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## Who Proposes Agenda Topics?

### — The Division of Roles Between the Accounting Standards Advisory Council and the Accounting Standards Board of Japan

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**Abstract:** The primary focus of this study is to examine what roles ASAC and ASBJ have played when making agenda proposals (i.e., deciding whether to embark on standard-setting). Because this topic has scarcely been discussed to date, the study confines itself to fact finding. With a concrete concern in mind—namely, whether agenda proposals are made primarily by ASAC as a matter of due process under the Due Process Rules—we conducted the investigation.

The analysis showed that, in many cases, ASAC has followed the principled approach of making agenda proposals. At the same time, the number of cases in which ASBJ appears to have made agenda proposals is not negligible. However, a closer examination of cases initiated by ASBJ indicated that the overwhelming majority could be linked to related projects already underway or to its previously published Medium-Term Policies, even though no direct proposal was received from ASAC. In other words, these cases are indirect and, in substance, can largely be regarded as ones for which an agenda proposal was already been made.

In light of these findings, it cannot be concluded that the ASBJ autonomously determined agenda items simply because a case did not go through ASAC. In such cases, mostly, ASBJ appears to have proceeded on the basis of a judgment that substantive consensus had already been reached to the effect that it would commence standard-setting once certain conditions were satisfied—that is, it responded as if it had received a de facto agenda proposal. Accordingly, any attempt to grasp the realities of

the respective roles of ASAC and ASBJ in agenda proposals must consider not only which body formally initiated the proposal, but also the context in which the initiation took place.

In addition, this study undertook fact finding motivated by the question of what types of agenda proposals were submitted to ASAC and by which parties. Summarizing the findings in comparison with prior research on agenda setting at the U.S. FASB, we found that—unlike the United States, where the SEC accounted for a large share of agenda proposers—in Japan many agenda proposals came from auditors, whereas proposals from the Financial Services Agency (the Japanese counterpart to the SEC) were scarce. As for the areas in which proposals were made, both Japan and the United States saw many requests relating to accounting for financial instruments, accounting for leases, and accounting for retirement benefits.

Moreover, taking a step back from the Japan–U.S. comparison and surveying the proposed topics more broadly, we also found that, during the period examined, agenda proposals were dominated by requests to clarify interpretations, triggered by situations in which the interpretation of existing accounting standards became unstable or unclear. That said, the present study remains confined to fact finding, and explaining why the observed phenomena occurred—that is, identifying causal relationship—remains a task for future research.

## **1 Introduction: Statement of the Problem**

The Accounting Standards Board of Japan (Accounting Standards Board of Japan: ASBJ) is expected to make every effort to solicit sufficient input from market participants and develop standards that accurately reflect those “voices.”<sup>1</sup> As this is difficult to assess on a case-by-case basis, sufficiency of outreach is, in practice, judged by the compliance of ASBJ with due process (see Footnote 1).

Under that due process, accounting standards are, in principle, to be developed on the basis of agenda proposals (theme recommendations) from the Accounting Standards Advisory Council (Accounting Standards Advisory Council: ASAC) established within

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<sup>1</sup> For example, see Article 19 of the “Rules on Due Process for the Development of Accounting Standards and Modified International Standards” (hereinafter, the “Due Process Rules”).

the Financial Accounting Standards Foundation.<sup>23</sup> The ASAC deliberates on matters, such as the ASBJ's agenda topics and priorities, as well as issues relating to its deliberations and operations. When the ASAC concludes that a topic is highly important or urgent, it recommends that topic to the ASBJ. Upon receiving such a recommendation, the ASBJ is, in principle, required to respect it when determining its agenda<sup>4</sup>. In other words, the development of accounting standards begins with requests from market participants for consideration, followed by the ASAC's determination that the matter should be deliberated upon by the ASBJ, and, finally, the ASAC's recommendation of the topic to the latter.

However, these provisions do not mean that the ASBJ cannot independently determine agenda items unless it receives recommendations from the ASAC. The ASBJ may request that the ASAC consider particular agenda topics,<sup>5</sup> and in case of urgency, agenda items could be determined through deliberations by the ASBJ itself.<sup>6</sup> Nevertheless, the basic principle remains the standard setting based on the ASAC's recommendations. Exceptional responses justified by urgency or importance are more likely to cause departures from standard settings grounded in market participants' consensus. The principle of obtaining recommendations from the ASAC may be intended to prevent such outcomes.

However, the extent to which this principle and its exceptions are followed in a literal sense remains unclear. In the current environment of accelerating economic change, the need to develop accounting standards on an urgent basis is expected to increase. In addition, the practice of holding ASAC meetings thrice a year is adhered to without exception. Compared with the ASBJ, which, as a rule, meets twice a month, it is evident that the ASAC lacks agility. In light of these facts, it is possible that agenda-setting by the ASBJ has become so common that it can no longer be regarded as an exception.

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<sup>2</sup> To obtain an overview of the standard-setting process that complies with due process, the ASBJ's webpage "How Accounting Standards, etc. Are Developed" (<https://www.asbj.jp/jp/project/process.html>) is useful.

<sup>3</sup> With the establishment of the Sustainability Standards Board of Japan on 1 July 2022, the Standards Advisory Council was renamed the Accounting Standards Advisory Council. However, since no organizational changes are observed before and after the reorganization, this paper uses the term "Accounting Standards Advisory Council" to refer to the former Accounting Standards Advisory Council as well, unless otherwise necessary. Specifically, up to the 44th meeting (held on 2 March 2022) it was referred to as the Standards Advisory Council, whereas from the 45th meeting (held on 20 July 2022) onward it has been referred to as the Accounting Standards Advisory Council.

<sup>4</sup> See Article 23 of the Due Process Rules and Article 74 of the "Articles of Incorporation of the Financial Accounting Standards Foundation" (hereinafter, the "Articles of Incorporation").

<sup>5</sup> See Article 23(2) of the Due Process Rules.

<sup>6</sup> See Article 23(3) of the Due Process Rules.

The relationship between the ASBJ and the ASAC is depicted, for example, in the “organizational chart” on the website of the Financial Accounting Standards Foundation (Financial Accounting Standards Foundation: FASF).<sup>7</sup> This chart is based on the Articles of Incorporation of the Public Interest Incorporated Foundation, the Financial Accounting Standards Foundation (hereinafter, the “Articles”). However, the provisions in the articles concerning the relationships among organizations under the FASF are limited. Accordingly, a range of interpretations is possible with respect to the relationship between the ASBJ and the ASAC, as well as that between these bodies and the Board of Directors that appoints their members.

For example, it may be assumed that the ASAC is expected to play a role in restraining excessive standard setting and disciplining the ASBJ to develop standards within a cost-justified scope; in other words, a role that serves as a check on the ASBJ’s activities. Simultaneously, it is also conceivable that a division of roles is expected whereby, when considering major standard-setting projects that entail changes in the fundamental concepts underpinning accounting standards, the ASAC carefully solicits the views of market participants; however, for urgent projects—typified by standard setting to address interpretive divergence, while applying existing accounting standards in particular cases—the matter is left to the discretion of the ASBJ. Verifying the actual relationship between the two bodies should help clarify how governance functions within the ASBJ and related organizations. This study is guided by problem awareness.

