

ASBJ Update

March 30-31, 2023

The observations and comments made in this presentation are those of the presenter, and do not necessarily reflect the views of the Accounting Standards Board of Japan (ASBJ).



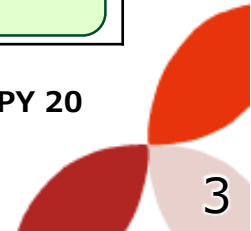
Accounting Standards in Japan

Types of Companies and Accounting Standards in Japan

Category	Approx. # of Companies	Consolidated F/S	Non-Consolidated F/S
Listed companies	3,900	<div style="border: 1px solid red; padding: 5px; margin-bottom: 5px;">Japanese GAAP</div> <div style="border: 1px solid red; padding: 5px; margin-bottom: 5px;">US GAAP</div> <div style="border: 1px solid red; padding: 5px; margin-bottom: 5px;">IFRS</div> <div style="border: 1px solid red; padding: 5px;">JMIS</div>	<p>Japanese GAAP</p>
Other public companies	500		
Other companies subject to statutory audit under the Companies Act*1	5,000		
All other companies	2,500,000	<p>No statutory reporting requirement</p>	<div style="border: 1px solid green; border-radius: 15px; padding: 10px; margin-bottom: 10px; background-color: #e0ffe0;"> <p>Guideline for accounting of SMEs</p> </div> <div style="border: 1px solid green; border-radius: 15px; padding: 10px; background-color: #e0ffe0;"> <p>Accounting guide for SMEs</p> </div>

Subject to statutory audit

*1 Companies with stated capital over JPY 500 million (approx. GBP 3.1 million) or total liabilities over JPY 20 billion (approx. GBP 125.7 million)

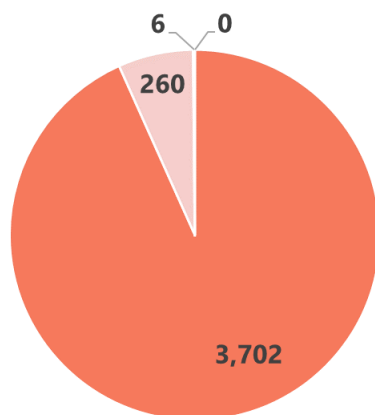


Accounting Standards Used in Japan

(as of December 31, 2022)

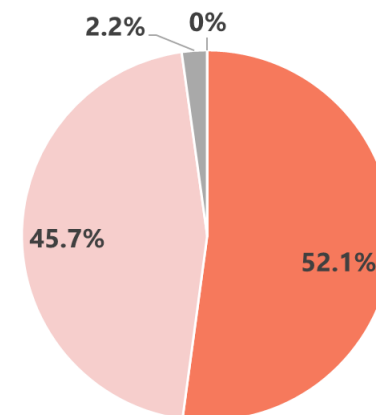
Accounting Standard	Number of Companies Adopted	Share based on Number of Companies	Market Cap. (in JPN tn)	Share based on Market Cap.
Japanese GAAP	3702	93.2%	367.8	52.1%
IFRS	260	6.6%	322.1	45.7%
US GAAP	6	0.2%	15.6	2.2%
JMIS*	None	-	-	-

Number of Companies



■ Japanese GAAP ■ IFRS ■ US GAAP ■ JMIS

Market Cap.



