused amounts in the note. • A provision is provided for financial guarantee contracts if recognition criteria of provisions are met. Otherwise, the amount of financial guarantee contracts issued is disclosed in the note. For securities whose market prices are available, if there has been a significant decrease in the fair value of held-to-maturity debt securities, of equity investments in a subsidiary or an associate, or of other securities, these securities are carried at fair value in the balance sheet and the valuation difference is accounted for as a loss in the period, unless the fair value is expected to recover. For stocks whose market prices are not available, if the net asset value has decreased significantly because of a deterioration in the financial position of the issuer of the stock, the carrying value of the stock is reduced and the valuation difference is accounted for as a loss in the period. *According to the *Accounting Standard for Fair Value Measurement*, etc. issued in July 2019, bonds whose fair value is difficult to obtain are not assumed, and the exception for fair value measurement of bonds would be deleted. The amendment is effective from the fiscal year beginning on or after 1 April 2021, with early application permitted.

Standard	Issue	IFRS	JP GAAP
IFRS 9	Impairment Measurement of expected credit loss (ECL) General model	Measurement of expected credit loss depends on whether the credit risk on the financial asset has increased significantly since initial recognition. • Financial assets that have not had a significant increase in credit risk since initial recognition ('Stage 1') Loss allowance is measured at an amount equal to '12-month expected credit losses'. '12-month expected credit losses' are the expected credit losses that result from default events that are possible within 12 months after the reporting date. It is not expected cash shortfalls over the 12-month period but the entire credit loss weighted by the probability of default that will occur in the next 12 months. • Financial assets that have had a significant increase in credit risk since initial recognition ('Stage 2' and 'Stage 3') Loss allowance is measured at an amount equal to 'lifetime expected credit losses'. 'Lifetime expected credit losses' are the expected credit losses that result from all possible default events over the expected life of the financial instrument. (IFRS 9.5.5.3, 5.5.5, Appendix A, B5.5.43)	Future credit losses in each category are estimated as follows. • Normal Loan loss allowance is calculated using the default rates which is calculated based on the actual defaults experienced in the past. • Doubtful Loan loss allowance is calculated using either of the following methods. – assess repayment ability of debtors after deducting the amount expected to be collected through the disposals of collateral or the execution of guarantees. – estimate the future cash flows of the principal and interest of the loans reasonably and discounting those cash flows at the original contractual interest rate. • Legally or substantially bankrupt Loan loss allowance is calculated based on the remaining book value of loans after deducting the amount expected to be collected through the disposals of collateral or the execution of guarantees. Note: The category a loan falls into is determined based on its credit risk as at the reporting date under JP GAAP ('absolute approach') while a financial asset is categorised based on whether the credit risk on the financial asset has increased significantly after initial recognition under IFRS 9 ('relative approach').

Standard	Issue	IFRS	JP GAAP
IFRS 9	Impairment Measurement of expected credit loss (ECL) Definition of credit-impaired financial assets	A financial asset is credit-impaired (Stage 3) when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events: • significant financial difficulty of the issuer or the borrower; • a breach of contract, such as a default or past due event; • the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider; • it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; • the disappearance of an active market for that financial asset because of financial difficulties; or • the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses. (IFRS 9. Appendix A)	A category similar to credit-impaired financial asset is a loan to borrowers who are legally or substantially bankrupt.
IFRS 9	Impairment Measurement of expected credit loss (ECL) Purchased or originated credit-impaired financial assets	Purchased or originated credit-impaired financial assets are purchased or originated financial assets that are credit-impaired on initial recognition. For such assets, only the cumulative changes in lifetime expected credit losses since initial recognition are recognised as a loss allowance. If the expected credit losses decrease since initial recognition, impairment gain is recognised. (IFRS 9.5.5.13, 5.5.14, Appendix A)	When a loan with high credit risk is acquired, the loan is measured at the acquisition cost.

Standard	Issue	IFRS	JP GAAP
IFRS 9	Impairment Measurement of expected credit loss (ECL) Simplified approach for trade receivables, contract assets and lease receivables	When simplified approach is applied, loss allowance is always measured at an amount equal to lifetime expected credit losses. Simplified approach is applied to: (a) trade receivables or contract assets that result from transactions that are within the scope of IFRS 15 *Revenue from Contracts with Customers*, and that: (i) do not contain a significant financing component (or when the entity applies the practical expedient for contracts that are one year or less) in accordance with IFRS 15; or (ii) contain a significant financing component in accordance with IFRS 15, if the entity chooses as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses. That accounting policy may be applied separately to trade receivables and contract assets. (b) lease receivables that result from transactions that are within the scope of IFRS 16 *Leases*, if the entity chooses as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses. That accounting policy may be applied separately to finance and operating lease receivables. (IFRS 9.5.5.15, 5.5.16)	There are no requirements similar to the simplified approach in IFRS. Since it is often difficult for general operating companies to ascertain business conditions and obtain information on financial conditions of all debtors, in place of general classification methods (normal, doubtful, legally or substantially bankrupt), simple methods are also permitted, such as classifying claims according to the elapsed period from the month of recording (for accounts receivable, etc.) or the due date of repayment (for loans, etc.).
IFRS 9	Impairment Measurement of expected credit loss (ECL) Loan commitments and financial guarantee contracts	For loan commitments and financial guarantee contracts, there are several requirements below. • Initial recognition date for impairment purpose • Calculation method of expected credit losses • Discount rate • Period over which to estimate expected credit losses for revolving credit facilities such as credit cards and overdraft facilities Refer to the issues in the chapter *Financial liabilities and equity* for the accounting treatment of loan commitments and financial guarantee contracts. (IFRS 9.5.5.6, 5.5.20, B5.5.8, B5.5.30-32, B5.5.38-40, B5.5.47, B5.5.48)	• As overdraft facilities and loan commitments are within the scope of the *Accounting Standard for Financial Instruments*, an issuer of those instruments discloses unused amounts in the note. • A provision is provided for financial guarantee contracts if recognition criteria of provisions are met. Otherwise, the amount of financial guarantee contracts issued is disclosed in the note.

Standard	Issue	IFRS	JP GAAP
IFRS 9	Impairment Significant Increase in Credit Risk (SICR) Principal concept	The assessment of whether there has been a significant increase in credit risk since initial recognition is based on the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. To make this assessment, an entity should compare the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. (IFRS 9.5.5.9, B5.5.9-11, B5.5.13)	There is no concept similar to 'significant increase in credit risk' in IFRS since a loan loss allowance is calculated based on 'absolute approach'.
IFRS 9	Impairment Significant Increase in Credit Risk (SICR) Financial instruments that have low credit risk at the reporting date	An entity may assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. To determine whether a financial instrument has low credit risk, an entity may use its internal credit risk ratings or other methodologies that are consistent with a globally understood definition of low credit risk and that consider the risks and the type of financial instruments that are being assessed. An external rating of 'investment grade' is an example of a financial instrument that may be considered as having low credit risk. (IFRS 9.5.5.10, B5.5.22-24)	There is no concept similar to 'significant increase in credit risk' in IFRS since a loan loss allowance is calculated based on 'absolute approach'.
IFRS 9	Impairment Significant Increase in Credit Risk (SICR) More than 30 days past due rebuttable presumption	It is presumed that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. However, this presumption can be rebutted if there is reasonable and supportable evidence. The following examples of such a situation are listed in IFRS 9. • Non-payment was an administrative oversight, instead of resulting from financial difficulty of the borrower, or • An entity can demonstrate that significant increase in the credit risk of a default occurring has no correlation with more than 30 days past-due status, but that it has a correlation with more than 60 days past-due status. (IFRS 9.5.5.11, B5.5.19, B5.5.20)	There is no concept similar to 'significant increase in credit risk' in IFRS since a loan loss allowance is calculated based on 'absolute approach'.
IAS 32	Presentation of offsetting financial assets and financial liabilities	Refer to the issue *Presentation of offsetting financial assets and financial liabilities* in the chapter *Financial liabilities and equity*.	Refer to the issue *Presentation of offsetting financial assets and financial liabilities* in the chapter *Financial liabilities and equity*.

Standard	Issue	IFRS	JP GAAP
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 insurance industry issued by the Audit Committee of the Japanese Institute of Certified Public Accountants that specifies accounting and auditing treatments for applying the *Accounting Standard for Financial Instruments*.

JP GAAP References:

- Accounting Standard for Financial Instruments
- Practical Guidelines on Accounting Standards for Financial Instruments
- Practical Guidelines on Accounting for the Translation of Foreign Currency Transactions
- Audit Treatment for Accounting and Presentation of Debt Guarantee and Similar Guarantee Obligations
- Q&A on Financial Instruments Accounting
- Guidance on Accounting for Other Compound Financial Instruments (Compound Financial Instruments Other than Those with an Option to increase Paid-in Capital)
- Practical Solution on Measurement of Fair Value for Financial Assets
- Accounting Standard for Fair Value Measurement
- Implementation Guidance on Accounting Standard for Fair Value Measurement

Recent developments

Recent changes - JP GAAP

Accounting Standard for Fair Value Measurement, etc.

In July 2019, the ASBJ issued the *Accounting Standard for Fair Value Measurement, etc*. (Standards) primarily with regard to guidance and disclosures on the fair value of financial instruments.

The Standards incorporated almost all the requirements of IFRS 13 *Fair Value Measurement* in order for the comparability of financial statements among domestic and foreign companies. However, considering business practices in Japan, the Standards include the practical expedient that a quoted price for derivatives obtained from the third party is deemed as a fair value if it meets certain criteria. The ASBJ plans to determine fair value measurement of investment trusts, etc. over approximately one year after issuing the Standards.

Refer to the issues in the chapters below for changes arising from the Standards.

- *Assets – financial assets* (this chapter)
- *Financial liabilities and equity*
- *Other accounting and reporting topics*

The Standards are effective for annual reporting periods beginning on or after 1 April 2021, with early application permitted.

Derivatives and hedge accounting

Derivatives and hedge accounting

In November 2013, the IASB completed the third phase of the project of replacing IAS 39 *Financial Instruments: Recognition and Measurement* and added to IFRS 9 *Financial Instruments* the requirements related to general hedge accounting. The new general hedge accounting requirements made significant changes to the existing requirements in IAS 39 such as eliminating the quantitative threshold of between 80% to 125% in a retrospective effectiveness test and permitting the designation of risk components of non-financial items as hedged items so that hedge accounting aligns more closely with risk management. Entities can elect to continue to apply the hedging accounting requirements in IAS 39 until the IASB completes the project on accounting for macro hedging.

’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.

Under IFRS, hedging relationships are classified into three types: fair value hedge, cash flow hedge, and hedge of a net investment in a foreign operation, and specifies the accounting model of each hedging relationship. JP GAAP states that the objective of hedging is to manage risks of changes in fair value or cash flows. JP GAAP requires deferred 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, the hedge accounting model is fundamentally different.

