

30 July 2021

European Financial Reporting Advisory Group
35 Square de Meeûs
B-1000 Brussels
Belgium

Comments on the Discussion Paper *Accounting for Crypto-assets (Liabilities)*

1. The Accounting Standards Board of Japan (“the ASBJ” or “we”) welcome the opportunity to provide our comments to the European Financial Reporting Advisory Group (EFRAG)’s Discussion Paper *Accounting for Crypto-assets (Liabilities)* (“the DP”), issued in July 2020.
2. Our understanding is that the development of accounting standards to address the accounting for crypto-assets (liabilities) is not an issue only for the International Accounting Standards Board (IASB) but a global issue. The publication of the DP addresses this global issue and we commend EFRAG’s initiative. We would like to contribute to the initiative towards improving global accounting standards through the submission of our comments on the DP.
3. As we now live in the digital world, we believe that it is necessary to consider the accounting for crypto-assets within the context of considering the appropriate accounting for intangible assets in general. Therefore, we will discuss the development of accounting standards for crypto-assets after pointing out the problems in the IFRS Standard for intangible assets.

(Problems in IFRS Standard for intangible assets)

4. The existing IFRS Standard for intangible assets, IAS 38 *Intangible Assets*, does not contemplate the existence of intangible assets held for trading and thus does not permit the measurement of intangible assets at fair value through profit or loss. Normally, it is relevant to measure assets held for trading at fair value through profit or loss, regardless of whether such assets are tangible or intangible.

We believe that this is a critical gap in existing IFRS Standards, and therefore IAS 38 should prescribe that all intangible assets held for trading should be measured at fair value through profit or loss. In our view, "held for trading" specifically refers to

those assets held in expectation of capital appreciation without any business constraints on trading.

5. In addition, existing IFRS Standards focus on whether the item is tangible or intangible to determine its accounting. Therefore, even when the substance of the transaction is the same, the accounting may be different depending on whether the transaction gives rise to a tangible item or an intangible item. We think this is problematic.

(Development of IFRS Standards for crypto-assets)

6. For crypto-asset transactions where there is consensus among preparers, users, auditors and other stakeholders (“the stakeholders”) regarding the substance of the transaction, we are of the view that the accounting should appropriately reflect such substance.
7. For the holding of certain crypto-assets with no claim on the issuer, such as Bitcoins, we observe that the transaction may be new but the transaction is widely recognised as trading and investing in active markets. As described in paragraph 4 of this comment letter, we are of the view that IAS 38 should address the accounting for intangible assets held for trading. Such accounting would appropriately reflect the substance of the holding of such crypto-assets.
8. In addition, we note that, for certain transactions that are subject to existing IFRS Standards, there is consensus among the stakeholders that their substance (including the related rights and obligations and the nature of the investments) will not change but the accounting may change because the form of the transaction will change (that is, the transaction will be digitalized) and thus the IFRS Standard to be applied may change. For such transactions, we are of the view that the accounting should appropriately reflect their substance.

One example of such transactions is STOs, which, in our view, have the same characteristics as securities. Another example is CBDCs, which, in our view, have the same characteristics as cash. For such crypto-assets, existing IFRS Standards could be amended to clarify that existing IFRS Standards apply.

9. On the other hand, for transactions where there is no consensus among the stakeholders regarding their substance, we believe that it is premature to undertake standard-setting activities.

One example of such transactions is the issuance of ICO tokens. The status of legal developments and the content of contractual arrangements are critical for the understanding of the substance of the transaction, including related rights and obligations. Regarding ICOs, our understanding is that the status of legal developments currently varies from jurisdiction to jurisdiction. Therefore, we believe that a research project should be undertaken for ICOs and the developments in practice should be monitored. In the future, when there is consensus among the stakeholders regarding the substance of the ICOs, and if diversity in practice is observed, the need for standard-setting activities should be considered.

For our comments on the specific questions, please refer to the Appendix of this comment letter. We hope our comments on EFRAG's DP contribute to the improvement of global accounting standards. Please contact us if you have any questions.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'A. Kogasaka', written in a cursive style.

Atsushi Kogasaka

Chair

Accounting Standards Board of Japan

Our comments on specific questions**QUESTION 2 – WAY FORWARD**

Question 2.1. As detailed in **Chapters 3** and **4**, the DP proposes that there is need to address accounting topics, not in scope of the IFRS IC agenda decision on cryptocurrencies and to include unaddressed holders' and issuers' accounting topics.

