



IFRS Core Tool

# JGAAP-IFRS Comparison of the Standards

English version 9.0

[based on Japanese version 9]

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This publication is a comparison of JGAAP and IFRS accounting standards.

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# Introduction

Today, over 150 countries and jurisdictions are using International Financial Reporting Standards (IFRS).

The Accounting Standards Advisory Forum (ASAF) includes the standard setters of many countries such as the Accounting Standards Board of Japan (ASBJ), as well as the Financial Accounting Standards Board (FASB) of the United States of America (USA), and provides advice on accounting matters to the International Accounting Standards Board (IASB).

In Japan, movement towards IFRS adoption has significantly progressed. Although there are still a number of differences between Japanese GAAP (JGAAP) and IFRS, convergence is ongoing.

Since the Financial Services Agency of Japan outlined a proposed road map for adopting IFRS in 2009, IFRS adoption has taken place in earnest. Now in Japan, listed companies and certain other companies may adopt IFRS on a voluntary basis for their consolidated financial statements instead of using JGAAP (or US GAAP if that had been used). The number of companies adopting IFRS grew from two in 2010 to around 280, with more companies planning to move to IFRS in the coming years.

IFRS as issued by the IASB is used when IFRS is voluntarily adopted in Japan. There is an endorsement mechanism, and a further mechanism was put in place in 2015. This further mechanism led to the establishment of an additional “carved-out version” of IFRS to make the transition to IFRS as issued by the IASB easier for Japanese companies. Japan's Modified International Standards (JMIS): Accounting Standards Comprising IFRSs and the ASBJ Modifications differs from IFRS in that it requires goodwill to be amortised and it requires all items recorded in other comprehensive income be recycled to profit or loss eventually. At the time of writing, no Japanese companies use or have announced plans to apply JMIS.

In this booklet, we outline the differences between JGAAP and IFRS by accounting topics. It is not possible to comprehensively include all differences which could arise in accounting for all kinds of transactions, and so we have focused on those differences which are considered to be most common in practice.

We have taken care in preparing this booklet. However, as the information is summarised and general, this booklet is intended to be used as general guidance only and is not intended to be used as detailed advice or in place of professional judgment. Please refer to the original texts for the detailed guidance. Also, we recommend that you consult with specialists about specific transactions.

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# 1.Presentation of Financial Statements, Accounting Policies, Changes in Accounting Estimates and Errors, Assets Held for Sale and Discontinued Operations

## ► Significant differences

	JGAAP	IFRS
Components of financial statements	<p>(Regulation for Terminology, Forms and Preparation of Consolidated Financial Statements: Presentation, 1,13 etc)</p> <p>The following statements (*1) must be prepared:</p> <ul style="list-style-type: none"> <li>▪ Consolidated Balance Sheet</li> <li>▪ Statement of Income and Other Consolidated Comprehensive Income (a single statement approach) (*2) or (a two-statement approach) (*3)</li> <li>▪ Consolidated Statement of Changes in Shareholders' Equity</li> <li>▪ Consolidated Cash Flow Statement</li> <li>▪ Consolidated Supplementary Information</li> <li>▪ Other Explanatory Information</li> </ul> <p>*1 Even if an entity applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements, it does not need to prepare an opening balance sheet for the earliest period presented.</p> <p>*2 The single statement approach is based on the Guideline for Consolidated Financial Statements.</p> <p>*3 Both a single statement approach and a separate (two) statement approach are permitted.</p>	<p>(IAS 1.10)</p> <p>The following statements must be prepared (*1,2):</p> <ul style="list-style-type: none"> <li>▪ Statement of Financial Position</li> <li>▪ Statement of Profit and Loss and Other Comprehensive Income (a single statement approach) or (a two-statement approach) (*3)</li> <li>▪ Statement of Changes in Equity</li> <li>▪ Statement of Cash Flows</li> <li>▪ Accounting Policies and Other Explanatory Information</li> </ul> <p>*1 Titles other than those listed above may be used for these statements.</p> <p>*2 If an entity applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements, it must prepare an opening balance sheet for the earliest period presented in addition to the above.</p> <p>*3 Both a single statement approach and a separate (two) statement approach are permitted.</p> <p>(IFRS 18)</p> <ul style="list-style-type: none"> <li>▪ Applicable from annual reporting periods beginning on or after 1 January 2027 (with early adoption permitted)</li> <li>▪ A reconciliation for each item in the statement of profit or loss, for the comparative period immediately preceding the period in which IFRS 18 is first applied, shall be disclosed.</li> </ul>

	JGAAP	IFRS
<p>Statement of comprehensive income (Income statement)</p> <p>Classification and presentation of expenses</p>	<p>(Regulation for Terminology, Forms and Preparation of Financial Statements 69,70,85 etc) (Regulation for Terminology, Forms and Preparation of Consolidated Financial Statements 48,49,55 etc)</p> <p>Expenses are in principle classified and presented by function, such as cost of sales, selling, general and administrative expenses, non-operating expenses and extraordinary loss.</p> <p>With regard to the expenses for each such profit and loss by category, for example, selling, general and administrative expenses shall be classified into expense items as deemed appropriate and listed with names representing such expenses.</p> <p>Regulation for Terminology, Forms and Preparation of Financial Statements provide more detailed rules for the presentation of the income statement.</p>	<p>(IAS 1.82,99, 102-104)</p> <p>An entity should present an analysis of expenses recognized in profit or loss using a classification based on either their nature or their function within the entity. An entity classifying expenses by function shall disclose additional information on the nature of the expenses, including depreciation and amortization expense and employee benefit expense in the notes.</p> <p>While certain line items are required to be presented in the statement of comprehensive income, no prescribed statement of comprehensive income format exists.</p> <p>Expenses must be presented either by their nature or their function within the entity and these presentation approaches should not be mixed. This means, for example, that specific items cannot be excluded from the function category to which it relates to be shown separately by its nature.</p>
<p>Presentation of additional line items, headings and subtotals of profit and loss</p>	<p>(Regulation for Terminology, Forms and Preparation of Financial Statements Chapter 3) (Regulation for Terminology, Forms and Preparation of Consolidated Financial Statements Chapter 3)</p> <p>The income statement must include the following items:</p> <ul style="list-style-type: none"> <li>▪ Gross profit or loss</li> <li>▪ Operating profit or loss</li> <li>▪ Profit or loss from ordinary activities</li> <li>▪ Profit or loss before tax</li> <li>▪ Net profit or loss</li> </ul>	<p>(IAS 1.81A, 85, 85A)</p> <p>The statement of comprehensive income should present the following items:</p> <ul style="list-style-type: none"> <li>▪ Profit or loss</li> <li>▪ Total other comprehensive income ("OCI")</li> <li>▪ Comprehensive income for the period, being the total of profit or loss and other comprehensive income</li> </ul> <p>While there is no further requirement to disclose additional line items, an entity shall present additional line items, headings and subtotals in the statements 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 in accordance with certain criteria).</p>

	JGAAP	IFRS
Presentation of extraordinary gains and losses	(Regulation for Terminology, Forms and Preparation of Financial Statements 62,63) Items related to extraordinary gains and losses are presented by category in accordance with their nature.	(IAS 1.87) Profit or loss items are not allowed to be presented as extraordinary items in the statement of comprehensive income, the income statement (when presented) or in the notes.
Other comprehensive income not reclassified to profit or loss	In principle, it is not expected that there will be items of other comprehensive income that, as in IFRS, will not be reclassified to profit and loss subsequently.	(IAS 1.95, 96) Certain items are recognized in other comprehensive income and are not reclassified to profit or loss in subsequent periods.  (IAS 1.82A) Within other comprehensive income, items which will not be reclassified subsequently to profit or loss; and items which will be reclassified subsequently to profit or loss when specific conditions are met shall be separately presented.
Presentation sequence of current and non-current items	(Regulation for Terminology, Forms and Preparation of Financial Statements 20) Except for certain specified businesses, assets and liabilities are presented in order of liquidity.	There is no explicit guidance.
Non-current assets classified as held for sale (and disposal groups)	There are no specific rules. However, in note 2 of Standard for Impairment of Fixed Assets, cessation or restructuring of a business operation, business disposal that is materially earlier than initially planned, and change in intended use, are among the examples of indicators of impairment.	(IFRS 5.6, 15) If the carrying value of assets will be recovered principally through a sale transaction rather than through continuing use, the asset (or disposal group) is classified as held for sale and is measured at the lower of the carrying amount and fair value less costs to sell.
Depreciation of non-current assets (or disposal groups) classified as held for sale	There are no specific rules. However, any remaining carrying value of fixed assets, after an impairment has been recognized, continues to be depreciated under the Standard for the Impairment of Fixed Assets 3.1.	(IFRS 5.25) Non-current assets (or disposal groups) classified as held for sale are not depreciated.

	JGAAP	IFRS
Presentation of non-current assets and liabilities classified as held for sale (or disposal groups)	There are no specific rules.	<p>(IFRS 5.38 , 39)  Non-current assets and liabilities classified as held for sale (or disposal groups), and any cumulative income or expense recognized in other comprehensive income or loss relating to a non-current asset (or disposal group) classified as held for sale, shall be separately presented in assets, liabilities and equity in the statement of financial position and within the statement of comprehensive income, respectively.</p> <p>*The major classes of items within assets and liabilities described above, except for certain items, shall be disclosed in the statement of financial position or notes.</p>
Presentation of discontinued operations	There are no specific rules.	<p>(IFRS 5.30, 33 (a) (b))  The following total amounts must be separated as a single amount from the amounts arising from continuing operations in the statement of comprehensive income (profit and loss statement):</p> <ul style="list-style-type: none"> <li>▪ The post-tax profit or loss of discontinued operations</li> <li>▪ The post-tax gain or loss recognized on the measurement to fair value less disposal costs or on disposal of the assets (or disposal group)</li> </ul> <p>*An analysis of the above single amount of post-tax profit and loss (except in certain cases) must be included in the statement of comprehensive income (or income statement) or in the notes.</p>

	JGAAP	IFRS
Subsidiary over which the control is temporary	<p>(Accounting Standard for Consolidated Financial Statements 14 (1))</p> <p>A subsidiary over which the control is temporary is not included in the scope of consolidation.</p>	<p>(IFRS 5.1 (b), 8A, 32-33A, 38)</p> <p>Even when an entity is committed to a sale plan involving loss of control of a subsidiary or an entity controls a subsidiary temporarily, these subsidiaries shall not be excluded from the scope of consolidation and are accounted for under IFRS 5.</p> <p>Financial performance of the subsidiary may need to be presented as a discontinued operation, separately from continuing operations in the statement of comprehensive income. Assets and liabilities of the subsidiary are measured at the lower of their carrying amounts and their fair values less costs to sell and are presented separately as assets and liabilities held for sale in the statement of financial position.</p>



## 2.Consolidation

### ► Significant differences

	JGAAP	IFRS
Scope of consolidation	<p>(Accounting Standard for Consolidated Financial Statements 6, 7, 13)</p> <p>The scope of consolidation is based on the concept of control.</p> <p>A parent company controls another company when it has control over the body which makes the financial, operating and business decisions (the decision-making body) of that other company.</p> <p>There are no specific rules about the effect of potential voting power or whether the decision-maker is a principal or an agent when judging the existence of control.</p> <p>On the other hand, similar to "de facto control" in IFRS 10, even if less than half of the voting rights are held, there are rules that require an entity to make a judgment as to whether control exists by also including the voting rights held by closely related parties or parties with the same intention after considering the structure of the Boards of Directors, the financial position, and the existence of any contracts which control the policymaking ability and similar activities of such parties.</p>	<p>(IFRS 10.7)</p> <p>The scope of consolidation is based on the concept of control.</p> <p>An investor controls an investee if and only if the investor has all of the following:</p> <ul style="list-style-type: none"> <li>▪ Power over the investee</li> <li>▪ Exposure, or rights, to variable returns from its involvement with the investee</li> <li>▪ The ability to use its power over the investee to affect the amount of the investor's returns</li> </ul> <p>(IFRS 10.B47)</p> <p>When assessing control, an investor considers its potential voting rights as well as potential voting rights held by other parties to determine whether it has power.</p> <p>(IFRS 10.B41, B42)</p> <p>It is possible that an investor with less than a majority of the voting rights has rights that are sufficient to give it power. This is called "de facto control." For example, an investor considers the size of its holding of voting rights relative to the size and dispersion of the holdings of other investors.</p> <p>(IFRS 10.18, B58)</p> <p>When an investor with decision-making rights (a decision-maker) assesses whether it controls an investee, it determines whether it is a principal or an agent.</p>

	JGAAP	IFRS
Scope of consolidation (exception)	<p>(Accounting Standard for Consolidated Financial Statements 14, note 3) (Application Guideline on determining the scope of consolidation for subsidiaries and associates 16(4)) The following are excluded from the scope of consolidation:</p> <ul style="list-style-type: none"> <li>▪ Entities for which control is temporary</li> <li>▪ Entities for which consolidation would lead to a risk of substantially misleading the judgment of interested parties</li> </ul> <p>It is permitted to exclude immaterial subsidiaries from the scope of consolidation.</p> <p>Where investment companies, such as venture capitalists established for investment development and business revitalization to obtain capital gains, hold shares or investments in other entities as part of their ordinary business, even if the investment company has control over the decision-making body of such investees, such investees are not consolidated subsidiaries when certain criteria are met.</p> <p>This also applies to financial institutions such as banks that control other companies in their ordinary business to facilitate the collection of receivables.</p>	<p>(IFRS 10 Appendix A, IFRS 9.3.2.1) In accordance with IFRS10, all subsidiaries must be consolidated. There are no exemptions as in JGAAP. However, there is an exception for investment entities as described below.</p> <p>(IFRS 10.31-33) Entities meeting certain conditions are defined as investment entities. Investment entities do not consolidate their subsidiaries, but rather they measure them at fair value through profit or loss in accordance with IFRS 9. However, subsidiaries of an investment entity that mainly provide services only for the entity's investment activities are consolidated.</p> <p>A parent of an investment entity, which itself is not an investment entity, cannot continue the investment entity's accounting in its consolidated financial statements. In other words, there is no roll-up as in US GAAP.</p>
Special purpose entities (SPEs) and structured entities (SE)	<p>(Accounting Standard for Consolidated Financial Statements 7-2) (Practical Solution on Application of the Control Criteria and Influence Criteria to Investment Associations) Certain SPEs which meet certain conditions are presumed not to meet the definition of subsidiaries.</p> <p>The scope of consolidation of investment vehicles is, in principle, judged based on the existence of control over operations.</p>	<p>(IFRS 10.7) Structured entities (SEs, not investment entities meeting certain conditions), which an investor controls, must also be consolidated.</p>

	<b>JGAAP</b>	<b>IFRS</b>
Deemed acquisition/ disposal date	<p>(Accounting Standard for Consolidated Financial Statements note 5)</p> <p>If the date of the acquisition of shares or the disposal of shares in a subsidiary is a date other than the reporting date of the subsidiary, an entity may account for such transactions at the reporting date (i.e., either end of a quarter or beginning of a quarter).</p>	<p>(IFRS 3.8, BC110)</p> <p>An entity accounts for the acquisition or the loss of control at the date on which control is obtained or is lost.</p> <p>Unless events between a date used for convenience and the actual date result in material changes in amounts recognized, entities may, in practice, account for these transactions at a convenience date rather than the actual acquisition date.</p>
Uniform accounting policies of consolidated subsidiaries	<p>(Accounting Standard for Consolidated Financial Statements 17)</p> <p>(Practical Interim Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (PITF No. 18))</p> <p>Accounting policies and procedures for like transactions in similar circumstances applied by the parent and its subsidiaries, in principle, shall be unified.</p> <p>However, if the financial statements of foreign subsidiaries are prepared in accordance with either IFRS or US GAAP, and those of the domestic subsidiary are prepared in accordance with Designated International Accounting Standards or Japan's Modified International Standards (JMIS), and the parent company discloses consolidated financial statements in their annual securities reports in accordance with the Financial Instruments and Exchange Act, such financial statements may be consolidated after the adjustment of five specific items for the time being under PITF No.18.</p>	<p>(IFRS 10.19, B87)</p> <p>Consolidated financial statements shall be prepared using uniform accounting policies for like transactions and other events in similar circumstances.</p> <p>If a member of the group uses accounting policies other than those applied in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated statements.</p>

	JGAAP	IFRS
Non-coterminous reporting periods	<p>(Accounting Standard for Consolidated Financial Statements 16, Note 4)</p> <p>When the difference between the end of the reporting period of a subsidiary and that of its parent is less than three months, the financial statements of the subsidiary for its own reporting period may be consolidated. In that case, adjustments shall be made for the effects of significant intragroup transactions.</p>	<p>(IFRS 10.B92, B93, IFRS12.11)</p> <p>The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall have the same date.</p> <p>When the end of the reporting period of the parent is different from that of a subsidiary, the subsidiary prepares, for consolidation purposes, additional financial statements as of the same date as the financial statements of the parent unless it is impracticable to do so (after making every reasonable effort).</p> <p>If it is impracticable to align the reporting period ends, adjustments shall be made for the effects of significant transactions or events that occur between the date of the subsidiary's financial statements and that of the parent's financial statements (however, such a gap period is limited to no more than three months). In such a case, an entity shall disclose the reason for using a different date or period.</p>

	JGAAP	IFRS
Restatement of comparative information when the reporting period of a subsidiary changes	<p>(Accounting Standard for Consolidated Financial Statements 16, Note 4)  (Summary of public comments on Cabinet Office Ordinance proposal to partially revised Regulation for Terminology, Forms and Preparation of Consolidated Financial Statements published by the Financial Services Agency on 30 September 2010, and the FSA's approach to it No.17, (Reference) Comparative information Research report on the handling of (interim report) Q6 (3) ①))</p> <p>When the reporting period of a subsidiary is changed, an entity does not need to restate the comparative information. There are two practical methods available.</p> <p>For example, when the reporting date of a subsidiary is changed from December to March:</p> <ul style="list-style-type: none"> <li>▪ Recognize the profit and loss of the subsidiary for 15 months in the income statement</li> <li>Or</li> <li>▪ recognize the profit and loss of the subsidiary for 12 months in the income statement and recognize the effects of the 3-month transition in the consolidated statement of shareholder's equity.</li> </ul>	<p>(IFRS 10.B92, B93, IAS8.19, 22)  When the reporting period of a subsidiary is changed, or when changing from using the subsidiary's financial statements at an earlier date to preparing the subsidiary's financial statement at the parent's reporting period end only for consolidation purposes, an entity should restate the comparative information so that the length of the reporting periods and any difference between the dates of the financial statements is the same from period to period.</p> <p>(EY International GAAP 2025 Chapter 8 section 2.5)</p>
Presentation of profit or loss attributable to non-controlling interests	<p>(Accounting Standard for Consolidated Financial Statements 39)  (Accounting Standard for the presentation of Statement of Comprehensive Income 6,11)  Net profit and loss is presented, including the amount attributable to non-controlling interests. In addition, the amount of net profit and loss and comprehensive income attributable to owners of the parent and the amount attributable to non-controlling interests are presented.</p>	<p>(IAS 1.81B)  Profit or loss and total comprehensive income for the period is the total amount that the parent controls and amounts attributable to non-controlling interests and to the owners of the parent company are presented as allocations of profit or loss and total comprehensive income for the period.</p>



	JGAAP	IFRS
Allocation of losses of a subsidiary to non-controlling interests	<p>(Accounting Standard for Consolidated Financial Statements 27)</p> <p>If the proportionate losses of subsidiaries relating to the non-controlling interests share exceed the amount that the non-controlling interests are obliged to bear, any such excess amount is allocated to the parent company.</p> <p>That is, principally, non-controlling interests are limited to zero, and the excess amount will be allocated to the parent company's interests.</p>	<p>(IFRS 10.B94)</p> <p>Total comprehensive income is attributed to both non-controlling interests and the owners of the parent company, even when non-controlling interests result in a deficit balance.</p>
NCI put options	<p>There are no specific rules.</p>	<p>(IAS 32.23)</p> <p>Under current IFRS, a put option granted to non-controlling interests gives rise to a financial liability measured at the present value of the redemption amount.</p> <p>An entity must consider whether the terms of the transaction give it present access to the returns associated with the ownership interest in the shares subject to the NCI put options.</p> <p>(EY International GAAP 2025 Chapter 8 section 6)</p>

	JGAAP	IFRS
Loss of control of a subsidiary	<p>(Accounting Standard for Consolidated Financial Statements 29) (Practical Guidance on Consolidation Procedures 45,46)</p> <p>If an entity sells some of its shares in a subsidiary so that the investment becomes an associate, the carrying amount of the associate is measured as the amount equivalent to the retained ownership percentage of the carrying amount in the consolidated financial statements at the disposal date.</p> <p>If the retained investment does not become an associate but an investment in securities, the investment is measured with reference to the carrying amount in the entity's individual financial statements. Further, in this case, the following applies:</p> <ol style="list-style-type: none"> <li>Reversal of the portion corresponding to the retained investment interest within retained earnings through the consolidated statement of changes in shareholders' equity.</li> <li>Reversal of the portions corresponding to the retained investment interest within the valuation difference in other marketable securities (related to investments that the subsidiary had held) and within the foreign currency translation adjustment account from accumulated other comprehensive income in the consolidated balance sheet. These reversals are made through the consolidated statement of changes in shareholders' equity.</li> </ol>	<p>(IFRS 10.25, B97-99, BCZ182)</p> <p>When a parent loses control of a subsidiary, it must recognize any investment retained in the former subsidiary at its fair value at the date when control is lost. Any gain or loss on the transaction will be recorded in profit or loss. IFRS 10's requirements also apply where a parent loses control over a subsidiary that has become an associate or a joint venture.</p> <p>If a parent loses control of a subsidiary, all amounts previously recognized in other comprehensive income are accounted for on the same basis as would be required if the parent had directly disposed of the related assets or liabilities. Accordingly, if a gain or loss previously recognized in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the parent reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary. In the same way, there are some items for which amounts previously recognized in other comprehensive income are not reclassified to profit or loss. Some examples are given below:</p> <ul style="list-style-type: none"> <li>Remeasurement gains or losses on a defined benefit plan or changes in the fair value of equity instruments recognized in other comprehensive income would not be reclassified to profit or loss when the parent loses control of the subsidiary. They may, however, be transferred within equity.</li> <li>If a revaluation surplus previously recognized in other comprehensive income would be transferred directly to retained earnings on the disposal of the asset, the parent transfers the revaluation surplus directly to retained earnings when it loses control of the subsidiary.</li> </ul>

	JGAAP	IFRS
Changes in a parent's ownership interest in a subsidiary that does not result in loss of control	<p>(Accounting Standard for Consolidated Financial Statements 28-30) (Practical Guidance on Consolidation Procedures 37,42-44,66-2, Q&amp;A regarding financial instrument)</p> <p>For purchases of additional shares in a subsidiary, the difference between the purchase price and the carrying amount of equity held by non-controlling interest shareholders is recognized in Capital Surplus.</p> <p>The difference is not reallocated to accumulated other comprehensive income according to the requirements, which require treating the valuation difference in other marketable securities in the same manner as retained earnings at the time of acquisition.</p> <p>For disposals of part of the parent's equity in a subsidiary, the difference between the proceeds and the carrying amount of the equity sold is also recognized in Capital Surplus.</p> <p>In addition, the unamortized amount of goodwill will not be reduced and accumulated other comprehensive income is reallocated.</p>	<p>(IFRS 10.23) Changes in a parent's ownership interest in a subsidiary that do not result in loss of control are accounted for as equity transactions.</p> <p>It should be noted that, unlike JGAAP, revised requirements to recognize changes in the parent's ownership interests in the capital surplus reserve, IFRS does not specify the line item within equity where such changes should be recognized.</p> <p>Further, reattribution of other comprehensive income between the owners of the parent and the non-controlling interests is required.</p>
Classification as held for sale	There are no specific rules.	<p>(IFRS 5.8A) When a subsidiary is classified as held for sale, its assets and liabilities are classified as held for sale applying IFRS5.</p>

# 3. Separate Financial Statements

## ► Significant differences

	JGAAP	IFRS
Separate financial statements	<p>(Accounting Standard for Financial Instruments 17) In separate financial statements, investments in subsidiaries and associates are accounted for at historical cost.</p> <p>Note: In Japan, companies must use JGAAP for their separate financial statements for statutory filing purposes.</p>	<p>(IAS 27.10) Investments in subsidiaries, associates and joint ventures must be accounted for either: at cost, in accordance with IFRS9 or using the equity method.</p> <p>However, when investments accounted for at cost or using the equity method are classified as “held for sale” in accordance with IFRS 5, such investments are accounted for in accordance with IFRS 5.</p>

# 4. Equity Method

## ► Significant differences

	JGAAP	IFRS
Equity method-scope	<p>(Accounting Standards for Investments, Using the Equity Method 6)</p> <p>Non-consolidated subsidiaries and investments in associates are, in principle, accounted for using the equity method.</p>	<p>(IAS 28.16, 5-8)</p> <p>Investments in investments in associates and joint ventures shall be accounted for using the equity method of accounting, unless they qualify for an exemption.</p> <p>In determining whether an entity has significant influence, currently exercisable or convertible potential voting rights are considered.</p>
Equity method-scope (exception)	<p>(Application Guideline on determining the scope of consolidation for subsidiaries and associates 25, 26)</p> <p>The following investments are excluded from the application of the equity method:</p> <ul style="list-style-type: none"> <li>▪ Associates where significant influence is temporary</li> <li>▪ Associates, which, if the equity method were to be applied, would give rise to the risk of substantially misleading the judgment of interested parties</li> </ul>	<p>(IAS 28.20)</p> <p>An entity shall apply IFRS 5 to an investment, or a portion of an investment, in an associate that meets the criteria to be classified as held for sale. Any retained portion of an investment in an associate that has not been classified as held for sale shall be accounted for using the equity method until disposal of the portion that is classified as held for sale takes place. Thereafter, the retained interest is accounted for as appropriate under either IAS 28 or IFRS 9.</p>
Venture capital organizations and investment entities	<p>(Application Guideline on determining the scope of consolidation for subsidiaries and associates 24)</p> <p>Investments, which the investor clearly does not have significant influence over, are not treated as investments in associates. Such examples are certain investments held by venture capital organizations and similar investment companies.</p>	<p>(IAS 28.18,19, BC9, IFRS 10.B85L)</p> <p>When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization or a similar entity, the entity may elect, by each individual investment, to measure investments in those associates at Fair Value Through Profit or Loss (FVPL) in accordance with IFRS 9.</p> <p>Also, when an entity qualifies as an investment entity as defined in IFRS 10, an entity would elect the above exemption from applying the equity method in IAS 28 for its investments in associates or joint ventures and instead measure such investments at FVPL in accordance with IFRS 9.</p>



	JGAAP	IFRS
Scope of the equity method (When the investment is immaterial)	<p>(Accounting Standards for Investments, Using the Equity Method 6)</p> <p>It is allowed not to account for certain investments using the equity method if the application of equity method accounting to those investees does not have a material impact on the consolidated financial statements.</p>	<p>There is no specific guidance, and thus, general materiality principles are applied.</p>
Deemed acquisition date, deemed date of loss of control	<p>(Accounting Standards for Consolidated Financial Statements note 5)</p> <p>The following treatment in the context of consolidation is also applicable to the equity method.</p> <p>If the date of acquisition or sale of a subsidiary is a date other than the reporting date of the subsidiary, an entity may account for the transaction at either reporting date before or after the transaction date (e.g. beginning of the quarter or end of the quarter).</p>	<p>(IFRS 3.8, BC110)</p> <p>In principle, accounting under the equity method should commence at the acquisition date and cease at the date of loss of significant influence.</p> <p>However, in practice the use of a 'convenience' date such as month-end date is seen, unless events between the 'convenience' date and the actual acquisition date result in material changes in the amounts recognized.</p>

	JGAAP	IFRS
Uniform accounting policies of associates	<p>(Accounting Standards for Investments, Using the Equity Method 9) (Practical Interim Solution on Unification of Accounting Policies Applied to Foreign Affiliates for Consolidated Financial Statements) Accounting policies and procedures for like transactions in similar circumstances used by the investor and the associate (including its subsidiaries), in principle, are to be unified. However, it is permitted that such unification is treated in accordance with Audit and Assurance Implementation Committee No. 56 “Practical Interim Solution on Unification of Accounting Policies among parent company and subsidiaries” as an interim measure.</p> <p>Further, the “Practical Interim Solution on Unification of Accounting Policies Applied to Foreign Affiliates for Consolidated Financial Statements” may be applied to foreign associates as an interim measure (i.e., inclusion in the consolidation based on IFRS or US GAAP is accepted except for five specific items for the time being under PITF No.18 that must be adjusted to JGAAP).</p> <p>It should be noted that if it is extremely difficult to obtain information from the associate for the unification of accounting policies, this is considered to be a rational reason for not using uniform accounting policies as outlined in the Audit Guidance on the Practical Interim Solution on Unification of Accounting Policies among parent company and subsidiaries.</p>	<p>(IAS 28.35, 36) The investor’s financial statements are prepared using uniform accounting policies for like transactions and events in similar circumstances.</p> <p>If an associate uses accounting policies other than those of the investor for like transactions and events in similar circumstances, adjustments are made to conform the associate’s accounting policies to those of the investor when the associate’s financial statements are used by the investor in applying the equity method.</p>