Moreover, regardless of the nature of their relationship, the ASAC should efficiently allocate ASBJ resources (primarily human resources). Although this point is not necessarily stated explicitly, a decision by the ASAC not to issue a recommendation on a matter presented to it for standard-setting deliberation (a theme proposal) would presumably occur in either of the following cases: (a) even if an accounting standard were developed on the matter, it is not expected to achieve the ASBJ’s stated objective of financial reporting any better (see Chapter 1 of the Discussion Paper “Conceptual Framework of Financial Accounting”); or (b) although the developed standard is expected to contribute to achieving the objective of financial reporting more effectively, allocating the ASBJ’s scarce human resources to developing a different accounting standard is expected to achieve the objective even more effectively.

Among these, it is difficult to imagine that proposals of the type described in (a) would be brought forward, and, even if they were, they would likely be rejected through prior informal consultations between the parties and the ASAC. If so, the principal role expected of ASAC is substance, as described in (b). That is, the ASAC is expected to

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<sup>7</sup> <https://www.fasf-j.jp/jp/apercu.html>

decide whether to accept or reject a proposed topic from the perspective of allocating ASBJ resources to developing an accounting standard on that topic, which would enable the ASBJ to better achieve its organizational objective (providing information useful for investors' decision-making).

However, determining the projects that should be allocated more resources to further improve the usefulness of accounting information involves value judgements, and it is conceivable that the views of market participants on the best course of action will diverge. Accordingly, issues that require clarification include (i) the kinds of actors, their attributes and the types of proposals they present, (ii) the extent to which such theme proposals succeed, and (iii) whether the extent of theme adoption differs depending on the year of the proposal or the attributes of the proposer. These facts provide important clues for assessing whether ASAC fulfills its expected role. This study was guided by problem awareness.

## **2 Literature Review and the Research Focus**

Watabe [2015], writing as an insider, describes the significance of the Accounting Standards Advisory Council and the status of its activities up to the time the paper was published. Although her purpose—raising awareness of the Council's activities—differs from the problem consciousness of the present study, it is useful in that it carefully documents the activities of each meeting.<sup>8</sup>

Apart from Watabe [2015], few prior studies share the same problem consciousness as this study. We focused on prior studies that treat the (Corporate Accounting) Standards Advisory Council as a direct research subject (or part thereof); to the best of our knowledge, the literature is limited to Japanese papers. One may first cite Nakayama [2024] and Yamashita [2023] as initial examples. However, both focus on individual cases of the Council's activities and not directly on overall tendencies.

Additionally, a series of studies by Sanada (Sanada [2018] and Sanada et al. [2019]) has been conducted based on a consistent research question: Why do market participants recognize the accounting standards issued by the ASBJ as legitimate? Because the connection between the Advisory Council and the ASBJ may affect the legitimacy of the accounting standards issued by the ASBJ, these studies are not unrelated to the problem consciousness that underlies the present study. However, they differ from this

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<sup>8</sup> The historical background that led to clarifying the criteria for selecting agenda topics is explained in detail by Nishikawa [2012] and Nishikawa [2015].

study in that they do not treat the relationship between the Advisory Council and the ASBJ as a direct research focus.<sup>9</sup>

As noted above, the accumulation of studies directly addressing the division of roles between the Advisory Council and ASBJ is extremely limited. If certain empirical facts have already been clarified and some knowledge regarding the division of roles has reached a scholarly consensus, research could proceed by testing hypotheses formulated with such knowledge as a starting point (guide). However, because knowledge substantial enough to constitute a scholarly consensus (conventional wisdom) has not accumulated in this area, it is difficult to pursue research aimed at improving already widely accepted hypotheses.

Based on this recognition, this study does not set out specific ex-ante hypotheses about the division of roles between the Advisory Council and the ASBJ. Instead, relying on a fact-finding approach, it seeks to elucidate the full picture of how the two bodies were involved in decisions on whether to commence the development of accounting standards. The purpose of this study is to establish a “beachhead” that will be useful for future researchers in conducting hypothesis-testing research in this area.

Moreover, if one expands the scope of investigation beyond the Advisory Council and the ASBJ to include organizations playing similar roles, several interesting prior studies can be identified.

For example, Jiang et al. [2018] examined, in the context of the U.S., the types of constituencies that have frequently made agenda proposals. They showed that the U.S. Securities and Exchange Commission (36%) has remained the primary agenda proposer, followed by the American Institute of Certified Public Accountants and large accounting firms (24%). Allen [2018], sharing Jiang et al.’s [2018] interest in the attributes of those proposing agenda topics, tracks changes over time from the perspective that frequent agenda proposers may differ as economic environments change. It finds, among other things, that (a) prior to 2002, large audit firms accounted for the majority of agenda proposals, whereas from 2002 to 2006, financial constituents frequently made agenda proposals and (b) those preparing financial statements consistently showed little interest in agenda proposals and setting.

In addition to examining proposers’ attributes, Jiang et al. [2018] analyzed the purposes of agenda proposals and the areas in which proposals for standard-setting were made. They found that eliminating diversity (42%), implementation issues (36%), and

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<sup>9</sup> In addition, Yoneyama [2025] analyzes the activities of the Accounting Standards Advisory Council (ASAC) as a means of examining what expectations were placed on the accounting standards issued by the ASBJ.

changes in economic conditions (10%) were the most common reasons why the U.S. Financial Accounting Standards Board undertook standard setting. They also showed that, roughly one-third of the accounting standards issued by the U.S. Financial Accounting Standards Board between 1990 and 2009 were related to financial instruments. Other areas included industry-specific topics, pensions, other post-retirement benefits, codification, and leases.

The existence of such prior studies suggests the need to examine whether similar phenomena can be observed in the development of accounting standards in Japan. Conducting such an investigation would help to clarify whether the conclusions of prior studies are driven by institutional factors specific to the United States or are more general in nature.

This study is devoted to fact finding. Accordingly, it proceeds without positing a clear hypothesis about (i) what motives drive agenda selection by the ASAC and the ASBJ, or (ii) whether such motives are compatible with the objectives proclaimed by each organization—such as “developing accounting standards that reflect the views of market participants” or “providing information facilitating decision-making by investors and others.” This is because the accumulation of prior research is considered to be too limited to allow the formulation of a well-specified hypothesis. However, this does not mean that there is no existing literature that can inform future hypothesis development.

For example, Beresford [1993] notes that, throughout the accounting standard-setting process, there is a persistent need to set an appropriate agenda, weigh the competing views of conflicting stakeholders with respect to the agenda, and ultimately seek practical and useful conclusions. He also emphasizes that, although such judgements constitute one of the most important decisions for the FASB, their importance is not necessarily well understood.

What constitutes a “correct” judgment depends on which parties should be treated as stakeholders, yet reaching consensus on this point is difficult because it is inherently ambiguous. He further indicated that little input on agenda-setting is received from analysts and similar parties who should be key users, thereby expressing concern that it becomes difficult to make decisions that comprehensively reflect the opinions of market participants. The former Chair of the FASB identifies agenda-setting as one of the most important decisions in the overall standard-setting process and deserves careful attention.

Additionally, Young [1994] does not consider the issues that become subject to standard setting as a given; instead, she analyzes the agenda-formation process itself. From this perspective, this study seeks to explain what separates agenda items that are

discussed from those that are not.

Based on this analysis, Young [1994] showed that when selecting agenda items, the FASB does not primarily compare the benefits and costs of alternative courses of action; rather, it is attentive to the stakeholders' expectations of the FASB's role. The central conclusion is that, in agenda selection, the FASB evaluates what is appropriate to do under the expectations articulated by stakeholders. The observation that stakeholder-based evaluations of what the FASB "should" do may diverge from evaluations based on expected benefits and costs—and the conclusion that, when such divergence arises, the FASB prioritizes meeting stakeholders' expectations—offers useful implications for considering the behavioral logic of Japan's ASAC and ASBJ. Young [1994] assumed that the interaction among multiple actors within a "regulatory space" exerts an important influence on agenda-setting.