Do you agree that there is need to address accounting topics not in scope of the IFRS IC agenda decision on cryptocurrencies? Please explain.

Question 2.2. **Chapter 6** and **Paragraphs ES35** to **ES46** of the executive summary section analyses three possible approaches on the way forward for addressing IFRS requirements.

Chapter 6: Paragraph 6.26, Table 6.1 outlines the pros and cons of each option. The three options are as follows:

- Option 1: No amendment to existing IFRS requirements;
- Option 2: Amend and/or clarify existing IFRS requirements; and
- Option 3: A new Standard on crypto-assets (liabilities) or digital assets (liabilities).

Which of the three options do you consider to be the most appropriate solution to address IFRS requirements?

Alternatively, please elaborate if you consider there to be other possible approaches towards clarifying and developing IFRS requirements for crypto-assets.

If a new standard is to be developed, what should be in its scope?

1. We agree with the proposal in the DP that there is a need to address accounting topics that are not in scope of the IFRS IC agenda decision on cryptocurrencies. Our views are described below.
2. As we now live in the digital world, we believe that it is necessary to consider the accounting for crypto-assets within the context of considering the appropriate accounting for intangible assets in general. Therefore, we will discuss the development of accounting standards for crypto-assets after pointing out the problems in the IFRS Standard for intangible assets.

(Problems in IFRS Standard for intangible assets)

3. The existing IFRS Standard for intangible assets, IAS 38 *Intangible Assets*, does not contemplate the existence of intangible assets held for trading and thus does not permit the measurement of intangible assets at fair value through profit or loss. Normally, it is relevant to measure assets held for trading at fair value through profit or loss, regardless of whether such assets are tangible or intangible.

We believe that this is a critical gap in existing IFRS Standards, and therefore IAS 38 should prescribe that all intangible assets held for trading¹ should be measured at

¹ One example is emission rights.

fair value through profit or loss. In our view, "held for trading" specifically refers to those assets held in expectation of capital appreciation without any business constraints on trading.

4. In addition, existing IFRS Standards focus on whether the item is tangible or intangible to determine its accounting. Therefore, even when the substance of the transaction is the same, the accounting may be different depending on whether the transaction gives rise to a tangible item or an intangible item. We think this is problematic.

(Development of IFRS Standards for crypto-assets)

5. For crypto-asset transactions where there is consensus among preparers, users, auditors and other stakeholders ("the stakeholders") regarding the substance of the transaction, we are of the view that the accounting should appropriately reflect such substance.
6. For the holding of certain crypto-assets with no claim on the issuer, such as Bitcoins, we observe that the transaction is widely recognised as trading and investing in active markets. As described in paragraph 3 of this Appendix, we are of the view that IAS 38 should address the accounting for intangible assets held for trading. Such accounting would appropriately reflect the substance of the holding of such crypto-assets.
7. If it is to be prescribed that only crypto-assets with no claim on the issuer that are held for trading should be measured at fair value through profit or loss, the scope of the crypto-assets would need to be specifically defined. In doing so, we think it is desirable to use technology-neutral definition. The definition of crypto-assets in the DP directly refers to the application of a specific technology, that is, the distributed ledger technology. However, the exclusivity of electronic information that can be subject to ownership may be created by other types of technology.
8. In addition, we note that, for certain transactions that are subject to existing IFRS Standards, there is consensus among the stakeholders that their substance (including the related rights and obligations and the nature of the investments) will not change but the accounting may change because the form of the transaction will change (that is, the transaction will be digitalized) and thus the IFRS Standard to be applied may change. For such transactions, we are of the view that the accounting should appropriately reflect their substance.

One example of such transactions is STOs, which, in our view, have the same characteristics as securities. Another example is CBDCs, which, in our view, have the same characteristics as cash.

9. Specific areas where we have identified issues and our proposed approach to developing standards are described in our responses to the specific questions.