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

Standard	Issue	IFRS	JP GAAP
IFRS 9	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). (IFRS 9. Appendix A)	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: - a notional amount or a fixed or determinable settlement amount; or - both a notional amount and a 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 includes a net settlement feature in the definition of derivative unlike IFRS, the scope of derivative is considered narrower than IFRS.
IFRS 9	'Own use' exception	Contracts to purchase or sell a non-financial item that are settled net or by exchanging financial instruments are treated as derivatives; however, they are treated as normal purchase/sales transactions if they qualify for the 'own use' exception. 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. (IFRS 9.2.4, 2.6)	Commodity derivatives that are usually settled net and considered similar to financial instruments are within the scope of the *Accounting Standard for Financial Instruments*. Contracts related to future purchase, 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*.
IFRS 9	Fair value option for 'Own use' exception	An accounting mismatch arises if a derivative is used to hedge the changes in the fair value that result from contracts that qualify for the 'own use' exception and are treated as normal purchase/sales transactions. Those contracts may be irrevocably designated as measured at fair value through profit or loss on initial recognition only if it eliminates or significantly reduces the accounting mismatch (fair value option). (IFRS 9.2.5)	There is no concept of the fair value option.

Standard	Issue	IFRS	JP GAAP
IFRS 9	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. If the hedged item is an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income (OCI option), the gain or loss on the hedging instrument should be recognised in other comprehensive income. • 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 is subsequently reclassified to profit or loss depending on the nature of hedged item. The hedge ineffectiveness is recorded in profit or loss. • Hedge of a net investment in a foreign operation A hedge of foreign currency risk arising from the translation of a foreign operation, such as a foreign subsidiary or associate, from its functional currency to the presentation currency. The accounting treatment is similar to cash flow hedges. (IFRS 9.6.5.2, 6.5.3, 6.5.8, 6.5.11, 6.5.13)	The objective of hedge is to reduce the risk of changes 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 in profit or loss when it occurs but presented in equity, and reclassified to profit or loss when a gain or loss on the hedged item is recognised in profit or loss. • 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 IAS 39, *Financial Instruments: Recognition and Measurement*) under existing requirements. • Hedge in equity interests in a foreign subsidiary If foreign currency risk of investment in the interest in a foreign subsidiary or affiliate is designated as a hedged item, the translation differences on the hedging instrument may be accounted for as part of cumulative translation adjustment account.
IFRS 9	Special accounting treatment provided for interest rate swaps	An accounting treatment that does not measure a derivative designated as a hedging instrument at fair value is not allowed.	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 the fair value measurement of the interest rate swaps as hedging instruments.

Standard	Issue	IFRS	JP GAAP
IFRS 9	Special accounting treatment provided for foreign exchange forward contracts	An accounting treatment that does not measure a derivative designated as a hedging instrument at fair value is not allowed.	Receivables and payables denominated in foreign currencies hedged with foreign exchange forward contracts to fix the future cash flows are permitted to be translated by using the forward rate of the foreign exchange forward contracts. Under this method, an entity is permitted not to assess hedge effectiveness and not to measure the foreign exchange forward contracts at fair value.
IFRS 9	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. (IFRS 9.6.4.1)	At the inception of the hedge, hedging instruments, hedged items and how to assess hedge effectiveness need to be clarified by formal documentation. 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, the entity is required to have in place appropriate internal rules and internal control systems to account for such hedge transactions.
IFRS 9	Hedging instruments Non-derivative financial instruments	Non-derivative financial instruments measured at fair value through profit or loss may be designated as a hedging instrument. However, a non-derivative financial liability designated as at fair value through profit or loss (fair value option) for which the amount of its change in fair value that is attributable to changes in the credit risk of that liability is presented in other comprehensive income may not be designated as a hedging instrument. For a hedge of foreign currency risk, the foreign currency risk component of a non-derivative financial asset or liability may be designated as a hedging instrument provided that it is not an investment in an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income (OCI option). (IFRS 9.6.2.2)	A non-derivative financial asset or liability may be designated as a hedging instrument only for a hedge of foreign currency risk or a hedge of fair value change risk for other securities. • Foreign currency hedge 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. • Fair value hedge for 'other securities' An entity may designate margin sales or short-selling of securities as hedging instruments to hedge the fair value change of other securities held.
IFRS 9	Hedging instruments Hedge designation for a portion of a time period	A hedging instrument may not be designated for only a portion of the time period during which a hedging instrument remains outstanding. (IFRS 9.6.2.4)	There is no specific guidance.

Standard	Issue	IFRS	JP GAAP
IFRS 9	Hedging instruments Time value of an option	When an entity designates an option as a hedging instrument, it can designate the option in its entirety as a hedging instrument, or it can separate the intrinsic value and time value of an option and designate as a hedging instrument only the change in intrinsic value of the option. When an entity designates as the hedging instrument only the change in intrinsic value of the option, the time value of the option is recognised in other comprehensive income and the cumulative changes accumulated in other comprehensive income (a separate component of equity (the 'amount')) is reclassified from the separate component of equity to profit or loss in a different manner depending on the type of hedged items as follows: • Transaction related hedged item If the hedged item subsequently results in the recognition of a non-financial instrument, or a firm commitment for a non-financial instrument to which fair value hedge is applied, an entity should include the amount directly in the initial cost. For other hedging relationships, the amount should be reclassified to profit or loss in the same period or periods during which the hedged expected future cash flows affect profit or loss. • Time-period related hedged item If the hedged item relates to a time-period, such as hedging a commodity inventory for six months using a commodity option with a corresponding period, the initial time value of the option should be amortised on a systematic and rational basis over the hedged period and recognised in profit or loss. (IFRS 9.6.2.4(a), 6.5.15, B6.5.29-B6.5.33)	When an entity designates an option as a hedging instrument, it is permitted to apply the following accounting methods for the time value of an option. • to defer the whole change in fair value of hedging instruments in equity. • to defer the change of the intrinsic value of hedging instruments in equity and recognise the change of the time value in profit or loss. Regardless of which method the entity applies, it can assess hedge effectiveness based only on the change of the intrinsic value of hedging instruments.
IFRS 9	Hedging instruments Forward element of a forward contract	When an entity designates a forward contract as a hedging instrument, it may designate the forward contract in its entirety, or it may separate the forward element and the spot element and designate as a hedging instrument only the change in the value of the spot element. When an entity designates as the hedging instrument only the change in the value of the spot element of the forward contract, the entity may elect to recognise the forward element of the forward contract in profit or loss or account for it in the same manner as it is applied to the time value of an option. (IFRS 9.6.2.4(b), 6.5.16, B6.5.34-B6.5.38)	It is permitted to account for the premium/discount of forward contracts designated as a hedging instrument in the same manner as it is applied to the time value of an option.

Standard	Issue	IFRS	JP GAAP
IFRS 9	Hedging instruments Foreign currency basis spread	When an entity separates the foreign currency basis spread from a financial instrument and excludes it from the designation of that financial instrument as the hedging instrument, same accounting treatment for the forward element of a forward contract is permitted. (IFRS 9.6.2.4(b), 6.5.16, B6.5.39)	There is no specific guidance.
IFRS 9	Hedging instruments Hedging of more than one type of risk	A single hedging instrument may be designated as a hedge instrument of more than one type of risk. (IFRS 9.B6.2.6)	There is no specific guidance.
IFRS 9	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 benchmark interest rate). However, a component of the cash flows of those hedged risks (a portion of the cash flows) may not be designated as a hedge item if it exceeds the total cash flows of the entire financial instrument. (IFRS 9.6.3.7(a), B6.3.21)	There is no specific guidance about whether only a part of changes in cash flows or fair value of the risk components (interest rate risk, foreign currency exchange risk, credit risk, etc.) can be a hedged item.
IFRS 9	Hedged item Designation of a specific risk component of a non-financial instrument	If a risk component is separately identifiable and reliably measurable, an entity may designate the specific risk component of a non-financial instrument (i.e. not in its entirety) as a hedged item. (IFRS 9.6.3.7, B6.3.8-B6.3.15)	Except for foreign currency risk, there is no specific guidance to designate a specific risk as a hedged risk.
IFRS 9	Hedged item Equity instrument for which an entity has elected to present changes in fair value in other comprehensive income	An equity instrument for which an entity has elected to present changes in fair value in other comprehensive income (OCI option) may be designated as a hedged item. In this case, changes in fair value of the hedging instrument are presented in other comprehensive income and are not reclassified to profit or loss. (IFRS 9.6.5.3, 6.5.8)	For a hedge of other securities, an entity can elect either a deferred hedge or a fair value hedge. Refer to the issue *Types of hedging relationships* in the chapter *Derivatives and hedge accounting*.

Standard	Issue	IFRS	JP GAAP
IFRS 9	Hedged item Basis adjustment	For a cash flow hedge of non-financial instruments, if a hedged forecast transaction subsequently results in the recognition of a non-financial instrument, or a hedged forecast transaction for a non-financial instrument recognises a firm commitment for which fair value hedge is applied, an entity should include the associated changes on the hedging instrument recorded in other comprehensive income directly in a part of the initial cost of the hedged item (basis adjustment). Because this basis adjustment is reclassified directly in the carrying amount of the hedged item, it does not affect other comprehensive income. (IFRS 9.6.5.11(d)(i))	If a hedged forecast transaction is an acquisition of a non-financial asset, deferred gains or losses on hedges are added on or deducted from the acquisition cost of the non-financial asset. In this case, they are included in other comprehensive income in a manner similar to the reclassification adjustments. There is no specific guidance in cases where a forecast transaction results in a non-financial liability.
IFRS 9	Hedged item 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. (IFRS 9.6.5.4)	A firm commitment that is outstanding is treated as a forecast transaction and accounted for as a deferred hedge.
IFRS 9	Hedged item Business combination	Foreign currency 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). (IFRS 9.B6.3.1)	There is no specific guidance.
IFRS 9	Hedged item Inflation risk of a financial instrument	In limited cases, when it is possible to identify a risk component for inflation risk that is separately identifiable and reliably measurable, the inflation risk may be designated as a hedged item. (IFRS 9.B6.3.13)	There is no specific guidance.
IFRS 9	Hedged item Hedges of a group of items	If the group consists of items, that are individually eligible hedged items, and the items in the group are managed together on a group basis for risk management purposes, hedges of a group of items are permitted. (IFRS 9.6.6.1)	If the individual assets or individual liabilities in the group share the risk of loss due to common market movements and the market movements for each individual item in the group are expected to be approximately proportional to the overall market movement of the group of items (within 10% range), comprehensive hedges (hedges of a group of items) are permitted.

Standard	Issue	IFRS	JP GAAP
IFRS 9	Hedged item Designation of a net position	A hedge of a net position is permitted if the same criteria for hedges of a group of items are met. In the case of a cash flow hedge, however, the hedge of net position is permitted only if it is a hedge of foreign currency risk, and the designation of that net position specifies the reporting period in which the forecast transactions are expected to affect profit or loss, as well as their nature and volume. (IFRS 9.6.6.1, B6.6.1-B6.6.4)	It is believed that hedges of a net position are not permitted.
IFRS 9	Hedged item Nil net positions	When the hedged item is a group that is a nil net position (i.e. the hedged items among themselves fully offset the risk that is managed on a group basis), an entity is permitted to designate it in a hedging relationship that does not include a hedging instrument, provided that specific criteria are met. (IFRS 9.6.6.6)	There is no specific guidance.
IFRS 9	Hedged item Layer component	A layer component of an overall group of items may be designated as a hedged item if all of the following conditions are met; • it is separately identifiable and reliably measurable; • the risk management objective is to hedge a layer component; • the items in the overall group from which the layer is identified are exposed to the same hedged risk; • for a hedge of existing items an entity can identify and track the overall group of items from which the hedged layer is defined; and • any items in the group that contain prepayment options meet the requirements for components of a nominal amount. (IFRS 9.6.6.3, B6.3.16, B6.3.18-B6.3.20)	There is no specific guidance.