	JGAAP	IFRS
Non - coterminous reporting periods	<p>(Accounting Standards for Investments using the Equity Method 10)</p> <p>The most recent available financial statements of the associate are used by the investor in applying the equity method.</p> <p>When the end of the reporting period of the investor is different from that of the associate, necessary adjustments are made or notes are disclosed for the effects of significant transactions or events.</p>	<p>(IAS 28.33, 34, IFRS 12.22(b))</p> <p>The most recent available financial statements of the associate or the joint venture are used by the investor in applying the equity method. When the end of the reporting period of the investor is different from that of the associate or the joint venture, the associate or the joint venture prepares, for the use of the investor, financial statements as of the same date as the financial statements of the investor unless it is impracticable to do so.</p> <p>When it is impractical to align the period ends, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the investor's financial statements (limited to a gap of no more than three months). In this case, the investor shall disclose the date of the end of the reporting period of the financial statements of that joint venture or associate and the reason for using a different date or period.</p>
Equity method - impairment losses	<p>(Practical Guidance on Accounting Standards for Investments using the Equity Method 9)</p> <p>(Practical Guidance on Consolidation Procedures 32)</p> <p>Where an investor recognizes an impairment loss in respect to an associate in its separate financial statements, and the resulting carrying amount after the recognition of the impairment loss is below the carrying amount in the consolidated financial statements, any goodwill is immediately written down to the extent of that difference.</p> <p>Goodwill is considered for its impairment in accordance with Accounting Standards for Impairment of Fixed Assets.</p>	<p>(IAS 28.40-43)</p> <p>After applying the equity method, including any appropriate adjustments to the amounts recorded on acquisition, the carrying amount of the investment is further tested for impairment under IAS 36 if there is objective evidence of impairment that comes to the attention of the entity. The impairment loss is not allocated to any assets, including goodwill. Thereafter, any reversal of the impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.</p>

	JGAAP	IFRS
Piecemeal acquisition	<p>(Practical Guidance on Accounting Standards for Investments using the Equity Method 6-2, 6-3)</p> <p>In principle, an entity should measure each acquisition at the fair value on each acquisition date respectively.</p> <p>If it makes no material difference in comparison to the principal method, an entity alternatively can measure each and all of the acquisitions at the fair value on the date when an entity gets to obtain the significant influence over the investee.</p>	<p>(EY International GAAP 2025 Chapter 12 section 6.2.3)</p> <p>There is no specific guidance.</p> <p>We believe an entity should account for the step acquisition of an associate or a joint venture, as the accounting policy choice, by applying either an 'accumulated cost' approach or a 'fair value as deemed cost' approach.</p> <p>Further, there are four accumulated cost approaches depending on how the catch-up equity accounting adjustment for previously held interest is considered or the goodwill/gain on bargain purchase is determined (refer to EY International GAAP). Two out of the above-mentioned approaches are equivalent to the two approaches under Japanese GAAP.</p>
Accounting for the changes in ownership interest in an associate which do not result in a loss of significant influence	<p>(Practical Guidance on Accounting Standards for Investments using the Equity Method 16)</p> <p>For a step acquisition, the difference between the cost of additional acquisition and the additional interest of the equity (including the amount arising from remeasurement) in the associate is accounted for as goodwill/gain on bargain purchase.</p>	<p>(EY International GAAP 2025 Chapter 12 section 6.2.4)</p> <p>There is no specific guidance.</p> <p>We believe that the purchase price paid for the additional interest is added to the existing carrying amount of the associate or joint venture, and the existing interest in the associate or joint venture is not remeasured. This increase in the investment must still be split notionally between goodwill and the additional interest in the fair value of the net identifiable assets of the associate or joint venture.</p>
Treatment of goodwill	<p>(Practical Guidance on Accounting Standards for Investments using the Equity Method 9)</p> <p>Goodwill is included in the equity method investment account and, in principle, must be amortized within 20 years using the straight-line method or any other rational method.</p>	<p>(IAS 28.32)</p> <p>The amortization of goodwill is prohibited.</p>

	JGAAP	IFRS
Discontinuance of equity method	<p>(Accounting Standards for Investments, Using the Equity Method 15)          (Practical Guidance on Accounting Standards for Investments using the Equity Method 17,19,33)          (Application Guidance on Accounting Standards for Business Combinations and Business Separations 278(2), 290(2))          When an entity ceases to be an associate as the result of a sale or another event, any remaining investment in shares is valued at the carrying value of the investment in the separate financial statements of the investor.</p> <p>The portion of retained earnings accumulated after the date of acquisition in relation to the retained interests in the investee is recorded directly to the changes in retained earnings. The portion of accumulated other comprehensive income (AOCI) in relation to the retained interests in the investee is also directly excluded from AOCI in a similar manner as the retained earnings.</p>	<p>(IAS 28.22, 23)          When equity accounting is discontinued, unless the entity becomes a subsidiary, the investment is accounted for as a financial asset in accordance with IFRS 9. The fair value of the retained investment at the date it ceases to be an associate is its fair value on initial recognition.</p> <p>The entity shall account for all amounts previously recognized in other comprehensive income in relation to that investment on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by the investee would be reclassified to profit or loss on the disposal of the related assets or liabilities, the entity reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment).</p>



	JGAAP	IFRS
A downstream transaction involving assets that constitute a business	<p>(Accounting Standard for Business Divestitures 15(2), Practical Guidance on Accounting Standards for Investments using the Equity Method 11)</p> <p>Gain or loss on business divestitures where the business is sold to an associate or a joint venture is eliminated in accordance with the treatment of unrealized gain or loss in equity method accounting as below.</p> <p>Unrealized gains or losses of the investor are, in principle, eliminated to the extent of that investor's interests in the associate.</p>	<p>(IAS 28.31A, 45C)</p> <p>Under the revised IAS28 (*), the gain or loss resulting from a downstream transaction involving assets that constitute a business, as defined in IFRS 3, between an entity (including its consolidated subsidiaries) and its associate or joint venture is recognized in full in the investor's financial statements.</p> <p>If the revised IAS28 is not early adopted, the proportionate share of gain or loss of its interest in an associate or joint venture is eliminated.</p> <p>(*) Revised IAS 28</p> <p>The effective date of <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> (Amendments to IFRS 10 and IAS 28) has been deferred indefinitely by amendments made in December 2015. If an entity applies those amendments earlier, it shall disclose that fact.</p>

	JGAAP	IFRS
Share of loss that exceeds the interest in the associate or joint venture	<p>(Practical Guidance on Accounting Standards for Investments using the Equity Method 20)</p> <p>If there is a limitation of liability clause in the contract that limits an entity's coverage of responsibility to the carrying amount of the investment, an entity shall bear the loss only to the extent that it reduces the carrying amount of the investment to zero.</p> <p>If there is a loss-sharing clause in the contract, an entity shall bear its share of loss as determined by the clause. This takes into consideration any lending to the investee for capital investments or working capital and debt guarantees for the investee provided by an entity in substance or under contract.</p> <p>An entity should bear the loss an investee has incurred in full, if other investors do not have sufficient funding or assets and only the entity provides the debt guarantees to the investee, and thus it is deemed highly likely for the entity to bear all of the loss the investee would incur.</p>	<p>(IAS 28.38, 14A)</p> <p>If an entity's share of losses of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the entity discontinues recognizing its share of further losses.</p> <p>The interest in an associate or a joint venture is the carrying amount of the investment in the associate or joint venture determined using the equity method together with any long-term interests that, in substance, form part of the entity's net investment in the associate or joint venture. For example, an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the entity's investment in that associate or joint venture.</p> <p>An entity also applies IFRS 9 to those long-term interests in an associate or joint venture rather than applying the equity method.</p> <p>Losses recognized using the equity method in excess of the entity's investment in ordinary shares are applied to the long-term interests.</p>

# 5. Joint Arrangements

## ► Significant differences

	JGAAP	IFRS
Accounting for joint operations and joint ventures	<p>(Accounting Standard for Business Combinations 39 (2))</p> <p>Jointly controlled entities are accounted for using the equity method in consolidated financial statements.</p> <p>There are no specific rules for joint operations.</p>	<p>(IFRS 11.14, 19, 20, 24)</p> <p>A joint arrangement is classified as either a joint operation or a joint venture.</p> <p>A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.</p> <p>A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.</p> <p>For joint arrangements which are joint operations, an investor accounts for its own assets, liabilities, and revenue and expenses, as well as its share of the jointly controlled assets, liabilities, and revenue and expenses of the joint operation.</p> <p>For joint ventures, the equity method is applied (unless the equity method is exempted).</p>

	JGAAP	IFRS
Investment in a joint arrangement without having joint control	There is no specific guidance.	<p>(IFRS 11.23, 25) A party that participates in but does not have joint control of a joint arrangement is neither a joint operator nor a joint venturer. Accounting by such a party is as follows.</p> <p>Where a joint arrangement is a joint operation:</p> <ul style="list-style-type: none"> <li>▪ Account for rights to the assets, and obligations for the liabilities, relating to the joint operation in the same way as a joint operator or</li> <li>▪ If the investor does not have rights to the assets and obligations for the liabilities, account for the interest in the joint operation in accordance with the IFRSs applicable to that interest</li> </ul> <p>Where a joint arrangement is a joint venture:</p> <ul style="list-style-type: none"> <li>▪ Account for the interest in the arrangement in accordance with IFRS 9, unless the entity has significant influence over the joint venture that would be accounted for using the equity method</li> </ul>
Separate financial statements	<p>(Accounting Standard for Business Combinations 39 (1), Application Guideline for Business Combinations 301 (1)) The cost of investments in jointly controlled entities is the amount that relates to the interest in the transferred business and is presented in the separate financial statements in the appropriate classification.</p> <p>(Accounting Standard for Financial Instruments 17) Investments in subsidiaries and associates are recorded at cost in the balance sheet of the separate (non-consolidated) financial statements.</p>	<p>(IAS 27.10) In the separate financial statements of the investor, investments in subsidiaries, associates and joint controlled entities are accounted for either at cost, in accordance with IFRS 9 or using the equity method.</p> <p>However, when investments are classified as held for sale in accordance with IFRS 5, they are accounted for in accordance with IFRS 5.</p>

# 6.Business Combinations

## ► Significant differences

	JGAAP	IFRS
Definition of a business combination	(Accounting Standard for Business Combinations 5) A business combination is when an entity (company or similar entity) or a business operation, which forms an entity, combines with another entity or business operation, which forms an entity, to become one reporting unit.	(IFRS 3 Appendix A) A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses.
Accounting for business combinations	(Accounting Standard for Business Combinations 17,41) The purchase method is applied for business combinations other than jointly controlled entities and transactions with entities under common control.  In principle, assets and liabilities transferred within the corporate group as a result of a transaction under common control shall be recorded at the appropriate book value that was attached immediately before the transfer.	(IFRS 3.4) Business combinations are accounted for using the acquisition method.  (IFRS 3.2) IFRS 3 does not apply to the formation of joint arrangements or the combination of entities or businesses under common control.  (EY International GAAP 2025 Chapter 11 section 3)  Since IFRS 3 does not prescribe the method of accounting for business combinations under common control, it is necessary to develop accounting policies that provide fit-for-purpose and reliable information by examining them in the order prescribed in paragraphs 10 through 12 of IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors".  A transferee entity accounting for a business combination under common control would be required to establish reasonable accounting policies and to apply the acquisition method or the pooling-of-interests method.

	JGAAP	IFRS
Transaction costs	(Accounting Standard for Business Combinations 26) Costs related to the acquisition (fees paid to external advisors, commissions, etc.) are expensed in the period in which they arise.	(IFRS 3.53) Acquisition-related costs are accounted for as expenses in the periods in which the costs are incurred. However, costs of issuing debt or equity securities are recognized in accordance with IAS 32 and IFRS 9.
Contingent consideration and subsequent adjustments to goodwill	(Accounting Standard for Business Combinations 27 note 4) The acquirer recognizes the consideration and adjusts goodwill after delivery, exchange or return is fixed, and market value is reasonably determinable. Adjustment is not limited to a tentative reporting period (such as one year).	(IFRS 3.39, 58, BC349) The acquirer shall recognize the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree, regardless of the probability of economic benefit arising (it is considered that fair value can be reliably measured).  Aside from changes as a result of additional information that the acquirer obtains after the acquisition date about facts and circumstances that existed at the acquisition date within the measurement period, no change is made to consideration nor to goodwill.
Distinction between contingent consideration and employee remuneration	There are no specific rules.	(IFRS 3.51, 52, B54, B55) Any amounts that are not part of what the acquirer and the acquiree (or its former owners) exchanged in the business combination are accounted for as separate transactions.  Transactions which are entered into before the business combination, which are primarily for the benefit of the acquirer rather than the acquiree (or former owners) or for the post-acquisition combined entity, are likely to be separate from the business combination transaction.
Recognition of contingent liabilities	(Accounting Standard for Business Combinations 30) Contingent liabilities are recognized when there are expenses or losses for certain conditions expected to occur after acquisition, and the likelihood of occurrence is reflected in the measurement of the consideration given.	(IFRS 3.23) Contingent liabilities, which are present obligations arising from past events, are recognized regardless of the probability of an outflow of economic resources arising if fair value can be measured reliably.

	JGAAP	IFRS
Intangible assets acquired in a business combination	<p>(Accounting Standard for Business Combinations 29) (Application Guideline for Business Combinations 59, 59-2, 367, 367-2) Separately identifiable intangible assets must be recognized outside of goodwill when they represent, for example, legal rights, if they are separately transferable.</p> <p>If one of the purposes of the business combination is to receive a specific intangible asset and the amount of the intangible asset is expected to be significant, it is treated as separable and transferable.</p>	<p>(IFRS 3.B31, IAS 38.33) Identifiable intangible assets must be recognized separately from goodwill. In business combinations, the reliable measurement criterion is always considered to be satisfied.</p>
Rights reacquired as part of a business combination	There are no specific rules.	<p>(IFRS 3.29) When the criteria for separate recognition are met, the reacquired right is measured as an intangible asset separate from goodwill measured on the basis of the remaining contractual term (potential contractual renewals are ignored).</p>
Measurement of separately identified acquired assets and assumed liabilities (fair value)	<p>(Accounting Standard for Business Combinations 28, 102, 103) (Application Guideline for Business Combinations 53,54,55) The acquirer shall allocate values based on the market prices at the date of acquisition to the assets acquired and the liabilities assumed.</p> <p>The market price is based on the fair value in an arm's length transaction, however where there is no observable market price, a price based on a rational measurement method is used. Further, where there is no material difference between the market price and the carrying value, the carrying amount may be used.</p> <p>Where a significant bargain purchase gain would be recognized as a result, using a market price that is difficult to measure readily, if the asset cannot be measured on a rational basis, the asset may be considered to be rationally measured at the amount that does not give rise to a bargain purchase.</p>	<p>(IFRS 3.18, B43) The acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.</p> <p>In measuring the fair values, only the way in which market participants would be expected to use the asset is considered and not the specific intentions of the acquirer. Accordingly, even if, for example, an acquirer intends not to use an asset acquired in a business combination, it is necessary to value the asset based on how other market participants would consider the use of the asset if they were to acquire it. For example, an acquirer may intend not to use an acquired research and development intangible asset for competitive or other reasons, but it would not be able to always value that asset at zero.</p>



	JGAAP	IFRS
Assets held for sale	There are no specific rules.	(IFRS 3.31) An acquirer measures assets or groups acquired and classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. In other words, they are not measured at fair value but are measured at fair value less costs to sell.
Initial recognition of goodwill and measurement of non-controlling interests (NCI)	<p>(Accounting Standard for Business Combinations 31) Goodwill is the amount by which the acquisition cost of the entity or the business acquired exceeds the net amount which is allocated to the assets acquired or the liabilities assumed (the so-called "purchased goodwill approach").</p> <p>(Accounting Standard for Consolidated Financial Statements 20) All assets and liabilities of a subsidiary are measured at their fair values on acquisition date.</p> <p>*There is no option, as in IFRS, to measure the entire non-controlling interests at fair value.</p>	<p>(IFRS 3.19, 32, B45) One of the following methods may be selected on an acquisition-by-acquisition basis:</p> <ol style="list-style-type: none"> <li>1) the fair value of the entire entity acquired is measured including the NCIs' share, and goodwill is recognized including that relating to the NCIs' share (the so-called "full goodwill approach") (Note: There are cases where the fair value per share of the acquirer's holding and that of the NCI holding differs. This is often when the fair value of the acquirer's shares includes a control premium or where in contrast the fair value of the NCI shares is discounted due to the absence of control.)</li> </ol> <p>or:</p> <ol style="list-style-type: none"> <li>2) NCI is measured as the NCI's share of the fair value of the net assets of the acquiree, and goodwill is recognized only in respect of the acquirer's share (the so-called "purchased goodwill approach").</li> </ol>

	JGAAP	IFRS
<p>Treatment of goodwill</p> <p>Initial recognition of goodwill and measurement of NCI</p>	<p>(Accounting Standard for Business Combinations 32)</p> <p>(Accounting Standard for Consolidated Financial Statements 24)</p> <p>In principle, goodwill must be amortized within 20 years using the straight-line method or any other rational method. However, when the amount is insignificant, it is possible to expense goodwill in the period in which it arises.</p> <p>(Accounting Standard for the Impairment of Fixed Assets 2.8)</p> <p>When there is an indicator that goodwill is impaired, the need to recognize an impairment loss must be considered.</p> <p>(Practical Guidance on Consolidation Procedures 32)</p> <p>If an investment company's shares in an affiliate are impaired in its non-consolidated financial statements and the book value after impairment is less than the book value in its consolidated financial statements, the amount corresponding to the difference shall be temporarily amortized in an amount equivalent to goodwill.</p>	<p>(IFRS 3.B63(a), IAS 36.88, 90)</p> <p>Goodwill is not amortized but is subject to an impairment review annually and whenever an indicator of impairment exists.</p>

	JGAAP	IFRS
Idemnification assets	There are no specific rules.	<p>(IFRS 3.27, 57)</p> <p>Initial recognition and measurement The seller in a business combination may contractually indemnify the acquirer for the outcome of a contingency or uncertainty related to all or part of a specific asset or liability.</p> <p>In this case, the acquirer shall recognize an indemnification asset at the same time that it recognizes the indemnified item measured on the same basis as the indemnified item.</p> <p>Also, as necessary, a valuation allowance for uncollectible amounts is considered (unless the indemnification asset is measured at fair value).</p> <p>Subsequent measurement of Indemnification assets are recognized on the same basis as the indemnified liabilities or assets.</p>
Share based payments in a business combination	There are no specific rules.	<p>(IFRS 3.B56-B62)</p> <p>If the acquirer replaces the acquiree awards, either all or a portion of the market-based measure of the acquirer's replacement awards shall be included in measuring the consideration transferred in the business combination.</p>

	JGAAP	IFRS
Revaluation of previously held interests in business combinations achieved in stages	<p>(Accounting Standard for Business Combinations 25)</p> <p>In the separate financial statements, the cost of the investment of which control is obtained is the sum of the individual transactions. However, in the consolidated financial statements, the cost of the acquiree is the fair value of all the transactions at the time control is obtained.</p>	<p>(IFRS 3.42)</p> <p>The acquirer remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and recognizes the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate. In prior reporting periods, the acquirer may have recognized changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognized in other comprehensive income shall be recognized on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.</p>

# 7.Inventories

## ► Significant differences

	JGAAP	IFRS
Scope of inventories	<p>(Accounting Standard for Measurement of Inventories 3)</p> <p>Inventories are assets such as commodities, products, semi-finished products, raw materials, work-in-process, and assets that a company holds for sale to achieve its business objectives, and even if there is no plan to sell such assets, inventories include office consumables that are consumed in a short period of time in sales activities and general management activities.</p> <p>(Continuous Opinion 4,1,7)</p> <p>Scope of inventory assets</p> <p>Goods or services that fall under any of the following categories:</p> <p>(i) Goods or services held for sale in the ordinary course of business</p> <p>(ii) Goods or services currently in production for the purpose of sale</p> <p>(iii) Goods intended to be consumed within a short period of time for the production of goods or services for sale</p> <p>(iv) Goods intended to be consumed within a short period of time in sales activities and general administrative activities</p>	<p>(IAS 2.6, 16, IAS 16.8, IAS 38.69(c))</p> <p>Inventories are assets:</p> <p>(a) Held for sale in the ordinary course of business</p> <p>(b) In the process of production for such sale</p> <p>Or</p> <p>(c) In the form of materials or supplies to be consumed in the production process or in the rendering of services.</p> <ul style="list-style-type: none"> <li>▪ Office consumables: There are no specific rules regarding their treatment. Accounting judgments are made in accordance with the guidance noted above.</li> <li>▪ Items such as spare parts, stand-by equipment, and servicing equipment: These are recognized as property, plant and equipment when they meet the definition under IAS16. Otherwise, such items are classified as inventory.</li> <li>▪ Expenditure on advertising and promotional activities (including mail-order catalogues): When an entity has a right to access goods solely to be used to undertake advertising or promotional activities, the entity recognizes expenditure on those goods as an expense when it owns the goods, or otherwise has a right to access them regardless of when it distributes the goods.</li> </ul>

	JGAAP	IFRS
Scope of production costs	<p>(Cost Accounting Standard 3-5, Statement of Position 1, 5) No examples are provided similar to those provided under IFRS.</p> <p>Judgment on whether or not an item should be included in the cost of inventories is based on interpretation of the "Essence of costs", "Concepts of costs " and "Non-cost items" as defined in the Cost Accounting Standard.</p>	<p>(IAS 2.10-18) The following items are included in the cost of inventories</p> <ul style="list-style-type: none"> <li>▪ Costs of purchase: The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.</li> <li>▪ Costs of conversion: The costs of conversion of inventories include costs directly related to the units of production, such as direct labor. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods.</li> <li>▪ Other costs: Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition. For example, it may be appropriate to include non-production overheads or the costs of designing products for specific customers in the cost of inventories.</li> </ul> <p>Examples of costs excluded from the cost of inventories and recognized as expenses in the period in which they are incurred are:</p> <ul style="list-style-type: none"> <li>(a) Abnormal amounts of wasted materials, labor or other production costs</li> <li>(b) Storage costs, unless those costs are necessary for the production process before a further production stage</li> <li>(c) Administrative overheads that do not contribute to bringing inventories to their present location and condition</li> <li>(d) Selling costs</li> </ul>

	<b>JGAAP</b>	<b>IFRS</b>
Capitalization of borrowing costs as a part of inventories	<p>(Guidance on auditing interest expense when conducting a real estate development business)</p> <p>Where certain criteria are met, interest expenses incurred when conducting real estate development projects can be capitalized.</p>	<p>(IAS 23.7(a), 8)</p> <p>An entity shall capitalize borrowing costs that are directly attributable to the acquisition, construction or production of inventory that meets the definition of a qualifying asset as part of the cost of that asset.</p> <p>Financial assets, and 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.</p>
Cost of inventories	<p>(Regulation for Terminology, Forms and Preparation of Financial Statements 90, and related guideline 90)</p> <p>Purchase discounts are treated as non-operating income.</p>	<p>(IAS 2.11)</p> <p>Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.</p>
Costs of obligations for dismantling, removing and restoring sites used to produce inventories	<p>There are no specific rules.</p> <p>(Accounting Standard for Asset Retirement Obligations 8)</p> <p>If an asset retirement obligation is incurred each time a tangible fixed asset is operated, the corresponding cost is capitalized in each period. The capitalized costs are allocated to each period over the remaining useful life of the relevant property, plant and equipment. In addition to this treatment, the same amount as the asset recognition amount may be expensed in the same period in which the obligation was recorded.</p>	<p>(IAS 16.16(c), 18)</p> <p>An entity applies IAS 2 Inventories to the costs of obligations for dismantling, removing and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period.</p>
By-product	<p>(Cost Accounting standard 12)</p> <p>For minor by-products, the income earned from selling the by-product can be recognized as income without recognizing a corresponding expense.</p>	<p>(IAS 2.14)</p> <p>When by-products by their nature, are immaterial, they are often measured at net realizable value and this value is deducted from the cost of the main product.</p>



	JGAAP	IFRS
Cost formulas	<p>(Accounting Standard for Measurement of Inventories 6-2, 34-4) Specific identification; first-in, first-out, average cost, retail method.</p> <p>Furthermore, the latest purchase price method is permitted only when the majority of the ending inventory assets are acquired at the final purchase price or when the ending inventory assets are deemed insignificant.</p>	<p>(IAS 2.23-27) Specific identification, first-in, first-out, and weighted average cost.</p>
Unification of cost formulas	<p>(Accounting Standard for Measurement of Inventories 6-3, Accounting Standard for Consolidated Financial Statements 17, 58) (Guidance on auditing regarding unification of accounting treatment between parent and subsidiary companies 5(2)①)</p> <p>A measurement method is selected for each category of inventory considering the type of business, the type of inventory, and its nature, usage, etc. Such measurement methods should be consistently applied.</p> <p>In principle, the accounting policies between parent and subsidiary companies should be the same for similar transactions in similar circumstances, but this is not always required to be the case with respect to the valuation of inventories.</p>	<p>(IAS 2.25) An entity shall use the same cost formula 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.</p>
Techniques for the measurement of cost	<p>(Cost Accounting Standard 42, 47(1)3, Accounting Standard for Measurement of Inventories 6-2) Standard cost used for internal control purposes, for budgeting purposes, and used for inventory valuation and cost of sales measurement purposes must represent actual costs.</p> <p>The retail method may be chosen from the cost formulas noted above when it is appropriate for the valuation of the inventories of retailers, or similar companies, with large numbers of products.</p>	<p>(IAS 2.21-22) In principle, the actual cost method should be used, however, the standard cost method and the retail methods are also given as examples of cost measurement techniques.</p> <p>The standard cost method and retail method may be used for convenience if the results approximate cost.</p> <p>The retail method is often used in the retail industry for measuring inventories of large numbers of rapidly changing items with similar margins for which it is impracticable to use other costing methods.</p>

	JGAAP	IFRS
Allocation of fixed production overheads (normal capacity)	<p>(Cost Accounting Standard 4(1)2, 47(1)3, 47(2))</p> <p>The allocation of fixed production overheads is based on the scheduled capacity or normal capacity of production facilities, etc.</p> <p>Relatively large cost variances, arising due to differences between actual prices and expected prices, are allocated to cost of sales and to inventories at the end of the period.</p> <p>However, the allocation of cost variances under the standard cost method, extraordinary variances due to volumes, hours and efficiency, etc. are treated as "Non-cost items".</p>	<p>(IAS 2.13)</p> <p>The allocation of fixed production overheads is based on the normal capacity of production facilities.</p> <p>The allocation of fixed production overheads is not increased in periods of low production, but such unallocated overheads (unfavorable variances) are recognized as an expense in the period in which they are incurred (i.e. they are not included in period end inventory).</p> <p>On the other hand, in periods of abnormally high production, the amount of fixed overhead allocated to each unit of production is decreased (i.e. favorable variances are allocated to period end inventory).</p>
Write-downs of inventories	<p>(Accounting Standard for Measurement of Inventories 5, 7, 9, 10, 49)</p> <p>When inventories are of goods that are no longer in circulation or that are expected to be disposed of, there are cases where it is permissible to write down the carrying amount on a systematic basis.</p>	<p>(IAS 2.32)</p> <p>When a decline in the price of materials indicates that the cost of the finished products exceeds the net realizable value, the materials are written down to net realizable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realizable value.</p>
Reversals of write-downs	<p>(Accounting Standard for Measurement of Inventories 14, 17)</p> <p>It is possible to select either a policy allowing the reversal of previous write-downs or a policy of non-reversal of such write-downs.</p> <p>However, if the write-downs occurred in extraordinary circumstances and are material, even if a policy allowing reversal has been selected, reversals are not allowed.</p>	<p>(IAS 2.33)</p> <p>When the circumstances that previously caused inventories to be written down no longer exist, or when there is clear evidence of an increase in net realizable value caused by changed economic circumstances, the amount of the previous write-down is reversed (i.e., the reversal is limited to the amount of the original write-down).</p>