In contrast, Johnson and Swieringa [1996] reconstructed, based on internal FASB materials and interviews with relevant participants, the process by which the FASB added an agenda project to account for certain marketable securities in June 1991 and how that project ultimately resulted in FASB Statement No. 115 (issued in May 1993).

According to their study, the immediate trigger for heightened attention was that regulators and others raised doubts about the appropriateness of valuing financial institutions' investments in debt securities at amortized cost. They further documented that before the issue was formally placed on the agenda, the FASB faced pressure from a variety of external organizations, including regulators, the AcSEC, and large audit firms. The conclusion drawn in this study suggests that the influence of stakeholders' lobbying activities must be considered when analyzing agenda-admission decisions.

Howieson [2009] also recognized that agenda formation plays an important role in the overall standard-setting process, and sought to focus on the roles played by the key actors involved in that process (board members and technical staff). The study first noted that cases wherein the FASB "discovers" agenda items proactively by anticipating market reactions are limited; rather, the FASB mostly responds reactively to requests from stakeholders.

Howieson [2009] also examined agenda-admission criteria and found that agenda selection was evaluated against several pre-established criteria, whereas the extent to which each criterion was emphasized varied across cases. Extending these observations, this study argues that agenda selection is political and predetermined rules are not applied very literally.

Although not yet published at the time of writing, Kabir [2026] is a review article that systematically organizes the literature on the IASB, particularly studies on the

standard-setting process, and clarifies what has been established and what remains unresolved.

As indicated above, prior studies have only partially and narrowly illuminated the behavioral logic of the actors involved in agenda-setting. In light of this state of literature, this study aims to identify empirical facts that can contribute to the construction of a general behavioral model for future research. First, it seeks to clarify who has played a role in Japan's agenda selection process.

### **3 Specific Research Methodology**

#### **3.1 Period Covered by the Investigation**

The decision on whether to make a theme recommendation— that is, whether to allocate the ASBJ's resources to developing standards for a particular issue—constitutes the most upstream stage in the overall standard-setting process. To fully clarify how the ASAC and ASBJ play their respective roles at this stage, first and foremost, it is essential to comprehensively cover all considered themes.

Including the period when it was simply called the Standards Advisory Council, the Accounting Standards Advisory Council held 55 meetings up to the time of writing (February 2026) (the most recent meeting was held on November 17, 2025). Ideally, the analysis should cover the themes considered at the 55th meeting. However, since April 2025, Masaki YONEYAMA, one of the co-authors of this study, has been involved with the ASBJ as a part-time board member. In light of concerns, such as the inability to maintain independence as a researcher, this study limits its scope to themes considered at the 50th ASAC meeting (held on March 11, 2024).<sup>10</sup>

The next question is, how far back in time should the investigation proceed with respect to past themes? The Accounting Standards Advisory Council has a predecessor, the Theme Discussion Council. If one were to trace history back to the earliest point, it would be necessary to include the minutes of the Theme Discussion Council. However, publicly available information on its activities is scarce, making it difficult to ascertain what was done.<sup>11</sup> Additionally, even with respect to the Standards Advisory Council,

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<sup>10</sup> Issues of independence arise only with respect to the ASAC from the 54th meeting onward, and therefore meetings up through the 53rd ASAC (held on 3 March 2025) could, in principle, be included in the scope of analysis. However, because the analysis of the exposure drafts discussed later has been conducted only through the end of December 2023, the scope is limited to the 50th ASAC meeting to maintain consistency. The activities of the ASAC from the 51st through the 53rd meetings are mentioned as background information.

<sup>11</sup> It is fair to say that, apart from the records available at [https://www.asbj.jp/jp/archive/theme\\_advisory.html](https://www.asbj.jp/jp/archive/theme_advisory.html), there is no other directly accessible information on the activities of the Theme Advisory Council.

the process of theme recommendations was not necessarily well-established in the earlier period, and substantial variation was observed in the processes that led (or did not lead) to theme recommendations.

For these reasons, this study focuses, for the time being, only on agenda items considered by the Standards Advisory Council from the 15th meeting onward (held on 11 July 2012). At the 15th meeting, a method for selecting the themes to be recommended was discussed. From the 16th meeting onward, consistent theme selection was conducted based on the procedures approved at that meeting. These procedures, subject to minor modifications, have essentially continued until the present day. This is why this study limits its scope to deliberations from the 15th through 53rd ASAC meetings, as explained above.

### **3.2 Items Investigated**

Next, we will discuss the items investigated. Given the research question stated above, the most important task for this study was to collect, without omission, theme proposals submitted to the Accounting Standards Advisory Council. As discussed in detail later, 60 proposals related to accounting standards were considered by the ASAC during the investigation period.<sup>12</sup> To compile these proposals, we also sought to collect data on (i) whether each proposal was at the level of an Accounting Standard or Implementation Guidance (i.e., a Practical Issues Task Force Report) and (ii) the type of proposer (financial statement users, preparers, auditors, or academics). This is because it is plausible that adoption rates—defined as the proportion of proposals for which the ASAC recommended deliberation by the ASBJ (i.e., the number of adopted cases divided by the total number of proposals)—may differ depending on the proposer’s attributes and the level of the proposal. Although these items were not directly tied to the central research question of the study, they were compiled because they were considered important from the perspective of establishing a foundation for future research.

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<sup>12</sup> The primary sources (original materials) underlying the analysis and tabulation of the 60 theme proposals are presented in the appendix at the end of this paper. The appendix compiles the following information: (a) the meeting of the Accounting Standards Advisory Council at which the request for deliberation on a given theme was submitted; (b) the type of stakeholder submitting the request; (c) whether the submitter was involved with the ASBJ or the Financial Accounting Standards Foundation (FASF)—for example, as an ASAC member or a member of the Practical Issues Task Force; (d) the subject for the request for deliberation; (e) the discussions that ensued before the final decision; (f) whether the proposal was accepted; and (g) where additional explanation is necessary, what ultimately happened to the recommended theme thereafter. To improve the readability of the primary sources, item (e) has been separated into a standalone document.

After collecting theme proposals from the ASAC minutes ([https://www.fasf-j.jp/jp/standards\\_advisory/standards\\_advisory.html](https://www.fasf-j.jp/jp/standards_advisory/standards_advisory.html)) using a hand-collection method, we investigated how each proposal unfolded. Initially, we expected that requests for deliberation on accounting standards (i.e., deliberation-related proposals) would be classified into one of two outcomes—adopted or not adopted—and that the decision of whether to take up a theme (i.e., whether to make a theme recommendation to the ASBJ) would be made, after concentrated deliberation, within a relatively short period. However, as discussed later, our findings diverge from these expectations in several respects.<sup>13</sup>

In case it was guaranteed that the ASBJ commenced a standard-setting project that would be recorded in some form in the ASAC minutes, then the data necessary to examine this study’s central question—how do the ASAC and ASBJ share roles in the process leading up to theme selection—would be in place. However, when the ASBJ initiates a project on its own, pursuant to Article 23, paragraph 3 of the Due Process Rules, the due process documents do not provide a mechanism ensuring that this fact is recorded in the ASAC minutes. If so, focusing solely on ASAC materials would risk overlooking cases to which Article 23, paragraph 3, applies.