Standard	Issue	IFRS	JP GAAP
IFRS 9	Hedged item Aggregated exposure including derivatives	An aggregated exposure that is a combination of an exposure that could qualify as a hedged item and a derivative may be designated as a hedged item. (IFRS 9.6.3.4, B6.3.3, B6.3.4)	A combined position, such as an aggregated position of a variable interest rate debt and an interest rate swap for fixing the interest rate of the debt, is not eligible as a hedged item.
IFRS 9	Hedge effectiveness Effectiveness requirements	The hedge effectiveness requirements are as follows: • there is an economic relationship between the hedged item and the hedging instrument; • the effect of credit risk does not dominate the value changes that result from that economic relationship; and • the hedge ratio is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. There is no quantitative effectiveness criteria of the 80-125% range, and the retrospective assessment is not required. (IFRS 9.6.4.1(c), B6.4.1-B6.4.11)	An entity is required to forecast the hedge to be effective for future hedging periods at inception. An entity is also required test effectiveness on an ongoing basis in subsequent periods (no explicit requirements on prospective testing in subsequent periods). For the hedge relationship to be effective, the actual results of the hedge are generally required to be within a range of 80–125% effectiveness.
IFRS 9	Hedge effectiveness Methods of effectiveness assessment	A method for assessing hedge effectiveness is not specified. However, an entity should use a method that captures the relevant characteristics of the hedging relationship including the sources of hedge ineffectiveness, which can be a qualitative or a quantitative assessment. When critical terms between the hedged item and the hedging instrument are met, an entity might be able to conclude the assessment on the basis of a qualitative assessment. (IFRS 9.B6.4.13-B6.4.19, B6.5.11)	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 to apply the hedge accounting even when the changes do not show a high level of correlation if they are temporary and the fluctuation is narrow. In general, an entity may omit the effectiveness test when the critical terms and conditions are identical in the hedging instruments and the hedged items that are recognised assets and liabilities or forecast transactions.

Standard	Issue	IFRS	JP GAAP
IFRS 9	Hedge effectiveness Accounting for hedge ineffectiveness	Hedge ineffectiveness should be recognised in profit or loss. However, if the hedged item is an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income (OCI option), the recognised hedge ineffectiveness is presented in other comprehensive income and is not reclassified to profit or loss. (IFRS 9.6.5.3, 6.5.11(c))	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 in equity.
IFRS 9	Hedge effectiveness Measurement of hedge ineffectiveness	When measuring hedge ineffectiveness for a cash flow hedge, an entity should consider the time value of money. Consequently, the entity determines the value of the hedged item on a present value basis and therefore the change in the value of the hedged item also includes the effect of the time value of money. To calculate the change in the value of the hedged item for the purpose of measuring hedge ineffectiveness, an entity may use a derivative that would have terms that match the critical terms of the hedged item ('hypothetical derivative'). Using a 'hypothetical derivative' is a mathematical expedient that can only be used to calculate the value of the hedged item. Consequently, a 'hypothetical derivative' cannot be used to include features in the value of the hedged item that only exist in the hedging instrument (but not in the hedged item). (IFRS 9.B6.5.4, B6.5.5)	There is no specific guidance since the measurement of hedge ineffectiveness is not required.
IFRS 9	Hedge effectiveness Rebalancing	If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, an entity should adjust the hedge ratio of the hedging relationship so that it meets the qualifying criteria again (rebalancing). (IFRS 9.6.5.5, B6.5.7-B6.5.21)	There is no concept of rebalancing. If a hedging relationship ceases to meet the hedge effectiveness requirement, the hedge accounting should be discontinued.

Standard	Issue	IFRS	JP GAAP
IFRS 9	Discontinuation or termination of hedge accounting Criteria	After taking into account any rebalancing of the hedging relationship, an entity should discontinue hedge accounting prospectively when the hedging relationship ceases to meet the qualifying criteria (including when the hedging instrument expires or is sold, terminated or exercised). An entity should also discontinue hedge accounting if the hedged future cash flows are no longer expected to occur under cash flow hedges. Discontinuing hedge accounting can either affect a hedging relationship in its entirety or only a part of it. A part of a hedging relationship is discontinued and hedge accounting continues for its remainder when only a part of the hedging relationship ceases to meet the qualifying criteria. An entity should not voluntarily discontinue the hedging relationship that still meets the risk management objective and continues to meet all other qualifying criteria. (IFRS 9.6.5.6, B6.5.22-B6.5.27)	Hedge accounting for an item should be discontinued at the time when a hedging instrument has been derecognised due to its maturity, sale, termination or execution or when the hedge relationship no longer meets the hedge effectiveness criteria. In addition, hedge accounting should be terminated when the hedged item is derecognised or it is clear that the forecast transaction is no longer expected to occur. There is no specific guidance for voluntary discontinuation of hedging relationship.

Standard	Issue	IFRS	JP GAAP
IFRS 9	Discontinuation and termination of hedge accounting Accounting treatment	When the hedge accounting is discontinued, the accounting treatment is as follows: • Fair value hedge The hedging instrument would continue to be measured 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 discontinued. The adjusted amount would be amortised if the hedged item is a debt instrument; if not, it would be included in the carrying amount of the hedged item until the hedged item is derecognised (e.g. when the item is sold). • Cash flow hedge Hedge accounting will be discontinued prospectively and the cumulative gain or loss on the hedging instrument that has been deferred in other comprehensive income while the hedge was effective will remain 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. • Hedge of a net investment in a foreign operation It should be accounted for similarly to cash flow hedges. The gain or loss on the hedging instrument that has been deferred in other comprehensive income should be reclassified to profit or loss on the disposal or partial disposal of the foreign operation. (IFRS 9. 6.5.7, 6.5.10, 6.5.12, B6.5.22)	When the hedge accounting is discontinued, 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 interest rate risk of an interest-bearing financial instrument, the deferred gain or loss on the hedging instrument will be recognised in profit or loss over the period to maturity of the hedged item. If the hedge accounting is terminated, the deferred gain or loss on the hedging instrument will be recognised in profit or loss in the current period.

Standard	Issue	IFRS	JP GAAP
IFRS 9	Designation of credit exposures measured at fair value through profit or loss	If an entity uses a credit derivative that is measured at fair value through profit or loss to manage the credit risk of all, or a part of, a financial instrument (credit exposure), it may designate that financial instrument to the extent that it is so managed (i.e. all or a proportion of it) to be measured at fair value through profit or loss if: • the name of the credit exposure matches the reference entity of the credit derivative; and • the seniority of the financial instrument matches that of the instruments that can be delivered in accordance with the credit derivative. The entity may make designation for the financial instrument at, or subsequent to, initial recognition, or while it is unrecognised (for example, a loan commitment). The measurement may cease in certain cases even after the designation. (IFRS 9.6.7.1 - 6.7.4)	There is no specific guidance.

Industry-specific guidance

—	Industry-specific guidance	There is no industry-specific accounting guidance under IFRS.	There is industry-specific guidance, such as guidance on hedge accounting for the banking industry and the insurance industry issued by the Audit Committee of the Japanese Institute of Certified Public Accountants that specifies accounting and auditing treatments when applying the *Accounting Standard for Financial Instruments*.

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
- Accounting Standard for Presentation of Comprehensive Income
- Q&A on Financial Instruments Accounting

Recent developments

Recent changes - IFRS

Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, and IFRS 7 Financial Instruments: Disclosures (Interest Rate Benchmark Reform)

In September 2019, the IASB issued the amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, and IFRS 7 *Financial Instruments: Disclosures* to provide certain reliefs for hedge accounting from uncertainty caused by the Interest Rate Benchmark Reform (IBOR reform).

Following the financial crisis, there has been a growing call for reforms to the methodology used to calculate such as the London Interbank Offered Rate (LIBOR) and other interbank offered rates (IBORs). In response to the proposals of the Financial Stability Board, financial regulators in many countries are facilitating abolishment of IBORs and replacing existing interest rate benchmarks with alternative risk-free rates. The changes to alternative interest rates can have a significant impact on an entity's financial reporting, and the IASB discusses the related accounting treatment and disclosure requirements before replacing existing interest rate benchmarks with alternative interest rates (Phase 1) and when replacing existing interest rate benchmarks with alternative interest rates (Phase 2), separately.

For the Phase 1, as noted above, the amendments were finalised in September 2019. As reliefs for the requirements of hedge accounting, related IFRS Standards were amended to enable an entity to continue hedge accounting without considering the future uncertainty associated with the IBOR reform. The amendments are effective for annual reporting periods beginning on or after 1 January 2020, with early application permitted.

For the Phase 2, the IASB plans to address issues that may arise when replacing existing interest rate benchmarks with alternative interest rates, including how an entity accounts for a change in the basis for determining the contractual cash flows required by the replacement of existing interest rate benchmarks with alternative interest rates and the amendments to the contractual terms. The exposure draft for the Phase 2 plans to be published in April 2020.*

Recent discussions - IFRS

Discussion on accounting for macro hedging

Macro hedge accounting has been discussed as a separate project from the project on general hedge accounting. In April 2014, the IASB published the Discussion Paper *Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging*. Views received on the Discussion Paper were mixed. Thereafter, the IASB is exploring to develop the core model that forms a foundation for dynamic risk management as a research project and plans to decide the project direction based on the stakeholders' views obtained through outreach on the core model.

* For the Phase 2, the IASB proposed amendments to IFRS 9 *Financial Instruments,* IAS 39 *Financial Instruments: Recognition and Measurement,* IFRS 7 *Financial Instruments: Disclosures,* IFRS 4 *Insurance Contracts,* and IFRS 16 *Leases* in April 2020. In August 2020, the IASB issued the amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (*Interest Rate Benchmark Reform – Phase 2*). The amendments are effective for annual reporting periods beginning on or after 1 January 2021, with early application permitted.

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.