# 8.Intangible Assets

## ► Significant differences

	JGAAP	IFRS
Accounting standard	<p>There is no one comprehensive accounting standard that deals with intangible assets.</p> <p>However, for the accounting treatment of research and development costs and software, the Accounting Standard for Research and Development Costs, Practical Guidelines and Q&amp;As have been published.</p>	<p>(IAS 38)</p> <p>The basis of recognition and measurement of intangible assets differs depending on whether such assets are purchased separately or are acquired through a business combination, or whether they are internally generated. IAS 38 covers all these situations.</p>
Definition	<p>(Regulation for Terminology, Forms and Preparation of Financial Statements 27)</p> <p>There is no separate definition for intangible assets, however, the following are given as examples:</p> <ul style="list-style-type: none"> <li>▪ Goodwill</li> <li>▪ Patents</li> <li>▪ Land lease rights (including surface rights)</li> <li>▪ Trademarks</li> <li>▪ Utility model rights</li> <li>▪ Design rights</li> <li>▪ Mining rights</li> <li>▪ Fishing rights (including common of piscary)</li> <li>▪ Software</li> <li>▪ Leased intangible assets and similar items</li> </ul>	<p>(IAS 38.8-17)</p> <p>The definition of an intangible asset includes all of the following conditions:</p> <ul style="list-style-type: none"> <li>▪ An asset controlled by the entity as a result of past events</li> <li>▪ An asset from which future economic benefits are expected to be received</li> <li>▪ An identifiable non-monetary asset without physical substance</li> </ul>
Initial recognition and measurement (recognition rules)	<p>There is no clear guidance in respect of the recognition of intangible assets.</p> <p>However, some guidance is provided for software production costs and for intangible assets acquired through business combinations.</p>	<p>(IAS 38.18,21)</p> <p>Intangible assets shall be recognized if they meet the definition of an intangible and if, and only if:</p> <ul style="list-style-type: none"> <li>▪ It is probable that the expected future economic benefits from the asset will flow to the entity and</li> <li>▪ The cost of the asset can be measured reliably.</li> </ul>

	JGAAP	IFRS
Internally generated intangible assets: research and development expenses	<p>(Accounting Standard for Research and Development Costs 3) Expenditure on research and development shall be recognized as an expense when incurred.</p> <p>If there are components of software development/production costs that relate to research and development, these are also expensed when incurred.</p>	<p>(IAS 38.52-62, 65, 66, 71) Expenditure on research shall be recognized as an expense when incurred.</p> <p>Development costs are recognized as intangible assets only if the technical feasibility of the asset, the intention to use or sell the asset, and a number of other conditions can all be demonstrated. If these conditions cannot be demonstrated, the related development costs must be expensed.</p> <p>The cost of an internally generated intangible asset is the sum of expenditures incurred from the date when the intangible asset first meets the recognition criteria of IAS38. Reinstatement of expenditures previously recognized as an expense is prohibited.</p> <p>The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management.</p>
Subsequent measurement	<p>Measured at acquisition cost less accumulated amortization and any subsequent accumulated impairment losses (revaluation is not allowed).</p>	<p>(IAS 38.72, 75) Either the cost model or the revaluation model must be selected as an accounting policy for the subsequent measurement of intangible assets.</p> <p>The revalued amount of an intangible asset is its fair value at the date of revaluation less any subsequently accumulated amortization and any subsequent accumulated impairment losses. To apply the revaluation model, fair values must be determined by reference to an active market.</p>

	JGAAP	IFRS
Amortization (useful lives)	In practice, apart from software held for sale, intangible assets are generally considered to be amortized on a straight-line basis in accordance with the tax regulations (however, there is a specific rule for the amortization of software in the Accounting Standard for Research and Development Costs (4,5)).	<p>(IAS 38.88, 89, 97, 102, 104, 108) The useful life of an intangible asset is determined as finite or indefinite.</p> <p>An intangible asset shall be regarded as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit (this does not mean infinite) to the period over which the asset is expected to generate net cash flows for the entity.</p> <p>An asset with a finite useful life is amortized over its useful life.</p> <p>The amortization period and the amortization method for an intangible asset with a finite useful life, along with its residual value, shall be reviewed at least at each financial year-end.</p> <p>An asset with an indefinite useful life is not amortized but is subject to an impairment test annually and whenever an indicator of impairment exists. Further, in each period, assessment as to whether the intangible asset still has indefinite life is required.</p>
Residual values, useful lives, and revisions of amortization methods	<p>(Audit and assurance committee's practical guidance No. 81.6,24) In practice, entities base useful lives, residual values, amortization methods on tax law. In most cases, amortization methods will not change unless the tax law changes.</p> <p>Amortization must be carried out each period in a rational and systematic way.</p>	<p>(IAS 38.102, 104) Residual values, useful lives, and amortization methods should be reviewed at least at each financial year-end.</p>
Advertising costs	There are no specific rules for advertising costs.	<p>(IAS 38.69, BC46D, IAS 16.19(b)) An entity recognizes expenditures on advertising and promotional activities as an expense when incurred. This is normally when the entity has the right to access the goods in relation to advertising activities or receives the advertising services (services are received when they are performed by a supplier and not when the entity delivers an advertisement to customers). Any advance payments are not intangible assets but are prepayments.</p> <p>Note: IFRS also does not permit costs of advertising and promotional activities to be included in the cost of property, plant and equipment.</p>

	JGAAP	IFRS
Accounting for access rights to supplier software in Software as a Service (user accounting)	<p>There are no relevant provisions.</p> <p>As the usage fees in SaaS contracts are considered to be compensation for the services the user receives (e.g. use of software owned by the vendor) and not an expenditure for the user to purchase the software, in practice it is assumed that services are expensed as they are received.</p> <p>It is customary for a SaaS contract to be a service provided by one vendor to an unspecified number of users. On this basis, it is considered that there are few cases where SaaS is organized as a 'specific property' for both the lessee and the lessor, and therefore, in practice, there are few cases where it is treated as a lease transaction.</p>	<p>Whether leases are included or not: (IFRS 16.9, B9-B31)</p> <p>Whether intangible assets are included or not: (IAS 38.8,12, 13, 17)</p> <p>If intangible assets are included: (e.g. IAS 38.18, 21, 88, 89, 97)</p> <p>If neither leases nor intangible assets are included: (IAS 38.69, 69A)</p> <p>Determine whether the contract includes a lease (see Leases (IFRS 16) No 1), and if so, account for it under IFRS 16.</p> <p>If no leases are included, determine whether intangible assets are included (see No 2 above) and, if so, account for them under IAS 38;</p> <p>If the lease or intangibles are not included, the expense is charged over the timing of receiving the service of access to the supplier software (i.e., the contract term of the service) (This applies if the SaaS contract only provides the right to access the supplier's application software.)</p>

	JGAAP	IFRS
Accounting for configuration or customisation costs in Software as a Service (user accounting)	<p>There are no relevant provisions.</p> <p>In the case of software for normal in-house use, the costs of configuration work required for installation and incidental modification work to adapt the software to the company's specifications are to be included in the acquisition cost of the software (Software Practice Guideline, paragraph 14).</p> <p>On the other hand, in the case of SaaS contracts, the software itself is not capitalized and therefore incidental costs such as initial set-up costs are not considered to be included as software.</p> <p>However, there is room for capitalization taking into account the general concept of capitalization (e.g. future revenue gains and cost reduction benefits). For example, if initial set-up costs for installation are paid at the beginning of the contract, there may be cases in practice where these are capitalized as (long-term) upfront costs and allocated over the period during which they are effective.</p> <p>Other costs that are similar in nature to the other implementation costs in paragraph 16 of the Software Practice Guidance would not normally be capitalized, but would be expensed in the financial year in which they are incurred.</p>	<p>Whether intangible assets are included or not: (IAS 38.8, 12, 13, 17)</p> <p>If intangible assets are not included: (IAS 38.69 ,69A)</p> <p>Requirements dealing with similar or related matters: (IAS 8.10, 11)</p> <p>Requirements to identify performance obligations (separate or not): (IFRS 15.22, 27)</p> <p>See No 2 above on whether intangible assets are included. However, with regard to software controlled by the supplier, the cases in which intangible assets can be recorded are considered to be quite limited, as the user is not free to use only the configuration or customisation part separately from it.</p> <p>If no intangible asset is included, the cost is recognised when the services are received in accordance with the contractual terms. However, as IAS 38 does not provide guidance on accounting for services received, reference is made to the requirements in IAS 8 dealing with similar and related matters. The requirements in IFRS 15 for the identification of performance obligations, which is guidance for the provider of the service, are then applied.</p> <p>① Where the contract for the provision of configuration or customization services is with a supplier of software access rights.</p> <ul style="list-style-type: none"> <li>▪ If the services received by the user (configuration or customisation services and access rights provision services) are separate, the costs are recognized at the time the configuration or customisation services are performed by the access rights supplier.</li> <li>▪ If the services received by the user are not separate, the costs are recognized according to the contractual term of the access right.</li> </ul>



	JGAAP	IFRS
		<p>② Where the contract for the provision of configuration or customization services is with a third party unrelated to the supplier providing the software access rights</p> <p>The cost is recognized at the time the third party performs the configuration or customization services.</p>

# 9.Fixed Assets

## ► Significant differences

	JGAAP	IFRS
Cost of asset acquired by exchange	<p>(Guidance on auditing advanced depreciation by reduction of carrying amount of assets)</p> <p>In exchanges of assets other than assets of a similar nature held for a similar purpose, in principle, either the asset given up or the asset received is measured at fair market value. This fair value becomes the acquisition cost of the asset received.</p> <p>In exchanges of assets of a similar nature held for a similar purpose, the asset received is measured at the carrying amount of the asset given up.</p>	<p>(IAS 16.24)</p> <p>Assets acquired in exchange for another asset are measured at their fair values unless the exchange transaction lacks commercial substance or the fair value of neither the asset received, nor the asset given up is reliably measurable.</p> <p>If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.</p>
Capitalization of borrowing costs (where an entity borrows funds specifically for the purpose of obtaining a qualifying asset)	<p>(Statement of Position 3 Depreciation of fixed assets 1,4,2) (Self-constructed property)</p> <p>When an entity constructs its own property, it calculates the manufacturing cost in accordance with the appropriate cost accounting and acquisition cost is based on that manufacturing cost.</p> <p>Interest on borrowings required for construction in the period before operation may be included in acquisition cost.</p> <p>There are no clear rules for calculating the amount of borrowing costs eligible for capitalization.</p>	<p>(IAS 23.5, 8, 12)</p> <p>A qualifying asset is an asset that takes a substantial period of time to get ready for its intended use or sale.</p> <p>Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset shall be included in the acquisition cost of the asset. Other borrowing costs shall be expensed when incurred.</p> <p>To the extent that an entity borrows funds specifically for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.</p>

	JGAAP	IFRS
Capitalization of borrowing costs (where an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset)	There are no specific rules.	<p>(IAS 23.6, 14)</p> <p>To the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to all borrowings of the entity that are outstanding during the period.</p> <p>Borrowing costs may include:</p> <ul style="list-style-type: none"> <li>▪ Interest expense calculated using the effective interest method</li> <li>▪ Interest in respect of lease liabilities recognized</li> <li>▪ Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs</li> </ul>
Dismantling, disposal and restoration costs etc.	<p>(Accounting Standard for Asset Retirement Obligations 3, 6, 7, 11, 14)</p> <p>(Guidance on Application of Asset Retirement Obligations 9)</p> <p>The amount equal to the related asset retirement obligations is added to the carrying amount of the related fixed assets.</p> <p>A legal obligation (or similar) is recorded as an asset retirement obligation based on the relevant laws relating to the retirement of fixed assets or contractual requirements.</p> <ul style="list-style-type: none"> <li>▪ Discount rate The discount rate shall be a risk-free pre-tax interest rate that reflects the time value of money at the time of recognition. The discount rate should also be the pre-tax rate, to correspond to the pre-discount future cash flows being pre-tax amounts.</li> </ul> <p>The discount rate is determined at the time the liability is recorded and is not subsequently changed. However, despite this general</p>	<p>(IAS 16.16(c), 18, IAS 37.10, 14, 19, 45, 47, IFRIC 1.3, 8)</p> <p>The future costs of dismantling and removing an item and restoring the site related to that asset, which meet the recognition criteria for provisions in IAS 37, are included in the acquisition cost of a fixed asset.</p> <p>An entity applies IAS 2 Inventories to the costs of obligations for dismantling, removing and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period.</p> <p>IAS 37 includes both legal and constructive obligations when determining the provision.</p> <p>When a fixed asset is measured using the cost model and the discount rate changes subsequently, any related provisions are re-estimated, and the acquisition cost is adjusted to reflect this change.</p> <ul style="list-style-type: none"> <li>▪ Discount rate The discount rate shall be a pre-tax rate that reflects current</li> </ul>

	JGAAP	IFRS
	<p>requirement, where there is an increase in the estimated future cash flows, the discount rate is adjusted at the same time in respect of the increased future cash flow. On the other hand, where there is a decrease in the estimated cash flows, the discount rate is not changed, i.e., the original rate is used.</p> <ul style="list-style-type: none"> <li>▪ Unwinding of the discount The periodic adjustment to the obligation (the unwinding of the discount) is classified in the profit and loss account in the same way as the depreciation of the fixed asset to which the asset retirement obligation relates is classified.</li> <li>▪ Rental deposits Where a rental deposit (<i>shikikin</i>) is recorded as an asset, the amount that is not expected to be refunded may be reasonably estimated using a "short-cut" method, and the unrecoverable amount is allocated as an expense to each period.</li> </ul>	<p>market assessments of the time value of money and the risks specific to the liability. The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted.</p> <ul style="list-style-type: none"> <li>▪ Unwinding of the discount The expense related to the periodic unwinding of the discount is recognized as a finance cost.</li> <li>▪ Rental deposits The exceptional treatment for rental deposits in JGAAP is not permitted under IFRS.</li> </ul>
Subsequent costs	<p>There are no specific rules.</p> <p>Normally, expenditures that extend the useful life of an asset or which improves its operating capacity are capitalized, and expenditures that maintain an asset's current level of operation are treated as a maintenance expense.</p>	<p>(IAS 16.7, 12, 13)</p> <p>Subsequent costs are capitalized if it is probable that they will give rise to future economic benefits for the entity and if they can be measured reliably. In all other cases they are expensed as incurred.</p>
Government grants related to assets	<p>(Corporate Accounting Principles Note 24)</p> <p>Government subsidies and proceeds from a construction cost-sharing scheme can be deducted from the cost of the related assets.</p>	<p>(IAS 20.24)</p> <p>Government grants related to assets are presented either as deferred income or are deducted from the carrying amount of the related asset.</p>

	JGAAP	IFRS
Subsequent measurement	<p>There are no specific rules.</p> <p>As a general rule, assets are carried at cost less any accumulated depreciation and any accumulated impairment losses (the revaluation model is not permitted).</p>	<p>(IAS 16.29-31)</p> <p>Either the cost model or the revaluation model must be selected as an accounting policy and that policy must be applied to an entire class of assets.</p> <p>When the revaluation method is used, revaluations shall be made regularly to ensure that the carrying amount does not differ materially from the fair value at the end of the reporting period.</p>
Depreciation (Useful life)	<p>(Audit Guidance on the Practical interim solution on depreciation)</p> <p>Entities apply their best accounting estimation for the determination of useful life.</p> <p>In practice, entities often use the useful life stipulated by Japanese Tax Law.</p>	<p>(IAS 16.57)</p> <p>The useful life of an asset is defined in terms of the asset's expected utility to the entity.</p>
Depreciation (Residual Value)	<p>(Audit Guidance on the Practical interim solution on depreciation)</p> <p>Entities apply their best accounting estimation for the determination of residual value.</p> <p>In practice, based on Japanese Tax Law, the residual value of property, plant and equipment acquired on or after April 1, 2007, is often estimated as the memorandum value (a nominal carrying amount retained for the asset in the company's records if it has been fully depreciated but remains in use).</p> <p>For tangible fixed assets acquired before March 31, 2007, from the fiscal year in which the carrying amount reached 5% of the acquisition price, the difference between the amount equivalent to 5% of the acquisition price and the memorandum value is amortized evenly over 5 years.</p>	<p>(IAS 16.6)</p> <p>The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.</p>

	JGAAP	IFRS
Unit of depreciation (components approach)	<p>(Statement of Position 3rd, 1st 10) There are two approaches applied in the determination of units for depreciation: the individual depreciation approach, under which depreciation is calculated and booked individually for each asset, and the comprehensive depreciation approach, in which several assets are depreciated together as a group.</p> <p>In practice, depreciation is often implemented in units based on the Japanese Tax Law.</p>	<p>(IAS 16.43) Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.</p>
Depreciation method	<p>(Audit Guidance on the Practical interim solution on depreciation) In practice, there are many cases where the declining balance method is applied by domestic companies in Japan based on tax law. However, under Japanese Tax Law, the straight-line method is applied for buildings acquired on or after April 1, 1998, and facilities and structures attached to buildings acquired on or after April 1, 2016.</p>	<p>(IAS 16.60, 62A) The depreciation method used reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity.  A depreciation method that is based on the revenue that is generated by an activity that includes the use of an asset is not appropriate.</p>
Review of residual values, useful lives and depreciation methods	<p>(Audit and assurance committee report No. 81. 6,24) In practice, many companies base useful lives and residual values of assets on the tax rules.  Depreciation shall be determined on a rational basis, and as such depreciation must be carried out each period in a planned and systematic way.</p>	<p>(IAS 16.51, 61) Residual values, useful lives and depreciation methods are reviewed at least each financial year-end.</p>

	JGAAP	IFRS
Change of a depreciation method	<p>(Accounting Standard for Accounting policy Disclosures, Accounting Changes and Error Corrections)</p> <p>The depreciation method is an accounting policy, but in practice, a change in the depreciation method is difficult to distinguish from a change in an accounting estimate. Accordingly, no retroactive adjustment is made as would be the case for a change in an accounting estimate.</p>	<p>(IAS 16.61)(IFRS 1.IG7)</p> <p>A change of a depreciation method shall be accounted for as a change in an accounting estimate in accordance with IAS 8.</p> <p>However, in some cases, an entity's depreciation methods and rates in accordance with previous GAAP may differ from those that would be acceptable in accordance with IFRS (for example, if they were adopted solely for tax purposes and do not reflect a reasonable estimate of the asset's useful life). If those differences have a material effect on the financial statements, the entity adjusts accumulated depreciation in its opening IFRS statement of financial position retrospectively on transition to IFRS so that it complies with IFRS.</p>
A non-current asset (or disposal group) classified as held for sale	<p>There are no specific rules.</p> <p>However, examples of indicators of impairment include abolition or restructuring of a business unit, early disposal, and changes in usage.</p>	<p>(IFRS 5.6, 15)</p> <p>An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.</p> <p>An entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.</p>
Depreciation of a non-current asset (or disposal group) classified as held for sale	<p>(Guidance on Accounting Standard for Impairment of Fixed Assets 55)</p> <p>Except in the case where they are transferred to current assets held for sale, fixed assets to be disposed of, having been assessed for and adjusted appropriately for impairment, are depreciated to their residual values.</p>	<p>(IFRS 5.25)</p> <p>An entity shall not depreciate (or amortize) a non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale.</p>
Recognition of spare parts as fixed assets	<p>There are no specific rules.</p> <p>In practice, spare parts may be accounted for as supplies.</p>	<p>(IAS 16.8)</p> <p>Items such as spare parts, stand-by equipment, and servicing equipment are recognized in accordance with IAS 16 when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.</p>



	JGAAP	IFRS
Major inspections or repair costs	<p>(Corporate Accounting Principles Note 18)</p> <p>Special repair provisions are provided in the guidance as an example of non-current liabilities. If the amount of the provision relating to the current period meets the conditions for recognition of a provision, it is recognized in the current period profit or loss.</p> <p>Special repair reserves are examples of provisions classified as fixed liabilities. When the requirements for recognition of provisions are met, the amount attributable to the current period is recognized as an expense or loss for that period.</p>	<p>(IAS 16.14)</p> <p>A condition of continuing to operate an item of property, plant and equipment may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost (which should not be recognized as a provision) is recognized in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied.</p>
Collectively depreciable assets and low-value assets	<p>There are no specific rules.</p> <p>In practice, there are many cases where depreciation or expense (deduction) processing is carried out based on the provisions of the Japanese Tax Law.</p>	<p>(IAS 16.6, 9, 57)</p> <p>For tangible assets expected to be used during more than one period, entities classify these assets as property, plant and equipment.</p> <p>The useful life of an asset is defined in terms of the asset's expected utility to the entity.</p> <p>It may be appropriate to aggregate individually insignificant items, such as molds, tools and dies, and to apply the recognition criteria in IAS16.7 to the aggregate value.</p>

	JGAAP	IFRS
Insurance gains	<p>(Guidance on auditing advanced depreciation by reduction of carrying amount of assets 3.2)</p> <p>In cases where fixed assets of a similar nature and with a similar purpose are acquired with the proceeds of insurance, it is permitted to treat the insurance gains in the same way as government subsidies and as accelerated depreciation by reducing the carrying amount of the assets.</p>	<p>(IAS 16.65, 66)</p> <p>Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up shall be included in profit or loss when the compensation becomes receivable.</p> <p>Impairments or losses of items of property, plant and equipment, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:</p> <ul style="list-style-type: none"> <li>a) Impairments of items of property, plant and equipment are recognized in accordance with IAS 36.</li> <li>b) Derecognition of items of property, plant and equipment retired or disposed of is determined in accordance with this Standard.</li> <li>c) Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in determining profit or loss when it becomes receivable.</li> <li>d) The cost of items of property, plant and equipment restored, purchased or constructed as replacements is determined in accordance with this Standard.</li> </ul>

	JGAAP	IFRS
Real estate acquisition tax	<p>(Corporate Accounting Principles 3.5.D, Statement of Position 4) Incidental costs such as purchase fees, transportation costs, cargo handling costs, installation costs, and test run costs are included in the acquisition cost, but if there is a justifiable reason, some or all of them may not be included.</p> <p>In practice, real estate acquisition tax and professional fees, which can be excluded from the acquisition price of fixed assets based on Japanese Tax Law, are not included in the acquisition cost and are expensed as they occur.</p>	<p>(IAS 16.16) The cost of an item of property, plant and equipment comprises:</p> <ul style="list-style-type: none"> <li>a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates</li> <li>b) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management</li> <li>c) The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period</li> </ul>

	JGAAP	IFRS
Directly attributable costs for the acquisition of fixed assets	<p>(Corporate Accounting Principles 3.5.D, Statement of Position 4.1)</p> <p>Incidental costs such as purchase fees, transportation costs, cargo handling costs, installation costs, and test run costs are included in the acquisition cost, but if there is a justifiable reason, some or all of them may not be included.</p>	<p>(IAS 16.16, 17, 20A)</p> <p>Examples of directly attributable costs to be included in the cost of an item of property, plant and equipment are:</p> <ul style="list-style-type: none"> <li>a) Costs of employee benefits (as defined in IAS 19 Employee Benefits) arising directly from the construction or acquisition of the item of property, plant and equipment</li> <li>b) Costs of site preparation</li> <li>c) Initial delivery and handling costs</li> <li>d) Installation and assembly costs</li> <li>e) Costs of testing whether the asset is functioning properly</li> <li>f) Professional fees</li> </ul> <p>Items may be produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the asset is functioning properly). An entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss in accordance with applicable Standards. The entity measures the cost of those items applying the measurement requirements of IAS 2.</p>

	JGAAP	IFRS
Scope of fixed assets	<p>(Accounting Standard for Research and Development Costs 2 (Note1) There are no specific rules regarding spare parts, stand-by equipment and servicing equipment.</p> <p>Assets used only for specific Research and Development purposes are, expensed as they occur.</p>	<p>(IAS 16.6, 7, 8) Items such as spare parts, stand-by equipment and servicing equipment are recognized in accordance with IAS 16 when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.</p> <p>There are no specific rules regarding assets used only for specific Research and Development purposes</p> <p>Accounting judgments are made in relation to such assets in accordance with the definition of property, plant and equipment, and related recognition criteria under IAS 16.</p>
Depreciation on idle assets	<p>(Guidance on Accounting Standard for Impairment of Fixed Assets 56) Depreciation does not cease when an asset becomes idle.</p> <p>In principle, depreciation expenses relating to idle assets are accounted for as non-operating expenses.</p>	<p>(IAS 16.55) Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5 and the date that the asset is derecognized.</p> <p>Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.</p> <p>However, under usage methods of depreciation, the depreciation charge can be zero while there is no production.</p>

# 10. Investment Property

## ► Significant differences

	JGAAP	IFRS
Scope of investment property	<p>(Accounting Standard for Disclosures about Fair Value of Investment and Rental Property 4) Under JGAAP, "Investment and Rental Property" exists as a concept similar to that of "investment property" under IFRS. It is required to disclose the fair value of real estate classified as Investment and Rental Property, but it is not required to account for such assets differently from tangible fixed assets.</p> <p>"Investment and Rental Property" is real estate other than real estate classified as inventories while being held for the purpose of obtaining rental income or capital gains (excluding lease transactions entered into as a lessor).</p> <p>Welfare facilities and training facilities for employees are not considered leased properties and are included in real estate used for business management. However, if the company housing system is abolished, these facilities are formally regarded as leased to a third party and, therefore, classified as leased real estate.</p>	<p>(IAS 40.1, 5, 9) Investment property is property (land or a building/ part of a building or both) held (by the owner or by the lessee as a right-of-use asset) to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business.</p> <p>The following are examples of items that are not investment property and are therefore outside the scope of IAS 40:</p> <ul style="list-style-type: none"> <li>▪ Property intended for sale in the ordinary course of business or in the process of construction or development for such sale (see IAS 2 Inventories). For example, property acquired exclusively with a view to subsequent disposal in the near future or for development and resale.</li> <li>▪ Owner-occupied property (see IAS 16 and IFRS 16), including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees (whether or not the employees pay rent at market rates) and owner-occupied property waiting for disposal.</li> <li>▪ Property that is leased to another entity under a finance lease.</li> </ul>

	JGAAP	IFRS
Property used for more than one purpose	<p>(Accounting Standard for Disclosures about Fair Value of Investment and Rental Property 7 and related Implementation Guidance and Practical Solution 7.17)</p> <p>Property is normally separated into rental property portions and other portions using cost accounting and other reasonable methods. Only the portions used for rental purposes are in the scope of the investment and rental property disclosures.</p> <p>However, when the proportion of the property used for rental purposes is low, the property, as a whole, can be omitted from the scope of the investment and rental properties disclosures.</p> <p>Note: if the above separation is difficult, the entire property may be in scope for investment and rental property disclosure purposes.</p>	<p>(IAS 40.10)</p> <p>If the relevant portions of a property with more than one use could be sold separately or leased out separately under a finance lease, an entity accounts for such portions separately.</p> <p>If the portions could not be sold separately, the property is classified as an investment property only if an insignificant portion is held for the entity's own use.</p>
Ancillary services associated with a property	<p>(Accounting Standard for Disclosures about Fair Value of Investment and Rental Property 28)</p> <p>When it is not easy to judge the significance of any ancillary services offered to users, the scope of investment and rental property disclosures may be judged on the basis of form. An investment property that is rented out is subject to the required disclosures for investment and rental property. However, even for real estate to obtain cash flow by letting a third party use it, an investment property which is not rented out (e.g., hotels as part of business operation), is outside the scope of investment and rental property disclosures.</p>	<p>(IAS 40.11,12,14)</p> <p>When ancillary services are insignificant to an arrangement, as a whole, the related property is treated as an investment property. When such services are significant, the property is treated as an owner-occupied property.</p> <p>When the above determination is difficult, disclosure must be made of the criteria used in making the judgment.</p>
Measurement on initial recognition	<p>(Accounting Standard for Disclosures about Fair Value of Investment and Rental Property 15)</p> <p>The cost model is the only method allowed (disclosure of fair values is given).</p>	<p>(IAS 40.30, 79)</p> <p>The cost model or the fair value model may be selected. This policy must be applied to all investment properties.</p> <p>An entity that applies the cost model shall disclose items required by IAS 40.79.</p>

	JGAAP	IFRS
Fair value measurement	There are no specific rules.	<p>(IAS 40.33, 35, 53, 53A, 53B, 54) If the fair value model is chosen, all investment properties must be fair valued, except in specific situations where fair value cannot be reliably determined.</p> <p>Changes in fair values are recorded in profit and loss in the period in which they arise.</p> <p>The same principles apply to investment property under construction; however, there is specific guidance to support practical application of this principle.</p>
Property being constructed or developed for future use	<p>(Accounting Standard for Disclosures about Fair Value of Investment and Rental Property 6) Property that is under development for use as real estate for rent in the future, or real estate for rent which is undergoing redevelopment but for which no change in use is planned, is classified as Investment and Rental Property.</p>	<p>(IAS 40.8(e)) Property that is being constructed or developed for future use as investment property is classified as investment property.</p>
Presentation	There are no specific rules.	<p>(IAS 1.54(b)) The statement of financial position shall include a line item that presents the amount of investment property.</p>