Accordingly, this study also examined the relevant minutes associated with each exposure draft of an accounting standard issued by the ASBJ through the end of fiscal year 2023 (near the end of the investigation period, that is, March 11, 2024, when the 50th ASAC meeting was held). Specifically, commencing from the publication date of each exposure draft, we traced the ASBJ minutes in reverse chronological order and verified whether the initiation of the project that resulted in the exposure draft was preceded by recommendations from the ASAC.

As will be discussed later, this exercise revealed that many exposure drafts were initiated during development after deliberation or reporting at the ASAC. However, there were also a non-trivial number of exposure drafts that could not be directly linked to deliberation or reporting at the ASAC. These exposure drafts are considered to have been initiated by the ASBJ pursuant to Article 23, Paragraph 3 of the Due Process Rules. As the investigation proceeded, it appeared that the reasons the ASBJ chose to rely on this exception were not limited to demands, such as urgency or importance (as explicitly stated in Article 23). Therefore, this study also classifies and aggregates, as an object of analysis, the background factors underlying the application of Article 23,

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<sup>13</sup> Our initial expectation was that by classifying the parties submitting theme proposals into four categories—users, preparers, auditors, and academics—we would be able to cover all cases; however, on this point as well, the results ran counter to my expectations.

paragraph 3.

The next section presents the results of the investigation conducted in accordance with the approach described above and offers an interpretation of these results.

## **4 Findings and Their Interpretation**

### **4.1 Key findings regarding the division of roles between the ASAC and the ASBJ**

As noted above, during the period covered by this study, 60 requests for consideration (i.e., requests that a matter be taken up as an agenda item by the ASBJ) were submitted. In light of this study's research question, we first attempted to classify these requests into (a) cases wherein the minutes explicitly stated that the request resulted in a theme recommendation, (b) cases wherein the minutes explicitly stated that it did not result in a theme recommendation, and (c) all other cases.

The results were as follows: 24 cases fell into category (a), 20, into category (b), and 16, into category (c). The breakdown of category (c) was: (c-1) one case for which no final decision had been made as of the time of writing (the 48th meeting: revision of Practical Issues Task Force Report No. 19, "Provisional Treatment for Accounting for Deferred Assets"); (c-2) one case wherein, after deliberations had been suspended for a long period, the matter was subsequently carried forward as a theme recommendation by the ASBJ (the 18th meeting: subsequent events); (c-3) eight cases wherein the ASBJ was asked to consider the matter by incorporating it into an already underway theme; (c-4) four cases wherein the ASBJ reported that it would take up the matter as an agenda item; and (c-5) two cases involving consultation by the ASBJ regarding a theme recommendation. In both cases, the ASAC expressed support.

While some items classified as (c) are difficult to interpret, the fact that (c-5), which appears to correspond to applications of Article 23(2) of the Due Process Rules, accounts for only two cases and that (c-4), which appears to correspond to applications of Article 23(3), accounts for only four cases (six cases in total, or 10% of all requests), suggests that, in most of the cases, the decision whether a matter should be deliberated by the ASBJ has been made by the ASAC in accordance with the general rule.

However, the foregoing results rely on the ASAC minutes. That is, the conclusion that the ASAC made the agenda-setting decision in most cases applies only to those wherein it was involved in theme selection. When the ASBJ initiates a project by applying Article 23(3) of the Due Process Rules, there is no guarantee that this fact will be recorded in the ASAC minutes.<sup>14</sup> As discussed in Section 2(2), to grasp the full

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<sup>14</sup> Although the fact that the ASBJ has commenced deliberations on a given topic is reported through the "Status of ASBJ Activities" document that is provided at each ASAC meeting as ASAC

picture of agenda-setting, it is necessary to comprehensively identify, using sources other than the ASAC minutes, the cases in which “the ASBJ decided to commence deliberations on its own, without going through the ASAC.”

Based on this need, we used ASBJ minutes to identify exposure drafts of accounting standards and related pronouncements issued during the period covered by this study.<sup>15</sup> We then traced the minutes to determine how the projects culminating in those exposure drafts were originally initiated, specifically, whether they were grounded in a theme recommendation by the ASAC.<sup>16</sup> The results of this investigation, which aimed to identify cases resulting in the publication of an exposure draft without being tied to an ASAC theme recommendation, were as follows:<sup>17</sup>

First, 43 exposure drafts were issued during the study period.<sup>18</sup> Of these, 13 cases were those wherein the relationship with ASAC deliberations was unclear (i.e., the ASAC minutes contained no statement that a theme recommendation was made in

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material, this amounts only to an ex-post report.

<sup>15</sup> The results of this investigation (i.e., the primary materials prior to aggregation) are reproduced in the appendix to this study. Specifically, by tracing back through the minutes of the ASBJ and the ASAC relating to the Exposure Drafts issued during the sample period, we examined, on a case-by-case basis, the circumstances under which deliberations were initiated. This process enabled me to distinguish between (a) cases in which an agenda recommendation by the ASAC led to the issuance of an Exposure Draft and (b) cases in which deliberations began—and subsequently resulted in the issuance of an Exposure Draft—without being based on a direct agenda recommendation by the ASAC.

Moreover, because the ASAC’s agenda recommendations had already been comprehensively identified prior to this investigation, an additional “by-product” of the above exercise was to reveal (c) cases wherein the ASAC had made an agenda recommendation but the project nevertheless did not culminate in the issuance of an Exposure Draft. For such cases as well, we reviewed the minutes to ascertain the discussions that took place up to the point at which a final decision was made to discontinue deliberations. The appendix sets out all of these findings in full.

<sup>16</sup> The materials examined comprised, by level of pronouncement, the following Exposure Drafts and all subsequent Exposure Drafts issued up to the end of 2023: Accounting Standards Exposure Draft No. 56 (proposed amendments to ASBJ Statement No. 12), “Accounting Standard for Quarterly Financial Statements (Draft)” (February 25, 2014); Implementation Guidance Exposure Draft No. 51 (proposed amendments to ASBJ Guidance No. 14), “Implementation Guidance on Accounting Standard for Quarterly Financial Statements (Draft)” (February 25, 2014); and Practical Issues Task Force (PITF) Exposure Draft No. 39, “Practical Guidance on Transactions in Which an Entity Delivers Its Own Shares to Employees, etc. through a Trust (Draft)” (July 2, 2013), as well as all other exposure drafts published thereafter through the end of 2023.

<sup>17</sup> Under the research method adopted in this study, if there were any cases wherein the ASBJ commenced standard-setting without receiving a topic recommendation from the ASAC but ultimately did not proceed to publish an Exposure Draft, such cases would be missed. However, even if such cases exist, they are likely to be few. Cases wherein standard-setting was initiated but did not culminate in the publication of an Exposure Draft are discussed later in the section on “secondary but interesting additional findings.”

<sup>18</sup> It is not uncommon for multiple Exposure Drafts to be issued simultaneously as part of a single project. In this study, the number of Exposure Drafts is counted in accordance with the classification method used on the ASBJ website under “Exposure Drafts” ([https://www.asbj.jp/jp/project/exposure\\_draft.html](https://www.asbj.jp/jp/project/exposure_draft.html)).

relation to the case) (see Table 1). Judging solely by the number of cases, the scale of instances wherein the ASBJ commenced standard setting without an ASAC theme recommendation does not appear negligible. However, a closer examination of these cases indicates that the ASBJ has not proceeded with a standard setting without considering the existence of the ASAC.