Under JP GAAP, the *Accounting Standard for Current Income 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. With respect to the accounting for deferred tax, JP GAAP provides detailed guidance on recognition and measurement of deferred tax assets in the *Practical Guidelines on Accounting Standards for Tax Effect Accounting.* In addition, the *Guidance on Recoverability of Deferred Tax Assets* provides detailed guidance on assessment of the recoverability of deferred tax assets whereby an entity is classified into five categories by its profitability. For each category, it also provides specific guidance on the extent of the recoverability of deferred tax assets and the length of estimated future periods. On the other hand, IFRS requires substantial judgment 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 either of the following: • 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). An entity should not recognise a deferred tax liability for taxable temporary differences associated with investments in subsidiaries and associates when it is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. (IAS 12.15, 39)	A deferred tax liability 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 periods. A deferred tax liability should not be recognised for taxable temporary differences associated with investments in subsidiaries and associates when: • for the temporary difference associated with undistributed retained earnings to be reversed by payment of dividends, it is probable that the taxable temporary difference will not be reversed in the foreseeable future (i.e. dividends will not be paid due to either the parent's policy or an agreement between the parent and the other shareholders); or • for the temporary difference associated with retained earnings other than those to be reversed by payment of dividends, a parent or investor is able to sell the investments in its discretion, and has no intention to do so in the foreseeable future.
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 the issue *Tax effects on goodwill* in the chapter *Liabilities—taxes*. An entity should recognise a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries and associates, to the extent that, and only to the extent that, it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised. (IAS 12.24, 44)	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. An entity should recognise a deferred tax asset for deductible temporary differences associated with investments in subsidiaries and associates when the temporary difference is expected either to become deductible in terms of impairment losses for tax purposes or to be reversed upon the sale of the investments in the foreseeable future and the deferred tax assets is recoverable.

Standard	Issue	IFRS	JP GAAP
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. If amortisation of goodwill is deductible for tax purposes, a deferred tax liability is recognised for a taxable temporary difference arising after the initial recognition of the goodwill because goodwill is not amortised in accounting. 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 12.21B, 32A)	A deferred tax asset or deferred tax liability is recognised on goodwill for Japanese tax purposes in a taxable 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 or deferred tax liabilities recognised on 'goodwill for Japanese tax purposes') is accounted for as goodwill for accounting purposes.
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 the *Implementation Guidance on Recoverability of Deferred Tax Assets*, entities are classified into five categories mainly based on past performance and the recoverability of the deferred tax assets are assessed based on taxable profits before adjustment for temporary differences in accordance with the categories. Taxable profits before temporary differences adjustment are: (a) the estimated taxable profits of future periods less. (b) the temporary differences expected to reverse in the future period which already exist at the end of the current period.
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 separate 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. As for the deferred tax assets for the unrealised gains that are eliminated as part of consolidation, 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 gain or loss 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.

Standard	Issue	IFRS	JP GAAP
IAS 12	Treatment of the value added component of enterprise tax that is included in the pro forma standard taxation in Japan.	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, but there is diversity in practice. (IAS 12.47)	The value added component of enterprise tax is accounted for as a selling, general and 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.
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, properties are not measured at fair value. Additionally, there are also no special requirements as there are no differences in tax rates applied to the profits generated from using and selling an asset in Japan.
IFRIC 23	Accounting for uncertainty over income tax treatments	When there is uncertainty over income tax treatments, an entity should recognise both current tax and deferred tax as follows: • if an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, the entity should determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. • if an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity should reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates by recognising additional tax liabilities etc. (IFRIC 23.6-14)	The accounting treatment of income tax for the prior year's income is as follows: • if it is probable that the additional tax is imposed by a request for reassessment, and the amount is reasonably measured, except in the instance where a reassessment was requested due to an error, the additional tax (including overdue tax, arrears and surcharge) should be recorded in profit or loss. • if it is virtually certain that the tax is refunded by a request for reassessment, and the amount is reasonably measured, except in the instance where a reassessment was requested due to an error, the tax refund should be recorded in profit or loss. • in case where an entity appeals against a decision for the additional tax payment imposed by a request for reassessment, after the payment, if it is virtually certain that the tax is refunded and the amount is reasonably measured, except in the instance where a reassessment was requested due to an error, the relevant tax refund should be recorded in profit or loss.

JP GAAP References:

- Accounting Standards for Tax Effect Accounting
- Guidance on Accounting Standards for Tax Effect Accounting
- Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures
- Implementation Guidance on Recoverability of Deferred Tax 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 Guidelines on Accounting under the Equity Method
- Accounting Standard for Current Income Taxes

Recent developments

Recent proposals - IFRS

Exposure Draft: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Proposed amendments to IAS 12 Income Taxes)

In July 2019, the IASB published the Exposure Draft *Deferred Tax related to Assets and Liabilities arising from a Single Transaction,* which proposed narrow-scope amendments to IAS 12 *Income Taxes*.

IAS 12 prohibits an entity from recognising deferred tax arising from the initial recognition of an asset or a liability in particular situations. The proposed amendments in the Exposure Draft would require an entity to recognise deferred tax on initial recognition of particular transactions for which the entity recognises both an asset and a liability, such as leases and decommissioning obligations.

Liabilities—other

Liabilities—other

IAS 37 *Provision, Contingent Liabilities and Contingent Assets* prescribes the accounting for provisions. Under IAS 37, a liability is defined 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. IAS 37 requires the probable 'outflow of resources embodying economic benefits' and 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. However, termination benefits in relation to restructuring provisions are addressed in IAS 19 *Employee Benefits*. Refer to the chapter *Expense recognition – employee benefits*.

Under JP GAAP, when an expense or loss will probably be incurred in the future as a result of past events and a reliable estimate can be reasonably made, a provision should be recognised with a corresponding debit to an expense to the extent the amount is attributable to the current period. However, there is no detailed 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.

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 – non-financial 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 – non-financial assets*.
IAS 16 IAS 37 IFRIC 1	Frequency of ARO assessment	Refer to the issue *Frequency of ARO assessment* in the chapter *Assets – non-financial assets*. (IAS 16.16, 18) (IAS 37.59) (IFRIC 1.3, 5, 8)	Refer to the issue *Frequency of ARO assessment* in the chapter *Assets – non-financial 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 – non-financial assets*.	Refer to the issue *ARO and rental deposit related to the asset* in the chapter *Assets – non-financial assets*.
IAS 37	Requirements for recognition of provisions	A provision should be recognised when: (a) an entity has a present obligation as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. 'Probable' is interpreted as more likely than not (that is, more than 50% likely to occur) in IAS 37. (IAS 37.14, 23)	A provision should be recognised when an expense or loss will probably be incurred in the future as a result of a past event and a reliable estimate can be reasonably made. However, no specific definition exists for 'probable' under JP GAAP.
IAS 37	Present obligation and constructive obligation	A present obligation includes not only a legal obligation but also a constructive obligation. A constructive obligation is an obligation that derives from an entity's action where, by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities, and where, as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities. (IAS 37.10, 14)	There is no specific guidance.

Standard	Issue	IFRS	JP GAAP
IAS 37	Accounting 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 the recognition criteria are satisfied even though there is no present obligation. For example, a provision for repair and maintenance and a provision for special repair and maintenance are listed as examples of provisions in *Business Accounting Principles (Note 18)*. These provisions may be recognised even without a 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 is no specific guidance.
IAS 37	Discounting provisions	Provisions are discounted, where the effect of the time value of money is material. (IAS 37.45)	There is no specific guidance. Liabilities are generally not discounted; however, discounting is required for asset retirement obligations.
IAS 37	Determination of 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 at the end of the reporting period. The discount rate should not reflect risks for which future cash flow estimates have been adjusted. (IAS 37.47)	There is no specific guidance.

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 is no specific guidance.
IAS 37	Accounting for 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 the statement of comprehensive income. (IAS 37.53, 54)	There is no specific guidance. However, an asset should be recognised when it is virtually certain that the reimbursement will be received.
IAS 37	Accounting for 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 is no specific guidance except for *the Accounting Standard for Construction Contracts*. In practice, a loss provision might be recognised in accordance with the *Business Accounting Principles (Note 18)*.
IAS 37	Recognition of a restructuring provision	Only when an entity has a detailed formal plan and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it, a provision is recognised. (IAS 37.71, 72)	There is no specific guidance for a restructuring provision. In practice, a provision may be recognised in accordance with the *Business Accounting Principles (Note 18)*.
IAS 37	Costs of restructuring to be included in a restructuring provision	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 is no specific guidance for a restructuring provision.

Standard	Issue	IFRS	JP GAAP
IAS 37	Accounting for a guarantee contract	Refer to the issue *Financial guarantee contracts – Measurement at initial recognition* and *Financial guarantee contracts – Measurement after initial recognition* in the chapter *Financial liabilities and equity*.	Refer to the issue *Financial guarantee contracts – Measurement at initial recognition* and *Financial guarantee contracts – Measurement after initial recognition* in the chapter *Financial liabilities and equity*.
IAS 37	Timing of recognition of a provision for a court case	When there is no present obligation as a result of past obligating events at the end of the reporting period, a provision for a court case should not be recognised. A provision is recognised when it subsequently becomes clear that there is a present obligation. (IAS 37 Appendix C Example 10)	There is no specific guidance. A provision is recognised in accordance with the *Business Accounting Principles (Note 18)*.
IFRIC 21	Timing of recognition of levies	A levy is an outflow of resources embodying economic benefits that is imposed by government on entities in accordance with legislation, other than: • those outflows of resources that are within the scope of other IFRS Standards (such as IAS 12 *Income Taxes*); and • fines or other penalties that are imposed for breaches of the legislation. The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by legislation. (IFRIC 21.4, 8)	There is no specific guidance.

JP GAAP References:

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

Recent developments

Recent proposals - IFRS

Exposure Draft: Onerous Contracts – Cost of Fulfilling a Contract (Proposed amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets)*

In December 2018, the IASB published the Exposure Draft *Onerous Contracts – Cost of Fulfilling a Contract,* which proposed amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

The Exposure Draft proposed to clarify which costs an entity should include in assessing whether a contact is onerous.

* In May 2020, the IASB issued *Onerous Contracts - Cost of Fulfilling a Contract*, which amended IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The amendments are effective for annual reporting periods beginning on or after 1 January 2022, with early application permitted.

Financial liabilities and equity

Financial liabilities and equity

In July 2014, the IASB issued the complete version of IFRS 9 *Financial Instruments* which replaces most of the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. No significant changes from IAS 39 were introduced for the classification and measurement of financial liabilities, except for the recognition of changes in credit risk of liabilities in other comprehensive income for liabilities designated at fair value through profit or loss.

IFRS requires the classification of financial instruments based on the definitions of financial liabilities, financial assets and equity. Financial liabilities are classified as those 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 financial liabilities and equity but, in principle, classifies them based on their legal form. In addition, financial liabilities are measured at face amount, amortised cost or fair value. Therefore, differences exist not only in their distinction between financial liabilities and equity 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, and the presentation of offsetting financial instruments.

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

Standard	Issue	IFRS	JP GAAP
IAS 32	Classification of financial liabilities and equity	To determine whether a financial instrument issued is a financial liability or an equity instrument, the instrument is a financial liability if any of the following conditions below are met (otherwise it is an equity instrument); • the instrument is any liability that is a contractual obligation: – to deliver cash or another financial asset to another entity; or – to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity. • the instrument is any liability that is a contract that will or may be settled in the entity's own equity instrument and is: – a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or – a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. Note that 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 is 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.
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 when it meets certain conditions, even if it meets the definition of 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 when it meets certain conditions, even if it meets the definition of a financial liability. (IAS 32.16A–16D)	There is no specific guidance. In principle, classification is based on the legal form of the instruments.