QUESTION 3 - ACCOUNTING FOR HOLDERS

Question 3.1. The DP (**Chapter 3: Paragraphs 3.37 to 3.41**) has identified that applicable IFRS Standards for crypto-assets holders (IAS 2 and IAS 38) do not explicitly address situations where crypto-assets are considered to be held as nonfinancial asset investments. Furthermore, as outlined in **Chapter 3: Paragraphs 3.42 to 3.48**, there are situations where the measurement requirements under IAS 2 or IAS 38 may not allow FVPL or FVOCI to reflect the economic characteristics of crypto-assets with trading or investment asset attributes. For example, under IAS 38, FVOCI is only allowed if there is an active market. *Do you agree that standard-setting activity is needed to address the limitations of IAS 2 and IAS 38 requirements towards addressing non-financial asset investments; namely that: IAS 38 does not allow FVPL when cryptocurrencies are held as trading or investment assets; and IAS 38 does not allow fair value measurement when markets are inactive? Please explain.*

Question 3.2. The DP (**Chapter 3: Paragraphs 3.49 to 3.56**) has identified the need to clarify the eligibility of some cryptoassets for classification as financial assets. There may be a need to update IAS 32 such that crypto-assets that have similar characteristics or functional equivalence to equity or debt securities (e.g. rights to profit, stakes in partnership arrangements, voting rights, right to cash flows from entities) but do not meet the current definition of financial assets under IAS 32. Alternatively, there may be a need to classify crypto-assets as a unique asset and to allow accounting treatment that is similar to that of financial assets where appropriate.

Do you agree that there is need to clarify crypto-asset holders' eligibility to apply IFRS 9? Please explain.

Do you have views on whether or not IAS 32 needs to be updated to include crypto-assets (tokens) with functional equivalence to equity or debt securities, within the IAS 32 definition of financial instruments (financial assets for holders and financial liabilities for issuers) or alternatively whether crypto-assets should be classified as a unique asset and allowing accounting treatment similar to financial instruments where appropriate? Please explain.

Question 3.3. The DP (**Chapter 3: Paragraphs 3.57 to 3.63**) has identified that the definition of cash or cash equivalents may need to be updated to include some of the stablecoins that are pegged to fiat currency on a 1:1 basis, cryptocurrencies that qualify as e-money and CBDCs. And that crypto-assets received in exchange for goods and services could also be treated as being equivalent to foreign currency.

Do you have views on whether or not the definition of cash or cash equivalents needs to be updated? Please explain.

Question 3.4. The DP (**Chapter 3: Paragraphs 3.79 to 3.93**) proposes that the clarification of IFRS requirements is needed for holders on behalf of others (e.g. custodial services) including on interpretation of the indicators of economic control. Clarification is also needed for accounting by holders of utility tokens and hybrid tokens, and for holdings arising from barter transactions and proof-of-work mining activities (**Chapter 3: Paragraphs 3.64 to 3.76**). For hybrid tokens, there is a question of whether the predominant

component should be considered or if/how bifurcation principles should be applied to determine their classification and measurement. For utility tokens, there is also a question of the appropriate recognition and measurement of atypical tradeable rights (e.g. rights to update network functionality; and rights to contribute resources and effort to the system) and the lack of IFRS guidance for prepayment assets.

Do you agree that the aforementioned areas need clarification in IFRS requirements as has been identified in the DP? Please explain.

Question 3.1

10. We agree. Our view is provided in our response to Question 2.

Question 3.2

11. We agree that there is a need to clarify crypto-asset holders' eligibility to apply IFRS 9 *Financial Instruments*. Our view is described below.

12. As described in our response to Question 2, we are of the view that for certain transactions that are subject to existing IFRS Standards, there is consensus among the stakeholders that their substance (including the related rights and obligations and the nature of the investments) will not change. For such transactions, we are of the view that the accounting should appropriately reflect their substance.

One example of such transactions is STOs, which, in our view, have the same characteristics as securities and are observed in Japan. In addition, STOs, such as those referred to in the DP, where rights and obligations are required to be extensively documented either in a private purchase memorandum (PPM) or through a prospectus in similar manner to traditional capital markets securities, should also be accounted for in a similar manner if the security tokens have the same characteristics and thus the same substance as equity or debt securities.

Accordingly, if these crypto-assets are not treated in the same way as equity or debt securities because they do not meet the definition of financial assets in IAS 32 *Financial Instruments: Presentation*, the existing IFRS Standard, IFRS 9, which would otherwise apply, could be amended to clarify that IFRS 9 applies to such crypto-assets.