As shown in Table 1, the cases not directly linked to theme recommendations can be broadly classified into three categories. One category consists of matters that lie on the extension of a project that is already underway. In such cases, the need for standard-setting is widely recognized among market participants, and insistence on a fresh theme recommendation would likely be a waste of resources. Commencing the project without going through the ASAC appears to be attributable to such circumstances. In our assessment, 10 of 13 cases fell into this category.

The second category consists of cases where, in light of the ASBJ's basic policy described in its publicly announced Medium-term Strategy, it is self-evident that standard-setting should begin at an appropriate time. Here again, insofar as the need for standard-setting is widely understood among market participants, there is little need to insert an additional step in theme recommendation. Two of the examined cases fall under this category.

The final category comprised cases wherein, precisely because of urgency or importance, the ASBJ commenced standard-setting on its own initiative without involving the ASAC. Under the structure of the Due Process Rules, the prototypical instance of commencing standard setting without theme recommendations is the application of Article 23(3). However, in practice, only one case during the study period was included in this category, and remained exceptional.<sup>19</sup>

In summary, the “general rule” under which the ASBJ commences standard-setting after receiving an ASAC theme recommendation appears to have been observed quite strictly. Even in exceptional circumstances, when the ASBJ took the initiative in selecting themes, it appeared to have acted with consideration for the ASAC, for example, through consultation or reporting prior to commencing deliberations.

Simultaneously, there were also cases—of a non-negligible scale—wherein the ASBJ commenced standard-setting in a manner not directly linked to an ASAC theme recommendation (and therefore not recorded in the ASAC minutes). However, among such cases, those that appear to involve the application of Article 23(3)—that is, cases

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<sup>19</sup> In some cases where Article 23(3) of the Due Process Rules was applied, the ASBJ reported to the ASAC that it had commenced standard-setting. Including the cases mentioned above under (c-4) (four cases), the total number of applications of Article 23(3) during the period covered by this study amounts to five cases in total.

wherein the ASBJ decided independently to commence standard-setting because of urgency or importance— were extremely rare. Even when cases were not directly tied to an ASAC theme recommendation, the vast majority could be associated with past theme recommendations or with the Medium-term Strategy. In other words, although the linkage was indirect rather than direct, it is reasonable to conclude that most cases were connected to theme recommendations.

#### **4.2 Findings on the theme acceptance rate and the proportion of cases culminating in the publication of an exposure draft**

Up to this point, we have examined only the parties submitting theme proposals without considering whether the proposed themes ultimately became matters deliberated by the ASBJ. In practice, not all proposals came under deliberation. The minutes of the ASAC enlist “themes that were deliberated but did not result in a recommendation.” To the best of our knowledge, data corresponding to a “theme proposal acceptance rate” are not publicly available; however, this indicator may be informative when considering the role played by the ASAC. Therefore, we compute the acceptance rate with reference to the list above.

As stated in Section 3.1, 60 proposals and related items were received during the study period. First, we excluded one case which was decided at the time of writing. Next, we excluded two cases reportedly under deliberation by the ASBJ, because these decisions could not be realistically reversed. We also excluded four cases wherein the ASBJ sought consultation, as these consultations likely reflected a strong intention to commence deliberations and should therefore be removed from the set of cases in which the ASAC could decide freely. In 53 cases, acceptance or rejection was substantively considered. Of these, 20 became “themes that were deliberated but did not result in a recommendation.” Accordingly, 62.3% of the themes ultimately proposed led to the commencement of standard setting (see Table 2).

This study is a fact-finding exercise and no benchmark exists for evaluating whether the acceptance rate is high or low. Nevertheless, if the scope is limited to the period from the 32nd meeting (March 8, 2018; roughly the midpoint of the study period) onward, the number of “themes that did not result in a recommendation” is only three. In other words, the remaining 17 non-acceptances were concentrated in the first half of the study period. While there is not enough space to elaborate, this fact suggests that acceptance rates have been rising in recent years. The reason for this is an interesting topic for future research.<sup>20</sup>

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<sup>20</sup> For example, Sunder [2016] argues that, with respect to how accounting standards should be

The acceptance rate was calculated as the ratio of cases wherein deliberations commenced to the number of theme proposals (requests for consideration). However, as an indicator of the ASAC's contribution to the efficient allocation of the ASBJ's scarce resources, it may also be useful to examine the ratio of cases culminating in the publication of an exposure draft among those for which deliberations commenced (i.e., themes that were taken up). Cases where deliberations commenced but the project was ultimately abandoned without publishing a final output would, at least, with respect to that project, be viewed as cases with inefficient resource utilization. The frequency of such cases and how they differ between (a) projects initiated through ASAC theme recommendations and (b) projects initiated by the ASBJ itself may reflect differences in how the two bodies analyze whether a theme is worthy of initiation. If such differences are identified, the contrast between the roles of the two bodies becomes clearer.

The results of this investigation are summarized in Table 3. Although no cases were observed in which a project initiated by the ASBJ was abandoned midstream, several projects initiated by the ASAC were either interrupted or suspended. This striking difference may provide clues to understand the differences in the roles played by the two bodies when selecting themes.

### **4.3 Findings on the requesting parties and the domains in which standard-setting was sought**

This section summarizes the results regarding the attributes of the parties requesting deliberation on particular themes and domains in which the development of accounting standards was sought. Sixty cases were examined, as noted above. Classifying them by the proposed party yielded 4 cases proposed by users<sup>21</sup>, 12 by preparers<sup>22</sup>, 28 by

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designed, it is desirable to build—and support—institutions that can achieve an acceptable balance between rules and norms. He also contends that institutions responsible for setting accounting standards should strive to build consensus among market participants and not act on the basis of a simple majority vote. As long as the Accounting Standards Advisory Council and the Accounting Standards Board of Japan appropriately fulfil these roles, the resulting level of the calculated “adoption rate” is not, in itself, problematic. As emphasized in the main text, careful consideration is required when interpreting the adoption rate.

<sup>21</sup> The Securities Analysts Association of Japan is included in the “user” category.

<sup>22</sup> The Japan Business Federation (Keidanren), the Japanese Bankers Association, and the Japan Venture Capital Association are included in the “preparer” category.

auditors<sup>23</sup>, 1 by an academic, 8 by government agencies<sup>24</sup>, 6 by the ASBJ itself<sup>25</sup>, and 1 case where the attribute was unclear<sup>26</sup>. Additionally, the descriptions of proposing parties sometimes specified not only “user,” “preparer,” or “auditor,” but also whether the proposer is involved with the ASBJ or the FASF (e.g., as an ASAC member or as a member of the Practical Issues Task Force). In 24 cases, roles within the ASBJ or FASF were recorded, and the vast majority of these cases occurred in the early part of the study period. It is possible that during the period in which theme proposals became embedded among market participants, directly involved parties actively submitted proposals to raise awareness.

These results differ substantially from those of prior studies that focused on the United States. In those studies, the SEC was the primary proposer, whereas cases proposed by Japan’s Financial Services Agency, the counterpart of the SEC, are few. A distinctive feature of Japan is that, while auditors dominate as proposers, proposals are also submitted broadly by other types of parties. It is particularly noteworthy that government agencies are among the proposing parties.

Although this study does not provide a comprehensive cross-tabulation between proposer attributes and acceptance rates (or the completion rate for themes that were commenced), it is noteworthy that for cases proposed by government agencies, both the acceptance rate and subsequent completion rate were 100%.