# 11.Impairment of assets

## ► Significant differences

	JGAAP	IFRS
Scope	<p>(Accounting Standard for the Impairment of Fixed Assets 1) (Guidance for the application of the standard on the impairment of fixed assets 5-6) Except for the following assets, which are subject to impairment provisions based on other criteria, fixed assets (tangible fixed assets, intangible fixed assets, and investment and other assets) are subject to this provision.</p> <ul style="list-style-type: none"> <li>▪ Financial assets</li> <li>▪ Deferred tax assets</li> <li>▪ Software held for sale as intangible fixed assets</li> <li>▪ Assets related to retirement benefits</li> </ul>	<p>(IAS 36.2, 3) IAS 36 shall be applied in accounting for the impairment of all assets, other than:</p> <ul style="list-style-type: none"> <li>▪ Inventories (see IAS 2 Inventories)</li> <li>▪ Contract assets and assets arising from costs to obtain or fulfil a contract that is recognized in accordance with IFRS 15 Revenue from Contracts with Customers</li> <li>▪ Deferred tax assets (see IAS 12 Income Taxes)</li> <li>▪ Assets arising from employee benefits (see IAS 19 Employee Benefits)</li> <li>▪ Financial assets that are within the scope of IFRS 9 Financial Instruments</li> <li>▪ Investment property that is measured at fair value (see IAS 40 Investment Property)</li> <li>▪ Biological assets related to agricultural activity within the scope of IAS 41 Agriculture that are measured at fair value less costs to sell</li> <li>▪ Contracts within the scope of IFRS 17 Insurance Contracts that are assets</li> <li>▪ Non-current assets (or disposal groups) classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations</li> </ul>

	JGAAP	IFRS
Indicators of impairment	<p>(Accounting Standard for the Impairment of Fixed Assets 2-1) (Guidance for the application of the standard on the impairment of fixed assets 11-17) Numerical indicators are included as illustrative examples, such as results or cash flows from operations are consistently negative; the market value of an asset falls below 50% of the carrying amount.</p>	<p>(IAS 36.12) As the indicators of impairment are of a broader nature, there is the tendency for an indication of impairment to be judged to exist earlier than would be the case under JGAAP.</p> <p>Further, one of the examples of an indicator of impairment given is where the carrying value of net assets is greater than an entity's market capitalization.</p>
Impairment review process	<p>(Accounting Standard for the Impairment of Fixed Assets 2. 2,3) 2 step approach:</p> <ol style="list-style-type: none"> <li>1. When there is an indicator of impairment, first determine if an impairment exists (the carrying value of the asset is compared to the undiscounted future cash flows expected to be generated from the asset or a group of assets).</li> <li>2. If, as a result, the carrying value is higher than the undiscounted cash flows, the carrying value is considered to be not recoverable. An impairment loss is then recognized for the difference between the carrying value and the recoverable amount.</li> </ol> <p>The definition of the recoverable amount is the same as IFRS.</p>	<p>(IAS 36.59) 1 step approach:</p> <p>When there is an indicator of impairment, the entity determines the recoverable amount as the higher of (i) fair value less costs of disposal and (ii) value in use.</p> <p>The impairment loss is determined as the amount by which the carrying value of an asset exceeds its recoverable amount.</p>
Cash generating unit/Grouping of assets	<p>(Guidance for the application of the standard on the impairment of fixed assets 10) In separate financial statements, the grouping of assets is not beyond an entity and assets are not grouped with the assets of other entities. However, in consolidated financial statements, that grouping unit of assets may be revisited from the consolidated perspective.</p>	<p>There are no specific rules as in JGAAP to the left.</p>

	JGAAP	IFRS
Reversal of impairment losses	(Accounting Standard for the Impairment of Fixed Assets 3. 2) Reversals of impairment losses are prohibited for all fixed assets.	(IAS 36.110, 117, 124) Reversals of impairment losses relating to goodwill are prohibited. However, for other assets, at the end of each period, an assessment must be made as to whether there is any indication that a previously recognized impairment no longer exists.  When appropriate, the impairment loss is reversed up to the recoverable amount to the extent that it does not exceed the carrying amount that would have been determined (net of amortization or depreciation) had an impairment not been recognized previously.
Impairment of goodwill	(Accounting Standard for Consolidated Financial Statements 24) (Accounting Standard for Business Combinations 32) (Accounting Standard for the Impairment of Fixed Assets 2. 8) (Guidance for the application of the standard on the impairment of fixed assets 51-54) Goodwill is amortized within 20 years, over the period for which it is expected to bring benefit. Further, where there is an indicator of impairment, a separate assessment for the recognition of impairment will be conducted.	(IAS 36.10, 11, 80) There is no systematic amortization of goodwill, however, an impairment test must be carried out annually and when there is an indicator of impairment (this is the same for intangible assets with indefinite lives and intangible assets not yet available for use).

	JGAAP	IFRS
Allocation of goodwill	<p>(Accounting Standard for the Impairment of Fixed Assets 2. 8) (Guidance for the application of the standard on the impairment of fixed assets 53-54, 131-133)</p> <p>When there are multiple units of a business that are acquired, goodwill is divided and allocated to each unit to which the consideration for the acquisition is separately determined in principle and for which management receives internal performance reports separately from other units.</p> <p>When determining the recognition of an impairment loss, goodwill is, in principle, allocated across the asset groups of the business to which the divided goodwill relates, generally at a higher level.</p> <p>However, If the carrying amount of goodwill can be allocated to individual asset groups of the related business based on reasonable criteria, then, after the goodwill has been allocated to each asset group, the recognition of an impairment loss may be determined.</p> <p>The unit to which goodwill is allocated is generally larger than a group of assets but the same as or smaller than a business unit that is the basis of determining the segment disclosure.</p>	<p>(IAS 36.80, 84) Goodwill is allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.</p> <p>Each unit or group of units to which the goodwill is allocated shall:</p> <ul style="list-style-type: none"> <li>▶ Represent the lowest level within the entity at which the goodwill is monitored for internal management purposes</li> <li>▶ Not be larger than an operating segment as defined by paragraph 5 of IFRS 8 <i>Operating Segments</i> before aggregation</li> </ul> <p>If the initial allocation of goodwill cannot be completed before the end of the annual period in which the business combination takes place, the initial allocation must be completed before the end of the first annual period after the acquisition date.</p>
Allocation of goodwill and impairment loss where there is non-controlling interest in CGU	<p>(Accounting Standard for the Impairment of Fixed Assets 2. 8) (Guidance for the application of the standard on the impairment of fixed assets 51-54,131-134) (Accounting Standard for the consolidated financial statements 24)</p> <p>There is no specific guidance for the impairment testing where there is a non-controlling interest.</p> <p>The approach of recognizing and measuring non-controlling interests at acquisition-date fair value, which means that its share of goodwill will also be recognized, is not allowed.</p>	<p>(IAS 36.C4, C8) If an entity measures non-controlling interests as its proportionate interest in the net identifiable assets of a subsidiary at the acquisition date rather than at fair value and there are non-controlling interests, an entity shall gross up the carrying amount of goodwill allocated to the unit to include the goodwill attributable to the non-controlling interest. Only the impairment loss relating to the goodwill that is allocated to the parent is recognized as a goodwill impairment loss.</p>

	JGAAP	IFRS
Allocation of corporate assets	<p>(Accounting Standard for the Impairment of Fixed Assets 2. 7) (Guidance for the application of the standard on the impairment of fixed assets 48-50)</p> <p>In principle, impairment testing for corporate assets is performed at a larger group level that includes corporate assets and the related asset or group of assets.</p> <p>However, if there is a reasonable method to allocate the corporate asset to the related asset or group of assets, it is allowed to allocate the corporate assets to each asset or group of assets and test for impairment separately.</p>	<p>(IAS 36.102)</p> <p>(EY International GAAP 2025 Chapter 21 section 4.2)</p> <p>If a portion of the carrying amount of a corporate asset can be allocated on a reasonable and consistent basis to that unit, an entity shall compare the carrying amount of the unit, including the portion of the carrying amount of the corporate asset allocated to the unit, with its recoverable amount.</p> <p>If the allocation cannot be made on a reasonable and coherent basis, the following three procedures should be considered</p> <p>(1) Perform an impairment test for the cash-generating unit and recognize an impairment loss, if any.</p> <p>(2) Group the cash-generating units and allocate part or all of the carrying amount of the corporate assets to the group. The cash-generating unit group shall include the cash-generating unit that was subject of the first test.</p> <p>(3) Finally, a test shall be performed to determine whether the carrying amount of the group of cash-generating units exceeds the recoverable amount of the group of cash-generating units. If the carrying amount of the cash-generating unit group exceeds its recoverable amount, an impairment loss shall be allocated proportionately to all assets included in the cash-generating unit group and to the allocation of corporate assets to the cash-generating unit group.</p>

	JGAAP	IFRS
Cash flow assumption in the determination of value in use (improving of the assets performance, the period of cash flow projections, growth rate)	<p>(Guidance for the application of the standard on the impairment of fixed assets 36(3), 37(2), 38(1))  Future cash flows that result from unplanned future capital expenditures or future restructurings should not be included in the estimate of future cash flows.</p> <p>The period of the cash flow projections to calculate the value in use should be estimated over the remaining useful life of the asset or a core asset within the group of assets.</p> <p>Projections beyond the period covered by management's mid/long term budget/forecast should be estimated using a steady or declining growth rate (including zero or minus %) unless there is a reasonable basis to use other inputs.</p>	<p>(IAS 36.33 (b) (c), 35, 44, 45)  An entity shall exclude any estimated future cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance.</p> <p>Projections based on these budgets/forecasts shall cover a maximum period of five years unless a longer period can be justified.</p> <p>An entity shall estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years unless an increasing rate can be justified. This growth rate shall not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used unless a higher rate can be justified.</p>
Recognition and measurement of impairment loss	<p>(Accounting Standard for the Impairment of Fixed Assets 2. 3, 4. 2) (Guidance for the application of the standard on the impairment of fixed assets<sup>25</sup>)  When an asset or a group of assets is tested for impairment and deemed to be impaired, the carrying amount is reduced to the recoverable amount and the difference is charged in profit or loss (in principle, extraordinary loss).</p>	<p>(IAS 36.60, 61)  An impairment loss on a non-revalued asset is recognized in profit or loss. However, an impairment loss on a revalued asset is recognized in other comprehensive income to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset.</p>

# 12.Leases

## ► Significant differences

	JGAAP	IFRS
Definition of a lease	<p>(Accounting Standard for Lease Transactions 4, Implementation Guidance on Accounting Standard for Lease Transactions 91)</p> <p>A lease transaction is defined as a transaction in which the lessor, who is the owner of an identified asset, gives the lessee the right to use and make returns from the asset over the lease term, and the lessee makes lease payments to the lessor.</p> <p>An entity shall assess whether a transaction is a lease transaction based on whether it meets the definition of a lease transaction, regardless of its name as a lease contract, a rental contract, or similar. However, there are no detailed criteria for identifying leases as in IFRS.</p> <p>There are no specific rules for reassessing whether a contract is a lease or contains a lease.</p>	<p>(IFRS 16.9,11, B9-B31)</p> <p>A lease is defined as a contract, or a part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration.</p> <p>At the inception of a contract, an entity shall assess whether the contract is, or contains, a lease based on the guidance.</p> <p>An entity shall reassess whether the contract is or contains a lease only when the terms of the contract are changed.</p>

	JGAAP	IFRS
Combination of contracts	There are no specific rules.	<p>(IFRS 16.B2)</p> <p>An entity shall combine two or more contracts entered into at or near the same time with the same counterparty (or related parties of the counterparty), and account for the contracts as a single contract if one or more of the following criteria are met:</p> <ul style="list-style-type: none"> <li>▪ The contracts are negotiated as a package with an overall commercial objective that cannot be understood without considering the contracts together</li> <li>▪ The amount of consideration to be paid in one contract depends on the price or performance of the other contract</li> <li>▪ The rights to use underlying assets conveyed in the contracts (or some rights to use underlying assets conveyed in each of the contracts) form a single lease component as described in paragraph B32 of IFRS 16.</li> </ul>
Lessee term	<p>(Accounting Standard for Lease Transactions 4,13, Implementation Guidance on Accounting Standard for Lease Transactions 9,11,12,29,57,67)</p> <p>The lease term is the "agreement term" in which the lessor, the owner of an identified asset, gives the lessee the right to use and make returns from the asset. The lease period is the sum of the non-cancellable lease period and the re-lease period when the lessee clearly intends to re-lease.</p>	<p>(IFRS 16.18, B34)</p> <p>An entity shall determine the lease term as the non-cancellable period of a lease, together with both:</p> <p>(a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option</p> <p>(b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.</p> <p>A lease is no longer enforceable when the lessee and the lessor each has the right to terminate the lease without permission from the other party with no more than an insignificant penalty. In such a case, a lease does not exist.</p> <p>An entity considers the broader economics of the contract, and not only contractual termination payments.</p> <p>(IFRIC update November 2019)</p>



	JGAAP	IFRS
Classification of leases	<p>(Accounting Standard for Lease Transactions 5, 6, 8. Implementation Guidance on Accounting Standard for Lease Transactions 5, 9, 94)</p> <p>Finance leases are non-cancellable and require full pay-out, which means meeting the following conditions (determination based on the economic substance). The present value of the total lease payments over the term of the non-cancellable lease is 90% or more of the estimated cash purchase price of the asset, or the lease term is approximately 75% or more of the economic useful life of the related asset.</p> <p>A lease other than a finance lease is an operating lease.</p> <p>Finance lease transactions are further divided into ownership transfer finance leases and non-ownership transfer finance leases.</p>	<p>(IFRS 16.22, 61-65)</p> <p>A lessee does not classify leases as either finance or operating. A lessor classifies each of its leases as either finance or operating.</p> <p>A lease is classified based on whether it transfers substantially all the risks and rewards incidental to ownership of the underlying asset to the lessee.</p> <p>The classification depends on the substance of the transaction rather than the form of the contract.</p> <p>There are no numerical criteria as in JGAAP.</p> <p>Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:</p> <ul style="list-style-type: none"> <li>a) The lease transfers ownership of the underlying asset to the lessee by the end of the lease term</li> <li>b) 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</li> <li>c) The lease term is for the major part of the economic life of the underlying asset even if the title is not transferred</li> <li>d) 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</li> <li>e) The underlying asset is of such a specialized nature that only the lessee can use it without major modifications</li> </ul> <p>Indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease are:</p>

	JGAAP	IFRS
		<p>a) If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee</p> <p>b) Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease); and</p> <p>c) The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent</p>
Recognition Exemptions	<p>(Implementation Guidance on Accounting Standard for Lease Transactions 34,35,45,46)</p> <p>If any of the conditions below are met, the lease may be accounted for as an operating lease:</p> <ul style="list-style-type: none"> <li>▪ Non-ownership transfer finance leases where the total lease payments are less than JPY 3 million and it is clear from the business's operations that they are not significant (only applies to leases with no transfer of ownership)</li> <li>▪ Leases with a lease term of less than 1 year</li> <li>▪ Leases of insignificant depreciable assets for which the method of expensing the lease cost on acquisition is applied, and total lease payments are below a set amount</li> </ul>	<p>(IFRS 16.5-8, B3-B8)</p> <p>Short-term leases</p> <p>A lessee may elect to recognize the lease payments as an expense on either a straight-line basis over the lease term or another systematic basis without recognizing right-of-use assets and lease liabilities in respect of short-term leases and leases for which the underlying asset is of low value.</p> <p>Leases of assets of low value</p> <p>IFRS16.BC100 states that, with respect to low-value leases, IASB had in mind leases of underlying assets with a value, when new, in the order of magnitude of US\$5,000 or less.</p>

	JGAAP	IFRS
Lessee accounting – measurement of lease assets and lease liabilities	<p>(Implementation Guidance on Accounting Standard for Lease Transactions 22,34,35,37,45,46) Lease assets and lease liabilities for finance leases are measured as follows:</p> <p>&lt;If the lessor's purchase price is clear&gt; Transfer of ownership: lessor's purchase price No transfer of ownership: the lower of the lessor's purchase price and the present value of the minimum lease payments (including the residual value of the asset)</p> <p>&lt;If the lessor's purchase price is unclear&gt; The lower of the present value of lease payments (including the value of any rights to purchase the asset at a discount) and the lessee's estimated cash purchase price.</p> <p>For non-ownership transfer finance leases, if the total amount of leased assets is immaterial, an entity may select the method of not deducting interest related to lease liabilities from the total amount of lease payments or the method of allocating the interests to each period by the straight-line method.</p>	<p>(IFRS 16.23, 26) At the commencement date, a lessee measures the right-of-use asset at cost and measures the lease liability at the present value of the lease payments.</p>
Variable lease payments	<p>(Implementation Guidance on Accounting Standard for Lease Transactions 89,90) There are no specific rules, so an entity accounts for variable lease payments according to the substance of the transaction.</p>	<p>(IFRS 16.27(b), 28, 38, 70(b)) Variable lease payments that depend on an index or a rate are included in lease liabilities. Any other variable lease payments are recognized as profit (for lessor) or loss (for lessee) when they occur.</p>
Purchase options	<p>(Implementation Guidance on Accounting Standard for Lease Transactions 10(2),37(2)) The exercise price of a bargain purchase option if the lessee is reasonably certain to exercise that option is included in the lease liability.</p> <p>In this case, the lease is a non-ownership transfer finance lease.</p>	<p>(IFRS 16.27) The exercise price of a purchase option if the lessee is reasonably certain to exercise that option is included in the lease liability.</p>

	JGAAP	IFRS
Lessor accounting for finance leases – insignificant transactions	<p>(Implementation Guidance on Accounting Standard for Lease Transactions 51, 53, 59, 60, 61) An entity shall account for a finance lease transaction as an ordinary sales transaction.</p> <p>It is permitted to select one method from the following three methods and apply it continuously:</p> <ul style="list-style-type: none"> <li>▪ Recognize sale and cost of sale at the commencement date</li> <li>▪ Recognize sale and cost of sale when lease payments are received</li> <li>▪ Do not recognize a sale but allocate interest to each period</li> </ul> <p>In principle, interest is allocated to each period using the interest method.</p> <p>Where a lease does not transfer ownership and is insignificant to the lessor, it is possible to allocate the interest receivable on a straight-line basis over the lease term.</p>	<p>(IFRS 16.67-76, Appendix A) A lessor recognizes lease receivables at the commencement date.</p> <p>The lease receivables include the sum of the present value (net investment in the lease) of lease payments discounted using the interest rate implicit in the lease and any unguaranteed residual value. Initial direct costs incurred by a lessor are included in the net investment in the lease, except for manufacturer or dealer lessors.</p> <p>The recognition of finance income shall be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.</p> <p>There is no explicit guidance for insignificant leases as in JGAAP.</p>
Measurement of the right of use assets after recognition for the lessee	<p>(Accounting Standard for Lease Transactions 12,39) The depreciation policy for assets under finance leases that transfer ownership shall be consistent with that for other depreciable assets that are owned.</p> <p>For assets under finance leases that do not transfer ownership, an entity may select a different depreciation method from that of depreciable assets that are owned to reflect the substance of the entity.</p>	<p>(IFRS 16.30-35) A lessee measures right of use assets by the following methods:</p> <ul style="list-style-type: none"> <li>▪ Cost model (refer to IAS16)</li> <li>▪ Revaluation model (refer to IAS 16)</li> </ul> <p>or</p> <ul style="list-style-type: none"> <li>▪ Fair value model (refer to IAS 40)</li> </ul>

	JGAAP	IFRS
Depreciation term	<p>(Accounting Standard for Lease Transactions 12, Implementation Guidance on Accounting Standard for Lease Transactions 27, 42)</p> <p>Finance leases which do not transfer ownership: lease term (adding to the term of re-lease if the lease term includes re-lease term).</p> <p>Finance leases which transfer ownership: expected economically usable term.</p>	<p>(IFRS 16.32)</p> <p>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 lessee shall depreciate the right-of-use asset from commencement date to the end of the useful life of the underlying asset.</p> <p>Otherwise, the lessee shall depreciate the right-of-use asset 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.</p>
Leases of land and buildings	<p>(Implementation Guidance on Accounting Standard for Lease Transactions 10, 19, 20, 98, 99, 100)</p> <p>For leases of land and buildings, lease payments are allocated between the land and the buildings based on a method that reflects the substance, with three methods permitted, then judgment is made as to whether the present value of each asset meets the criteria for finance leases or not.</p> <p>If an entity cannot determine the payments for land easily, then it may judge whether the present value meets the criteria on an aggregate basis.</p> <p>Land is classified as an operating lease unless ownership is transferred or a right, which is certain, to purchase at a discount exists.</p>	<p>(IFRS 16.13-17, B32, B55-B57)</p> <p>To classify a lease of land and buildings, the consideration in the contract is allocated between the land and the buildings elements in proportion to their relative fair values at the inception of the lease.</p> <p>A lessee may elect, by class of underlying asset, to account for each lease component and any associated non-lease components as a single lease component (the simple method). The practical expedient is not available to a lessor.</p> <p>If the lease payments cannot be allocated reliably between the two elements, the entire lease is classified as a finance lease, unless it is clear that both elements are operating leases.</p> <p>It is not necessary to classify whether a lease is a finance lease or an operating lease if both land and buildings are accounted as investment properties measured using the fair value model.</p> <p>Note: land may be classified as a finance lease in cases such as where the lease contract does not include the transfer of ownership but the lease term is say 999 years.</p>

	JGAAP	IFRS
Consideration included in lease contracts (administrative costs)	<p>(Implementation Guidance on Accounting Standard for Lease Transactions 14,25,40,54,64)</p> <p>Administrative costs, for example, property tax and insurance costs, are deducted from the total amount of lease liabilities in determining the classification of a lease and accounting for a lease transaction.</p> <p>If the portion of these costs within the total lease amount is insignificant, it may be included in the total amount of lease payments.</p>	<p>(IFRS 16.B33)</p> <p>Certain administrative costs incurred associated with a lease, that do not transfer a good or service to the lessee, are included in the lease considerations.</p>
Divide consideration into lease component and non-lease components	<p>(Implementation Guidance on Accounting Standard for Lease Transactions 14,26,41,55,65)</p> <p>Service fees (for example, maintenance fees) included in consideration are treated in the same way as administrative costs above.</p>	<p>(IFRS 16.12-17)</p> <p>A lessee shall account for each lease component within the contract as a lease separately from non-lease components of the contract unless the entity applies the practical expedient in paragraph 15.</p>
Operating leases (lessor)	<p>There are no specific rules.</p> <p>A lessor accounts for operating lease contracts in a similar way to ordinary lease accounting, for example, by accounting for the transaction when payments are due.</p>	<p>(IFRS 16.81)</p> <p>A lessor shall recognize lease payments from operating leases as income on a straight-line basis unless another systematic basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.</p>
Lease incentives	<p>There are no specific rules.</p> <p>Practically, each contractual payment is recognized as expense or income in each period.</p>	<p>(IFRS 16 Appendix A)</p> <p>Lease incentives are deducted from fixed lease payments.</p>
Accounting for sale and leaseback transactions	<p>(Implementation Guidance on Accounting Standard for Lease Transactions 49, 69)</p> <p>For sale and leaseback transactions, it is important to determine whether the sale and leaseback transactions are finance leases, based on the guidance on finance leases.</p> <p>If the sale and leaseback transaction is a finance lease, the lessee shall defer the gain or loss on the sale and then reverse the deferred gain or</p>	<p>(IFRS 16.98-103)</p> <p>For sale and leaseback transactions, it is important to assess whether the transfer of an asset by the seller-lessee satisfies the requirements of IFRS 15 to be accounted for as a sale of the asset.</p> <p>The seller-lessee shall measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the</p>

	JGAAP	IFRS
	<p>loss in proportion to the depreciation expense of the leased asset to offset the depreciation expense.</p> <p>However, if it is clear that a loss on sale was due to the rationally estimated market value of the property being less than its carrying amount, a loss on sale is recognized at the time of sale.</p> <p>Although there are no specific rules if a sale and leaseback transaction is an operating lease, it is generally considered that the difference between the selling price and the carrying value is immediately recognized as a gain or loss at the time of sale.</p> <p>For sale and leaseback transactions regarding real estate through special purpose companies, Accounting System Committee Report No. 15 "Accounting Guidance for Transferor Related to Liquidation of Real Estate Utilizing Special-Purpose Companies" stipulates the accounting.</p>	<p>asset that relates to the right of use retained by the seller-lessee.</p> <p>The seller-lessee shall recognize only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor.</p> <p>(Amendment to IFRS 16: IFRS 16.102A)</p> <p>There is no clear guidance for subsequent measurements of lease liabilities in sale and lease back transactions under IFRS16. This amendment to IFRS16 makes it clear in which after the commencement date in a sale and leaseback transaction, the seller-lessee applies paragraphs 29 to 35 of IFRS 16 to the right-of-use asset arising from the leaseback and paragraphs 36 to 46 of IFRS 16 to the lease liability arising from the leaseback.</p> <p>The amendment does not prescribe specific measurement requirements for lease liabilities arising from a leaseback. The initial measurement of the lease liability arising from a leaseback may result in a seller-lessee determining 'lease payments' that are different from the general definition of lease payments in Appendix A of IFRS 16.</p> <p>The seller-lessee will need to develop and apply its accounting policy that results in information that is relevant and reliable in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.</p> <p>A seller-lessee applies the amendment to annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted and that it must be disclosed.</p>

	JGAAP	IFRS
Sublease accounting	<p>(Implementation Guidance on Accounting Standard for Lease Transactions 47)</p> <p>If the same property as the property for a head lease is subleased under almost the same conditions as that of the head lease contract, and both the head lease and sublease are finance leases, the lease receivable (or lease investment asset) and the lease obligation are presented on the balance sheet.</p> <p>In principle, lease receivables (or lease investment assets) and lease obligations are measured at the amounts after deduction of interest, but they can also be measured at the amount before deduction of interest equivalent.</p> <p>In addition, it is permitted not to recognize interest expense, sales, or cost of sales, but to allocate the difference between the total lease payments received as a lessor and the total lease payments paid as a lessee to each period in the income statement, this is presented as "sublease gain".</p>	<p>(IFRS 16.B58)</p> <p>In classifying a sublease, an intermediate lessor shall classify the sublease as a finance lease or an operating lease by reference to the right-of-use asset.</p> <p>There are no specific requirements for sublease, so other IFRS standards are applied for sublease presentation.</p> <p>When considering the off-set of right-of-use assets and lease liabilities, an entity shall apply the requirements of IAS32, and for off-setting lease income and lease expense, an entity applies the requirements of IAS1. If these criteria for off-setting are not met, they cannot be off-set.</p>
Portfolio approach	There are no specific rules.	<p>(IFRS 16.B1)</p> <p>An entity may account for a portfolio of leases with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying IFRS16 to the portfolio would not differ materially from that of applying the standard to the individual leases within that portfolio.</p>
Reassessment of the lease liabilities	There are no specific rules.	<p>(IFRS 16.20, 21, 39-43)</p> <p>It is necessary to reassess the lease term when certain events occur.</p> <p>An entity shall reassess the lease liability when the entity changes its estimate of the lease term and residual value guarantees</p>



	JGAAP	IFRS
Lease modifications	<p>There are no specific rules.</p> <p>However, re-lease payments are principally recognized as an expense or income when the payments are made if the re-lease period is not included in the useful life. (Implementation Guidance on Accounting Standard for Lease Transactions 29,57)</p>	<p>(IFRS 16.11, 44-46, 79-80, 87)</p> <p>An entity determines whether the modified contract contains a lease and if it is a separate lease when the lease contract is modified.</p> <p>An entity accounts for a modified lease as a new lease when an operating lease is modified, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.</p>
Practical relief for rent concessions	<p>There are no specific rules.</p>	<p>(IFRS 16.46A, 46B, BC205E, C1A)</p> <p>As a practical expedient, a lessee may elect not to assess whether a COVID-19 related lease concession from a lessor is a lease modification.</p> <p>The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions described in IFRS 16 paragraph 46B are met:</p> <ul style="list-style-type: none"> <li>▪ The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.</li> <li>▪ Any reduction in lease payments affects only payments originally due on or before 30 June 2022 (for example, a rent concession would meet this condition if it results in reduced lease payments before 30 June 2022 and increased lease payments that extend beyond 30 June 2022).</li> <li>▪ There is no substantive change to other terms and conditions of the lease.</li> </ul>

# 13. Financial Instruments

## ► Significant differences

	JGAAP	IFRS
Initial Measurement: Contracts for the sale and purchase of non-financial items	<p>(Practical Guidance on Accounting Standard for Financial Instruments 6, 20, 218) (hereafter “Practical Guidance”)</p> <p>If a contract requires or allows net settlement, if net settlement can be carried out easily through a mechanism outside the contract, or if the recipient is effectively in the same position as if net settlement takes place even though the asset will be delivered, the contract is accounted for as a financial instrument.</p> <p>However, contracts that are not held for trading purposes and for which it is clear from inception that physical delivery will take place and are for purchases, sales or own use, are not treated as financial instruments.</p>	<p>(IFRS 9.2.4-2.7, IFRS 9(2026).2.8)</p> <p>IFRS 9 is applied to contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments, with the exception of contracts that were entered into for own use (ordinary purchases, sales or usage requirements and which continue to be held for such purposes).</p> <p>There is detailed guidance as to the meaning of “net settlement”.</p> <p>From the fiscal year beginning on or after January 1, 2026 (with early adoption permitted), exceptional treatment is provided for the assessment of the exception provisions related to the own use of nature-dependent electricity transactions.</p> <p>However, even when a contract is for own use, if it would eliminate or significantly reduce an “accounting mismatch”, a contract may be designated as measured at fair value through profit or loss, at inception.</p>