Standard	Issue	IFRS	JP GAAP
IFRS 9	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. (IFRS 9.3.1.1, B3.1.2)	An entity should recognise a financial instrument (a financial liability) when it becomes a party to the contract. Borrowings are recognised on the funding date and derecognised on the repayment date.
IFRS 9	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. (IFRS 9.3.3.1, B3.3.1, B3.3.3)	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 the derecognition of a financial liability. However, the derecognition of a financial liability due to a debt assumption is permitted when certain conditions are met as a transitional treatment until a further pronouncement is issued.
IFRS 9	Exchange of financial liabilities with substantially different terms or substantial modification of the terms	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 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%. When exchanges or modifications of financial liabilities are accounted for as an extinguishment, incurred costs or fees are recognised in profit or loss. (IFRS9.3.3.2, 3.3.3, B3.3.6)	There is no specific guidance.

Standard	Issue	IFRS	JP GAAP
IFRS 9	Modification of the terms of a financial liability that does not result in derecognition	When the terms of a financial liability measured at amortised cost are modified but does not result in derecognition, amortised cost is recalculated and the gains or losses that result from the modification are recognised in profit or loss. The costs directly related to the modification adjust the carrying amount of the liability and are included in the effective interest rate. (IFRS 9. B3.3.6, B5,4,6, BC4.253)	There is no specific guidance.
IFRS 9	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. (IFRS 9.3.3.4)	There is no specific guidance.
IFRIC 19	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. 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 (The requirement for fair value measurement of financial liabilities with a demand feature (IFRS 13.47) is not applied). (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.
IFRS 9	Classification of financial liabilities	Financial liabilities are classified as those 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. (IFRS 9.4.2.1, 4.2.2, 5.7.7)	Monetary payables (e.g. notes payable, accounts payable, borrowings) should be measured at face amount. Bonds issued should be measured at amortised cost if they are issued at an amount higher or lower than their face amount.

Standard	Issue	IFRS	JP GAAP
IFRS 9	Fair value option Financial Liabilities	The fair value option means an irrevocable designation as measured at fair value through profit or loss at initial recognition. Application of the fair value option 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 (unless the embedded derivative does not significantly modify the cash flows, or it is clear with little or no analysis when a similar hybrid instrument is first considered that separation of the embedded derivative is prohibited). Fair value option can also be applied to non-financial liabilities that contain embedded derivatives. When fair value option is applied to a financial liability, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability should be presented in other comprehensive income and the remaining amount of change in the fair value of the liability should be presented in profit or loss. The amount presented in other comprehensive income should not be subsequently reclassified to profit or loss. However, the cumulative gain or loss may be reclassified within equity. 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.

Standard	Issue	IFRS	JP GAAP
IFRS 9	Embedded derivatives Bifurcation criteria when the host contract is a financial liability	An embedded derivative included in a hybrid instrument should be bifurcated from the host contract and accounted for as derivative if, and only if: (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid instrument is not measured at fair value with changes in fair value recognised in profit or loss. (IFRS 9.4.3.3-4.3.6)	An embedded derivative included in a compound instrument should be bifurcated from the host contract and measured at fair value if: (a) the risks related to the embedded derivative could affect the host financial liabilities; (b) a separate instrument with the same terms as the embedded derivative has characteristics of a derivative; and (c) the compound instrument is not measured at fair value with changes in fair value recognised in profit or loss. However, even when (a) and (c) 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.
IFRS 9	Financial guarantee contracts Measurement at initial recognition	At initial recognition, an issuer of a financial guarantee contract should measure it at its fair value. If the financial guarantee contract was issued to an unrelated party in a stand-alone arm's length transaction, its fair value at inception is likely to equal the premium received, unless there is evidence to the contrary. If an issuer of financial guarantee contracts has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting that is applicable to insurance contracts, the issuer may elect to account for the financial guarantee contracts as either financial instruments or insurance contracts. The issuer may make that election contract by contract, and the election for each contract is irrevocable. (IFRS 9.2.1(e), 5.1.1, B2.5(a))	Financial guarantee contracts are not measured at fair value, unless they result from a derecognition of a financial asset or a liability (which includes the financial guarantee contract) based on the financial component approach.

Standard	Issue	IFRS	JP GAAP
IFRS 9	Financial guarantee contracts Measurement after initial recognition	After initial recognition, a financial guarantee contract should be subsequently measured at fair value through profit or loss if the financial guarantee contract has the fair value option applied or is a derivative. Unless a financial guarantee contract is designated as fair value through profit or loss or accounted for as insurance contracts, after initial recognition, an issuer of a financial guarantee contract should subsequently measure it at the higher of: (a) the amount of the loss allowance determined in accordance with IFRS 9; and (b) the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15 *Revenue from Contracts with Customers*. (IFRS 9.4.2.1(c), 5.7.9, B2.5(a))	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.
IFRS 9	Loan commitments Measurement at initial recognition	At initial recognition, an entity should measure a loan commitment at fair value if the loan commitment (a) has the fair value option applied, (b) is a derivative, or (c) provides a loan at a below-market interest rate. Loan commitments other than those described above are not within the scope of IFRS 9. However, they are subject to impairment requirements of IFRS 9. (IFRS 9.2.1(g), 2.3, 5.1.1)	Loan commitments are recorded off-balance sheet. For overdraft facilities (including similar contracts) and loan commitments, an issuer of those instruments discloses unused amounts in the note.

Standard	Issue	IFRS	JP GAAP
IFRS 9	Loan commitments Measurement after initial recognition	After initial recognition, an entity should subsequently measure a loan commitment at fair value through profit or loss if the loan commitment has the fair value option applied or is a derivative. On the other hand, a loan commitment that provides a loan at a below-market interest rate is subsequently measured at the higher of: (a) the amount of the loss allowance determined in accordance with IFRS 9; and (b) the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15 *Revenue from Contracts with Customers*. Loan commitments out of the scope of IFRS 9 are subject to the impairment requirements of IFRS 9. (IFRS 9. 2.1(g), 2.3, 4.2.1(d), 5.7.9)	Refer to the issue *Loan commitments -Measurement at initial recognition* above. Commitment fees are accounted for on an accrual basis.
IFRS 13	Fair value measurement of a financial liability with a demand feature	The fair value of a financial liability with a demand feature should not be less than the amount payable on demand, discounted from the first date that the amount could be required to be paid. (IFRS 13.47)	There is no specific guidance. However, a financial liability is required to be recorded at the face amount of the entity's obligation.* *According to the *Accounting Standard for Fair Value Measurement,* etc. issued in July 2019, similar to IFRS, the fair value of a financial liability with a demand feature should not be less than the amount payable on demand, discounted from the first date that the amount could be required to be paid. The *Accounting Standard for Fair Value Measurement* is effective from the fiscal year beginning on or after 1 April 2021, with early application permitted.
IAS 32	Presentation of interest, dividends, gains and losses Transaction costs of 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 12.52A. (IAS 32.35, 35A, 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 three years.

Standard	Issue	IFRS	JP GAAP
IAS 32	Presentation of interest, dividends, gains and losses Issuance costs of compound instruments	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 is no specific guidance.
IAS 32	Presentation of offsetting 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 the following criteria are met: • an entity has a legally enforceable right to set offset the recognised amounts; and • an entity intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Generally, a master netting agreement is enforceable only after a specified event such as default, and the existence of the agreement alone does not meet the offsetting presentation requirements. (IAS 32.42-50)	Net presentation of financial assets and financial liabilities is permitted if the following criteria are met: • they are monetary receivables and payables to the same counter party. • the entity has a legally enforceable right and the ability to offset. • the entity intends to settle on a net basis. However, for financial assets and financial liabilities resulting from derivatives measured at fair value with the same counterparty, if an entity has a legally valid master netting contract, offset presentation is permitted to the extent of its application.

JP GAAP References:

- Accounting Standard for Financial Instruments
- Practical Guidelines on Accounting Standards for Financial Instruments
- Business Accounting Principles
- Guidance on Accounting for Other Compound Financial Instruments (Compound Financial Instruments Other than Those with an Option to increase Paid-in Capital)
- Audit Treatment for Accounting and Presentation of Debt Guarantee and Similar Guarantee Obligations
- Tentative Solution on Accounting for Deferred Assets
- Accounting Standard for Fair Value Measurement
- Implementation Guidance on Accounting Standard for Fair Value Measurement

Recent developments

Recent proposals - IFRS

*Exposure Draft: Annual Improvements to IFRS Standards 2018–2020 affecting IFRS 9 Financial Instruments**

In May 2019, the IASB published the Exposure Draft *Annual Improvements to IFRS Standards 2018–2020* and proposed a narrow scope amendment to IFRS 9 *Financial Instruments*.

The Exposure Draft proposed to clarify the fees that a borrower includes when it applies the 10% test in assessing whether to derecognise a financial liability are only fees paid or received between the borrower and the lender.

The Exposure Draft proposed to be effective for annual reporting periods beginning on or after 1 April 2022, with early application permitted.

Recent discussions - IFRS

Research project on financial instruments with characteristics of equity (FICE)

IAS 32 *Financial Instruments: Presentation* currently sets out how an entity that issues financial instruments should distinguish financial liabilities from equity instruments. However, some entities find it challenging to classify some complex financial instruments (for example, financial instruments combining characteristics of both debts (financial liabilities) and ordinary shares (equity instruments)).

Keeping this issue in mind, in June 2018, the IASB published the Discussion Paper *Financial Instruments with Characteristics of Equity.* Stakeholders provided a variety of feedback to the Discussion Paper on individual issues. The IASB has tentatively decided to review project directions and follow approaches to address practical issues by clarifying the principles in IAS 32, and continues its discussions on this research project.

* In May 2020, the IASB issued the amendment to IFRS 9, *Financial Instruments* as part of *Annual Improvements to IFRS Standards 2018–2020*.

Consolidation and equity method accounting

Consolidation and equity method accounting

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. 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 those of the parent. While JP GAAP permits the use of financial statements applying US GAAP or IFRS for subsidiaries, under 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 treatment may differ in situations where a parent company has a fiscal year-end different from that of a consolidated subsidiary. Under JP GAAP, use of the recent financial statement of a subsidiary with a different year-end provided the difference is no more than three months is permitted. Under IFRS, such recent financial statement is only used when it is impracticable that the subsidiary prepares, for consolidation purposes, additional financial information as of the same reporting date as the date of the consolidated financial statements. When using the recent financial statement of the subsidiary, JP GAAP requires 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 occur between the ends of the reporting periods in the consolidated financial statements.

IFRS provides principles for financial reporting by parties to a joint arrangement, which is classified into two types; a joint operation and a joint venture. Under JP GAAP, there is no comprehensive standard for a joint arrangement; however, the *Accounting Standard for Business Combinations* provides specific guidance only on the formation of jointly controlled entities.