When a government agency establishes a new regime (or scheme) and promotes novel transactions, many stakeholders may hesitate to participate unless it is clear in advance how such transactions will be accounted for. In this situation, the new regime’s policy effectiveness is weakened. A close reading of the cases requested by government agencies suggests an intention to avoid such outcomes, namely to have accounting treatments specified in advance, on the assumption that a new regime will be introduced. When faced with such requests, it would be difficult for the ASBJ, a private-sector body, to refuse even under severe resource constraints. Government-initiated proposals exhibit a 100% completion rate, which is consistent with this scenario.

Of course, it is not inappropriate for the ASBJ to respond to requests from

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<sup>23</sup> The Japanese Institute of Certified Public Accountants (JICPA) is included in the “auditor” category.

<sup>24</sup> The “government ministries and agencies” category includes the Ministry of Economy, Trade and Industry (two cases), the Ministry of Agriculture, Forestry and Fisheries, the Cabinet Office, the Ministry of Health, Labor and Welfare, the Ministry of Justice, and the Financial Services Agency (two cases).

<sup>25</sup> This includes cases where the ASBJ sought advice (consultation) or reported that it had commenced standard-setting activities.

<sup>26</sup> It was recorded only as a proposal made by a member of the Accounting Standards Advisory Council, and the proposer’s affiliation/category was not explicitly stated.

government agencies, and a high completion rate is not problematic. Nevertheless, standard setting was originally expected to function, such that when new transactions arose, diverse voluntary practices emerged, and accounting standards were then developed to standardize these practices. Taking this as a benchmark, standard-setting that “creates something from nothing” in response to a request from a government agency (i.e., standard-setting that does not take the form of standardizing pre-existing practice) should be regarded as an irregular type of standard-setting.<sup>27</sup>

In such cases, the ASBJ must anticipate the accounting treatments that are likely to become dominant—and to form a consensus as “standard practice”—if no standards are developed in advance and the accounting for new transactions is left to the parties’ voluntary choices; and it must proceed with standard-setting based on that anticipation<sup>28</sup>. Because there is no established practice to serve as an anchor for standardization, it is arguably more difficult in such cases than in ordinary circumstances to appropriately reflect “the voice of market participants. In such cases, measures, such as treating them as priority items in post-implementation reviews (PiRs), may be necessary. In any event, one important finding of this study is that standard-setting is not limited to the type that standardizes accounting treatments cultivated through practice.

Finally, we described the results of the fields and domains requesting deliberation. Unlike the FASB, the ASBJ does not develop industry-specific accounting standards, nor does it perform work equivalent to codification. Therefore, a simple Japan–US comparison is not possible. Nonetheless, comparison is permissible if undertaken with due awareness of constraints and limitations.

As an overarching characteristic of the proposed themes, few sought changes that would alter the foundational concepts underlying accounting standards. In contrast, proposals have frequently aimed to resolve the interpretative divergence in applying existing standards arising from changes in the environment and related factors. In other

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<sup>27</sup> Like the revenue recognition standard, developing accounting standards with the aim of achieving as much consistency as possible with international standards while still considering Japan-specific transaction practices into account also has aspects that differ from traditional standard-setting. However, this type of standard-setting may be viewed as arising from a change whereby, in pursuing “standardization,” the scope of transactions to be considered is not limited to domestic transactions but is extended to include international transactions as well. In that sense, it differs from standard-setting undertaken in response to requests from government agencies, in that it is still grounded in pre-existing practical conventions.

<sup>28</sup> Financial statement preparers who are reluctant to assume responsibility for voluntarily selecting an accounting treatment in the absence of clear rules would, if the ASBJ did not establish an accounting standard in advance of the transaction, likely seek a similar role from audit firms and follow what is regarded as “standard” accounting practice in the sense that it is set out in those firms’ manuals.

words, many proposals sought responses to issues encountered when applying standards (clarifying interpretations), rather than changing the standards themselves. The fact that practical issue-level proposals are roughly comparable in number to accounting-standard-level proposals is consistent with this inference.

Typical examples include cases where new transactions have become widespread, but accounting treatments remain diverse and standardization lags, and cases where frameworks of the regime have been established in advance, but the accounting required when the scheme takes effect is unclear. The resulting lack of predictability leads market participants to hesitate to participate in the transaction. Concrete examples include ASRs, stock-benefit trusts, risk-sharing DB plans, concession arrangements for the operation of public facilities, crypto-assets, ICO tokens, one-investor private placement investment trusts, and virtual PPAs. Another typical case involves changes in accounting standards prompted by those in related legal regimes, especially tax reforms, such as responses to BEPS 2.0, consolidated taxation, and the effects of tax reforms on tax accounting under the consolidated taxation regime. Unlike in the United States, the close linkage between corporate accounting and the related legal regime likely gives rise to these features.

These tendencies may reflect the fact that the study period corresponds to a “stable phase” of accounting standards. In periods, such as Japan’s “Big Bang,” when the country was required to catch up with the United States and many major standards were revised, or around 2005, when major revisions to several important standards were urgently demanded in response to equivalence assessments by the Committee of European Securities Regulators (CESR), the results would likely have differed substantially. The present findings suggest that although several major standards were significantly revised in the past decade to enhance alignment with IFRS (e.g., revenue recognition, leases, and fair value disclosures), the foundational concepts underpinning accounting standards across domains broadly remained stable. The results also suggest an increased frequency of new transactions (including the government-led construction of schemes that generate new transactions) and an increased frequency of changes in related legal regimes that affect accounting.

Next, we describe the results of the domains in which the themes were proposed. While there is considerable discretion in how categories are defined and the following classification is not inevitable, almost all cases can be covered by introducing the following six categories:

1. Accounting for Financial instruments (derecognition of financial instruments,

impairment of listed affiliated company shares, hedge accounting, effects of interest rate benchmark reform, crypto-assets, ICO tokens, etc.)

2. Accounting for Leases (substance-based leases, need to revise standards for international consistency, and instalment sales)
3. Accounting for Business combinations (contingent consideration, reorganizations conducted without consideration, mergers)
4. Tax effect accounting (recoverability of deferred tax assets, consistency between consolidated taxation and tax effects in business combinations)
5. Accounting for Employee benefits (accounting for fund dissolution, prepayments related to substituted portions, and risk-sharing DB plans)
6. Disclosure-related issues (notes on significant judgements and sources of estimation uncertainty)<sup>29</sup>

As previously noted, these categories are not uniquely determined. However, the fact that almost all cases can be subsumed within six categories suggests that theme proposals (requests for deliberation) are concentrated in domains that attract the attention of market participants. What drives this concentration remains an open question for future research.

This study does not conduct a rigorous cross-tabulation between proposer attributes (users, preparers, auditors, academics, and government agencies) and the domains (fields) that requested deliberation. While such rigorous analysis is relegated for future work, we believe that it would likely yield patterns, such as the following:

1. Auditor proposals (comparative information, contingent consideration, point provisions, restructuring provisions, subsequent events, going concern, etc.) tend to concentrate on areas with difficult audit judgements and high audit risk.
2. Preparer proposals (various issues related to tax accounting, intangible assets, the relationship between IFRS and J-GAAP, impairment of listed affiliated company shares, etc.) tend to concentrate on areas where it is difficult for preparers to justify the basis for their judgements, and the burden is, therefore, heavy.
3. User proposals (e.g., clarifying the consolidation scope, subsequent events, developing comprehensive standards for intangible assets) tend to concentrate on areas that affect the comparability of accounting information.
4. Government-agency proposals (crypto-assets, ICO tokens, electronic payment

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<sup>29</sup> Financial instruments, leases, and employee benefits (pensions) were also identified in prior research on the US FASB as areas with frequent agenda proposals.

instruments, interest rate benchmark reform, responses to BEPS 2.0, etc.) tend to concentrate on cases where revisions to related legal regimes or self-regulatory rules have important effects on accounting.