	JGAAP	IFRS
Loan commitments	<p>(Practical Guidance 139)</p> <p>Financial institutions as lenders are required to disclose that they have contracts that allow overdrafts (including any similar contracts) and loan commitments. The amounts, after deducting the amount already drawn down, must also be disclosed.</p>	<p>(IFRS 9.2.1(g), 2.3,4.2.1(d), 6.7.1)</p> <p>The following loan commitments are measured at fair value at the inception of the contract and are recognized as financial liabilities:</p> <ul style="list-style-type: none"> <li>▪ Loan commitments that are designated as fair value through profit or loss (FVPL) when the entity uses the fair value option</li> <li>▪ Loan commitments that can be net settled (such loan commitments meet the definition of derivatives)</li> <li>▪ Commitments to provide a loan at below-market interest rate</li> </ul>
Financial guarantee contracts	<p>(Practical Guidance 137)</p> <p>Financial guarantee contracts, excluding those which arise on the extinguishment of financial assets or liabilities, are not measured at fair value but are accounted for as provisions for loss on financial guarantees where they meet the definition of provisions.</p> <p>When financial guarantees are given to third parties, Japanese banks and other financial institutions record both the related contingent liability (shiharaishoudaku account) and the corresponding receivable from a customer (shiharaishoudaku migaeshi account) on their balance sheets.</p>	<p>(IFRS 9.4.2.1(c), 5.1.1 section 5.5 impairment)</p> <p>Financial guarantee contracts, to which IFRS 17 Insurance Contracts is not applied, are accounted for within the impairment rules of IFRS 9. After initial recognition at fair value, they are measured at the higher of the amount of the loss allowance in accordance with section 5.5 of IFRS 9 and the amount initially recognized less any cumulative amount of income recognized in accordance with IFRS 15 Revenue from Contracts with Customers.</p>

	JGAAP	IFRS
Day one gains and losses	<p>(Practical Guidance 29) Financial assets and liabilities are recognized initially at fair value (there is no specific guidance that deals with Day1 Profit &amp; Loss).</p>	<p>(IFRS 9.B5.1.2A / IFRS 13.57-59, B4, Appendix A) When the fair value at initial recognition differs from the transaction price, the financial assets or liabilities are accounted for as follows:</p> <ul style="list-style-type: none"> <li>▪ Shall recognize the difference between the fair value at initial recognition and the transaction price as a gain or loss if that fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets.</li> <li>▪ In all other cases, at the measurement required by IFRS9.5.1.1, adjustments are made to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the entity shall recognize that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.</li> </ul>
Inclusion of transaction costs in acquisition cost	<p>(Practical Guidance 29, 56) The related costs of the acquisition of a financial asset, except for derivatives, are included in the acquisition cost.</p> <p>However, costs that arise regularly and which are not clearly related to the cost of each financial asset may be excluded from the acquisition cost.</p>	<p>(IFRS 9.5.1.1) For financial assets and liabilities not at fair value through profit or loss, transaction costs that are directly attributable are included in the acquisition cost.</p> <p>Transaction costs are not included in the acquisition cost of financial assets and liabilities at fair value through profit or loss and are expensed immediately.</p>

	JGAAP	IFRS
Subsequent measurement of financial assets (refer also to "Classification of financial assets" below)	(Accounting Standard for Financial Instruments 14-22) Receivables and securities are separately recognized. In principle, only securities are classified into the financial instrument categories.	(IFRS 9.4.1.1) Financial assets are classified as: <ul style="list-style-type: none"> <li>▪ Subsequently measured at amortized cost</li> <li>▪ Fair value through other comprehensive income (FVOCI)</li> </ul> or <ul style="list-style-type: none"> <li>▪ Fair value through profit or loss (FVPL)</li> </ul>
The fair value of non-interest bearing or off-market interest loans or receivables	(Practical Guidance 29) Financial assets are initially measured at fair value.	(IFRS 9.B5.1.1, B5.1.2) The fair value of a loan or receivable that carries no interest or which has an off-market interest rate can be estimated, for example, as the present value of all future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument with a similar credit rating.  Any difference arising on initial recognition is accounted for considering its substance.
Scope of fair value measurement	(Practical Guidance on Accounting Standard for Financial Instruments 19) Except for securities that do not have a quoted market price in an active market, fair value measurement is necessary.	(IFRS 9.5.2.1, 7.2.12, 7.2.13) Under IFRS 9, the exception to fair value measurement in IAS 39 for when an unquoted investment cannot be measured reliably does not exist. It is necessary in all cases to establish a fair value when measurement at fair value is stipulated in IFRS 9.

	JGAAP	IFRS
Regular way purchases or sales of financial assets  Settlement of financial liabilities using an electronic payment system	<p>(Practical Guidance on Accounting Standard for Financial Instruments 22,26) For contracts to buy and sell securities, if the period between trade date and settlement date is normal in accordance with the market rules or practices, the buyer recognizes the marketable securities and the seller derecognizes the marketable securities on the trade date.</p> <p>However, for each category of investment (based on the purpose of possession), it is permitted for the buyer to recognize only the market movement between the trade date and settlement date, and for the seller to recognize only the gain or loss on sale at the trade date.</p> <p>Loans receivable and loans payable are recognized when the loan is made and are derecognized when repayment is made.</p>	<p>(IFRS 9.3.1.2) Regular way purchases or sales of financial assets are recognized and derecognized, as applicable, using trade date accounting or settlement date accounting. The method is selected as an accounting policy choice.</p> <p>(IFRS 9(2026).B3.3.8-B3.3.9 From the fiscal year beginning on or after January 1, 2026 (with early adoption permitted), an entity may derecognize financial liabilities settled using an electronic transfer system before the settlement date, if the following conditions are met: (a) the entity has no practical ability to withdraw, stop or cancel the payment instruction; (b) the entity has no practical ability to access the cash to be used for settlement as a result of the payment instruction; and (c) the settlement risk associated with the electronic payment system is insignificant.</p>
Derecognition of financial assets	<p>(Accounting Standard for Financial Instruments 8-9, 11-12, 56-58) Financial assets are derecognized based on the "financial component" approach.</p>	<p>(IFRS 9.3.2.6, 5.4.4, B3.2.1) Financial assets are derecognized based on a composite approach which includes the economic risks and rewards and the control approaches. An entity shall directly reduce (write-off) the gross carrying amount of a financial asset when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. A write-off constitutes a derecognition event.</p>

	JGAAP	IFRS
Recognition of new financial assets or financial liabilities resulting from the transfer of existing financial assets	<p>(Practical Guidance on Accounting Standard for Financial Instruments 37,39)</p> <p>A financial asset or financial liability that is obtained as a result of the entity transferring an existing financial asset is recognized at market value. Assets or liabilities representing the cash collection and remittance services are recognized as the difference between the actual service income to be received and the amount an entity could have normally expected to receive for such services.</p>	<p>(IFRS 9.3.2.11)</p> <p>As a result of the entity derecognizing a financial asset on transfer, any new financial asset obtained or new financial liability assumed, or any servicing liability assumed, shall be recognized at fair value.</p>
Exchange of financial liabilities and alteration of conditions	<p>There are no specific rules.</p>	<p>(IFRS 9.3.3.2, B3.3.6, B5.4.6, IFRIC AD 2012/09)</p> <p>An exchange between an existing borrower and lender of debt instruments with substantially different terms, or a substantial modification of the terms of an existing financial liability (or a part of it), shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.</p> <p>If the exchange or modification is not substantial enough to result in the extinguishment, an entity shall adjust the gross carrying amount of the financial asset or amortized cost of a financial liability to reflect actual and revised estimated contractual cash flows, by recalculating the gross carrying amount of the financial asset or amortized cost of the financial liability as the present value of the estimated future contractual cash flows that are discounted at the financial instrument's original effective interest rate, with the adjustment being recognized in profit or loss as income or expense.</p> <p>The exchange of financial assets or alteration of conditions is treated in the same way as liabilities in principle (IFRIC AD 2012/09).</p>

	JGAAP	IFRS
Other financial liabilities	<p>(Accounting Standard for Financial Instruments 26, Practical Guidance on Accounting Standard for Financial Instruments 126)</p> <p>Except for a net liability on a derivative contract, financial liabilities are not measured at fair value.</p> <p>Financial liabilities are recorded on the balance sheet at the amount of the face value of the debt. However, where the amount on which income is based and the amount of the face value of the debt are different, financial liabilities must be measured at amortized cost.</p>	<p>(IFRS 9.4.2.1-2)</p> <p>After initial recognition, an entity shall measure all financial liabilities at amortized cost using the effective interest method except for financial liabilities at fair value through profit or loss.</p>



	JGAAP	IFRS
Classification of financial assets	<p>(Accounting Standard for Financial Instruments 14-18, Practical Guidance on Accounting Standard for Financial Instruments 83)</p> <p>Financial assets are classified either as receivables or securities.</p> <p>Securities are further classified as follows:</p> <ul style="list-style-type: none"> <li>▪ Securities held for trading</li> <li>▪ Debt securities held to maturity</li> <li>▪ Shares in subsidiaries and associates</li> <li>or</li> <li>▪ Other marketable securities</li> </ul> <p>The classification is designated on an instrument-by-instrument basis.</p> <p>When an entity subsequently re-classifies a part of the debt securities initially classified as held to maturity category into other categories (securities held for trading, other marketable securities or sells them before maturity, all other debt securities that are classified as held to maturity shall also be reclassified into either held for trading or other marketable securities.</p>	<p>(IFRS 9.4.1.1 - 4.1.5, 5.2.1, 5.7.5, 5.7.6, BC5.21)</p> <p>Debt instruments (bonds, loans receivable, etc.)</p> <p>Based on the “business model” test and the “contractual cash flow characteristics” test, debt instruments are divided into the following three categories:</p> <ul style="list-style-type: none"> <li>▪ Amortized cost: held within a business model to collect contractual cash flows, and where the “contractual cash flow characteristics” test is met</li> <li>▪ Fair value through other comprehensive income (FVOCI) (with recycling): held within a business model to collect contractual cash flows and sell financial assets, and where the “contractual cash flow characteristics” test is met</li> <li>or</li> <li>▪ Those that do not correspond to any of the above: measured at FVPL.</li> </ul> <p>Despite being eligible for the amortized cost or FVOCI categories, an entity can make an irrevocable election at initial recognition for subsequent measurement at FVPL under certain conditions.</p> <p>Equity instruments</p> <p>On initial recognition, an equity instrument, which is not held for trading, can be designated as subsequently measured at FVOCI (no recycling). In all other cases, they are subsequently measured at FVPL.</p> <p>Derivatives</p> <p>In all cases, accounted for at FVPL.</p>

	JGAAP	IFRS
Nature of contractual cash flow test (Concept of financial assets with characteristics of debt)	The approach of categorizing financial assets by classification type and the approach of considering the separation of embedded derivatives are in JGAAP. However, no requirements exist for a nature of contractual cash flows test approach.	<p>(IFRS 9.4.1.1(b), 4.1.2A(b) 4.1.3, B4.1.7-B4.1.14, B4.1.18-B4.1.19)</p> <p>Financial assets meet the conditions of the contractual cash flow characteristics test (SPPI -Solely payments of principal and interest-test) when it is judged that they 'give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding'.</p> <p>Here, the principal amount is the fair value of the financial asset at initial recognition which is reduced subsequently for repayments of principal (i.e., the fair value of assets purchased on a market; the discounted value of zero-coupon bonds).</p> <p>Interest consists of consideration for the time value of money, for the associated credit risk and for other basic lending risks (i.e., liquidity risk), and costs, as well as a profit margin.</p> <p>Contractual terms which introduce exposure to risks or volatility which are not related to a basic lending arrangement will in principal mean that the financial asset does not meet the SPPI test (i.e., links to share or commodity prices). If in each period and cumulatively the impact would be de minimis, the SPPI test may be met.</p>

	JGAAP	IFRS
Concept of financial assets with characteristics of debt/ business model test	There is no specific guidance.	<p>(IFRS9.4.1.1(a), 4.1.2(a), 4.1.1-B4.1.6)</p> <p>Financial assets which meet the contractual cash flow test (if not met they are FVPL) are classified depending on the way they are managed in the company's business model (by portfolio):</p> <ul style="list-style-type: none"> <li>▪ When held in order to collect contractual cash flows →amortized cost</li> <li>▪ When held in order to both collect contractual cash flows and to sell→FVOCI (recycling is possible)</li> <li>▪ When held for other than the above→FVPL</li> </ul> <p>When determining whether the objective of the business model is to collect (amortized cost) or to collect and to sell (FVOCI), if such treatment would give rise to an "accounting mismatch", the fair value option (FVO) can be used to classify the financial asset as FVPL.</p> <p>Classification judgment is not made at the level of each financial instrument but on a portfolio basis. The business model judgment is not based on management's intention but is a matter of fact. More specifically, this judgment is not based on one fact such as frequency or amounts of sales, but on factors that consider the operations and management, for example:</p> <ul style="list-style-type: none"> <li>▪ How performance is evaluated and reported to key management</li> <li>▪ The risks that affect performance and how those risks are managed</li> <li>▪ How the managers of the business are compensated</li> </ul>

	JGAAP	IFRS
Financial liabilities held for the trading purposes of trading and the fair value option	(Accounting Standard for Financial Instrument 26) Except for net liabilities resulting from derivatives, financial liabilities are not recognized at market value.	(IFRS 9.4.2.1, Appendix A) Financial liabilities held for trading purposes are categorized as FVPL.
Fair value option	There are no specific rules.	(IFRS 9.4.1.5, 4.2.2) <b>Financial assets</b> An entity can only, at initial recognition, irrevocably designate a financial asset as measured at FVPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.  <b>Financial liabilities and non-financial items</b> An entity may, at initial recognition, irrevocably designate a financial liability as measured at FVPL under certain conditions. However, unless doing so would create or enlarge a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch'), the change in the fair value of the financial liability that is attributable to the change in an entity's own credit risk must be accounted for as in OCI. Such OCI is prohibited from being reclassified to profit or loss.

	JGAAP	IFRS
Reclassification of financial instruments	<p>(Practical Guidance on Accounting Standard for Financial Instruments 80)</p> <p>The classification of securities (based on the purpose of possession holding) cannot be changed without a rational reason. Such a rational reason would be, for example, a change of operating policy or a similar specific circumstance.</p>	<p>(IFRS 9.4.4.1-2, 5.6.1, 5.6.7, B4.4.1-3)</p> <p>When, and only when, an entity changes its business model for managing financial assets, shall it reclassify all affected financial assets (debt instruments).</p> <p>A change in intention related to certain financial assets are not changes in business models even in circumstances of significant changes in market conditions. Similarly, the temporary disappearance of a particular market for financial assets or a transfer of financial assets between parts of the entity with different business models are not changes in business models.</p> <p>Reclassification resulting from a change in business model is accounted for on the first day of the entity's next reporting period.</p> <p>Equity instruments held and financial liabilities cannot be reclassified.</p>
Non-derivative equity instruments (see below for foreign exchange related issues)	<p>(Accounting Standard for Financial Instruments 18, Practical Guidance 59)</p> <p>An instrument is classified as other marketable securities if it doesn't meet the definition of either held for trading, held to maturity, or shares in subsidiaries and associates.</p> <p>For the subsequent measurement of other marketable securities that are in principle measured at fair value based on a quoted market price in an active market at the end of the reporting period, the valuation differences are recognized by one of the following methods:</p> <ul style="list-style-type: none"> <li>▸ The total amount is directly recorded as part of net assets (not through P&amp;L).</li> <li>▸ Valuation gains, where the market value exceeds acquisition cost, are recognized as a part of net assets. Valuation losses, where the market value is below acquisition cost, are recognized as a loss in the current period.</li> </ul>	<p>(IFRS 9.5.7.5- 5.7.6)</p> <p>Only at initial recognition, an entity may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument. All other equity instruments are accounted for under FVPL.</p> <p>If the entity makes the election at initial recognition to measure certain eligible equity instruments at FVOCI, only dividend income on those investments is recorded in profit or loss. All other changes (including foreign exchange) are recorded in equity and are not subsequently reclassified to profit or loss.</p>

	JGAAP	IFRS
Foreign exchange gains and losses on foreign currency denominated financial assets	<p>(Practical Guidance on Accounting Standard for Financial Instruments 16) For foreign currency-denominated "other marketable securities," any foreign currency translation differences arising on the cost or amortized cost amount are treated in the same way as valuation differences.</p> <p>However, for foreign currency-denominated bonds, differences arising from changes in market value in the foreign currency can be treated as valuation differences, and other differences can be treated as foreign exchange gains or losses.</p>	<p>(IFRS 9.6.5.2) Foreign exchange gains and losses on monetary assets and monetary liabilities are to be recognized in profit or loss.</p> <p>Exchange differences arising on an equity instrument classified as FVOCI and denominated in a foreign currency are recognized through OCI.</p>
Amortisation and the effective interest rate method	<p>(Accounting Standard for Financial Instruments Note 9, Practical Guidance on Accounting Standard for Financial Instruments 70, 74 119, Q&amp;As related to financial instruments Q25) Amortization is based on the effective interest rate method in principle; however, the straight-line method is also allowed for convenience, providing it is applied consistently. An entity applies effective interest rate method to only the parts that are considered to be adjustments to the contractual interests of the differences between the acquisition cost and the nominal amount. The differences after impairment are no longer considered to be such kind of adjustments. For held to maturity and other securities, the amortization method takes into account the interest amount only (effective interest rate method).</p> <p>For past due receivables (usually six months to one year), bankruptcy and similar receivables, interest cannot be accrued.</p>	<p>(IFRS 9.5.2.1, 9.5.4.1-2, B5.4.1-8) Normally, the effective interest rate (EIR) method is applied. After impairment is recognized, the amortized cost method continues. The EIR method takes into account all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, as well as all other premiums or discounts and incurred losses.</p>

	JGAAP	IFRS
Investments in unlisted equities (shares with no market value)	<p>(Accounting Standard for Financial Instruments 19, Practical Guidance 92)</p> <p>For shares without observable market prices, measurement at cost is allowed. When the value in substance decreases dramatically for such shares, the carrying amount shall be reduced to the in-substance value and the loss shall be accounted for through profit or loss.</p>	<p>(IFRS 9.5.2.1, B5.2.3 - B5.2.6)</p> <p>The exemption which had been in IAS 39 to measure at cost has been abolished and all investments in equity instruments must be measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value. There is guidance in the standard as to when that would not be appropriate.</p>
Separation of bad debts allowances and impairment	<p>(Accounting Standard for Financial Instruments 20-21, 27-28)</p> <p>Impairment of financial instruments is considered separately based on the following two categories: estimated bad debts on receivables and impairments of securities.</p>	<p>(IFRS 9.5.2.2, 5.5.1-2)</p> <p>A single approach is applied to recognize expected credit losses, allowances for expected credit losses for financial assets that are debt instruments measured at amortized cost, debt instruments classified as FVOCI, lease receivables, contract assets (under IFRS 15), certain loan commitment and financial guarantee contracts.</p>

	JGAAP	IFRS
Bad debt allowances and impairment (debt and equity securities)	<p>(Accounting Standard for Financial Instruments 91-92)</p> <p>For securities, where the fair value decreases dramatically (unless there is a possibility of recovery), the carrying value of those financial assets is reduced to fair value (market value), and the related loss is recognized in profit or loss. Approximately a 50% decrease (rather than 30%) is considered as a threshold of the “dramatic” decrease.</p> <p>For equity securities without observable market prices, if the value in substance decreases dramatically, the carrying amount shall be reduced to the in-substance value and the loss shall be accounted for through profit or loss (when the Net Asset Value per Share divided by the number of shares held decreases by 50% or more).</p>	<p>(IFRS 9.5.5.1 – 5.5.8, 5.4.1)</p> <p><b>Debt instruments</b></p> <p>For all instruments within the scope of the loss allowance recognition rules as discussed above (including debt instruments measured at amortized cost), with the exception of purchased or originated credit-impaired financial assets (e.g., bad debts), the entity recognizes a loss allowance based on 12-month expected credit losses (ECL) (Stage 1).</p> <p>If the credit risk on the financial instrument has increased significantly since initial recognition, the entity measures the loss allowance at an amount equal to the lifetime ECL (Stage 2).</p> <p><b>Recognition of interest income</b></p> <p>Until objective evidence of impairment occurs (i.e., Stages 1 and 2 above), interest income is calculated on the gross carrying amount by applying EIR. However, when there is objective evidence of impairment (Stage 3), interest income is calculated by applying the EIR to the amortized cost amount on a net basis (i.e., gross carrying amount after deducting the impairment allowance).</p> <p><b>Equity instruments</b></p> <p>As non-derivative equity instruments are measured at either FVPL or FVOCI (no recycling), there are no issues concerning impairment.</p>



	JGAAP	IFRS
Impairment of loans and receivables	<p>(Accounting Standard for Financial Instruments 27, 28)  Bad debt allowances are estimated differently depending on the category of financial asset, as follows:</p> <p>General receivables:  Calculated based on the historical rates of doubtful debts and reasonable assumptions.</p> <p>Receivables with risk of default:  Depending on the situation of the receivable, either of the following methods is applied consistently:</p> <ul style="list-style-type: none"> <li>▪ Calculation of the doubtful debt amount, based on the irrecoverable balance remaining after reducing it by the amount expected to be collected from collateral and similar items</li> <li>▪ Estimation of the amount of doubtful debts as the difference between the present value of future cash flows and carrying amount</li> </ul> <p>Bankrupt, delinquent, and doubtful receivables:  The estimated doubtful debt amount is the irrecoverable amount remaining after deduction of amounts expected to be collected through realization of collateral.</p>	<p>(IFRS 9.5.5.15, 5.5.16)  For the following instruments, application of the simplified approach is either required or applied as an accounting policy choice. Application of the simplified approach means that the entity shall always measure the loss allowance at an amount equal to lifetime expected credit losses.</p> <ul style="list-style-type: none"> <li>▪ Trade receivables or contract assets that result from transactions within the scope of IFRS 15 and do not contain a significant financing component - the simplified approach is required.</li> <li>▪ Trade receivables or contract assets that result from transactions within the scope of IFRS 15 and contain a significant financing component, as well as lease receivables (including amounts due over one year) - the simplified approach may be applied as an accounting policy choice.</li> </ul>
Impairment reversals	<p>(Practical Guidance on Accounting Standard for Financial Instruments 125, Implementation Guidance on Accounting Standard for Quarterly Financial Reporting 4)  Impairments of debt securities held to maturity, investments in subsidiaries and associates, and other marketable securities must not be reversed.  (Note: as an accounting policy choice, securities may be remeasured quarterly).</p>	<p>(IFRS 9.5.4.1-2, B5.7.1-4)  For debt instruments within the scope of the loss allowance recognition rules (as discussed above), if the loss allowance was measured at an amount equal to lifetime expected credit losses in the previous period, but there is objective evidence that the credit quality has improved such that there is no longer a significant increase in credit risk since initial recognition, then the entity reverts to recognizing a loss allowance based on 12-month expected losses in the current period. In this case, a reversal of impairment is therefore required.</p> <p>For equity instruments, the consideration of impairment or impairment reversal is not relevant as fair value measurement is used.</p>

	JGAAP	IFRS
Purchased or originated credit-impaired financial assets exception	<p>(Practical Guidance 105) Debt instruments that were purchased for an amount that differs from the maturity amount discounted by the interest rate, are recognized in the balance sheet at purchase cost and the difference between this amount and the amount at maturity is amortized.</p> <p>The discount rate is that which matches the purchase cost and net present value (effective interest rate). Cash payments of principal from the debtor and interest income are separately recognized (this is in principle on an effective interest rate method however in some cases, a straight-line method is possible).</p> <p>Note: if the purchase cost of the debt instrument is less than the amount of the debt after reflecting the credit risk of the issuer, amortization is carried after adjusting the future cash flows rationally for the credit risk difference.</p>	<p>(IFRS 9.5.4.1-5.4.2, 5.5.13-5.5.14) Initially expected credit losses are included when calculating the credit-adjusted effective interest rate for financial assets that are considered to be purchased or originated credit-impaired (for debt instruments that were not initially recognized based on 12-month expected losses). Each period, the change in expected lifetime credit losses is recognized as a gain or loss and cumulative changes in lifetime expected credit losses are recognized as loss allowance.</p>
Classification of financial liabilities and equity instruments	There is no comprehensive standard dealing with the classification of debt and equity.	<p>(IAS 32.11, 16A-16D, 15, 18) IAS 32 deals comprehensively with the classification of equity and liabilities. Classification is determined based on the substance of the contract and definitions of a financial liability (asset) and equity.</p>
Convertible bonds - accounting by the issuer	<p>(Accounting Standard for Financial Instruments 36, Implementation Guidance on Corporate Accounting Standards No. 18) Either of two methods may be used:</p> <ol style="list-style-type: none"> <li>1. Record the bond as a single amount without separation or</li> <li>2. Separate the bond as a liability and recognize the share rights as equity as a portion of the consideration received</li> </ol>	<p>(IAS 32.15, 28, 31) After evaluating the terms of the contract, a financial instrument is classified as debt or equity, or a combination thereof, according to the substance of the contract.</p>

	JGAAP	IFRS
Financial liability issue costs	<p>(Interim Treatment relating to the Accounting for Deferred Tax Assets 3 (2))</p> <p>In principle, issue costs are accounted for as non-operating expenses.</p> <p>However, such costs can be accounted for as deferred assets and may be amortized throughout the bond redemption period using the interest method, or by using a straight-line method provided that method is applied consistently.</p>	<p>(IAS 32.35, IFRS 9 Appendix A)</p> <p>Bond issue costs are recognized by including them in the effective rate of interest, and as such, they are amortized as interest.</p>
Costs related to equity transactions (including exchanges of shares and similar)	<p>(Accounting Standard Treasury Shares and Reversals of Legal Reserves 14)</p> <p>(Tentative Treatment relating to the Accounting for Deferred Tax Assets 3 (1))</p> <p>Costs related to the acquisition, disposal, or extinguishment of treasury stock are accounted for as non-operating expenses.</p> <p>Costs related to share issues as part of financial activities to enlarge the business (including share exchanges as part of a reorganization) should be accounted as deferred assets and amortized using the straight-line method within three years from the day of the transaction.</p>	<p>(IAS 32.35, 35A, 37)</p> <p>Transaction costs of issuing or acquiring an entity's own equity are accounted for as a deduction from equity, net of any related income tax benefit. Income tax on equity transactions is treated in accordance with IAS 12.</p>
Recognition of dividends receivable – timing	<p>(Practical Guidance 94)</p> <p>Shares with a quoted market price: Dividends are recognized estimated at the ex-dividend date based on the previous dividend or the announced expected dividend amount. However, it is possible to consistently apply the method for shares without a quoted market price, as noted below.</p> <p>Shares without a quoted market price: Dividends are recognized when the decision is effective based on approval by the authorized body such as the shareholders' meeting, the board of directors or another body with the right to decide dividends. However, it is possible to consistently apply the method of recognizing a dividend in the period when received after the effective decision date when payment is made under usual terms.</p>	<p>(IFRS 9.5.7.1A, 5.7.6)</p> <p>Dividends are recognized in profit and loss only when all of the below criteria are met:</p> <ul style="list-style-type: none"> <li>a) The right to receive payment is established</li> <li>b) It is probable that the economic benefit will flow to the company; and</li> <li>c) The amount can be measured reliably</li> </ul>

	JGAAP	IFRS
Derivatives – definition	<p>(Practical Guidance on Accounting Standard for Financial Instruments 6)</p> <p>A derivative is a financial instrument with the following characteristics:</p> <ul style="list-style-type: none"> <li>▪ The value of the rights or obligations respond to changes in an underlying variable and the contract has 1) an underlying variable; and 2) either a fixed nominal amount or determinable settlement amount, or both a fixed nominal amount and a determinable settlement amount.</li> <li>▪ There is no initial net investment or no significant net investment compared to that which would be required for other similar types of contracts that would have a similar response to changes in market conditions.</li> <li>▪ Net settlement (payment of the difference) of the contract is required or accepted; net settlement can be easily carried out separately to the contract; or even if physical settlement occurs, in substance it leaves the counterparty in no different position than if net settlement had occurred.</li> </ul>	<p>(IFRS 9 Appendix A)</p> <p>A derivative is a financial instrument or other contract with all three of the following characteristics:</p> <ul style="list-style-type: none"> <li>a) Its value changes in response to changes in an underlying variable (i.e., specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or another variable), provided, in the case of a non-financial variable, that the variable is not specific to a party to the contract.</li> <li>b) 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.</li> <li>c) It is settled at a future date.</li> </ul>