13. In developing IFRS Standards for crypto-assets, one possible approach might be to develop a new definition of financial instruments (financial assets for the holder and financial liabilities for the issuer) that would encompass certain crypto-assets. However, we do not support such an approach, because the definition of financial instruments is one of the key definitions within IFRS Standards and we are concerned that it could lead to unintended consequences, such as unexpected items newly meeting the definition of financial instruments.

Question 3.3

14. While the IFRS IC agenda decision concluded (at the time of publication of the agenda decision) that crypto-assets did not have characteristics of cash, the subsequent emergence of CBDCs that are likely to have the characteristics of cash suggests, in our view, that there is room to at least update the description regarding the relationship with cash in the agenda decision.
15. As described in our response to Question 2, we are of the view that the accounting should appropriately reflect the substance of crypto-asset transactions in the following manner:
 - (a) For new transactions, if there is consensus among the stakeholders regarding the substance of the transaction, the accounting should appropriately reflect such substance
 - (b) For certain transactions that are subject to existing IFRS Standards, if there is consensus among the stakeholders that the form of the transaction will change (that is, the transaction will be digitalized) but their substance (including the related rights and obligations and the nature of the investments) will not change, the accounting should appropriately reflect their substance.
16. Most of the CBDCs and stablecoins that are pegged to fiat currency on a one-to-one basis referred to in this question are still in the development stage. Based on the plans for these transactions that have been reported, CBDCs are likely to be addressed by paragraph 15(b), and stablecoins that are pegged to fiat currency on a one-to-one basis may be addressed by paragraph 15(a).

Therefore, if these items are not treated in the same way as cash or cash equivalents because they do not meet the definition of cash or cash equivalents in existing IFRS Standards, we are of the view that the definition of cash or cash equivalents should be revisited.

Question 3.4

17. Our view is described below.

(Recognition of deposited crypto-assets as assets by intermediary holders)

18. We agree that the requirements in IFRS Standards need to be clarified in order to determine whether the deposited crypto-assets should be recognised as assets by intermediary holders.

19. We understand that, many jurisdictions, including Japan, have established specific regulations for intermediary holders in terms of depositor protection, and that contractual arrangements usually exist between the depositors and the intermediary holders. Therefore, we think that there is a consensus among the stakeholders regarding the rights and obligations related to the intermediary holding of crypto-assets. In addition, whether the intermediary holder should recognise the deposited crypto-assets as assets is likely to be an important accounting issue because it may have a significant impact on the financial statements of the intermediary holder.

20. Our understanding is that the following views exist on this issue.

(a) The view that asset recognition is appropriate

Proponents of this view argue that, if crypto-assets are fungible (similar to cash) and the intermediary holder keeps the private keys, etc. necessary for the disposal of the deposited crypto-assets, the intermediary holder is in a position where it can dispose of the crypto-assets deposited by the depositor in the same manner as intermediary holder's own crypto-assets.

In addition, proponents of this view argue that, if the intermediary holder enters into bankruptcy and the deposited crypto-assets that fall within the bankruptcy estate will not be subject to the depositor's right of segregation based on the depositor's ownership rights, the deposited crypto-assets are considered to be homogeneous with the intermediary holder's own crypto-assets.

Considering these circumstances, proponents of this view argue that it is appropriate for intermediary holders to recognise deposited crypto-assets. The accounting standard in Japan was developed based on this view.

(b) The view that asset recognition is inappropriate

Given the situation described in (a), proponents of this view argue that, if the depositor can legally instruct the intermediary holder to dispose of the deposited crypto-assets and the depositor has economic control of the crypto-assets, the intermediary holder should not recognise the crypto-assets as assets because the crypto-assets are considered to belong to the depositor.

21. It has been reported that major financial institutions in some jurisdictions will newly engage in crypto-asset-related businesses, including crypto-asset custodial services, etc. Given that the number of intermediary holders of crypto-assets is expected to increase in the future, we think that it is necessary to consider clarifying the

accounting for deposited crypto-assets by intermediary holders, for example, by providing the indicators that should be emphasized when determining whether intermediary holders should recognise the deposited crypto-assets.

(Utility tokens)

22. We believe that it is premature to undertake standard-setting activities for the holding of utility tokens. Our view is described below.
23. We believe that it is premature to undertake standard-setting activities for transactions for which there is no consensus among the stakeholders regarding the substance of the transaction.
24. As pointed out in the DP, in many jurisdictions, there are many cases where the relevant contractual terms and conditions for the issuance of utility tokens are not clear due to the non-regulation or lack of clarity in the regulations. Therefore, at present, it would be difficult to accurately identify the existence or non-existence (including the degree of enforceability from a legal perspective), type and content of the obligations owed by the issuer. Correspondingly, it would be difficult to accurately identify the content of the rights held by the holder.