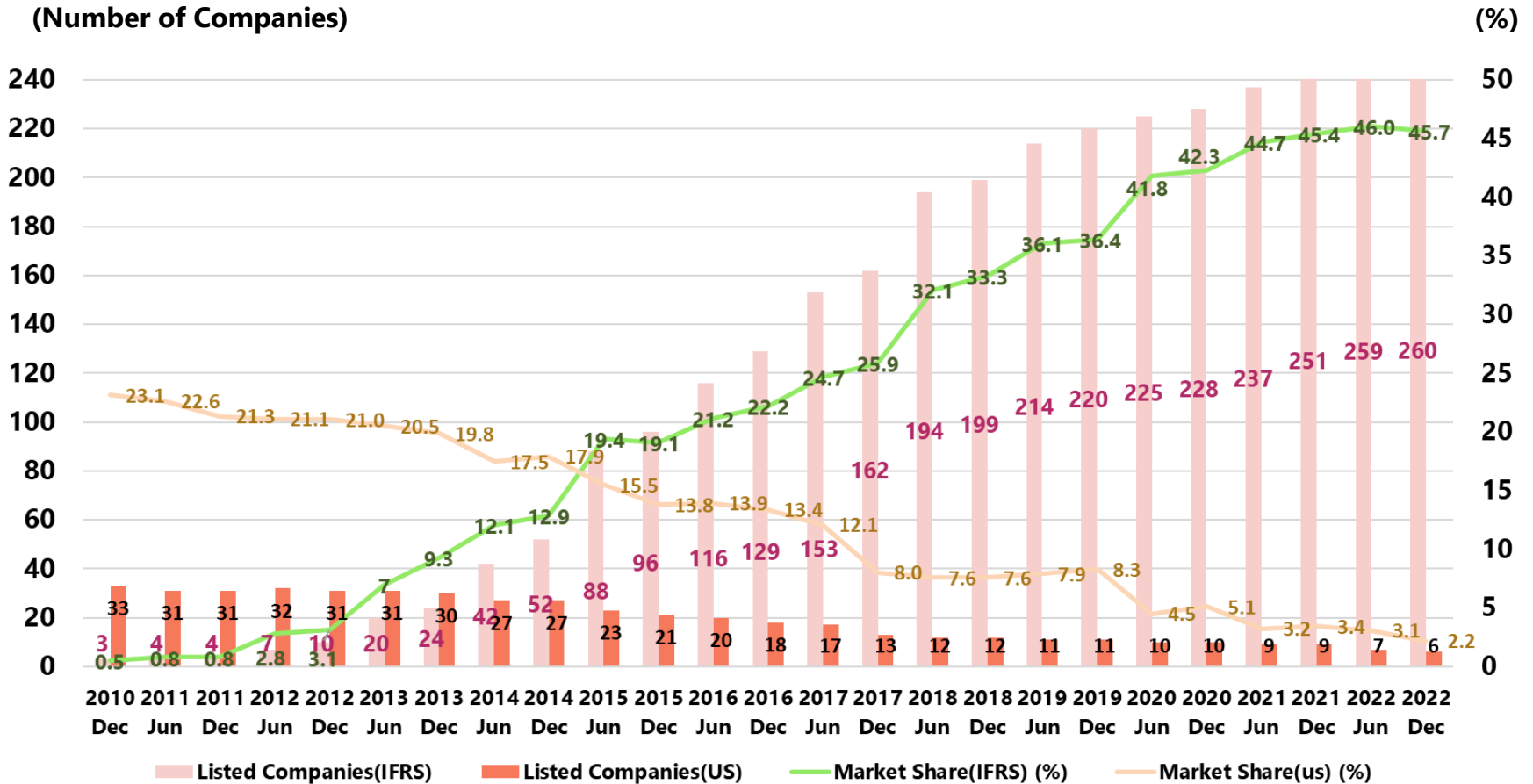
■ Japanese GAAP ■ IFRS ■ US GAAP ■ JMIS

* Japan's Modified International Standards

Trend in the Number of IFRS and US GAAP Adopters



Number of listed companies that adopt IFRS and US GAAP (IFRS adopters include those that have decided to adopt IFRS)



Note: Updated by ASBJ staff based on data provided by the Financial Services Agency and JPX.



Japanese Companies Using US GAAP



(as of December 31, 2022)

NOMURA

FUJIFILM
Value from Innovation

Canon

KOMATSU



OMRON

- ❖ **The Working Group on Corporate Disclosure of Financial System Council within the Financial Services Agency (FSA) tentatively decided to eliminate the requirement to file quarterly financial statements for Q1 and Q3**
 - ◆ **Results for Q1 and Q3 will be provided in quarterly earning reports based on the rules set by the stock exchanges**
 - ◆ **Whether standard setting is necessary to accommodate this change is uncertain**



The Medium-term Policy and Action Plans

The Medium-term Policy and Action Plans (1/2)