	JGAAP	IFRS
Embedded derivatives	<p>Guidance on (Accounting for Other Compound Financial Instruments (Compound Financial Instruments Other than Those with an Option to Increase Paid-in Capital)<sup>3,4</sup>)</p> <p>It is necessary to separate embedded derivatives if all of the following conditions are met:</p> <ul style="list-style-type: none"> <li>▪ It is possible that the financial asset or liability could be affected by the risks arising from the embedded derivative</li> <li>▪ A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative</li> <li>▪ The impact of changes in fair value is not reflected in profit and loss</li> </ul> <p>However, where embedded derivatives are separated for management purposes and certain conditions are met, they may be separated.</p>	<p>(IFRS 9.4.3.1- 4.3.7)</p> <p>An embedded derivative with a host contract that is a financial asset shall not be separated. Such embedded derivative is considered as part of the host contract's cash flow characteristic assessment and is measured at amortized cost, FVPL or FVOCI depending on the classification assessment of the entire contract.</p> <p>An embedded derivative with a host contract that is not an asset within the scope of IFRS 9 shall be separated from the host and accounted for as a derivative if, and only if:</p> <p>(a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host;</p> <p>(b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and</p> <p>(c) the hybrid contract is not measured at fair value with changes in fair value recognised in profit or loss (i.e., a derivative that is embedded in a financial liability at fair value through profit or loss is not separated).</p>
Hedge accounting	<p>(Accounting Standard for Financial Instruments 32, Accounting Standard for foreign currency and similar Note 13)</p> <p>As a general rule, profits, losses or valuation differences related to the hedging instrument are deferred as a part of net assets (equity).</p> <p>However, where an item of "other marketable securities" is the hedged item and the market fluctuations of the hedged item are recorded in profit or loss, fair value hedges are permitted. For example, hedges for holdings in foreign subsidiaries (net investment hedges) are permitted.</p>	<p>(IFRS 9.6.5.2)</p> <p>Three types of hedging relationships are as follows:</p> <ul style="list-style-type: none"> <li>▪ Fair value hedges: changes in fair value arising from exposures relating to the hedged item and changes in the fair value of the hedging item are both recognized in the profit and loss</li> <li>▪ Cash flow hedges: the effective portion of the changes in fair value of the hedging instrument is recognized in other comprehensive income</li> <li>▪ Hedges of a net investment in a foreign operation: the effective portion of the changes in fair value of the hedging instrument is recognized in other comprehensive income</li> </ul>

	JGAAP	IFRS
Hedged items	<p>(Implementation Guidance on Financial Instruments 162 (1)) There is no rule that distinguishes between financial and non-financial items.</p> <p>There is no rule for hedges of business combinations.</p> <p>For forecast transactions, it is necessary to consider the frequency of similar transactions in the past.</p>	<p>(IFRS 9.B6.3.8, B6.3.1, B6.5.2, IFRS 9(2026).6.10.1, 6.10.2) A risk component of a non-financial item may be a hedged item if the risk component is separately identifiable and changes are reliably measurable.</p> <p>The foreign currency risk of a firm commitment for a business combination can be a hedged item.</p> <p>Firm commitments or highly probable transactions can be hedged items, as long as they are with parties external to the reporting entity. If in the past, similar forecast transactions have not eventually taken place, this is taken into consideration when determined if the transaction qualifies as a hedged item.</p> <p>From the fiscal year beginning on or after January 1, 2026 (with early adoption permitted), an exception provision has been established for cash flow hedges of natural resource-dependent electricity regarding the variable quantity of forecasted transactions being hedged.</p>
Exposures affecting OCI	<p>(Implementation Guidance on Financial Instruments 160, Accounting Standard for Financial Instruments 32) For hedged exposures of other marketable securities recognized in OCI, it is possible to select either: deferred hedge accounting or fair value hedge accounting.</p> <p>Deferred hedge accounting is when gains or losses on the hedging instruments are deferred. They are recognized in profit and loss when the hedge item is extinguished. In other words, it is recycled from OCI to profit and loss.</p>	<p>(IFRS 9.6.5.3, 6.5.8) For hedged items that are equity instruments recorded as FVOCI, the hedged exposure must be one that could affect OCI. In that case, the changes in the hedging instrument are recognized in OCI and hedge ineffectiveness is also recognized in OCI. Cumulative gains and losses in OCI are not recycled.</p>

	JGAAP	IFRS
Ineffective portions of hedges	<p>(Implementation Guidance on Financial Instruments 172)</p> <p>If it is judged that, overall, the hedge is effective and hedge accounting conditions are met, deferred hedge accounting can also be used for any ineffective portion.</p> <p>When the ineffective portion of the hedge can be separately identified in a rational manner, it may be recognized in profit or loss in the period.</p>	<p>(IFRS 9.6.5.11)</p> <p>The ineffective portion of the gain or loss on the hedging instrument shall be recognized in profit or loss (this is particularly a matter for cash flow hedges).</p>
Measurement of the ineffective portions of hedges	<p>There is no specific guidance on using hypothetical derivatives or on how to treat basis risk on cross-currency swaps to measure hedge ineffectiveness.</p>	<p>(IFRS 9.B6.5.4, B6.5.5)</p> <p>The time value of money must be considered in measuring hedge ineffectiveness.</p> <p>A hypothetical derivative cannot be used to include features in the value of the hedged item that only exists in the hedging instrument.</p>

	JGAAP	IFRS
Layering	<p>(Implementation Guidance on Financial Instruments 150,151,153)</p> <p>A hedged item is designated from the risks in the assets or liabilities over the specified hedging period, and the recognized hedged item is matched to the hedging instrument.</p> <p>Hedges can be designated for only a portion of the amount of the hedged item, or a part of the period over which the hedged item will be held.</p> <p>Hedged items are in principle designated based on assets or liabilities on a single transaction basis. However, if the smallest unit of the hedging instrument in the market is bigger than the transaction asset or liability, or the intended reduction of transaction cost or credit risk is by department within an entity or an entity, then assets or liabilities with similar risks (for example variable rate interest) can be grouped together as hedged items (comprehensive hedges).</p> <p>Hedged items and hedging instruments are designated at the time of the transaction and must be separately identified until the hedge ends in order to measure hedge effectiveness and to record hedge losses. In principle, hedged items and hedging instruments are directly linked.</p>	<p>(IFRS 9.B6.3.18, B6.3.19)</p> <p>In a fair value hedge, a clearly specified part of a defined nominal amount in contract or a specified part of a population that is a defined specific layer may be designated as the hedged item.</p> <p>For example the first 100 barrels of the oil purchases in June 201X or the bottom layer of CU20 million of a CU100 million fixed-rate debt.</p> <p>If a layer component is designated in a fair value hedge, it must be specified from the defined nominal amount.</p> <p>Also, the hedged item must be remeasured for changes attributable to the hedged risk, the fair value hedge adjustment must be recognized in profit or loss no later than when the item is derecognized.</p> <p>Consequently, it is necessary to track the item to which the fair value adjustment relates and for a layer component in a fair value hedge, to track the nominal amount from which it is defined.</p>



	JGAAP	IFRS
Groups of financial and non-financial items	<p>(Accounting Standard for Financial Instruments Note 11, Implementation Guidance on Financial Instruments 152)</p> <p>Comprehensive hedges are allowed when assets and liabilities share the potential for losses due to market movements and similar, and when the effect of such market movements is expected to be the same.</p> <p>When the proportion of the fair value change of the assets or liabilities, or the proportion of the change in cash flows is expected to be less than 10% of the movements in the entire portfolio, the effect of the risk on each asset or liability is considered to be the same.</p>	<p>(IFRS 9.6.6.1)</p> <p>If the following conditions are met, a group of items that constitute a net position can be an eligible hedged item:</p> <ul style="list-style-type: none"> <li>▪ The group consists of items or components of items that are, individually, eligible hedged items</li> <li>▪ The items in the group are managed together on a group basis for risk management purposes</li> </ul> <p>The items can be financial or non-financial items.</p>
Hedge of net positions	There are no clear rules.	<p>(IFRS 9.6.6.1, B6.6.4, B6.6.7, B6.6.15)</p> <p>A net position can be an eligible hedge.</p> <p>For hedges of net positions that affect net profit over several periods, it is possible to designate these as cash flow hedges if certain conditions are met but this is limited to foreign currency hedges. When the net position is reclassified from OCI (cash flow hedge reserve) to profit and loss, it must be presented in a separate line item from the gross hedged items.</p>

	JGAAP	IFRS
Hedge cost	<p>(Implementation Guidance on Financial Instruments 171,172) The fair value of an option and the forward element of a forward contract can both be separated from a designated hedge. However, at the time of designation in the above manner, it is necessary to record those separated elements directly in profit or loss.</p> <p>Foreign currency basis spreads cannot be separated.</p> <p>If it is determined that the entire hedge is effective and the conditions for hedge accounting are met, any resulting ineffective portion of the gain or loss on the hedging instrument can also be deferred as part of the hedge accounting.</p>	<p>(IFRS 9.6.2.4, 6.5.15, 6.5.16, B6.5.29, B6.5.34) Where the intrinsic value and the time value of an option are separated and the hedging instrument is only the intrinsic value, the change in the fair value of the time value of an option is initially recorded in OCI and is subsequently accounting for depending on the nature of the hedged item as follows:</p> <ul style="list-style-type: none"> <li>For a transaction related hedge item: If the hedged item subsequently results in the recognition of a non-financial asset or a non-financial liability, or a firm commitment for such non-financial assets or liabilities for which fair value hedge accounting is applied, the amount is removed from OCI and is included directly in the carrying amount (a basis adjustment). In all other cases, the amount is reclassified from OCI to profit or loss in the same period as the expected future cash flows affect profit or loss.</li> <li>For a time-period related hedge item: The time value at the date of designation of the option as a hedging instrument, to the extent it relates to the hedged item, is amortized on a systematic and rational basis over the period during which the hedge adjustment for the option's intrinsic value affects profit or loss (or for some cases OCI). The amortization amount is reclassified from OCI to profit or loss as a reclassification adjustment.</li> </ul> <p>The forward element of a forward contract and the foreign currency basis spread can also be accounted for in the same way as the time value of an option.</p>

	JGAAP	IFRS
Hedge of credit risk	<p>(Implementation Guidance on Financial Instruments 315) The option to measure at fair value through profit or loss cannot be used for loans, loan commitments and other financial instruments for which credit risk is hedged.</p> <p>The Implementation Guidance (clause 315) states that risks that must be identified in the hedge documentation are market price and other risks which affect the market price and cash flows of assets and liabilities, and risks that can be rationally quantified. These are risks such as market risks including foreign exchange, bond and share values, credit risk and interest rate risk.</p>	<p>(IFRS 9.6.7.1, BC6.470) To the extent that the credit risk of loans, loan commitments or financial guarantees is managed through the designation or cancellation of designation of credit derivatives flexibly, the option to measure at fair value through profit or loss may be applied.</p> <p>However, the credit risk of a financial item is not a risk component that meets the eligibility criteria for hedged items. The spread between the risk-free rate and the market interest rate incorporates credit risk, liquidity risk, funding risk and any other unidentified risk component and margin elements. Although it is possible to determine that the spread includes credit risk, the credit risk cannot be isolated in a way that would allow the change in fair value that is attributable solely to credit risk to be separately identifiable.</p>
Forecast transactions - on the occurrence	<p>(Implementation Guidance on Financial Instruments 170, 338)) The deferred profit or loss on the hedge adjusts the carrying value of the hedged asset and accordingly is reflected in profit or loss when the related asset affects profit or loss.</p> <p>However, if the acquired asset is a loan or a similar interest-bearing financial asset, the deferred profit or loss can be recognized in net assets (equity) as deferred gains and losses on hedging.</p>	<p>(IFRS 9.6.5.11) If a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the entity shall remove that amount from the cash flow hedge reserve and include it directly in the initial cost or other carrying amount of the asset or the liability. This is not a reclassification adjustment (see IAS 1) and hence it does not affect other comprehensive income.</p> <p>If the asset or liability arising from the hedged forecast transaction is a financial instrument, the carrying value is not adjusted but the amount in OCI is transferred to profit or loss in the same periods during which the hedged expected future cash flows affect profit or loss.</p>
Forecast transactions - when occurrence is no longer highly probable	<p>(Implementation Guidance on Financial Instruments 181) When it becomes clear that a forecast transaction will not occur, deferred gains or losses and valuation differences on the hedging instruments must be reclassified to profit or loss in the current period.</p>	<p>(IFRS 9.6.5.12) When a forecast transaction is no longer highly probable (but is still expected to occur), hedge accounting is discontinued and the amount of fair value changes accumulated in OCI remains in OCI.</p>

	JGAAP	IFRS
Discontinuance of hedge accounting	<p>(Implementation Guidance on Financial Instruments 180, Q&amp;As related to financial instruments Q52) Hedge accounting must be discontinued when:</p> <ol style="list-style-type: none"> <li>1. The hedge relationship no longer meets the companies' effectiveness test or</li> <li>2. When the hedged item is extinguished through reaching maturity, sale, completion or exercise</li> </ol> <p>When some items in a macro hedge (hedge of a group of items) are extinguished, hedge accounting must be discontinued only in respect of that part of the hedge.</p> <p>JGAAP is not necessarily clear as to whether partial discontinuation is allowed for hedges other than macro hedges.</p>	<p>(IFRS 9.6.5.6, BC6.331) Hedge accounting is discontinued prospectively when the hedging relationship ceases to meet the qualifying criteria. This includes when the risk management objective is changed.</p> <p>IFRS 9 includes the notion of partial discontinuation of hedge accounting and in such a case, the remaining part of the hedging relationship continues to apply hedge accounting.</p> <p>If the risk management objective for a particular hedging relationship does not change, voluntary discontinuation of hedge accounting is prohibited.</p>
Using the foreign currency contract rate ( <i>furiate shori</i> )	<p>(Accounting Standard for Financial Instruments 43) When the requirements of hedge accounting are met, foreign currency denominated receivables and payables may be translated using the rate in the forward currency contract.</p>	There are no such rules, and this method is not allowed.
Interest rate swap special method	<p>(Accounting Standard for Financial Instruments 107) Where certain conditions are met, an interest swap contract is not recognized at market value, but rather the swap interest is directly adjusted to increase or decrease the interest on the relevant financial assets or liabilities.</p>	There are no such rules, and this method is not allowed.

	JGAAP	IFRS
Hedge documentation	<p>(Accounting Standard for Financial Instruments 31, Implementation Guidance on Financial Instruments 144, 145)</p> <p>If certain conditions are met, hedge documentation is not required.</p> <p>There are no rules which require documentation of determination of the hedge ratio or analysis of sources of hedge ineffectiveness.</p>	<p>(IFRS 9.6.4.1 and others)</p> <p>Where hedge accounting is applied, hedge documentation is required without exception.</p> <p>Hedge documentation must include, amongst other things, how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements (including its analysis of the sources of hedge ineffectiveness and how it determines the hedge ratio).</p> <p>At the inception of the hedging relationship, there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements (including its analysis of the sources of hedge ineffectiveness and how it determines the hedge ratio).</p>

	JGAAP	IFRS
Assessment of hedge effectiveness	<p>(Implementation Guidance on Financial Instruments 143(2),146,156,158)</p> <p>In the initial effectiveness test at the onset of the hedge, it is necessary to assess the prospective effectiveness of the hedging instrument.</p> <p>If the main provisions of the hedging instrument and the hedged item are the same and changes in market rates or cash flows are expected to perfectly offset, the hedge effectiveness assessment may be abbreviated.</p> <p>If an initial test shows that the hedge is highly effective and even if a subsequent test shows it to be ineffective if the range of fluctuations is small and is expected to be temporary, hedge accounting may be continued.</p> <p>For hedges that fix cash flows, if the cumulative change in the cash flows of the hedging instrument and the hedged item are highly correlated, they are accepted as effective.</p>	<p>(IFRS 9.6.4.1, 6.5.6, and others.)</p> <p>All of the following qualitative requirements must be fulfilled to qualify for an effective hedging relationship (the quantitative assessment using the 80% – 125% “bright line” test in IAS 39 has been removed):</p> <ul style="list-style-type: none"> <li>▪ There is an economic relationship between the hedged item and the hedging instrument.</li> <li>▪ The effect of credit risk does not dominate the value changes that result from that economic relationship.</li> <li>▪ The hedge ratio of the hedging relationship 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 the hedged item.</li> </ul> <p>On an ongoing basis (as a minimum at each reporting date), a prospective effectiveness assessment is still required in a similar manner as at the inception of the hedging relationship (see points above), starting with assessing whether the risk management objective for the hedging relationship has changed.</p>
Rebalancing	The concept of rebalancing does not exist.	<p>(IFRS 9.6.5.5, B6.5.7)</p> <p>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 shall adjust the hedge ratio of the hedging relationship so that it meets the qualifying criteria again (this is referred to as “rebalancing”).</p>
Aggregated exposure	<p>(Q&amp;A on Financial Instruments, Q48)</p> <p>It is generally accepted that aggregated exposure cannot be designated as a hedged item.</p>	<p>(IFRS 9.6.3.4)</p> <p>An aggregated exposure is a combination of an exposure that could qualify as a hedged item and a derivative may be designated as a hedged item.</p>

	JGAAP	IFRS
Hedging instruments	<p>(Implementation Guidance on Financial Instruments 165) Non-derivative financial instruments can qualify as hedging instruments only in the following cases:</p> <ol style="list-style-type: none"> <li>1) When the non-derivative financial instruments are in the form of monetary items denominated in foreign currency, or foreign currency-denominated debt or equity, held for the purpose of hedging foreign currency risk arising from the following items: <ul style="list-style-type: none"> <li>▪ Forecast transactions</li> <li>▪ Other marketable securities</li> <li>▪ Investments in foreign operations</li> </ul> </li> <li>2) When the non-derivative financial instruments are in the form of margin transactions (including short sales) entered into for the purpose of hedging marketable securities</li> </ol>	<p>(IFRS 9.6.2.2-4, B6.2.6) As a general rule, a non-derivative financial asset or a non-derivative financial liability measured at FVPL may be also designated as a hedging instrument.</p> <p>However, there are certain exceptions as below:</p> <ol style="list-style-type: none"> <li>a) A financial liability designated as at FVPL, where the amount of its fair value change attributable to changes in the credit risk of the liability is presented in OCI, cannot be designated as a hedging instrument</li> <li>b) For a hedge of foreign currency risk, the foreign currency risk component of a non-derivative financial asset or a non-derivative financial liability cannot be designated as a hedging instrument if it is an investment in an equity instrument for which the entity has elected to present changes in fair value in OCI</li> </ol>
Presentation of cash flow hedges	<p>There is no clear rule which requires the transfer from OCI of net interest arising on an interest rate swap.</p>	<p>(IFRS 9.6.5.11) It is clear that for interest rate swaps, transfers of the amount that has been accumulated in OCI to profit or loss must be presented.</p> <p>Therefore, for hedges that are 100% effective, the net amounts are accounted for as follows:</p> <ul style="list-style-type: none"> <li>▪ The interest rate swap is valued based on the value before interest is received/paid and the change in fair value is recognized in OCI</li> <li>▪ Amounts received/paid on the swap are recorded and the credit entry reduces the interest rate swap</li> <li>▪ The amount of interest received/paid is transferred from OCI to profit or loss</li> </ul>



	JGAAP	IFRS
Presentation of fair value hedges	<p>(Implementation Guidance on Financial Instruments 160) For hedges of the market value of other investment securities, when the hedge objective is only a specified risk within the causes of changes in the market value of such other investment securities, changes in fair value due to the specified risk are recorded in profit or loss after the inception of the transaction. Changes in market value due to other risks are recognized in net assets (OCI).</p> <p>The gain or loss on the hedging instrument and other valuation differences are recorded in profit or loss.</p>	<p>(IFRS 9.6.5.8) The gain or loss on the hedging instrument is recognized in profit or loss.</p> <p>The gain or loss on the hedged item adjusts the carrying amount of the hedged item and is then recognized in profit or loss.</p> <p>However, if the hedging instrument hedges an equity instrument, for which the entity has elected to present changes in fair value in other comprehensive income, the gain or loss on the hedging instrument is recognized in other comprehensive income.</p>
Offsetting of financial assets and liabilities	<p>(Implementation guidance 140) When the following conditions are met, netting is allowed:</p> <ol style="list-style-type: none"> <li>1. The entity has the ability to offset because the financial assets and liabilities are with the same counterparty and can be offset legally</li> <li>2. The entity intends to settle on a net basis</li> </ol> <p>For derivative financial assets and liabilities measured at fair value with the same counterparty, offsetting presentation is permitted to the extent applicable if an entity has a legally valid master netting agreement contracted.</p>	<p>(IAS 32.42, 50) A financial asset and a financial liability shall be offset, and the net amount presented in the statement of financial position when, and only when, an entity:</p> <ol style="list-style-type: none"> <li>a) Currently has a legally enforceable right to set off the recognized amounts; and</li> <li>b) Intends either to settle on a net basis or to realize the asset and settle the liability simultaneously</li> </ol>
Effects of IBOR reforms	<p>(Practical Solutions No.40) The ASBJ issued The Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR on September 29, 2020 and also a revised version on March 17, 2022.</p> <p>For financial instruments which reference LIBOR, contracts are in scope of the Practical Solution if when the benchmark interest rates are changed, it is intended that before and after the change the economic impact will be largely the same, and the only change in the contract is the interest rate on</p>	<p>(IFRS 9.5.4.7, 9.6.8, 9.6.9) The IASB completed Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS39 and IFRS 7), divided into two phases and each were published in 2019 and 2020, respectively.</p> <p>Phase 1 on the impact of the IBOR reform on financial statements has been completed (measures to address impacts on financial statements prior to the change on benchmark interest rates):</p> <ul style="list-style-type: none"> <li>▪ Through the following temporary reliefs to address the uncertainties which may arise in</li> </ul>



	JGAAP	IFRS
	<p>which the cash flows are based. The same applies to contracts that are replaced for the same reasons.</p> <p>For financial instruments within the scope of the Practical Solution for which hedge accounting is applied, even if the contracts are replaced as a result of the interest rate reform (IBOR), hedge accounting may continue.</p>	<p>the period before the change to alternative interest rates (RFR: Risk-free rate) it is possible to continue hedge accounting</p> <ul style="list-style-type: none"> <li>▪ An entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered when assessing the probability of a forecast transaction occurring</li> <li>▪ When reclassifying the amount accumulated in the cash flow hedge reserve to profit or loss, to determine whether future cash flows will occur, the entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered</li> <li>▪ When assessing the economic relationship between the hedged item and the hedging instrument, for interest rate risks, an entity shall assume that the interest rate benchmark on which the hedged cash flows and/or the hedged risk (contractually or non-contractually specified) are based or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform</li> <li>▪ When consistent with its hedge documentation, an entity resets the hedging relationship, the requirement that the risk component is separately identifiable is applied only when the entity initially designates a hedged item in a hedging relationship</li> </ul> <p>Main points of Phase 2 Amendments (effective for years beginning after 1 January 2021, b) are as follows:</p> <ul style="list-style-type: none"> <li>▪ To the extent modifications are made to financial instruments that are necessary to implement</li> </ul>

	JGAAP	IFRS
		<p>IBOR Reform and the new basis for calculating cash flows is 'economically equivalent' to the previous basis:</p> <ul style="list-style-type: none"> <li>i) The effective interest rate (EIR) on floating-rate financial instruments is adjusted</li> <li>ii) The formal designation of hedge relationships is amended and hedge accounting will continue</li> </ul> <ul style="list-style-type: none"> <li>▪ When the hedged item is amended, amounts accumulated in the cash flow hedge reserve are deemed to be based on the RFR</li> <li>▪ As items within the hedged group transition at different times from IBORs to RFRs, they will be transferred to sub-groups of instruments that reference RFRs as the hedged risk. The existing IBOR would remain designated as the hedged risk for the other sub-group of hedged items</li> <li>▪ The relief allows entities to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months</li> </ul>

# 14.Foreign Currency

## ► Significant differences

	JGAAP	IFRS
Determination of functional currency	There is no concept in JGAAP similar to those addressed in IFRS.	(IAS 21.8-12, 21) Management must determine the functional currency by considering the primary economic environment in which the entity operates.  A foreign currency transaction is recorded, on initial recognition in the functional currency, by translating the foreign currency amount at the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.
Foreign currency transactions	(Accounting Standard for Foreign Currency Transactions Note 1) A foreign currency transaction is defined as a transaction for which the trading price or other transaction price is denominated in a foreign currency (that is, a transaction denominated in a currency other than Japanese yen).	(IAS 21.8,20) A foreign currency transaction is a transaction that is denominated or requires settlement in a currency other than the functional currency.
Reporting a foreign currency transaction in the functional currency	(Accounting Standard for Foreign Currency Transactions Note 2) The exchange rate at the time of the transaction is taken to be the spot exchange rate at the date when the transaction occurred, or the average rate calculated on a reasonable basis (for example, the average of the spot exchange rates for the most recent fixed period, be it month or week, prior to that in which the transaction occurred).	(IAS 21.21, 22) In principle, a foreign currency transaction should be recorded in the functional currency based on the spot exchange rate on the date of the transaction. However, except where exchange rates fluctuate significantly, approximate rates, such as an average rate for a week or month, can be used.
Classification of foreign operations	(Accounting Standard for Foreign Currency Transactions 2,3) Foreign operations are classified as foreign branches or as foreign subsidiaries and similar entities.	(IAS 21.8) 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.  A foreign operation is not further classified as a foreign branch or as a foreign subsidiary and is similar to JGAAP.