As for investments in associates, IFRS and JP GAAP are similar in the criteria for an entity to qualify as an associate, which requires the existence of significant influence. However, the scope of associates under JP GAAP may differ from IFRS in practice, because JP GAAP provides more detailed criteria than those of IFRS. In addition, under IFRS, if the reporting date of an associate differs from that of the investor, additional financial statements of the associate should, wherever practicable, be prepared as of the same reporting date as the investor's reporting date. Under JP GAAP, it is not necessary to prepare additional financial statements of the associate as of the same reporting date as the investor's reporting date. Instead, the investor can use the most recent financial statements of an associate adjusted for the effects of significant transactions or events that occur between the date of associate's financial statements and the date of the consolidated financial statements.

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

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	Same control criteria are applied to all entities. An investor controls an investee If and only if the investor has all the following: • power over the investee; • exposure, or rights, to variable returns from its involvement with the investee; and • the ability to use its power over the investee to affect the amount of the investor's returns. Even if an investor holds less than a majority of the voting rights, it may still have power over the investee, depending on other contractual arrangements, dispersion of holdings of the other vote holders, and the voting patterns at previous shareholders' meetings. (IFRS 10.4, 7, B41, B42)	Similar to IFRS in the concept of control, however, there are certain differences in specific guidance. 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 criteria	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, the trust 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 the overall relationship between the decision maker, the investee and other parties, in particular all the factors, such as the scope of its decision-making authority, the rights held by other parties, the remuneration and the exposure to variability of returns from other interests, in determining whether the decision maker is a principal or an agent. In the case of being a principal, those who hold the decision making rights are required to consolidate an investment partnership, and in the case of being an agent, they are not required to do so (That investment partnership may be consolidated by other investors). (IFRS 10.B60)	In general, in the following cases where an entity holds decision making authority over operations of an investment partnership (i.e. a general partner), it would consolidate that partnership. • Holding decision making authority over operations of an investment partnership (in the case of multiple decision makers, holding majority of decision making authority). • Holding 40%-50% of decision making authority and satisfy certain conditions. • Holding majority of decision making authority, together with authority of those who can be regarded as agreeing and those who agree.
IFRS 10	Potential voting rights	Potential voting rights are considered when assessing control. (IFRS 10.10, B15, B47-B50)	There is no specific guidance to consider potential voting rights when assessing control.
IFRS 10	Assessment of 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 10.4, 7, B3)	A transferor of an asset to an SPE that meets certain criteria is permitted to assume that the SPE is not a subsidiary and to exclude the SPE from the scope of consolidation.
IFRS 10	Exception to consolidation (Investment entities)	An entity that meets the definition of an investment entity does not consolidate its subsidiaries and instead measures its investments at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments* except for the subsidiaries whose main purpose and activities are providing services that relate to the investment entity's investment activities. (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 treated as financial instruments, but not necessarily required to be measured at fair value when no quoted market price exists.
IFRS 10	Control of specified assets	An investor should consolidate a portion of an investee (specified assets) as a deemed separate entity (silo) if certain criteria are met, for example specified assets of the investee are the only source of payment for specified liabilities or specified other interests. (IFRS 10.B76, B77, B79)	There is no specific guidance.

Standard	Issue	IFRS	JP GAAP
IFRS 10	Uniform reporting dates for the subsidiary and the parent	The reporting dates should be the same for the subsidiary and the parent. When the reporting dates are different, the subsidiary prepares the financial statements as of the same date as the reporting date of the parent unless it is impracticable. (IFRS 10.B92, B93)	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	If it is impracticable to prepare the financial statements of subsidiaries as of the same reporting date as the financial statements of the parent, the difference between the date of the subsidiary's financial statements and that of the parent's financial statements 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 parent and that of the subsidiary. (IFRS 10.B93)	Adjustments are required only for significant differences relating to intra-group transactions that occur between the end of the reporting period of the parent and that of the subsidiary.
IFRS 10	Uniform accounting policies for the subsidiary and the parent	Applying uniform accounting policies is required for like transactions and 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, it is tentatively permitted to use US GAAP or IFRS for foreign and specific domestic subsidiaries, except for the following five items. • Goodwill: required to be amortised • Accounting for actuarial gains and losses regarding defined benefit plans: actuarial gains and losses that were recognised in net assets in prior periods are required to realise in profit or loss over relevant average remaining service period. • Intangible assets arising from development phases: required to be expensed • Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets: required to be measured at cost • Cumulative gains and losses on an investment in an equity instrument in the case where subsidiaries irrevocably elect to present changes in fair value of the equity instrument not held for trading in other comprehensive income: required to be reclassified to profit or loss in derecognition and impairment

Standard	Issue	IFRS	JP GAAP
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 guidance exists on the deemed acquisition date or the deemed date of loss of control. However, BC110 in IFRS 3 *Business Combinations* 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) (IFRS 10.20)	The preceding or following reporting date (including interim reporting date) of the subsidiary from the actual acquisition date or the actual date of loss of control may be used.
IFRS 10	Attribution of losses of a subsidiary to non-controlling interests	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)	If losses of a subsidiary attributable to non-controlling interests exceeds the amount to be charged to non-controlling interests, the excess should be charged against the parent unless otherwise arranged.
IFRS 10	Changes in the parent's ownership interest resulting in a loss of control	When a parent loses control of a subsidiary, any investment retained in the former subsidiary is remeasured at fair value with any gain or loss recognised in profit or loss. Same treatment is applied, when the investments are retained as associates. The proportion of the gain or loss previously recognised in other comprehensive income, such as currency translation differences and valuation defferences for financial assets measured at fair value through other comprehensive income in accordance with IFRS 9 *Financial Instruments,* is reclassified to profit or loss. However, other comprehensive income recognised as non-recycling items is not reclassified to profit or loss (e.g. a revaluation gain or loss of fixed assets applying the revaluation model under IAS 16 *Property, Plant and Equipment* and changes in the fair value of an investment in an equity instrument in accordance with IFRS 9, if designated as such on initial recognition). (IFRS 10.25, B98, B99)	When a subsidiary becomes an associate, the parent measures the retained interest in the former subsidiary at the carrying amount in the consolidated financial statements at the time of loss of control. When a subsidiary ceases to be a subsidiary and it does not become an associate, the parent measures the retained interest at the carrying amount at cost in the separate financial statements and the difference is directly added on or deducted from retained earnings and accumulated other comprehensive income. 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. There is no concept of items in other comprehensive income which would never be reclassified to profit or loss under JP GAAP.

Standard	Issue	IFRS	JP GAAP
IFRS 11 *Joint Arrangements*			
IFRS 11	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 11.4, 14-17)	Concept of a joint venture structured under an arrangement which is jointly controlled by independent multiple entities exists. However, there is no concept of a 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 is no specific guidance.
IFRS 11	Assessment of investment in a joint operation 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 in accordance with applicable IFRS Standards. (IFRS 11.23)	There is no specific guidance.
IFRS 11	Accounting for an interest in a joint venture	An interest in a joint venture is accounted for using the equity method. An entity may elect to measure an investment in a joint venture held by a venture capital organisation, a mutual fund, unit trust and similar entities at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments*. (IFRS 11.24) (IAS 28. 18)	In general, the equity method is applied.
IFRS 11	Assessment of investment in a joint venture without having joint control	When an entity does not have joint control of an investee and the investee is not a subsidiary or an associate of the entity, the entity accounts for its interest in the investee in accordance with IFRS 9 *Financial Instruments*. (IFRS 11.25)	There is no specific guidance. In practice, such investment is accounted for in accordance with the accounting for associates.

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 for significant influence are similar to IFRS; however, more detailed criteria are provided compared to IFRS.
IAS 28	Accounting for changes in other net assets of the investee	There is no specific guidance 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 at market value are recognised as goodwill (or negative goodwill) if the investor's proportionate share increases. If the investor's proportionate share decreases, the changes in net assets of the investee are recognised in the extraordinary gain or loss. However, it is permitted for an entity to recognise the changes directly in retained earnings when the recognition in profit or loss may lead interested parties to make an inappropriate decision.
IAS 28	Exception of applying equity method to investments in associates	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 IFRS 9 *Financial Instruments* 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 investments in associates if certain criteria are met.
IAS 28	Potential voting rights	Potential voting rights are considered when assessing significant influence. (IAS 28.7, 8)	There is no specific guidance to consider potential voting rights when assessing significant influence.
IAS 28	Accounting for an investment in an associate classifed as 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 *Non-current Assets Held for Sale and Discontinued Operations*. (IAS 28.20, BC26, BC27)	There is no specific guidance for an associate held for sale. Certain associates are excluded from the scope of the equity method (e.g. if significant influence is temporary).

Standard	Issue	IFRS	JP GAAP
IAS 28	Accounting for the changes in ownership interest in an associate which do not result in a loss of significant influence	There is no specific guidance. However, the following treatment is applied in practice. • When additional interest is acquired, the difference between the additional interest in the associate and the 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 sale of interest is recognised in profit or loss. The proportion of the gain or loss previously recognised in other comprehensive income, such as currency translation differences and valuation defferences for financial assets measured at fair value through other comprehensive income in accordance with IFRS 9 *Financial Instruments,* is reclassified to profit or loss. However, other comprehensive income recognised as non-recycling items is not reclassified to profit or loss (e.g. such as revaluation gain or loss of fixed assets applying the revaluation model under IAS 16 *Property, Plant and Equipment* and changes in the fair value of an investment in an equity instrument in accordance with IFRS 9, if designated as such on initial recognition). (IAS 28.25)	Similar to IFRS in the treatment of an increase (acquisition of additional interest) and decrease (disposal) of interest. 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. There is no concept of items in other comprehensive income which would never be reclassified to profit or loss under 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 and recognise any difference in profit or loss. A gain or loss previously recognised in other comprehensive income is reclassified to profit or loss except for non-recycling items. (IAS 28.22, 23)	An investor measures the retained investment in the former associate at the carrying amount in the separate financial statements. The investor's portion of retained earnings and other comprehensive income after acquisition is presented as a change 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 by straight line method or other reasonable method over a period of 20 years or less.

Standard	Issue	IFRS	JP GAAP
IAS 28	Uniform reporting dates for the associate and the investor	When the reporting date of the entity is different from that of the associate, the associate prepares the financial statements as of the same date as that of the financial statements of the investor unless it is impracticable. (IAS 28.33)	When the reporting date of the entity is different from that of the associate, it is permitted to use the recent financial statements of the associate.
IAS 28	Transactions for which the adjustments are required due to the difference in the reporting date	If it is impracticable to prepare the financial statement of an associate as of the same reporting date as that of the financial statements of the investor, the difference between the end of the reporting period of the associate and that of the investor 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)	The difference between the end of the reporting period of the associate and that of the investor might be more than three months. Adjustments or disclosures are made as appropriate when significant transactions or events occur 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 US GAAP or IFRS for foreign and specific domestic associates, except for specific items (Refer to the issue *Uniform accounting policies for the subsidiary and the parent* for the details of specific items).
IAS 28	Impairment of investments in associates or joint ventures that are accounted for using the equity method	Assess whether there is any indication of impairment loss following the requirements in IAS 28 for the entire carrying amount of investments in associates including goodwill and test for impairment following the requirements in IAS 36 *Impairment of Assets*. An impairment loss can be reversed. (IAS 28.40, 41A-41c, 42)	Assess whether there is any indication of impairment loss for the entire carrying amount of investments in associates including goodwill and test for impairment. An impairment loss cannot be reversed. Furthermore, when the carrying amount of investment at cost in the separate financial statements is impaired, 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
IAS 28	Impairment of long-term interests in associates or joint ventures that are not accounted for using the equity method	An entity also applies IFRS 9 *Financial Instruments* to other financial instruments in associates or joint ventures that are not accounted for using the equity method. These include long-term interests that, in substance, form part of the net investment in associates or joint ventures (e.g. preferred shares, long-term receivables or unsecured loans). An entity first applies the impairment requirements of IFRS 9 to such long-term interests and then assesses whether there is any indication of impairment loss by applying IAS 28 and perform impairment testing in accordance with IAS 36 *Impairment of Assets*. (IAS 28.14A, 41A-41C)	There is no specific guidance.