In addition, the DP introduces the trend of a significant decline in international ICO transactions involving utility tokens. In Japan, only a very small number of ICO transactions involving utility tokens by listed companies have been confirmed so far, and there have been no recent cases of issuance. Issuance is not expected to increase significantly under the current circumstances. With the limited number of transactions that can be observed at present and considering that each issuance of utility tokens is unique, we think they are not sufficient to identify the substance of the transaction.

25. Therefore, regarding the accounting for holders of ICO tokens, including utility tokens, we believe that a research project should be undertaken, along with the accounting for issuers, and the developments in practice should be monitored. In the future, when there is consensus among the stakeholders regarding the substance of the ICOs, and if diversity in practice is observed, the need for standard-setting activities should be considered.

QUESTION 4 - ACCOUNTING FOR ISSUERS

Question 4.1. The DP (**Chapter 4: Paragraphs 4.23 to 4.29**) concludes that in the absence of clarification by the IASB, the preliminary conclusion of this research is that ICO issuers (and issuers in similar offerings) can apply one or a combination of the following IFRS

Standards: IFRS 9 *Financial Instruments*, IAS 32 *Financial Instruments: Presentation*, IFRS 15 *Revenue from Contracts with Customers*, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IFRS 13 *Fair Value Measurement*.

Do you consider that existing IFRS Standards provide a suitable basis to account for crypto-liabilities by issuers of ICOs, IEOs and STOs? Please explain.

Question 4.2. The DP (**Chapter 4: Paragraph 4.28**) highlights a number of areas that could pose concerns with the application of IFRS 15 for an entity issuing crypto-assets through ICOs (or other offerings such as IEOs and STOs).

In cases when an issuing entity establishes that the issuance of crypto-assets falls within the scope of IFRS 15, which areas, if any, would you consider need further guidance/clarification for an entity to apply the principles in IFRS 15? Please explain.

Question 4.3. The DP (**Chapter 4: Paragraphs 4.25 and 4.29**) highlights a number of areas that could pose concerns with the application of IAS 37 for an entity issuing crypto-assets through ICO (or other offerings such as IEOs and STOs).

In cases when an issuing entity establishes that the issuance of crypto-liabilities qualify as a financial liability under IAS 32/IFRS 9 or as a provision under IAS 37, which areas, if any, would you consider need further guidance/clarification for an entity to apply these Standards? Please explain.

Question 4.1

(Accounting for issuers of ICO tokens)

26. We are of the view that the following situation exists regarding ICOs, and we recognise that there is no consensus among the stakeholders concerned regarding the substance of the transaction. For this reason, regarding the accounting for issuers (and holders) of ICO tokens, we believe that a research project should be undertaken for ICOs and the developments in practice should be monitored. In the future, when there is consensus among stakeholders regarding the substance of ICOs, and if diversity in practice is observed, the need for standard-setting activities should be considered.

- (a) Rights and obligations, which are critical in considering the appropriate accounting, usually arise from laws and contracts. Therefore, we believe that the status of legal developments and the content of contractual arrangements are critical for the understanding of the substance of the transaction. However, as pointed out in the DP, in many jurisdictions, there are many cases where the relevant contractual terms and conditions for the issuance of ICO tokens are not clear due to the non-regulation or lack of clarity in the regulations. Therefore, at present, it would be difficult to accurately identify the existence or non-existence (including the degree of enforceability from a legal perspective), type and content of the obligations owed by the issuer.
- (b) The DP introduces the trend of a significant decline in international ICO transactions involving utility tokens. In Japan, only a very small number of ICO transactions involving utility tokens by listed companies have been confirmed so

far, and there have been no recent cases of issuance. Issuance is not expected to increase significantly under the current circumstances. With the limited number of transactions that can be observed at present and considering that each issuance of utility tokens is unique, we think they are not sufficient to identify the substance of the transaction.

(Accounting for issuers of STO tokens)

27. As noted in our response to Question 3.2, we believe that for some STOs, there is consensus among the stakeholders that the substance of the transaction (including the related rights and obligations and the nature of the investments) will not change. For such transactions, existing IFRS Standards could be amended to clarify that existing IFRS Standards apply to the issuer as well as to the holder.