We would like to continue pursuing research grounded in this line of inquiry.

## **5 Concluding Remarks and Future Issues**

This study discusses the roles of the Accounting Standards Advisory Council and the Accounting Standards Board of Japan in making theme recommendations, that is, deciding whether to commence standard-setting projects. Since this topic has scarcely been examined to date, the study adhered strictly to a fact-finding approach and investigated with a concrete focus on whether the principle-based process prescribed by the due process rules has been followed—in other words, whether theme recommendations have primarily been made by the Accounting Standards Advisory Council. Since no compiled dataset exists for the research question, the study seeks to capture the overall picture of theme recommendations by employing a hand-collection method and carefully reading the minutes of the Accounting Standards Advisory Council and the Accounting Standards Board of Japan.

The analysis indicates that, in most cases, the Advisory Council followed the principle-based approach of making theme recommendations. The number of cases in which the ASBJ initiated themes was not negligible. However, a closer examination of the cases initiated by the ASBJ reveals that although they were not supported by direct recommendations from the Advisory Council, an overwhelming majority were linked to related projects already underway or to previously published medium-term operational policies; that is, they were cases that can be regarded as indirect, and in substance, already having been the subject of a theme recommendation.

In other words, the fact that a case did not pass through the Advisory Council does not necessarily mean that the ASBJ independently determined the agenda. In most such cases, the ASBJ appears to have acted on the basis of the judgment that a substantive consensus had already been formed that standard-setting should begin once certain conditions were met, effectively responding to a *de facto* theme recommendation. Accordingly, any attempt to understand how responsibilities for theme recommendations are actually allocated between the Advisory Council and ASBJ must consider not only who initiated the item but also the context in which it occurred.

However, it is not simple to examine the context of new theme proposals. If the accountability expected of parties involved in standard-setting includes that for

explaining the process leading to a theme recommendation, then a more careful explanation is warranted than is currently provided, regarding how and why new standard-setting initiatives arose, particularly in cases initiated without going directly through the Advisory Council.

As noted at the outset, in addition to examining the division of roles between the ASAC and ASBJ, this study also undertakes fact-finding on what kinds of theme proposals were submitted to the ASAC and by which constituencies. Summarizing the results in comparison with prior research on agenda selection by the US Financial Accounting Standards Board, the composition of proposers differed markedly. Unlike in the United States, where the SEC accounted for a significant share, Japan witnessed many proposals from auditors, while proposals from the Financial Services Agency—Japan’s counterpart to the SEC—were rare. By contrast, the areas in which proposals were made were similar in both countries; requests related to accounting for financial instruments, leases, and employee benefits were frequent. Looking beyond the US–Japan comparison and surveying the proposals in their entirety, the study also finds that, during the period examined, theme proposals were predominantly aimed at clarifying interpretations in response to situations where the meaning or application of existing standards had become unstable or unclear. However, the present study is purely fact-finding in nature, and identifying the causal mechanisms behind the observed patterns is left for future research.

Decisions on how to allocate the limited resources of the Accounting Standards Board of Japan across competing standard-setting projects can substantially affect the structure of Japanese accounting standards. Despite this importance, the roles played by the Advisory Council and the ASBJ in initiating standard-setting projects have not been subjected to academic analysis, most likely because the data required for such an analysis have not been provided in a readily usable form. Although the additional analysis in Section 3 presents only part of the picture, it reveals that a non-trivial number of cases exists wherein proposals were made but did not result in an actual standard setting.<sup>30</sup> It is hoped that this study will prompt greater attention to the starting point of the standard-setting process—that is, the “most upstream” stage—and will contribute to the accumulation of academic knowledge in this area.

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<sup>30</sup> Whether a proposed theme is taken up for deliberation is supposed to be determined on the basis of the “Factors to Consider When Examining New Themes” ([https://www.fasf-j.jp/wp-content/uploads/sites/2/20121108\\_05.pdf](https://www.fasf-j.jp/wp-content/uploads/sites/2/20121108_05.pdf)). In cases classified as “themes that did not lead to a theme recommendation,” at least one of the factors set out there in presumably was not satisfied. Identifying which requirement(s) most frequently fail to be met is also an intriguing topic on which further progress can be expected in future research.

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Table1 Standard-setting projects not directly linked to agenda recommendations

title	date of publication	Considerations on Why Certain Projects Cannot Be Directly Linked to Theme Recommendations	category
Practical Issues Task Force (PITF) Exposure Draft No. 43 (Proposed Amendments to PITF Report No. 31), Practical Guidance on the Lessee's Accounting Treatment, etc. in Investment Support Schemes for Advanced Equipment, etc. Utilizing Leasing Arrangements (Draft)	2014/11/21	Because this deliberation concerns matters that had been stated as "to be prescribed separately" in Practical Issues Task Force (PITF) No. 31, Practical Guidance on Accounting Treatment, etc. for Lessees in Investment-Support Schemes for Advanced Equipment Utilizing Lease Arrangements, published on 30 June 2014, it is considered that deliberations were resumed without going through the Accounting Standards Advisory Council (ASAC).	1
PITF Exposure Draft No. 46, Practical Guidance on Changes in Depreciation Methods Associated with the FY2016 Tax Reform (Draft)	2016/4/22	This project is considered to have been initiated in response to questions arising from tax law amendments, and, given the urgency, was proposed by the Accounting Standards Board of Japan (ASBJ) itself without going through the ASAC.	3
ASBJ Exposure Draft No. 56 (Proposed Amendments to ASBJ Statement No. 12), Accounting Standard for Quarterly Financial Statements (Draft)	2014/2/25	This project is considered to have been initiated based on comments received on Exposure Draft No. 49, Accounting Standard for Business Combinations (Draft), published in January 2013, and other related proposed amendments; thus, it is considered that there was a judgment that there was no need to seek a renewed, direct theme recommendation on this matter.	1
ASBJ Exposure Draft No. 61, Accounting Standard for Revenue Recognition (Draft)	2017/7/20	The Medium-term Strategic Plan explicitly states the need to enhance the international consistency of Japanese standards, and because this project represents standard-setting work in line with that policy, it is considered that there was a judgment that no additional theme recommendation was necessary.	2
PITF Exposure Draft No. 54, Tentative Treatment for the Timing of Application of PITF Report No. 34 (Draft)	2017/12/7	Because this was a "pre-scheduled review" of an already issued Practical Issues Task Force (PITF) report, it is considered that there was a judgment that no additional theme recommendation was necessary.	1
PITF Exposure Draft No. 55 (Proposed Amendments to PITF Report No. 18), Tentative Treatment for the Accounting Procedures for Foreign Subsidiaries, etc. in Preparing Consolidated Financial Statements (Draft)	2018/5/28	Because this represents an attempt to amend existing accounting standards in response to environmental changes (such as the issuance or amendment of standards in other jurisdictions), it is inferred that standard-setting work was initiated without obtaining a new theme recommendation.	1
ASBJ Exposure Draft No. 63, Accounting Standard for Measurement of Fair Value (Draft)	2019/1/18	The Medium-term Strategic Plan explicitly states the need to enhance the international consistency of Japanese standards, and because this project represents standard-setting work in line with that policy, it is considered that there was a judgment that no additional theme recommendation was necessary.	2
PITF Exposure Draft No. 57 (Proposed Amendments to PITF Report No. 18), Tentative Treatment for the Accounting Procedures for Foreign Subsidiaries, etc. in Preparing Consolidated Financial Statements (Draft)	2019/3/25	Because, at the time of publishing the "2018 Practical Issues Task Force Report," it had already been an established policy to incorporate the outcomes of deliberations on leases into that PITF report, it is considered that deliberations were initiated without seeking a new theme recommendation.	1
ASBJ Exposure Draft No. 66 (Proposed Amendments to ASBJ Statement No. 29), Accounting Standard for Revenue Recognition (Draft)	2019/10/30	With respect to certain matters, including disclosures, it had already been an established policy, following the issuance of the "2018 Accounting Standards," etc., to examine these matters before the standards became effective; therefore, it is inferred that standard-setting work was initiated without obtaining a new theme recommendation.	1
ASBJ Implementation Guidance Exposure Draft No. 71 (Proposed Amendments to ASBJ Implementation Guidance No. 31), Implementation Guidance on Accounting Standard for Measurement of Fair Value (Draft)	2021/1/18	Because this work consolidates the outcomes of deliberations on matters that had been committed to be examined when issuing an existing implementation guidance, it is inferred that standard-setting work was initiated without obtaining a new theme recommendation.	1
PITF Exposure Draft No. 62 (Proposed Amendments to PITF Report No. 40), Treatment of Hedge Accounting for Financial Instruments Referencing LIBOR (Draft)	2021/12/24	Because, since the issuance of the "2020 Practical Issues Task Force Report," its review had been treated as an established policy, no procedure to obtain a new theme recommendation was undertaken.	1
ASBJ Exposure Draft No. 71 (Proposed Amendments to ASBJ Statement No. 27), Accounting Standard for Income Taxes, Inhabitants Taxes and Enterprise Taxes, etc. (Draft)	2022/3/30	Because this merely represents the resumption of a project that had been suspended in order to prioritize the development of other related standards, it is considered that there was a judgment that no additional theme recommendation was necessary.	1
ASBJ Exposure Draft No. 73, Accounting Standard for Leases (Draft)	2023/5/2	Because this represents an attempt to amend existing accounting standards in response to environmental changes, it is inferred that standard-setting work was initiated without obtaining a new theme recommendation.	1