- ❖ **The ASBJ set its operational policy and action plans for the next three years as the updated Medium-term Policy and Action Plans in August 2022**
- ❖ **Basic policy**
 - ◆ **Improving the quality of accounting standards applied by companies in the Japanese capital markets**
 - ◆ **Ensuring that Japanese GAAP is of high-quality and aligned with international accounting standards**
 - ◆ **Communicating our views in order to enhance the quality of international accounting standards**

- ❖ **Development of accounting standards in Japan**
 - ◆ **In response to the changes in the economic environment, considering whether and if so when the ASBJ should initiate a project for accounting standard setting**
 - ◆ **Ensure (and maintain) that Japanese GAAP is of high-quality and is aligned with international accounting standards**
- ❖ **Contribution to the discussions in developing international accounting standards**
 - ◆ **Increasing Japanese presence and influence in developing international accounting standards**
 - ◆ **Collaboration with other national standard setters**



Development of Accounting Standards in Japan



- ❖ **Within the 3 phases of IFRS 9 (classification and measurement, impairment, and hedging), the ASBJ decided to focus on impairment as high priority**
 - ◆ **The ASBJ started discussions in August 2021**
 - ◆ **After considering both the IFRS 9 model and the Topic 326 model, the ASBJ tentatively decided to adopt the IFRS 9 model**
 - ◆ **The ASBJ will develop two sets of requirements**
 - ❖ **One set will be equivalent to IFRS 9 requirements, with few exceptions, if any**
 - **Major financial institutions are the intended users**
 - ❖ **The other set will consider practical difficulties in adopting IFRS 9 requirements, while ensuring that loan loss reserves are sufficient**
 - **Local and medium- and small-sized financial institutions are the intended users**

- ❖ **The ASBJ decided to develop a standard that would require lessees to recognize assets and liabilities for all lease transactions**
- ❖ **After considering both the IFRS 16 model and the Topic 842 model, the ASBJ tentatively decided to adopt the IFRS 16 model**
- ❖ **Controversial issues include the following:**
 - ◆ **Distinction between a service and a lease (for example, time chartered contracts in the maritime transportation industry)**
 - ◆ **Lease term**
 - ◆ **Subleases**
 - ◆ **Sale-and-leaseback transactions**
- ❖ **Next step is to issue an Exposure Draft**

Standard on the holding of crypto-assets

-  Issued a standard in March 2018
-  The standard mainly addressed the accounting for the holding of crypto-assets held by an entity on its own behalf and by dealers on behalf of their customers


Standard on the issuance and holding of STO tokens


-  Issued a standard in August 2022
-  The standard addressed the accounting for the issuance and holding of certain security tokens as defined in the securities regulations

Discussion Paper (DP) on ICOs

 Issued a DP in March 2022

 Main issues:

 Whether the ASBJ should immediately initiate a project for developing accounting standard for ICOs

 Potential issues that need to be addressed when the ASBJ considers issuers' accounting for the issuance of ICO tokens

 The ASBJ is currently discussing whether to develop a standard, considering the feedback received

Stable-coins

- ◆ In June 2022, the Payment Services Act was revised:
 - (i) to protect investors in stable-coins; and
 - (ii) to facilitate the use of stable-coins as means of settlement
- ◆ The ASBJ decided to develop a standard relating to holders' and issuers' accounting for stable-coins under this Act
- ◆ Main issues:
 - ❖ Relationship with the definition of cash
 - ❖ Recognition and measurement
 - ❖ Foreign-currency denominated stable-coins
 - ❖ Disclosures
- ◆ Next step is to issue an Exposure Draft

Retention of created crypto-assets

- ◆ Issuers' accounting for created crypto-assets retained by the issuer was scoped out when the ASBJ developed the standard on the holding of crypto-assets in 2018
- ◆ The issue was included in the DP on ICOs as one of the issues to be addressed if the ASBJ were to proceed with developing a standard related to the issuers' accounting for the issuance of ICO tokens
- ◆ The ASBJ discussed this issue triggered by communication among stakeholders related to the tax treatment for such crypto-assets
 - ❖ Tax rules had required all crypto-assets to be measured at market value, regardless of whether they fell under the scope of the ASBJ standard
 - ❖ Some entities left Japan to conduct crypto-businesses in other jurisdictions because of this tax treatment

Retention of created crypto-assets (continued)