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, etc. 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
- Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method)
- Guidance on Accounting Standard for Impairment of Fixed Assets
- 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
- Regulation on Terminology, Forms, and Preparation Methods of Financial Statements
- Practical Guidelines on Accounting Standards for Financial Instruments

Recent developments

Recent changes - JP GAAP

Amendments to Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries, etc. for Consolidated Financial Statements

In June 2019, the ASBJ issued the amendments to the *Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries, etc. for Consolidated Financial Statements*.

In case that foreign subsidiaries, etc. applies IFRS 16 *Leases* or US-GAAP Accounting Standards Update (ASU) No. 2016-02 *Leases (Topic 842)*, the amendments do not incorporate the requirements of these leasing standards as mandatory adjustment items in the Practical Solution, and therefore applying these leasing standards is not adjusted.

The amendments are effective immediately after the date of the issuance.

Business combinations

Business combinations

Both IFRS and JP GAAP requires, in principle, business combinations to be accounted for under the acquisition method (purchase method). However, IFRS 3 *Business Combinations* excludes combinations of businesses under common control from its scope and does not provide explicit guidance. In contrast, JP GAAP prescribes the accounting treatment of common control transactions in *Accounting Standard for Business Combinations*, in which entities are required to recognise and measure assets and liabilities at the previous carrying amounts.

Goodwill acquired in business combinations is not amortised under IFRS, but is annually tested for impairment irrespective of whether there is any indication of impairment. JP GAAP, on the other hand, requires amortisation of goodwill on a systematic basis over its expected useful life up to 20 years. Impairment testing is required when there is indication of impairment.

IFRS requires acquirers to measure non-controlling interests at either fair value (full goodwill) or the present ownership instruments' proportionate share of the acquiree's identifiable net assets (purchased goodwill). JP GAAP only adopts the purchased goodwill method.

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 accounting standards for business combinations	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, 4, 5, Appendix A, B7-B12) (*) IFRS 3 was amended in October 2018 to improve the definition of a business. New definition of a business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities. The amended definition of a business should be applied to acquisitions that occur on or after 1 January 2020. Earlier application is permitted.	The formation of a jointly controlled entity and the combination of entities or businesses under common control are included in the scope of the *Accounting Standard for Business Combinations*, although the accounting requirements are different from those for other business combinations based on the acquisition method. 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 the combination of entities or businesses under common control, assets and liabilities are recognised and measured at the previous carrying amounts.
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 the combination of entities or businesses under common control, assets and liabilities are recognised and measured at the previous carrying amounts.
IFRS 3 IAS 36	Amortisation of goodwill	Goodwill is not amortised. However, impairment testing should be conducted annually or when there is any indication that an asset may be impaired. (IFRS 3.B63, BC54, IAS 36.9, 10, BC131A)	Goodwill is recognised as an asset and amortised on a systematic basis over its expected useful life, not to exceed 20 years. It is determined whether or not to recognise an impairment loss when there is any indication that an asset may be impaired.

Standard	Issue	IFRS	JP GAAP
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 (investment in an equity instrument) in the acquiree at its acquisition-date fair value. Valuation differences arising from remeasurement based on the previously held equity interest are accounted for as follows: • when a previously held interest were measured at fair value through profit or loss, valuation differences are recognised in profit or loss. • when a previously held interest were measured at fair value through other comprehensive income, valuation differences are recognised in other comprehensive income and are not subsequently reclassified to profit or loss. Valuation differences recognised in other comprehensive income can be transferred within equity. • when the equity method was applied to a previously held interest that was previously an associate or joint venture, the valuation difference is recognised in profit or loss. The amount the acquirer recognised in other comprehensive income relating to the previous interest in the acquiree (equity method investments), such as currency translation differences and valuation defferences for financial assets measured at fair value through other comprehensive income in accordance with IFRS 9 *Financial Instruments,* is reclassified to profit or loss. However, other comprehensive income recognised as non-recycling items is not reclassified to profit or loss (e.g. revaluation gain or loss of fixed assets applying the revaluation model under IAS 16 *Property, Plant and Equipment* and changes in the fair value of an investment in an equity instrument under IFRS 9 if designated as such on initial recognition). When control of a business that is a joint operation is obtained, an entity should remeasure its previously held interest in the joint operation at fair value at the acquisition date. (IFRS 3.42, 42A)	The acquirer remeasures its previously held equity interest at fair value at the acquisition date, and recognises the valuation difference in profit or loss.

Standard	Issue	IFRS	JP GAAP
IFRS 3	Determination of 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 what the acquirer and the acquiree exchanged in the business combination), 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). Factors to consider include (a) the reason for the transaction, (b) who initiated the transaction and (c) the timing of the transaction. (IFRS 3.51, 52, B50-B62B)	There is no specific guidance.
IFRS 3	Accounting for acquisition-related costs	In general, acquisition-related costs are expensed. However, the cost to issue equity instruments is deducted from equity and the cost to issue a financial liability (debt) is reflected in the effective interest rate and amortised. Additionally, the cost related to the transaction with a non-controlling interest which does not result in change of control is deducted from equity. (IFRS 3.53)	Acquisition-related costs such as fees and charges paid to external advisors and others are expensed in the period incurred. This treatment is the same for transactions with a non-controlling interest which does not result in change of control.
IFRS 3	Measurement of contingent consideration	Contingent consideration is measured at acquisition-date fair value 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)	In case that the additional contingent consideration is issued or delivered, it is additionally recognised as the acquisition cost (and in certain cases, goodwill may be adjusted) when its issuance or delivery is certain and its fair value is reasonably determinable. In case that a portion of the contingent consideration is returned, it is deducted from the acquisition cost (and in certain cases, goodwill may be adjusted) when its returun is certain and its fair value is reasonably determinable.* Such adjustment is not limited to the tentative measurement period. * In January 2019, the ASBJ issued the amendments to the *Accounting Standard for Business Combinations* and the *Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures* to clarify the accounting treatment when a portion of the contingent consideration is returned. The amendments are applied to business combinations that occur on or after the beginning of annual reporting period beginning on or after 1 April 2019.

Standard	Issue	IFRS	JP GAAP
IFRS 3	Measurement of identifiable assets and liabilities	In principle, an acquirer measures the identifiable assets acquired and the liabilities assumed at acquisition-date fair values. An acquirer classifies or designates the identifiable assets and liabilities as required by other IFRS Standards (such as tax and employee benefit related items) at the acquisition date, and also measures them in accordance with relevant IFRS Standards (such as IAS 12 *Income Taxes,* IAS 19 *Employee Benefits* or IFRS13 *Fair Value Measurement*) at that date. (IFRS 3.10, 18, 24-31) (IFRS13.27)	An acquirer allocates the purchase price to the identifiable assets acquired and the liabilities assumed at acquisition-date fair values. Each identifiable asset and liability such as a financial instrument and employee benefit related liability is 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 (purchased goodwill). (IFRS 3.10, 19)	Only the concept of purchased goodwill is accepted.
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 per-share fair value of the acquirer's interest in the acquiree. (IFRS 3.B45)	There is no specific guidance 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.
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 —non-financial assets.* (IAS 38. 11-12, 34-37) (IFRS 3.13)	Refer to the issue *Identification of intangible assets acquired in a business combination* in the chapter *Assets —non-financial assets.*
IFRS 3	Reacquired rights	When an acquirer reacquires a right that it had previously granted to the acquiree, as a part of a business combination, it measures the value of the 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 is no specific guidance.

Standard	Issue	IFRS	JP GAAP
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. Therefore, the acquirer does not recognise those costs as part of applying the acquisition method. 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 if the recognition criteria of provisions are not met.
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 *Provisions, Contingent Liabilities and Contingent Assets* is not met. (IFRS 3.23)	A contingent liability is recognised as a liability if the recognition criteria of provisions are met.
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 allocation of the acquisition cost is modified in the following fiscal year after the business combination, it is adjusted retrospectively, as if the allocation was completed in the year when the business combination occurred.
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 *Non-current Assets Held for Sale and Discontinued Operations*. (IFRS 3.31)	There is no specific guidance.

JP GAAP References:

- Accounting Standard for Business Combinations
- Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures
- Accounting Standard for Impairment of Fixed Assets

Recent developments

Recent changes - IFRS

Amendments to IFRS 3 Business Combinations (Definition of a Business)

In October 2018, the IASB issued the amendments to IFRS 3 *Business Combinations* to revise the definition of a business.

- New definition of a business: An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.
- Previous definition of a business: An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.

The amendments are applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

Recent changes - JP GAAP

Amendments to Accounting Standard for Business Combinations and Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures

In January 2019, the ASBJ issued the amendments to the *Accounting Standard for Business Combinations* and the *Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures.*

The amendments clarified that, in case that a portion of the contingent consideration is returned, it is deducted from the acquisition cost and goodwill is adjusted, when its return is certain and its fair value is reasonably determinable.

The amendments are applied to business combinations that occur on or after the beginning of annual reporting period beginning on or after 1 April 2019.

Other accounting and reporting topics

Other accounting and reporting topics

In addition to the issues discussed in previous chapters, there are several other differences between JP GAAP and IFRS, including presentation of annual financial statements, accounting for non-current assets held for sale, presentation and disclosures of discontinued operations, translations of foreign currency transactions, and calculation of earnings per share.

JP GAAP requires ‘extraordinary gain or loss’ to be presented in the income statement, resulting in a difference from IFRS.

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 for discontinued operations.

As to the translation of foreign currency transactions, JP GAAP specifies accounting treatment 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.

As to the earnings per share, IFRS provides specific guidance for cases where an entity has the option to settle with ordinary shares or cash.

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 • comparative information in respect of the preceding period 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 (which should immediately precede the statement of comprehensive income) and of comprehensive income (which should begin with profit or loss). An entity may use titles for the statements other than those stated above. (IAS 1.10, 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 shareholders' equity • 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 line items which should be presented separately in the statement of financial position. An entity should present current and non-current assets and liabilities as separate classifications in the statement of financial position, except when a liquidity presentation is more relevant. (IAS 1.54, 60)	*Ordinance on Terminology, Forms and Preparation Methods of Financial Statements, etc.* ('financial statements regulations') and the *Financial Instruments and Exchange Act* have more detailed rule for financial statement line items compared to IFRS. An entity should present current and non-current assets and liabilities as separate classifications in the statement of financial position.