Question 4.2

28. If the accounting for issuers of ICO tokens were to be considered, the following issue would be a potential issue related to the application of IFRS 15.

Under the performance obligations approach adopted in IFRS 15, an entity shall recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In this context, some may argue that the standard does not assume that a transaction is an exchange of equals, because the standard does not require that the value of the goods or services to be transferred and the value of the consideration to be received should be economically equal when the two are assessed independently. However, our understanding is that the accounting in IFRS 15 assumes that a revenue transaction is an exchange of equals based on the assumption that transactions between third parties are generally assumed to be exchanges of equals.

However, in the context of the issuance of ICO tokens, in addition to cases where the issuer does not incur any obligations, there are cases where the issuer owes certain obligations to provide goods or services but the economic value of such goods or services is extremely insignificant compared to the amount of funds raised (consideration received). At present, it is not clear whether such cases are exceptional or not, because practices related to the issuance of ICO tokens have not been fully established. Nonetheless, if it turns out that such cases are not exceptional, it may be necessary to consider this issue as an issue specific to the issuance of ICO tokens.

Specifically, following existing guidance, if the amount received as consideration for the issuance of the ICO tokens is significantly higher than the value of the goods or services to be transferred, the entire amount of the funds received would be recorded as a liability and no gain would be recognised. We are concerned that such accounting may not appropriately reflect situations when the transaction cannot be considered an exchange of equals.

Question 4.3

29. Regarding some of the STOs referred to in our response to Question 4.1, as well as the comments on the accounting for holders described in our response to Question 3.2, the relevant existing IFRS Standards could be amended to clarify that the existing IFRS Standards apply to the accounting for issuers. In addition, as noted in our response to Question 3.2, we do not support the approach of developing a new definition of financial instruments that would encompass certain crypto-assets.

QUESTION 5 – VALUATION

Question 5.1. The DP (**Chapter 5: Paragraphs 5.44 and 5.45**) observes that when considering fair value measurement under IFRS 13, determining an active market for crypto-assets is not always straightforward.

Do you consider that the guidance in IFRS 13 provides an adequate basis to determine an active market for cryptoassets (and, if applicable, related crypto-liabilities) when these are measured at fair value?

Question 5.2. The DP (**Chapter 5: Paragraph 5.42**) observes that there is an emergence of valuation methodologies, that might differ from the fair value measurement guidance in IFRS 13, tailored for crypto-assets.

In the absence of an active market under IFRS 13, do you consider that IFRS 13 provides an adequate basis to determine an appropriate valuation technique to measure crypto-assets (and, if applicable, related crypto-liabilities) at fair value? If not, what alternative measurement bases do you propose?

Question 5.1

30. In applying the guidance on active markets set out in existing IFRS Standards, because there may be cases where the same crypto-asset is traded in a significant number of exchanges, unlike traditional instruments traded on a small number of traditional exchanges such as financial instruments exchanges, some note that, depending on the situation, it may be practically difficult to determine the most active exchange after comprehensively identifying the trading volume in each exchange to which the entity has access.

Question 5.2

31. We believe that it is necessary to carefully consider the usefulness of the information provided by measuring crypto-assets at fair value in the absence of an active market.

This is because, when measuring the fair value of certain crypto-assets (such as cryptocurrencies with no claim on the issuer), it is necessary to estimate the value based on the funds to be acquired through sale and conversion to cash (value in exchange) because the crypto-assets are not backed by cash flows. However, in the absence of an active market, it is likely that the historical transactions that would be used as the basis for estimating the value in exchange would be rare or that it would be difficult to obtain the relevant information. As a result, it may be difficult to determine the fair value objectively.

Under accounting standards in Japan, in the absence of an active market, the acquisition cost is used as the balance sheet amount. This is because, in many cases, there is no market price and it would be difficult to determine the fair value objectively. Moreover, it is difficult to estimate the net selling value based on the fair value.

However, under accounting standards in Japan, if the net selling value, which represents the recoverable amount in cash at the time of valuation, is less than the carrying amount, it is considered that profitability has declined and the carrying amount is written down to the estimated disposal value. The guidance also clearly states that the relevant estimated disposal value includes a measurement of zero, considering the practical difficulties in estimating the expected disposal value.