	JGAAP	IFRS
Translation of foreign operations	<p>(Accounting Standard for Foreign Currency Transactions 2,3) Branches In principle, foreign currency transactions of foreign branches are accounted for in the same way as the transactions of the head office, with the following exceptions:</p> <ul style="list-style-type: none"> <li>▪ Income and expenses can be translated at average rates for the period.</li> <li>▪ If non-monetary items are immaterial, the closing rate at the date of the balance sheet can be used to translate all balance sheet items (excluding items such as head office or inter-company accounts). In this case, income and expenses can also be translated at the same rate.</li> <li>▪ Exchange differences arising from the use of a translation method other than that used by the head office are recognized as exchange gains or losses in the income statement.</li> </ul> <p>Subsidiaries Assets and liabilities of foreign subsidiaries and similar entities are translated into yen at the exchange rates at the date of the balance sheet.</p> <ul style="list-style-type: none"> <li>▪ Equity related items acquired by the parent are translated at the exchange rate at the time of the acquisition, and subsequently acquired equity items are translated at the date of each transaction.</li> <li>▪ Revenue and expenses are translated at average rates in the period, in principle; however, the closing rate at the date of the balance sheet can also be used. (Transactions with the parent are translated into yen using the parent's exchange rate and any differences which arise between the parent and the subsidiaries rates are recognized as exchange gains or losses in the income statement).</li> <li>▪ Exchange differences shall be presented as foreign currency translation adjustments in the "Net assets" section of the balance sheet.</li> </ul>	<p>(IAS 21.39, 40, 41, 44) The results and financial position of foreign operations are translated into the presentation currency of the reporting entity on consolidation (after their recognition in functional currency) using the following method, provided that the functional currency is not the currency of a hyperinflationary economy.</p> <ul style="list-style-type: none"> <li>▪ Assets and liabilities for each balance sheet presented shall be translated at the closing rate at each balance sheet.</li> <li>▪ Income and expenses for each statement of comprehensive income (income statement) shall be translated at the exchange rates at the dates of the transactions. Average rates for the period are often used if the exchange rates do not fluctuate significantly.</li> <li>▪ All resulting exchange differences arising from the above translations shall be recognized as a separate component of equity.</li> </ul>

	JGAAP	IFRS
Translation of goodwill of foreign operations	<p>(Accounting Standard for Foreign Currency Transactions and related Implementation Guidance and Practical Solution 40)</p> <p>When consolidating a foreign subsidiary, a parent company should first determine goodwill in the applicable foreign currency at the acquisition date. The goodwill determined should then be translated at the reporting date exchange rates.</p> <p>For business combinations that took place prior to revision of the standard published in 2009 (with mandatory adoption from 2011), goodwill and the related amortization are fixed in Japanese yen and, as such, is not impacted by changes in exchange rates.</p>	<p>(IAS 21.47)</p> <p>Goodwill arising on the acquisition of a foreign operation shall be treated in the same way as assets and liabilities of the foreign operation.</p> <p>As such, goodwill should be recorded in the functional currency of the foreign operation and should then be translated to the presentation currency of the parent company as of the reporting date.</p>

	JGAAP	IFRS
Disposal or partial disposal of a foreign operation	<p>(Accounting Standard for Foreign Currency Transactions and related Implementation Guidance and Practical Solution 42, 42-2) (Accounting Standard for Consolidated Financial Statements Practical Guidelines 45, 46) When the parent's proportion of ownership interest decreases as a result of a change in equity, and one of the following conditions is met, the share of foreign currency translation adjustments proportionate to the decrease shall be recognized as profit or loss on sale of investments in the Consolidated Income Statement:</p> <ul style="list-style-type: none"> <li>▪ Loss of control of a subsidiary or</li> <li>▪ Loss of significant influence over an associate</li> </ul> <p>JGAAP has similar rules to IFRS for the partial disposal of subsidiaries and other investments as described to the right.</p>	<p>(IAS 21.48, 48A) On the disposal of an entity's interest in a foreign operation, the entire cumulative amount of the exchange differences relating to that foreign operation shall be reclassified from equity to profit or loss (as a reclassification adjustment) only if one of the following conditions is met:</p> <ul style="list-style-type: none"> <li>▪ Loss of control of a subsidiary</li> <li>▪ Loss of significant influence over an associate</li> <li>▪ Loss of joint control over a jointly controlled entity</li> </ul> <p>(IAS 21.48C) On the partial disposal of a subsidiary that includes a foreign operation, the entity shall re-attribute the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income to the non-controlling interests in that foreign operation (when control continues).</p> <p>In any other partial disposal of a foreign operation, the entity shall reclassify to profit or loss only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income.</p>

	JGAAP	IFRS
Disposal of the net investment in foreign operations	There are no specific requirements comparable to those in IFRIC 16.	<p>(IFRIC 16.17)</p> <p>The amount reclassified to profit or loss from the foreign currency translation reserve in the consolidated financial statements of a parent in respect of the disposal of the net investment in a foreign operation is the amount included in the parent's foreign currency translation reserve in respect of that foreign operation. Regardless of the accounting method ordinarily employed in consolidation by the entity, one of the two following approaches should be elected by the entity as an accounting policy choice with respect to the disposal of any such net investments:</p> <p>The direct method (subsidiaries are directly consolidated by the ultimate parent)</p> <p>or</p> <p>The step-by-step method (the results of a sub-consolidation are consolidated by the ultimate parent)</p>
Net investment in a foreign operation	<p>There are no specific rules relating to the exchange differences arising from a net investment in a foreign operation.</p> <p>Accordingly, foreign exchange differences arising on such monetary items are recognized in profit or loss in the separate and consolidated financial statements of the reporting entity.</p>	<p>(IAS 21.32)</p> <p>Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation are recognized in profit or loss in the separate financial statements of the reporting entity.</p> <p>However, in the consolidated financial statements, such exchange differences are recognized initially in other comprehensive income and are reclassified from equity to profit or loss on disposal of the net investment.</p>

	JGAAP	IFRS
Translation of foreign currency denominated convertible bonds or bonds with share acquisition rights (issuer side)	<p>Practical solutions and implementation guidance for issuers of foreign currency-denominated convertible bonds and bonds with share acquisition rights 2(2)</p> <p>Where foreign currency-denominated convertible bonds or bonds with share acquisition rights are accounted for without splitting the bond portion and conversion right portion (<i>ikatsu hou</i>), prior to their expiration date, are translated at the exchange rate of the date of issue. However, where there is deemed to be no possibility of the rights being exercised, the carrying amount will be translated at the reporting date exchange rate.</p>	<p>(IAS 32.15, 18, IAS 21.23)</p> <p>(EY International GAAP 2025 Chapter 43 section 6.6.5)</p> <p>Such financial instruments will be split into i) host contract (bond portion) as financial liability that is measured at amortized cost being converted at each reporting date exchange rate; and ii) bifurcated embedded derivative (conversion option portion) that is measured at fair value being translated using the exchange rates at the date when its fair value is measured.</p>
Forward foreign exchange contracts	<p>(Accounting Standard for Foreign Currency Transactions Notes 6 and 7)</p> <p>Foreign currency receivables and payables may, under current accounting rules until further notice is given, be translated based on the rates in the related forward contract (<i>furiate shori</i>).</p>	<p>(IFRS 9)</p> <p>When hedge accounting is applied, the JGAAP method described to the left is not permitted.</p>
Financial reporting in hyperinflationary economies	<p>There is no standard relating to financial reporting in hyperinflationary economies.</p>	<p>(IAS 21.42)</p> <p>The results and financial position of an entity whose functional currency is the currency of a hyperinflationary economy shall be translated into a different presentation currency as follows: all amounts (i.e., assets, liabilities, equity items, revenue and expenses, including comparatives) shall be translated at the closing rate at the date of the most recent balance sheet.</p>
Several exchange rates are available	<p>No specific guidance is provided.</p>	<p>(IAS 21.26)</p> <p>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.</p>



	JGAAP	IFRS
Treatment of investment in foreign currency-denominated debt instruments with the intention to re-invest into non-monetary assets	<p>(Accounting Standard for Foreign Currency Transactions and related Implementation Guidance and Practical Solution 24)</p> <p>Where the objective of the entity is to use the proceeds of foreign currency-denominated debt investments to acquire fixed assets or other non-monetary assets without converting such proceeds into Japanese yen, it is permissible to defer the effects of foreign currency translation and add/deduct them to the acquisition cost of the non-monetary asset if the following criteria are met:</p> <ul style="list-style-type: none"> <li>▪ The intention to re-invest the proceeds of the foreign currency-denominated debt is documented clearly in writing from the time it is acquired and</li> </ul> <p>The re-investment is made in the same currency as the debt is denominated in</p>	No specific guidance is provided.
Estimating the spot exchange rate when a currency is not exchangeable	There is no requirement that the currency is not exchangeable.	<p>(IAS 21.19A)</p> <p>An entity shall estimate the spot exchange rate at a measurement date when a currency is not exchangeable into another currency at that date.</p>

# 15.Income Tax

## ► Significant differences

	JGAAP	IFRS
Initial recognition exception for deferred tax assets and liabilities	There are no specific rules corresponding to those in IAS 12.	(IAS12.15, 22A, 24) Deferred tax assets and liabilities are not recognized if they arise from the initial recognition of an asset or liability in a transaction which: (1) is not a business combination; (2) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss); and (3) at the time of the transaction, does not give rise to equal taxable and deductible temporary differences.
Deferred tax on goodwill	(Practical Guidance on Accounting Standard for Tax Effect Accounting 43) Deferred tax assets or deferred tax liabilities are not recognized in relation to goodwill.  (Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures 72, 378-3) However, tax goodwill arising on a taxable business combination under Japanese tax law (where amounts are recorded to asset adjustment accounts or a differential liability adjustment account) is regarded as a temporary difference and a deferred tax asset or liability is recorded. Accounting goodwill is calculated as the remaining residual after recognizing deferred taxes for the tax goodwill.	(IAS 12.15(a)) A deferred tax liability arising from the initial recognition of goodwill shall not be recognized.  (IAS 12.21B) However, in some countries, the amortization of goodwill is allowed for tax purposes. A deferred tax liability, for taxable temporary differences which arise after the initial recognition of goodwill as a result of the amortization of goodwill for tax purposes, is recognized.  (IAS 12.32A) If the carrying amount of goodwill arising in a business combination is less than its tax base, a deferred tax asset shall be recognized as part of the accounting for that business combination, to the extent that it is probable that taxable profit will be available against which the deductible temporary difference could be utilized.

	JGAAP	IFRS
Assessment of the recoverability of deferred tax assets	<p>(Practical Guidance on Accounting Standard for the Recoverability of Deferred Tax Assets 6, 16-32) (Notes to Practical Guidance on Accounting Standard for Tax effect accounting, Notes 5 and 8) The recoverability of deferred tax assets relating to deductible temporary differences, and losses carried forward, should be determined by determining whether they will reduce the future tax burden, considering the following factors:</p> <ul style="list-style-type: none"> <li>▪ The sufficiency of taxable income based on earning power</li> <li>▪ The existence of tax planning</li> <li>▪ The sufficiency of taxable temporary differences</li> </ul> <p>If it is determined based on the considerations noted above, that the deductible temporary differences will reduce future taxable income when realized, the deferred tax assets will be constrained to the extent that future tax burden will be reduced, with any excess over this amount being deducted (valuation allowance approach).</p> <p>When assessing the recoverability of deferred tax assets based on future earnings potential, detailed guidance with numerical criteria is provided by sector with respect to the period over which such earnings can be reliably estimated (within five years, or within a year, for example).</p> <p>(Practical Guidance on Accounting Standard for Tax Effect Accounting 35) The criteria in "Practical Guidance on Accounting Standard for the Recoverability of Deferred Tax Assets 6 " are not applied when considering the recoverability of deferred tax assets arising from the elimination of unrealized profits on consolidation. Such deferred tax assets are assumed to be recoverable.</p>	<p>(IAS 12.24, 27-31) A deferred tax asset must be recognized 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 utilized.</p> <p>Valuation allowances are not recognized separately, but rather a deferred tax asset is recognized only to the extent that it is recoverable. Recoverability is assessed considering the following criteria:</p> <ul style="list-style-type: none"> <li>▪ The sufficiency of taxable temporary differences which will reverse in the same tax authority and the same taxable entity in the same period or in periods in which the tax asset (loss arising thereon) can be carried forward or back</li> <li>▪ The sufficiency of taxable income based on earning ability</li> <li>▪ The existence of tax planning opportunities</li> </ul> <p>Certain guidance is provided for judging the recoverability of deferred tax assets (however, categories of company and numerical criteria are not given as they are in JGAAP).</p> <p>Consideration of the recoverability of deferred tax assets arising from the elimination of unrealized profits on consolidation is made based on the general principles above (in other words, there is no exceptional rule as in JGAAP to the left).</p>

	JGAAP	IFRS
Recognition of deferred tax assets (deductible temporary tax differences to be considered when assessing recoverability)	<p>(Practical Guidance on Accounting Standard for the Recoverability of Deferred Tax Assets 3(9), 11, Example 1)</p> <p>This standard does not directly address how to consider future taxable profit that is expected to result from deductible temporary differences that would arise in future periods when estimating future taxable profits against which temporary deductible differences can be utilised.</p> <p>In Example 1 to the standard, however, a deductible temporary difference arising on a bonus provision is shown being added to estimated taxable profit in determining the future taxable profits against which deductible temporary differences may be used. As such, this approach can be inferred to be acceptable.</p>	<p>(IAS 12.29 (a))</p> <p>When evaluating whether there is sufficient taxable profit in future periods against which deductible temporary differences at the period end can be utilized, an entity compares the deductible temporary differences with future taxable profit that excludes tax deductions resulting from the future reversal of those deductible temporary differences.</p>
Deferred tax relating to eliminations of unrealised profits	<p>(Practical Guidance on Accounting Standard for Tax Effect Accounting 34,130)</p> <p>Deferred tax assets and liabilities resulting from deductible and taxable temporary differences arising from the elimination of unrealized profit in the consolidated financial statements are recorded at the same amount as the tax added to or deducted from the tax of the selling subsidiary (the seller) in the current tax year.</p> <p>Because this amount of tax should be an amount that can be determined, it is calculated by applying the statutory tax rate to which the taxable profit or loss of the selling subsidiary is subject to in the period in which the unrealized profit arises.</p>	<p>(IAS 12.47)</p> <p>No exception such as that available in JGAAP applies. Therefore, in principle, deferred tax assets and liabilities shall be measured at the rate which is expected to apply to the company which holds the asset (the purchaser).</p>

	JGAAP	IFRS
Manner of recovery or settlement	<p>(Practical Guidance on Accounting Standard for Tax Effect Accounting) Deferred tax assets and liabilities are measured based on the tax rate expected to be in place when they are recovered or settled.</p> <p>Other than in relation to tax rate, there is no detailed guidance similar to IFRS.</p>	<p>(IAS 12.51-51E) The measurement of deferred tax liabilities and deferred tax assets reflect the tax consequences that follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.</p> <p>For example, where the tax rate will differ depending on whether an asset is sold or held for continued use, an entity should measure the related deferred tax asset or liability using the tax rate and tax base that appropriately reflects the intentions of management.</p> <p>It is presumed that the carrying value of non-depreciable assets, such as land, will be recovered through sale. However, it is not presumed that the carrying value of intangible assets with indefinite useful lives will be recovered through sale.</p> <p>Except in exceptional cases, where clear evidence exists that the carrying value of an investment property that is measured using the fair value model will be recovered through use, it is presumed when measuring the associated deferred tax asset or liability, that its carrying value will be recovered through its sale.</p>

	JGAAP	IFRS
Uncertainty over tax treatments	<p>(Accounting Standard for Current Income Taxes 6)</p> <p>When there is a strong probability that additional corporation tax, inhabitants' tax, or business tax will be payable on taxable income for a prior period, and the additional tax can be reasonably estimated, the additional tax should be recorded in profit or loss.</p>	<p>(IFRIC 23)</p> <p>An "uncertain tax treatment" is a tax treatment for which there is uncertainty over whether the relevant taxation authority will accept the tax treatment under tax law.</p> <p>If an entity concludes that it is not probable that a tax authority will accept a tax treatment, the entity reflects the effect of such uncertainty in measuring the related tax expense.</p> <p>An entity uses one of the following methods based on the circumstances:</p> <ol style="list-style-type: none"> <li>1. The most likely amount – the single most likely amount in a range of outcomes</li> </ol> <p>Or</p> <ol style="list-style-type: none"> <li>2. The expected value – the sum of the probability-weighted amounts in a range of possible outcomes</li> </ol>
Deferred tax liabilities in relation to the retained earnings of associates	<p>(Practical Guidance on Equity Method Accounting 28, Practical Guidance on Accounting Standard for Tax Effect Accounting 24-26)</p> <p>The treatment with respect to taxable temporary differences arising in relation to the retained earnings of associates is essentially the same as that for subsidiaries. In other words, a deferred tax liability arising from a temporary difference that will be reversed through the payment of dividends will be recognized if the dividends are expected to lead to an increased tax liability.</p> <p>However, if there is a policy or an agreement in place among the shareholders such that no dividends will be paid in respect of the retained earnings of an associate for the foreseeable future, no tax effect should be recognized.</p>	<p>(IAS 12.42)</p> <p>As an investor in an associate cannot control the associate's dividend policy, in the absence of an agreement requiring that dividends will not be distributed in the foreseeable future, an investor should recognize a deferred tax liability.</p>

	JGAAP	IFRS
Recognition of current and deferred tax	<p>(Accounting Standard for Current Income Taxes 5, 5-2, Practical Guidance on Accounting Standard for Tax Effect Accounting 9) Current tax is recognized in profit or loss at the amount calculated in accordance with laws and regulations, except in the following case.</p> <ul style="list-style-type: none"> <li>▪ Tax arising from a transaction or event recorded either in other comprehensive income or directly in equity</li> </ul> <p>Furthermore, when recording increases or decreases in deferred tax assets or liabilities, the corresponding amount is recorded in the income tax account, except in the following cases:</p> <p>a) Where amounts associated with the revaluation of assets or liabilities are recorded directly in net assets, the corresponding increase or decrease in deferred tax assets or liabilities is also recorded in the corresponding revaluation account within other components of equity.</p> <p>b) Where revaluation differences with respect to assets or liabilities are recorded in other comprehensive income, the effects of the revaluation of the related deferred tax assets or liabilities are also recorded in other comprehensive income.</p> <p>Where a change in the proportion of ownership of a subsidiary is recorded directly in equity, the amount corresponding to the resulting change in deferred tax assets or liabilities is recorded in the capital surplus account within equity.</p>	<p>(IAS 12.58, 61A) Current and deferred tax shall be recognized as income or expense and included in profit or loss for the period, except for:</p> <ul style="list-style-type: none"> <li>▪ Tax arising from a transaction or event recorded either in other comprehensive income or directly in equity</li> <li>▪ Tax arising from a business combination</li> </ul> <p>Current tax and deferred tax that relates to items that are recognized outside of profit or loss, in the same or a different period, shall be accounted for as follows:</p> <ul style="list-style-type: none"> <li>▪ If related to transactions in other comprehensive income, then the tax shall be recognized in other comprehensive income</li> <li>▪ If related to transactions that are recognized directly in equity, then the tax shall be recognized directly in equity</li> </ul>

	JGAAP	IFRS
Presentation in the statement of comprehensive income (income statement)	<p>(Regulation for Terminology, Forms and Presentation of Financial Statements 95(5))</p> <p>(Regulation for Terminology, Forms and Presentation of Consolidated Financial Statements 65(1))</p> <p>The amounts that shall be paid as corporate tax for the period along with deferred tax expenses (or deferred tax income) are presented on the face of the income statement separately.</p>	<p>(IAS 12.6,77, 80)</p> <p>The current tax expense (current tax income) and deferred tax expense (deferred tax income) relating to net income and loss from ordinary activities shall be presented as a tax expense (tax income) in the statement of comprehensive income (income statement). The major components of that tax expense (tax income) shall be disclosed separately in the notes.</p>
Offsetting deferred tax assets and liabilities	<p>(Partial Amendments to Accounting Standard for Tax Effect Accounting 2)</p> <p>Deferred tax assets and liabilities of the same taxable entity are offset.</p>	<p>(IAS 12.74-76)</p> <p>In rare circumstances, if certain conditions are met (for example, the entity has a legally enforceable right), deferred tax assets and deferred tax liabilities of different taxable entities could also be offset.</p>



# 16.Provisions and Contingencies

## ► Significant differences

	JGAAP	IFRS
Criteria for recognition of a provision	<p>(Corporate Accounting Principles Explanatory Notes<sup>18</sup>) A provision shall be recognized when all of the conditions below are met:</p> <ul style="list-style-type: none"> <li>▪ It relates to a specific future cost or loss</li> <li>▪ It arises from a past event</li> <li>▪ It has a high probability of occurrence</li> <li>▪ The amount can be estimated reasonably</li> </ul>	<p>(IAS 37.14) A provision shall be recognized when all of the following conditions are met:</p> <ul style="list-style-type: none"> <li>▪ An entity has a present obligation (legal or constructive) as a result of a past event</li> <li>▪ It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation</li> <li>▪ A reliable estimate can be made of the amount of the obligation</li> </ul>
Constructive obligations	There are no specific rules.	<p>(IAS 37.10) Liabilities include both legal and constructive obligations.</p> <p>A constructive obligation is an obligation that derives from an entity's actions where (a) 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 (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.</p>
Present obligation of provisions	<p>A present obligation is not a requirement for the recognition of a provision.</p> <p>If a provision relates to a specific future cost or loss, while also satisfying the other conditions above (Corporate Accounting Principles Explanatory Notes 18), the provision shall be recognized.</p>	<p>(IAS 37.14(a)) Provisions cannot be recognized unless they represent present obligations.</p>

	JGAAP	IFRS
Major inspections or repair costs	(Corporate Accounting Principles Explanatory Notes 18) Special repair provisions are given as an example of non-current liabilities. If the amount of the provision relating to the current period meets the conditions for provision recognition, it is recognized as a current period profit or loss.	(IAS 16.14) Future costs of major inspections of items of PPE, which have not yet been carried out, are not permitted to be recognized as provisions. When the recognition criteria are fulfilled, such costs are recognized in the carrying amount of the item of PPE and are included in the depreciation charge.
Discounting the provision	In relation to the measurement of provisions, there are no requirements on discounting.  (Accounting Standard for Asset Retirement Obligations 6) An asset retirement obligation is calculated based on its discounted value. The discount rate used is the risk-free pre-tax interest rate which reflects the time value of money.	(IAS 37.45-47) Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation.  The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) shall not reflect risks for which the future cash flow estimates have been adjusted.
Environmental clean-up and decommissioning costs	(Accounting Standard for Asset Retirement Obligations 3) If property, plant and equipment will be decommissioned, recognition of asset retirement obligations is required for legal or equivalent obligations.  There are no specific requirements for the recognition of provisions relating to environmental and decommissioning obligations. The general requirements in Corporate Accounting Principles Explanatory Notes 18 above are applied.	(IAS 37.19, 21) The general principles of IAS37 are applied to provisions for environmental clean-up and decommissioning costs, for example. In other words, if a legal obligation or a constructive obligation exists, a provision shall be recognized.

	JGAAP	IFRS
Onerous contracts	There are no specific rules.	<p>(IAS 37.10, 66-69)</p> <p>An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.</p> <p>If an entity has a contract that is onerous, the present obligation under the contract shall be recognized and measured as a provision.</p> <p>The cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both:</p> <p>(a) the incremental costs of fulfilling that contract (for example, direct labor and materials); and</p> <p>(b) an allocation of other costs that relate directly to fulfilling contracts (for example, an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling that contract among others).</p>
Contingent assets: definition and disclosure	There are no specific rules.	<p>(IAS 37.10, 89)</p> <p>A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.</p> <p>Where an inflow of economic benefits is probable, an entity shall disclose a brief description of the nature of the contingent assets at the end of the reporting period, and, where practicable, an estimate of their financial effect should be disclosed.</p>

	JGAAP	IFRS
Restructuring costs	<p>There are no specific rules.</p> <p>Accordingly, accounting judgments are made in accordance with the general requirements. Even when there are no specific rules for the expenses and losses, but if these amounts can be estimated reasonably, a provision would be recognized.</p>	<p>(IAS37.51, 70-83)</p> <p>Entities recognize provisions for restructuring costs in accordance with the general provisions of IAS 37 once they have raised a valid expectation of those affected by having a detailed formal plan for restructuring and starting to implement that plan or announcing its main features to those affected by it.</p> <p>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.</p> <p>Expenditures associated with the ongoing activities of the entity after restructuring (such as retraining or relocating continuing staff) should not be considered in the measurement of provisions.</p> <p>If the business is sold due to restructuring, the entity will not be able to recognize a provision for loss on the sale of an operation until the entity is committed to the sale, i.e., until there is a binding sale agreement.</p>
Provision of measurement within the expected results	<p>(Corporate Accounting Principles Explanatory Notes 18)</p> <p>There is no description of a specific measurement method.</p> <p>Asset retirement obligations are calculated by discounting the estimated amount of future cash flows before discount.</p> <p>The estimated amount shall be either the most likely amount or the expected value.</p>	<p>(IAS 37.39, 40)</p> <p>Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities. The name for this statistical method of estimation is 'expected value'.</p> <p>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.</p> <p>Where a single obligation is being measured, the individual most likely outcome may be the best estimate of the liability.</p>

	JGAAP	IFRS
Levies	There are no specific rules.	<p>(IFRIC 21.4, 13) A levy is an outflow of resources embodying economic benefits. Governments impose levies on entities in accordance with legislation (i.e., laws and/or regulations), other than:</p> <p>(a) Those outflows of resources that are within the scope of other Standards (such as income taxes that are within the scope of IAS 12 Income Taxes)</p> <p>(b) Fines or other penalties that are imposed for breaches of the legislation</p> <p>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 the legislation.</p> <p>An entity shall apply the same recognition principles in the interim financial report that it applies in the annual financial statements.</p>
Recognition of an asset for the expenditure required to settle a provision	<p>There are no specific rules.</p> <p>In practice, an asset may be recognized when it is reasonably probable that an entity will receive insurance coverage.</p>	<p>(IAS 37.53, 54) Where some or all of the expenditures required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognized for the reimbursement shall not exceed the amount of the provision.</p> <p>In the statement of comprehensive income, the expense relating to a provision may be presented net of the amount recognized for a reimbursement.</p>
Gains from expected disposal of assets	There are no specific rules.	<p>(IAS 37.51) Gains from the expected disposal of assets shall not be taken into account in measuring a provision.</p>

# 17.Revenue Recognition

## ► Significant differences

	JGAAP	IFRS
Incremental costs of obtaining a contract	<p>(Accounting Standard for Revenue Recognition 109)</p> <p>There are no general rules regarding incremental costs of obtaining a contract.</p> <p>However, an entity and its subsidiary which prepare its consolidated financial statements under IFRS or USGAAP are permitted to account for incremental costs of obtaining a contract in accordance with IFRS or USGAAP.</p>	<p>(IFRS 15.91)</p> <p>An entity shall recognize, as an asset, the incremental costs of obtaining a contract with a customer if the entity expects to recover those costs.</p>
Costs to fulfil a contract	<p>(Accounting Standard for Revenue Recognition 109)</p> <p>There are no general rules regarding costs to fulfil a contract.</p> <p>However, an entity and its subsidiary which prepare its consolidated financial statements under IFRS or USGAAP are permitted to account for costs to fulfil a contract in accordance with IFRS or USGAAP.</p>	<p>(IFRS 15.95)</p> <p>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 shall recognize an asset from the costs incurred to fulfil a contract only if those costs meet all of the following criteria:</p> <ul style="list-style-type: none"> <li>▪ The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify (for example, costs relating to services to be provided under renewal of an existing contract or costs of designing an asset to be transferred under a specific contract that has not yet been approved)</li> <li>▪ The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future</li> <li>▪ The costs are expected to be recovered</li> </ul>

	JGAAP	IFRS
Sales of property, plant and equipment, intangible asset and investment properties.	<p>(Accounting Standard for Revenue Recognition 3, 108)  Sales of an item of property, plant and equipment that are not an output of an entity's ordinary activities are not within the scope of the Standard.</p> <p>In addition, transfer of real estate that is the output of an entity's ordinary activities which is within the scope of Practical Guidance on Securitizations of Real Estate (Accounting System Committee Report No.15) is not within the scope of the Standard because the determination of the scope of consolidation is required.</p>	<p>(IAS 16.69, 72, IAS 38.114, 116, IAS 40.67, 70)  For sales of an item of property, plant and equipment that is not an output of an entity's ordinary activities, IAS16 <i>Property, Plant and Equipment</i> is applied. However, the date of disposal of an asset and the amount of consideration to be included in the gain or loss arising from the derecognition of an asset are determined in accordance with the requirements of IFRS15.</p> <p>The same is applied to sales of intangible assets (IAS38 <i>Intangible Asset</i>) and investment properties (IAS40 <i>Investment Property</i>) are the same.</p>
The transactions regarding crypto assets and security tokens	<p>(Accounting Standard for Revenue Recognition 3, 108-2)  The transactions regarding crypto assets meeting the definition stated in Payment Services Act and security tokens meeting the definition stated in Cabinet Office Ordinance on Financial Instruments Business, etc. are not within the scope of the Standard.</p>	There are no specific rules as in JGAAP to the left.
Contract modifications (practical expedient for immaterial case)	<p>(Implementation Guidance on Accounting Standard for Revenue Recognition 92)  If additional promised goods or services in a contract modification are immaterial compared with the original contract, an entity is permitted to account for the contract modification in any of the following ways:</p> <ul style="list-style-type: none"> <li>▪ Account for a contract modification as a separate contract</li> <li>▪ Account for a contract modification as if it were the termination of the existing contract and the creation of a new contract</li> </ul> <p>or</p> <ul style="list-style-type: none"> <li>▪ Account for a contract modification as if it were a part of the existing contract.</li> </ul>	There are no specific rules as in JGAAP to the left.

	JGAAP	IFRS
Identifying performance obligations (practical expedient for immaterial cases)	(Implementation Guidance on Accounting Standard for Revenue Recognition 93) If a promised good or service is immaterial in terms of a contract with a customer, an entity is permitted not to assess whether the promise is a performance obligation or not.	There are no specific rules as in JGAAP to the left.
Identifying performance obligations (option to account for shipment and delivery)	(Implementation Guidance on Accounting Standard for Revenue Recognition 94) An entity is permitted to consider the shipment and delivery of merchandise or product after control is transferred to the customer as an activity associated with the fulfillment of the performance obligation of transferring the merchandise or products (i.e., an entity is not required to identify those shipping/delivery activities as separate performance obligations).	There are no specific rules as in JGAAP to the left.
Performance obligations satisfied over time (construction and software customization contracts with short terms)	(Implementation Guidance on Accounting Standard for Revenue Recognition 95, 96) For construction contracts and software customization contracts where the period between commencement date and complete satisfaction of the performance obligation is very short, an entity is permitted to recognize revenue on the complete satisfaction of the performance obligation rather than over time.	There are no specific rules as in JGAAP to the left.
Performance obligations satisfied over time (transport services by vessel)	(Implementation Guidance on Accounting Standard for Revenue Recognition 97) For transport services by vessel for which revenue is required to be recognized over time if the period from departure from origin to arrival at destination on a voyage is on ordinary terms (including any empty return period and excluding sailing and waiting periods irrelevant to performing the transport service), an entity is permitted to account for the voyage by a vessel with cargoes for multiple customers as a single performance obligation and to recognize revenue over that period.	There are no specific rules as in JGAAP to the left.