Standard	Issue	IFRS	JP GAAP
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 nature or function within the entity. An entity classifying expenses by function should disclose additional information on the nature of the expenses including depreciation and amortisation expense and employee benefit expense in the notes. While certain 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 1.82, 99, 102-104)	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. The *Financial Instruments and Exchange Act* have more detailed rules for the presentation of the income statement.
IAS 1	Statement of comprehensive income (Income statement) Presentation of additional line items, headings and subtotals 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, headings and subtotals of profit and loss; however, an entity should present additional line items, headings and subtotals in the statement(s) presenting profit or loss and other comprehensive income when such presentation is relevant to an understanding of the entity's financial performance (an entity may present subtotals if certain criteria are met). (IAS 1.81A, 85, 85A)	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

Standard	Issue	IFRS	JP GAAP
IAS 1	Statement of comprehensive income (Income statement) Presentation of non-controlling interests in profit or loss and comprehensive income	Profit or loss and comprehensive income for the period include profit or loss for the period attributable to both non-controlling interests and owners of parent and comprehensive income for the period attributable to both non-controlling interests and owners of parent, respectively. The statement of comprehensive income should present the following items: • profit or loss for the period attributable to non-controlling interests • profit or loss for the period attributable to owners of the parent • comprehensive income for the period attributable to non-controlling interests • comprehensive income for the period attributable to owners of the parent (IAS 1.81B)	Net profit or loss and comprehensive income for the period include net profit or loss for the period attributable to non-controlling interests and owners of parent and comprehensive income for the period attributable to non-controlling interests and owners of parent, respectively. When using the two-statement method, net profit or loss for the period attributable to owners of the parent is presented separately after net profit or loss with adding or subtracting net profit or loss attributable to non-controlling interests.
IAS 1	Statement of comprehensive income (Income statement) Exceptional (significant) items and extraordinary items	The term 'exceptional items' is not used or defined in IFRS. However, separate disclosure of certain items is required (either on the face of the statement of the comprehensive income or in the notes) when it is necessary for an entity to do so in order to explain its performance for the period due to their size, nature or both. Extraordinary items are prohibited from being presented. (IAS 1.85, 87, 97)	Exceptional items are required to be presented as 'extraordinary gain or loss' on the face of the income statement.
IAS 1	Statement of comprehensive income (Other comprehensive income (OCI)) OCI items (those that might be reclassified and those that will not be reclassified)	Items presented in the other comprehensive income section are grouped on the basis of whether they will be reclassified subsequently to profit or loss when specific conditions are met or they will not be reclassified subsequently to profit or loss. If an entity elects to present items of OCI before related tax effects with one amount shown for the aggregate amount of income tax relating to those items, the tax is allocated between the items that might be reclassified subsequently to the profit or loss section and those that will not be reclassified subsequently to the profit or loss section. (IAS 1.82A, 91)	An entity is not required to group items presented in OCI on the basis of whether they are potentially reclassified to profit or loss subsequently because there is no item that cannot be reclassified to profit or loss under JP GAAP.

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 if 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 specific guidance 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 initial classification as held for sale	Assets should be measured in accordance with applicable IFRS Standards (e.g. IAS 36 *Impairment of Assets*) immediately before the initial classification as held for sale. (IFRS 5.18)	There is no specific guidance for non-current assets held for sale.
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 consider the depreciation amounts which would arise if it had not recognised the impairment loss in the prior years. (IFRS 5.21)	There is no specific guidance for non-current assets held for sale. General impairment rules for fixed assets are applied to such assets. Reversal of impairment loss is prohibited.
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 specific guidance for non-current assets held for sale. General presentation 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), 32-33A)	There is no specific guidance for discontinued operation. The results of the discontinued operation are presented without separating from continuing operations.
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, 32-33A, 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 accounting treatment for 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 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 transaction	A foreign currency transaction is a transaction that is denominated or requires settlement in a foreign currency. The foreign currency is a currency other than the functional currency of the entity. (IAS 21.8) (IAS 21.20)	Only transactions denominated in a foreign currency are foreign currency transactions. Foreign exchange gains and losses arising from export and import transactions typically with trading companies that are borne by the entity also meet the definition of foreign currency transactions. 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	Definition of 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.

Standard	Issue	IFRS	JP GAAP
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 investments in subsidiaries and affiliates in the separate 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 the reporting period is used to measure other securities, such securities denominated in a foreign currency are translated at the monthly average exchange rate before the end of the reporting period as a general rule*. However, translation at the spot exchange rate at the end of the reporting period is also permitted under the condition of consistent application. *According to the *Accounting Standard for Fair Value Measurement*, etc. issued in July 2019, the treatment for the use of the monthly average market price before the end of the reporting period in the measurement of other securities would be deleted. In conjunction with such amendment, the treatment of translating other securities denominated in a foreign currency at the monthly average exchange rate before the end of the reporting period would also be deleted. The amendment is effective from the fiscal year beginning on or after 1 April 2021, with early application permitted.
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 is no specific guidance.

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 denominated receivables/payables at the end of the reporting period closing should be recorded as an exchange gain or loss in profit or loss. For other securities denominated in foreign currency, refer to the issue *Accounting for foreign exchange differences on financial assets classified as FVOCI* in the chapter *Assets - financial assets.*
IAS 21	Exchange differences 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 on a monetary item that forms part of a reporting entity's net investment in a foreign operation should be recognised in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment in the financial statements that include the foreign operation and the reporting entity (e.g. consolidated financial statements when the foreign operation is a subsidiary). (IAS 21.15, 32)	There is no specific guidance.
IAS 21	Gain or loss on disposal of a foreign operation Foreign 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 accounted for as follows: • When the entity retains control over the subsidiary: Similar to IFRS, re-attribute the proportionate share of the cumulative translation adjustment account 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: Reclassify the proportionate share of the cumulative translation adjustment account recognised in other comprehensive income to profit or loss.

Standard	Issue	IFRS	JP GAAP
IAS 21	Gain or loss on disposal of a foreign operation Foreign 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 accounted for as follows: • When the entity retains significant influence over the associate: Similar to IFRS, reclassify the proportionate share of the cumulative translation adjustment account recognised in other comprehensive income to profit or loss. • When the disposal involves the loss of significant influence over the associate: Reclassify the proportionate share of the cumulative translation adjustment account recognised in other comprehensive income to profit or loss. The remaining shares of the associate are valued using the carrying amount in the separate financial statements (the cumulative translation adjustment account are directly reversed).
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 *Financial Reporting in Hyperinflationary Economies*. (IAS 21.42, 43)	There is no specific guidance.
—	Treatment of debt securities in foreign currency upon acquisition of a non-monetary asset	There is no specific guidance.	When an entity holds the proceeds from foreign currency denominated bonds without changing to Japanese yen for reinvestment (such as properties in foreign currency), the entity may include the translation differences on such bonds in 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 denominated bonds and the plan is clearly stated in a formal document; and • The reinvestment transaction is denominated in the same foreign currency as the bonds.

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 included in weighted average number of ordinary shares 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 is no specific guidance. Under the *Companies Act of Japan*, an acquirer of shares should pay in full the amount due to the issuer.
IAS 33	Diluted earnings per share (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 is no specific guidance.
IAS 33	Diluted earnings per share (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 is no specific guidance.
IAS 33	Diluted earnings per share (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 is no specific guidance.
IAS 33	Diluted earnings per share (Discontinued operations)	An entity uses profit or loss from continuing operations attributable to the parent entity as the control number to establish whether potential ordinary shares are dilutive or antidilutive. (IAS 33.41, 42)	There is no concept of discontinued operations. An entity uses net profit or loss as the control number to establish whether potential ordinary shares are dilutive or antidilutive.

Standard	Issue	IFRS	JP GAAP
IAS 33	Presentation of earnings per share	Basic earnings per share and diluted earnings per share should be presented in the statement of comprehensive income. These earnings per share should be presented as profit or loss attributable to the ordinary equity holders of the parent entity. Basic earnings per share and diluted earnings per share should be presented separately from continuing operations and discontinued operations (these earnings per share for the discontinued operation may be also presented in the notes). An entity should present basic and diluted earnings per share, even if the amounts are negative (i.e. a loss per share). (IAS 33.66-69)	Basic earnings per share and diluted earnings per share are disclosed as footnote information. These earnings per share are disclosed for profit or loss attributable to the ordinary equity holders of the parent. An entity is not required to present diluted earnings per share, if the amount is negative (i.e. a loss per share).

JP GAAP References:

- Accounting Standard for Foreign Currency Transactions
- Practical Guidelines on Accounting under the Equity Method
- Companies Act
- Practical Guidelines on Accounting Standards for Foreign Currency Transactions
- Accounting Standard for Earning Per Share
- Regulation on Terminology, Forms, and Preparation Methods of Financial Statements
- Guidelines for Regulation on Terminology, Forms, and Preparation Methods of Financial Statements
- Guidelines for Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements
- Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements
- 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

Recent developments

Recent proposals - IFRS

*Exposure Draft: Classification of Liabilities (Proposed amendments to IAS 1 Presentation of Financial Statements)**

In February 2015, the IASB published the Exposure Draft *Classification of Liabilities,* which proposed amendments to IAS 1 *Presentation of Financial Statements*.

The Exposure Draft proposed to clarify that classification of liabilities as either current or non-current is based on an entity's rights that are in existence at the end of the reporting period. The Exposure Draft also proposed to clarify the link between the settlement of the liabilities and the outflow of resources from the entity.

Exposure Draft: General Presentation and Disclosures (Primary Financial Statements project)

In December 2019, the IASB published the Exposure Draft *General Presentation and Disclosures* to improve how information is communicated in the financial statements.

The proposals in the Exposure Draft were developed as part of the IASB's Primary Financial Statements project, with a focus on information about financial performance in the statement of profit or loss. The Exposure Draft includes a proposal to replace IAS 1 *Presentation of Financial Statements* with a new IFRS Standard and proposed amendments to other IFRS Standards such as IAS 7 *Statement of Cash Flows*. The proposals cover the following topics.

- Presentation of new subtotals in the statement of profit or loss
- Disclosure of 'management performance measures' in a single note to the financial statements
- Improvements to disaggregation of information presented in the financial statements
- Limited improvements to the statement of cash flows

* In January 2020, the IASB issued *Classification of Liabilities as Current or Non-current,* which amended IAS 1 *Presentation of Financial Statements*. The amendments were originally effective for annual reporting periods beginning on or after 1 January 2022. However, in response to the COVID-19 pandemic, the IASB additionally issued the amendments to defer the effective date by one year in July 2020. As a result, the amendments are now effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted.

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IFRS 11 *Joint Arrangements*

IAS 28 *Investments in Associates and Joint Ventures*

Business combinations

Other accounting and reporting topics

PwC Japan Group

In addition to audit related services, PwC Japan Group 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.

PricewaterhouseCoopers Aarata LLC

IFRS technical team has been established within Accounting Consulting Services group of PricewaterhouseCoopers Aarata LLC to technically support high quality IFRS services to our clients leveraging the PwC network.

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Publication: April 2020