- ◆ The ASBJ discussed this issue at its Board meeting in November 2022 and stated its informal view in the form of a Board meeting summary
 - ❖ When an issuer retains tokens without receiving any consideration, such transaction is considered to be conducted only within the issuer's own account and therefore retained tokens should not be recorded at market value

Income Taxes – International Tax Reform (1/2)

- ❖ **In Japan, the revised corporate income tax law which introduces the IIR included in the OECD's Pillar Two model rules is expected to be enacted/substantively enacted by the end of March 2023**
- ❖ **Short-term project**
 - ◆ **Many companies in Japan have March year-ends**
 - ◆ **The ASBJ issued an Exposure Draft which proposed to require entities not to consider the impact of the change in the tax laws until the ASBJ issues further guidance in February 2023**
 - ◆ **Final standard for the short-term project is to be issued by the end of March 2023**

- ◉ Longer-term project
 - ◆ The ASBJ will consider whether and if so how existing accounting standards for income taxes should be amended to account for the introduction of the OECD's Pillar Two model rules
 - ◆ Issues that are potentially controversial
 - ❖ Definition of income taxes
 - ❖ Timing of recognizing current tax liabilities
 - ❖ Measurement of current tax liabilities
 - ❖ Accounting for the impact on deferred taxes
 - ❖ Presentation and disclosures
 - ◆ Potential changes in IAS 12 will affect the consideration under Japanese GAAP from the perspective of globally converged accounting treatments for global agreements related to taxes




International Activities

- ❖ **Disclosures on business combinations**
 - ◆ **Our view is that enhanced disclosures do not resolve the issues related to the subsequent accounting for goodwill**
 - ◆ **While we acknowledge the expectations of users about this type of information, we have concerns with the proposed disclosures**
 - ❖ **We are not convinced with providing the proposed disclosures in the notes to the financial statements (rather than the Management Commentary)**
- ❖ **Changes to the impairment test of CGU containing goodwill**
 - ◆ **If the objective of the project is to improve effectiveness, our view is that the project should focus on removing the shielding effect resulting from the unrecognized headroom**

- ❖ Many constituents in Japan do not consider the IASB's proposals regarding the operating category and MPMs as improvements to financial reporting
 - ◆ Japanese GAAP requires the presentation of “operating profit or loss” in the income statement
 - ◆ Under Japanese GAAP, operating profit or loss is calculated by deducting the cost of goods sold and SG&A expenses from sales
 - ❖ Operating profit or loss is not calculated as a residual (that is, income and expense that are not classified as investing nor financing)
 - ◆ Regulatory reporting may require different calculation of operating profit or loss
 - ◆ Operating profit or loss presented under Japanese GAAP is accepted by constituents in Japan as a comparable subtotal

- ❖ **The IASB issued an Exposure Draft which proposed to introduce:**
 - ◆ **a temporary exception to the accounting for deferred taxes**
 - ◆ **targeted disclosure requirements**
- ❖ **Concerns with the timing of issuing the final standard**
 - ◆ **Situations in Japan**
 - ❖ **The revised corporate income tax law which introduces the Pillar Two model rules is expected to be enacted or substantively enacted by the end of March 2023**
 - ❖ **Many entities have fiscal years ending in March**
 - ◆ **We strongly recommended that the IASB first focus on introducing the temporary exception in order to expedite the process of issuing the final amendments**

Equity method

 The use of the equity method differs among jurisdictions, but Japan is one of the jurisdictions that uses the equity method frequently and thus the ASBJ views this project should be considered with high priority

Business combinations under common control (BCUCC)

 We are of the view that the controlling party should be treated as a primary user

- ❖ **Establishment of the SSBJ**
 - ◆ **To address issues related to sustainability reporting, the Sustainability Standards Board of Japan (SSBJ) was established on July 1, 2022 under the Financial Accounting Standards Foundation (FASF), which is also the mother organization of the ASBJ**
 - ◆ **The SSBJ decided to undertake projects to develop standards equivalent to the ISSB's S1 and S2 Standards**
- ❖ **The ASBJ's mandate is limited to accounting standards for financial statements and thus will not discuss sustainability reporting**
- ❖ **Issues on Management Commentary will be covered by the SSBJ, irrespective of whether the IASB or the ISSB (or both) work on the project**