	JGAAP	IFRS
Performance obligations satisfied at a point in time (practical expedient for recognition on shipment date)	(Implementation Guidance on Accounting Standard for Revenue Recognition 98) For domestic sales of merchandise or products, if the period from shipment date to the time of transfer the control of the merchandise or product (i.e., on inspection) is on ordinary terms, an entity is permitted to recognize revenue at a point in time between shipment date and time of transfer of control (e.g., shipment date or arriving date). Ordinary terms are considered as the number of days that are rational to ship and deliver domestically considering the respective trade practices).	There are no specific rules as in JGAAP to the left.
Measuring progress towards complete satisfaction of a performance obligation (practical expedient for early stages of a contract)	(Implementation Guidance on Accounting Standard for Revenue Recognition 99) For performance obligations over time, if an entity is not able to reasonably measure the outcome of a performance obligation in the early stages of a contract, the entity is permitted to recognize no revenue in the early stages of the contract until such time that it can reasonably measure the outcome of the performance obligation.	There are no specific rules as in JGAAP to the left.
Allocating the transaction price to performance obligations (usage of residual approach for immaterial promised goods or services)	(Implementation Guidance on Accounting Standard for Revenue Recognition 100) If the stand-alone selling price of a distinct good or service underlying each performance obligation is not directly observable, and that good or service is incidental to the other goods or services in the contract and is considered immaterial, an entity is permitted to use the residual approach to estimate the stand-alone selling price of that good or service.	There are no specific rules as in JGAAP to the left.

	JGAAP	IFRS
Combination of contracts, identifying performance obligations and allocating the transaction price based on stand-alone selling prices (unit of account and allocating the transaction price based on contracts separately)	<p>(Implementation Guidance on Accounting Standard for Revenue Recognition 101)</p> <p>If both of the criteria below are met, an entity is permitted not to combine two or more contracts and to consider promises to transfer goods or services to a customer in each contract as separate performance obligations. Revenue is then recognized based on the transaction price of the goods or services promised in each contract.</p> <ol style="list-style-type: none"> <li>1) Each contract with the customer depicts the transaction as agreed between the parties and is deemed to be the unit of the transaction in substance and</li> <li>2) Prices of the goods or services in each contract with the customer are determined reasonably so that the prices are not significantly different from their stand-alone selling prices.</li> </ol>	There are no specific rules as in JGAAP to the left.
Combination of contracts, identifying performance obligations and allocating the transaction price based on stand-alone selling prices (unit of account for construction and software customization contracts)	<p>(Implementation Guidance on Accounting Standard for Revenue Recognition 102, 103)</p> <p>For construction contracts or software customization contracts, an entity is permitted to combine two or more contracts and to identify them as a single performance obligation to the extent that the difference in the timing and the amount of revenue recognition is immaterial when two or more contracts are combined to depict the unit of account agreed between the parties in substance (including two or more contracts entered into with different customers or at a different time) compared to if each contract had been accounted for separately.</p>	There are no specific rules as in JGAAP to the left.

	JGAAP	IFRS
Other specified cases (revenue recognition based on usage measured monthly basis in the electricity business and the gas business)	<p>(Implementation Guidance on Accounting Standard for Revenue Recognition 103-2)</p> <p>In the case of the electricity and gas businesses, if billing to customers is conducted based on the usage of customers measured monthly basis at a date other than the end of the month, an entity is required to estimate the amount of revenue arising from the measuring date in the closing month to the end of the account period.</p> <p>However, the entity is permitted to estimate usage and unit price as below.</p> <p>Usage: to estimate on a pro-rata daily basis calculated by the ratio of the number of non-measuring days corresponding to the number of days in the closing month based on the volume delivered from the beginning to the end of the account closing month.</p> <p>Unit price: to determine based on the average unit price of the same closing month of the previous year.</p>	There are no specific rules as in JGAAP to the left.
Other specified cases (outsourced processing transactions where items supplied are chargeable, known as "Yusho-Shikyu")	<p>(Implementation Guidance on Accounting Standard for Revenue Recognition 104)</p> <p>For yusho-shikyu transactions, if an entity does not have an obligation to repurchase the supplied item, an entity shall derecognize that supplied item but it shall not recognize revenue for transferring that supplied item.</p> <p>On the other hand, if an entity has an obligation to repurchase the supplied item, an entity shall likewise not recognize revenue for transferring that supplied item but shall not derecognize the supplied item. However, an entity is permitted to derecognize that supplied item upon transfer in its separate financial statements (but an entity shall not recognize revenue on transferring the supplied item).</p>	There are no specific rules as in JGAAP to the left.

# 18.Share-Based Payments

## ► Significant differences

	JGAAP	IFRS
In scope transactions	<p>(Accounting Standard for Share-based Payments 17) The guidance in this standard is to be applied from the Companies Act implementation date (May 1, 2006) to: stock options granted; options over the company's stock; and transfers of a company's own stock (i.e., as consideration) (note each of these is specifically defined in the standard).</p> <p>(Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions, etc. 4) When an entity grants share acquisition rights with vesting conditions to an employee, the employee does not make a fixed payment to the entity in respect of those rights and they are not a consideration for labor or management services, they will be considered to be stock options within the scope of the "Accounting Standard for Stock Options 2(2)" in accordance with "Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions, etc."</p> <p>(Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts 3,4) Transactions through which the company's stock is made available to trusts with the intention of providing benefits to employees, and transactions granting the right to employees to obtain benefits from such trusts are not accounted for in accordance with the Accounting Standard for Share-based Payments but rather in accordance with "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts".</p>	<p>(IFRS 2.53, 54, 58) For equity settled share-based payments, IFRS 2 is applied to grants of shares, share options or other equity instruments that were granted after November 7, 2002 and had not yet vested as at the effective date of IFRS 2. The entity is encouraged, but not required, to apply IFRS 2 to other grants of equity instruments if the entity has disclosed publicly the fair value of those equity instruments, determined at the measurement date.</p> <p>IFRS 2 must be applied retrospectively for liabilities arising from share-based payment transactions (cash settled) existing on the date IFRS 2 became effective (IFRS 2 is effective for periods beginning on or after January 1, 2005).</p>

	JGAAP	IFRS
	<p>(Practical Solution on Transactions that Grant Shares as Compensation for Directors, etc. 3, 4)</p> <p>Applies to transactions such as issuing stocks that is for compensations for directors without payment based on the Companies Act 202-2</p>	
Classes of share-based payment transactions	<p>(Accounting Standard for Share-based Payments 3, 28)</p> <p>Applies to the granting of stock options to employees, and to transactions in which consideration for goods or services is given in the form of equity-settled share-based payments.</p>	<p>(IFRS 2.2)</p> <p>IFRS 2 is applied to equity-settled and cash-settled share-based payment transactions, and transactions that provide a choice of cash or equity settlement.</p>
Goods or services received cannot be clearly identified	There are no specific requirements.	<p>(IFRS 2.13A)</p> <p>IFRS 2 is applicable even to transactions where the goods or services received cannot be clearly identified.</p> <p>In such cases, the unidentifiable goods or services will be measured 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.</p>
Equity-settled share-based payments – measurement date	<p>(Accounting Standard for Share-based Payments 6,14,15, 64)</p> <p>Transactions with employees: Stock options granted as consideration for goods or services are measured on the grant date.</p> <p>Transactions with parties other than employees: Stock options granted as consideration for goods or services are measured on the contract date.</p> <p>Stock delivered as consideration for goods or services are measured on the contract date.</p>	<p>(IFRS 2.11-13)</p> <p>Transactions with employees are measured on grant date.</p> <p>Transactions with parties other than employees are measured on the date goods are obtained or services rendered.</p>
Definition of grant date	<p>(Accounting Standard for Share-based Payments 2(6))</p> <p>The grant date is defined as being the same as the “Allocation day” as defined under Japanese Company Law (Japanese Companies Act 238, 1(4))</p>	<p>(IFRS 2 Appendix A)</p> <p>The date at which the entity and another party (including an employee) agree to a share-based payment arrangement.</p>

	JGAAP	IFRS
Equity settled share-based payments - measurement method	<p>(Accounting Standard for Share-based Payments 6,14,15)  Transactions with employees - Stock options at grant date: There is typically no observable market price for the stock options themselves, and therefore they are measured using a widely accepted valuation technique that gives a reasonable estimated value.</p> <p>Transactions with parties other than employees: calculate using whichever of the two methods below gives the most reliable valuation:</p> <p>a) The fair value of the stock option (or stock) used as consideration  or  b) The fair value of the goods or services received</p> <p>Whichever gives the most reliable valuation is judged based on The Application Guidance 23 to The Accounting Standard for Share-based Payments.</p>	<p>(IFRS 2.10-13)  Transactions with employees: measure at the fair value of the equity instruments granted.</p> <p>Transactions with parties other than employees: measure the fair value of the goods or services received. Only where the fair value of the goods or services received cannot be estimated reliably, measure at the fair value of the equity instruments granted.</p>
Expiry due to vesting conditions not being met	<p>(Accounting Standard for Share-based Payments 6, 7)  Expiry of share options due to vesting conditions not being met is reflected in the deemed number of outstanding stock options and as such is not considered when determining the unit fair value of the share options.</p>	<p>(IFRS 2.21)  Market conditions, such as a target share price upon which vesting (or exercisability) is conditioned, are considered when estimating the fair value of the equity instruments granted. Therefore, such conditions have no effect on the number of shares expected to (or deemed to) have vested.</p>

	JGAAP	IFRS
Cases where estimation of the vesting date is difficult	<p>(Implementation Guidance on Accounting Standard for Share-based Payment 17(3),18,56)</p> <p>The guidance is consistent with IFRS in respect of the requirement to estimate the expected vesting period where it is unclear.</p> <p>However, where market share price conditions are attached, making a reasonable estimate of the vesting period may be difficult. If in such circumstances an estimate is not made, the grant is deemed not to have conditions attached and the full amount is expensed on the grant date.</p>	<p>(IFRS 2.15(b))</p> <p>If an employee is granted share options conditional upon the achievement of a performance condition, and as a result, the length of the vesting period is unclear, the entity must estimate the expected vesting period.</p> <p>If the performance condition is a market condition, the estimate of the length of the expected vesting period must be consistent with the assumptions used in estimating the fair value of the options granted and cannot be subsequently revised. If the performance condition is not a market condition, the entity shall revise its estimate of the length of the vesting period, if necessary, if subsequent information indicates that the length of the vesting period differs from previous estimates.</p>
Options that vest in installments	<p>(Implementation Guidance on Accounting Standard for Share-based Payment 20)</p> <p>In principle, where stock options granted vest in installments over the vesting period, each installment is treated as a separate grant. However, it is also permitted to account for them together as a single grant.</p>	<p>(IFRS 2.IG11)</p> <p>Where share options granted vest in installments over the vesting period, each installment is treated as a separate grant.</p>
<p>Modifications to vesting conditions resulting in a change in share option unit fair value</p> <p>(Cases where unit fair value at the date of modification exceeds unit fair value at the grant date)</p>	<p>(Accounting Standard for Share-based Payments 10(1),55)</p> <p>The incremental fair value granted is the difference between the fair value at the modification date and the fair value estimated at the grant date.</p>	<p>(IFRS 2.B43(a))</p> <p>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.</p>

	JGAAP	IFRS
If the fair value of the equity instruments granted cannot be estimated reliably	<p>(Accounting Standard for Share-based Payments 13) There are no specific rules.</p> <p>However, for unlisted companies, it is possible to account for stock options based on the estimated intrinsic value per option as a substitute for fair value. In this case, the intrinsic value per option at the grant date is estimated and is not revised later.</p>	<p>(IFRS 2.24) In rare cases, if the fair value of the equity instruments cannot be estimated reliably at the measurement date, the equity instruments are measured at their intrinsic value. This is measured initially at the date the entity obtains the goods or the counterparty renders service, and subsequently at each reporting date and at the date of final settlement, with any change in intrinsic value recognized in profit or loss.</p> <p>The goods or services received are recognized based on the number of equity instruments that ultimately vest or (where applicable) are exercised.</p>
Treatment after vesting date	<p>(Accounting Standard for Share-based Payments 8) If an option is exercised and new stock is issued, the portion of the amount recorded as share warrants that relate to the exercise of the option is transferred to paid-in capital.</p>	<p>(IFRS 2.23) The entity shall make no subsequent adjustment to total equity after vesting date. However, this requirement does not preclude the entity from recognizing a transfer within equity, i.e., a transfer from one component of equity to another.</p>
Cancellation or settlement of grant of equity instruments	There are no specific requirements.	<p>(IFRS 2.28) If a grant of equity instruments is cancelled or settled during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied), the entity shall account for the cancellation or settlement as an acceleration of vesting, i.e., recognize immediately the amount that otherwise would have been recognized for services received over the remainder of the vesting period.</p> <p>Any payment made to the employee on the cancellation or settlement of the grant shall be accounted for as the repurchase of an equity interest (i.e., deduction from equity), except to the extent that the payment exceeds the fair value of the equity instruments granted (any such excess is expensed).</p>



	JGAAP	IFRS
Lapse due to non-exercise of options	<p>(Accounting Standard for Share-based Payments 9)</p> <p>When options lapse because they are not exercised, the portion of the amount recorded as share warrants (or options) that relates to those options is recorded as a gain in the profit and loss account.</p>	<p>(IFRS 2.23)</p> <p>No adjustment is made to the existing equity balance. However, an entity is not precluded from recognizing a transfer within equity.</p>
Treatment of share-based payments among group entities in the separate financial statements of the parent and subsidiary companies	<p>(Implementation Guidance on Accounting Standard for Share-based Payment 22,62-66)</p> <p>In the following cases, stock options should be accounted for separately:</p> <ul style="list-style-type: none"> <li>a) Where a parent company grants its own options in its own stock directly to the employees of a subsidiary</li> <li>b) Where the parent company grants its own options to the employees of the subsidiary via the subsidiary</li> <li>c) Where the subsidiary grants options in its stock to employees as remuneration</li> <li>or</li> <li>d) where the parent or the subsidiary grants options in the parent's stock to parties other than employees of the parent/subsidiary</li> </ul>	<p>(IFRS 2.43A-43D)</p> <p>The treatment of share-based payments among group entities is determined in accordance with IFRS2.43A-43D.</p>
Share-based payment transactions with a net settlement feature for withholding tax obligations	<p>There are no specific requirements.</p>	<p>(IFRS 2.33E-33H)</p> <p>If tax laws or regulations oblige an entity to withhold an amount for an employee's tax obligation associated with a share-based payment and transfer that amount to the tax authority on the employee's behalf (where there is a net settlement feature), and without this feature, the share-based payment would have been classified as an equity-settled transaction, the whole transaction is treated as an equity-settled share-based payment.</p>

	JGAAP	IFRS
Delivery of the company's stock to employees through a trust	<p>(Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts 5-15)</p> <p>This standard provides guidance for the accounting treatment where a company's stock is delivered to employees, or a stock ownership association, through a trust.</p>	<p>IFRS does not provide any specific guidance in such cases, and as such, the applicable trust could be treated as an extension of the company, or alternatively, having assessed whether the trust should be consolidated in accordance with IFRS10, the transactions could be accounted for in accordance with the general provisions of IFRS2.</p>
Transactions that grant shares as compensation for directors	<p>(Practical Solution on Transactions that Grant Shares as Compensation for Directors, etc. 5, 6, 15, 16, 35-38, )</p> <p>In both cases of "pre-delivery type" and "post-delivery type", recognition and measurement of expenses are accounted for in accordance with the Accounting Standard for Share-based Payments (i.e., expenses are recognized as the services are received and measured by reference to the fair value of the shares).</p> <p>In the case of post-delivery type, the corresponding amount to record expenses in accordance with the services acquired should be recorded as "Share Award Rights" in net assets other than shareholder's equity until issuing stocks, and when new stocks are issued, the amount of the share award rights will be reclassified to issued capital or/and capital surplus.</p>	<p>(IFRS 2.7, 8)</p> <p>When the services acquired in a share-based payment transaction do not qualify for recognition as assets, they shall be recognized as expenses and an increase in equity should also be recognized.</p> <p>IFRS 2 does not prescribe the component of equity to which the credit should be taken.</p>
<p>Share-based payment transactions in which the entity receives or acquires goods or services instead of cash such as transfer restricted share grant agreement</p> <p>(Restricted Stock, Performance Share Unit)</p>	There are no specific requirements.	See the point above.

# 19.Employee Benefits, excluding Share-Based Payments

## ► Significant differences

	JGAAP	IFRS
Defined Benefit Pension Plans - Benefit Obligations	<p>(Accounting for Retirement Benefits 19)</p> <p>Either of the following methods may be selected:</p> <p>1) the straight-line method</p> <p>or</p> <p>2) the benefit formula method</p> <p>However, if this leads to a materially higher level of benefit in later years than in earlier years, a benefit formula method is used which averages the benefit evenly over the period.</p>	<p>(IAS 19.67, 70)</p> <p>In determining the present value of its defined benefit obligations and the related service cost using the projected unit credit method, the benefit is attributed to periods of service under each plan's benefit formula.</p> <p>However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years (excluding the impact of salary increases), an entity shall attribute that benefit on a straight-line basis.</p>
Defined Benefit Pension Plans - Plan Assets	<p>(Accounting for Retirement Benefits 27)</p> <p>When the funding status results in an asset being presented in the financial statements, it is recorded in an appropriately named account such as "Retirement benefit asset".</p>	<p>(IAS 19.8, 63, 64, 65)</p> <p>When an entity has a surplus in a defined benefit plan, it measures the net defined benefit asset at the lower of the surplus in the defined benefit plan and the asset ceiling.</p> <p>The asset ceiling is the present value of benefits from refunds and reductions in future contributions.</p>
Defined Benefit Pension Plans - Discount rate	<p>(Accounting for Retirement Benefits 20 note 6,8)</p> <p>The discount rate is determined based on the interest rates of highly stable bonds at the period end (there is no hierarchy).</p> <p>This is considered to be equivalent to the interest rates on government or government institution bonds and high-quality corporate bonds.</p> <p>Where there are no significant changes in variables such as the discount rate, it is allowable not to adjust them between periods.</p>	<p>(IAS 19.83)</p> <p>The rate used to discount post-employment benefit obligations (both funded and unfunded) is determined by reference to market yields at the end of the reporting period on high quality corporate bonds in a currency and with a maturity consistent with the benefit obligations. For currencies for which there is no deep market in such bonds, the market yields (at the end of the reporting period) on government bonds denominated in that currency are used.</p>

	JGAAP	IFRS
Accounting treatment where yield used to determine the discount rate is negative	(Practical Solution on the Tentative Solution Regarding the Discount Rate Used to Measure Post-employment Benefit Obligations When the Bond Yield is Negative 2) In the calculation of retirement benefit obligations where the yield over the expected payment period of highly stable bonds, which is the basis of the discount rate, is negative at the end of the period, the yield is either used as it is or deemed to be of zero value.	No equivalent treatment is specified under IFRS.
Defined benefit scheme- mortality rate	(Implementation Guidance on Accounting Standard for Retirement Benefits 27) In principle, when forecasting survival rate, the mortality rate for each age should be used. This mortality rate should be determined rationally using full population statistics for the country in which the relevant business entity resides.	(IAS 19.81, 82) Mortality assumptions are determined by reference to the best estimate of the mortality of plan members both during and after employment.  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.
Defined Benefit Pension Plans - Expected Return and interest costs	(Accounting for Retirement Benefits 21, 23, Practical Guidance for Accounting for Retirement Benefits 16, 21, 25) The expected rate of return is the rate of return that can be reasonably expected at the beginning of the year (the long term expected performance rate). This is adjusted if there is a significant change in expectations during the year.  Interest costs are determined by multiplying the retirement benefit obligation at the beginning of the reporting period by the discount rate. If there are significant changes in retirement benefit obligations during the period, these changes shall be reflected.	(IAS 19.123) The concept of the expected rate of return does not exist under IFRS.  The net interest on the net defined benefit liability (asset) is determined by multiplying the net defined benefit liability (asset) by the derived discount rate.

	JGAAP	IFRS
Defined Benefit Pension Plans – Past Service Cost	<p>(Accounting for Retirement Benefits 15, 25, notes 9, 10) (Practical Guidance for Accounting for Retirement Benefits 33, 41, 42, 43)</p> <p>In principle, past service costs will continue to be recognized as expenses over a fixed period (within the period of the remaining average service lives) (straight-line method), but alternatively, a fixed percentage of unrecognized past service costs can also be recognized as expenses (the constant rate method). The fixed percentage used in this case must be the rate at which past service costs are generally expensed over the average remaining service period.</p> <p>However, unless they occur frequently, it is preferable to recognize past service costs resulting from revisions to retirement allowance regulations on a straight-line basis over a fixed period for each year of occurrence.</p> <p>Unrecognized past service costs are recognized in other comprehensive income in net assets (equity), net of the related deferred tax.</p> <p>The current period's portion of past service costs accumulated in other comprehensive income is transferred to profit and loss as an adjustment to other comprehensive income.</p> <p>Although the amortization of actuarial gains and losses may commence from the period following the period in which they arose, this is not allowed for past service costs.</p> <p>Past service costs relating to employees who have retired may be separated from other past service costs and may be recognized in profit and loss fully at the time they arise.</p> <p>It is possible to determine different periods over which to amortize past service costs and actuarial differences.</p>	<p>(IAS 19.103) Regardless of whether entitlement is confirmed, an entity shall recognize past service cost as an expense at the earlier of the following dates:</p> <ul style="list-style-type: none"> <li>a) When the plan amendment or curtailment occurs</li> <li>b) When the entity recognises related restructuring costs or termination benefits</li> </ul>

	JGAAP	IFRS
Defined Benefit Pension Plans – Re-measurement (including Actuarial Gains and Losses)	<p>(Accounting for Retirement Benefits 24, note 7) (Practical Guidance for Accounting for Retirement Benefits 35) In principle, actuarial gains and losses which arise each period are amortized to profit and loss over a fixed number of years within the average remaining service lives (determined as the average period between the present and the expected date of retirement). However, it is also permitted to apply a method of recording unrecognized actuarial gains and losses as expenses based on a fixed percentage of the balance each year.</p> <p>Further, the unrecognized actuarial differences are recognized, net of deferred tax, as other comprehensive income within net assets.</p> <p>It is possible to determine different periods over which to amortize past service obligations and actuarial differences. Additionally, past service obligations related to retired employees can be separated from other past service obligations and expensed fully when incurred.</p>	<p>(IAS 19.120, 127-130) The components of defined benefit cost are recognized in other comprehensive income, except to the extent that another IFRS requires or permits their inclusion in the cost of an asset, as follows:</p> <ul style="list-style-type: none"> <li>a) Actuarial gains and losses</li> <li>b) The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset) recognized in profit or loss as in the section below</li> <li>c) Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset)</li> </ul> <p>Deferral of actuarial gains and losses is no longer permitted, and similarly, the concept of the expected rate of return on plan assets is no longer in use under IFRS.</p>

	JGAAP	IFRS
Defined Benefit Pension Plans – Net Interest (or interest expense)	<p>(Accounting for Retirement Benefits 21, 23)</p> <p>Interest expense is determined by applying the discount rate to the defined benefit liability at the beginning of the reporting period.</p> <p>The expected operating income from plan assets is determined by applying a reasonable expected rate of return (long-term expected operating rate of return) to total plan assets as at the beginning of the reporting period.</p>	<p>(IAS 19.120, 123-126)</p> <p>An entity shall recognize the components of defined benefit cost, except to the extent that another IFRS requires or permits their inclusion in the cost of an asset, as follows:</p> <ul style="list-style-type: none"> <li>a) Service cost in profit or loss</li> <li>b) Net interest on the net defined benefit liability (asset) in profit or loss; and</li> <li>c) Remeasurements of the net defined benefit liability (asset) in other comprehensive income</li> </ul> <p>Net interest is determined by multiplying the net defined benefit liability (asset) (the difference between the plan asset and plan liability) by the discount rate.</p> <p>In other words, the discount rate is also applied to the plan assets and the concept of expected rate of return on plan assets is no longer in use.</p> <p>The net defined benefit liability (asset) and discount rate are determined at the start of the annual reporting period. However, movements in the net defined benefit liability (asset) during the period due to contributions or benefit payments are also taken into account.</p>
Minimum funding requirements	There are no specific rules.	<p>(IFRIC 14.18-24)</p> <p>Requirements to provide a minimum amount to fund post-employment or other long term defined benefit plans are called minimum funding requirements.</p> <p>A minimum funding requirement can impact the determination of an asset ceiling (by impacting the determination of the economic benefit available as a reduction of future contributions) and in certain cases, it may be necessary to record a liability.</p>

	JGAAP	IFRS
Defined benefit pension- simple method	(Accounting for Retirement Benefits 26) (Practical Guidance for Accounting for Retirement Benefits 47) Small entities are permitted to use the simple method.	(IAS 19.60) In some cases, estimates, averages and computational shortcuts may provide a reliable approximation of the detailed computations.
Plan Assets	Practical Guidance for Accounting for Retirement Benefits 17) Unpaid contributions recorded in annual corporate plans are included in plan assets up to the amount accrued by the entity for these contributions (in such cases the retirement benefit liability is reduced by an amount equal to the unpaid contributions).	(IAS 19.114) Plan assets exclude unpaid contributions due from the reporting entity to the fund.
Recording of retirement benefit trusts as plan assets/pension assets	(Practical Guidance for Accounting for Retirement Benefits 18, 19) If a retirement benefit trust meets certain defined criteria, it is considered to meet the definition of a pension asset.	As there is no applicable guidance, such trusts must be assessed with respect to the applicable trust contract as to whether they meet the definition of a plan asset.



	JGAAP	IFRS
Treatment of plan amendments, and/or curtailments during the reporting period	<p>(Accounting for modifications to retirement benefit plans 4-13)</p> <p>Cases where there is an increase or decrease in the retirement benefit obligation consist of those where a settlement is required (the closure of a retirement benefit plan) and those where a settlement is not required (increase or decrease in the retirement benefit obligation).</p> <p>In the event of the closure of a plan, the difference between the retirement benefit obligation and the amount required to be paid or otherwise settled is recorded in profit or loss. This amount is determined as the difference between the retirement benefit obligation determined using the actuarial assumptions before and those used after closure of the plan.</p> <p>Unrecognized past service costs, unrecognized differences relating to actuarial assumptions, and amounts for which adjustments have not yet been made relating to changes in accounting standards are apportioned to the plans being closed on a reasonable basis and recorded in profit or loss.</p> <p>As they correspond to the definition of past service costs under the standard, in principle, increases and decreases in retirement benefit obligations should be amortized on a straight-line basis over the average remaining years of service.</p> <p>For unrecognized past service costs, unrecognized differences relating to actuarial assumptions, and amounts for which adjustments have not yet been made relating to changes in accounting standards arising prior to the increases or decreases in the retirement benefit obligation, the same treatment and remaining years of service amounts should continue to be applied as previously.</p>	<p>(IAS 19.122A, 123A)</p> <p>Where the net defined benefit liability (asset) is remeasured during a reporting period, current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement are determined using the actuarial assumptions used to remeasure the net defined benefit liability (asset).</p>

	JGAAP	IFRS
Multi-employer plans	<p>(Accounting for Retirement Benefits 33)</p> <p>In principle, a multi-employer plan should be accounted for as a defined benefit plan by calculating the pension assets associated with the company's obligation on a reasonable basis.</p> <p>In cases where the pension assets corresponding to the company's contribution cannot be reasonably determined, the plan should be accounted for as a defined contribution plan.</p>	<p>(IAS 19.37)</p> <p>There may be a contractual agreement between the multi-employer plan and its participants that determines how the surplus in the plan will be distributed to the participants (or the deficit funded). A participant in a multi-employer plan with such an agreement that accounts for the plan as a defined contribution plan in accordance with IAS19.34 must recognize the asset or liability that arises from the contractual agreement and the resulting income or expense in profit or loss.</p>
Accounting for Risk Sharing Pension Plans	<p>(Practical Solution on Accounting for Risk Sharing Pension Plans 3,4)</p> <p>Risk-sharing pension plans, where the contribution of a company for each period is limited to a standard premium stipulated in the agreement and any special premiums or risk response premiums, and the company is not in substance obliged to fund the outgoings of the plan, are classified as defined contribution plans. All other risk-sharing pension plans are classified as defined benefit plans.</p>	<p>There are no specific provisions such as those in Japanese GAAP. Any such plans are classified as defined contribution or defined benefit plans in accordance with the guidance outlined in IAS 19 and accounted for accordingly.</p>
Benefits other than post-employment benefits	<p>There are no specific rules.</p>	<p>(IAS 19.1, 2, 4, 5, 6, 7, 19, 61)</p> <p>IAS19 applies to all employment benefits other than those accounted for in accordance with IFRS2 <i>Share-based Payments</i>, and as such, benefits other than post-employment benefits fall within its scope.</p> <p>Employment benefits to directors and other company officers are also included.</p> <p>It is not limited to formal plans and contracts. It also applies to constructive obligations incurred when a company has no realistic alternative other than to pay benefits to employees due to informal practices.</p>

	JGAAP	IFRS
Paid vacation accrual	There are no specific rules.	(IAS 19.13-18) Provisions for accumulating compensated absences must be recognized.
Termination benefits	(Accounting for Retirement Benefits 10) One-off severance pay will be expensed when the employee applies for an early severance pay plan and the related amount can be reasonably estimated.	(IAS 19.165) A liability and an expense for termination benefits are recognized at the earlier of the following dates:  (a) When the entity can no longer withdraw the offer of those benefits  and  (b) when the entity recognizes costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits

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