Table2 Theme Adoption Rate and How It Is Calculated

Theme proposals submitted to ASAC (see Section 3(1))	60
Excluded: (c-1) Cases for which no final decision had been made as of the time of writing	1
Excluded: (c-4) Cases where ASBJ reported to ASAC that it would commence deliberations	4
Excluded: (c-5) Cases where ASBJ consulted ASAC	2
Denominator used for calculating the ratio	53
(a) Cases that resulted in a theme recommendation (theme adoption)	24
(c-2) Cases that, after a long period of dormancy, resulted in a theme recommendation in a different form	1
(c-3) Cases where ASAC requested ASBJ to consider the issue by incorporating it into an existing theme	8
Number of adopted themes (broad sense) ((a) + (c-2) + (c-3))	33
“Theme adoption rate” (33/53)	62.3(%)

Table3 Projects that were initiated but ultimately discontinued

Cases where the outcome is not clear, or cases where standard-setting was	Traceable descriptions regarding subsequent developments
Intangible assets (16th meeting)	The ASBJ subsequently published the “Summary of Deliberations on Intangible Assets” (June 28, 2013). However, development of a comprehensive accounting standard for intangible assets has not progressed thereafter, and as of January 2026, intangible assets are not included in the “Work Plan for Accounting Standards Currently Under Development.”
Consistency between tax effects when applying the consolidated tax system and tax effects in business combination accounting (16th meeting)	“Ultimately, it reached a conclusion to maintain the status quo without achieving convergence. This fact is stated in the ‘Request for Comments’ related to Accounting Standards Exposure Draft No. 60, ‘Proposed Amendments to the Accounting Standard for Tax Effect Accounting’ (June 6, 2017).”
Review of the scope of consolidation (carryover of fair value measurement for investees) and Accounting Standard for Consolidated Financial Statements (determination of the scope of subsidiaries and affiliates) (17th meeting)	Although the “Interim Summary of Deliberations on the Scope of Consolidation of Special Purpose Entities, etc.” (March 29, 2013) was published thereafter, no materials suggesting further deliberations have been identified since then.
Provisions related to hedge accounting for commodity derivative transactions (19th meeting)	It was decided that the matter would be addressed through amendments to the Japanese Institute of Certified Public Accountants’ Accounting System Committee Report No. 14, “Practical Guidelines on Accounting for Financial Instruments” (i.e., without corresponding action by the ASBJ).
Accounting treatment for accelerated share repurchases (ASR: Accelerated Share Repurchase) (20th meeting)	At the 405th ASBJ Board Meeting (March 22, 2019), it was decided to remove the topic from the list of projects under development.
Development of criteria for assessing whether it is appropriate to prepare financial statements on a going concern basis (34th meeting)	Subsequently, at the 433rd ASBJ Board Meeting (May 14, 2020), the removal of the topic from the list of active projects was approved.

## Appendix: Various primary-source materials prior to aggregation

### Appendix 1: Outcomes of agenda-topic recommendations made by the ASAC

initial proposal	standards / PITF	agenda	final decision	W/WO appendix	results	category	Notes on ED issuance
15	N/A	Share-based benefit trust using treasury shares (Auditor: ASAC member)	16		It is appropriate for the Accounting Standards Advisory Council (ASAC) to recommend this as a new agenda item to the Accounting Standards Board of Japan (ASBJ).	a	
16	AS	Comprehensive accounting standards for intangible assets (User: ASAC member)	16		(Secretariat's proposed response) The proposed comprehensive accounting standard for intangible assets is currently a topic under deliberation by the ASBJ. Accordingly, how about treating the comments received as advice from an ASAC member to the ASBJ regarding a topic already under deliberation? (In other words, it would not be recommended as a standalone new agenda item.)	c-3	The ASBJ subsequently issued its "Summary of the Progress of Deliberations on Intangible Assets" (June 28, 2013); however, development of a comprehensive accounting standard on intangible assets has not progressed since then, and intangible assets are not included in the "Work Plan for Accounting Standards Currently Under Development" as of January 2026.
16	AS	Intangible assets (Preparer: Practical Issues Task Force member)	16		(Secretariat's proposed response) The proposed comprehensive accounting standard for intangible assets is currently a topic under deliberation by the ASBJ. Accordingly, how about treating the comments received as advice from an ASAC member to the ASBJ regarding a topic already under deliberation? (In other words, it would not be recommended as a standalone new agenda item.)	c-3	The ASBJ subsequently issued its "Summary of the Progress of Deliberations on Intangible Assets" (June 28, 2013); however, development of a comprehensive accounting standard on intangible assets has not progressed since then, and intangible assets are not included in the "Work Plan for Accounting Standards Currently Under Development" as of January 2026.
16	AS	Setting accounting standards for the treatment of comparative information (Auditor: Practical Issues Task Force member)	17		How about not making a recommendation as a new agenda item this time? If a similar proposal is made in the future, it will be reconsidered.	b	
16	AS	Derecognition of financial instruments (Auditor: Practical Issues Task Force member)	17		(The assessment by the Practical Issues Task Force was as follows.) While recognizing that this may become a matter for future consideration, it was decided not to take it up as a new agenda item this time. If a similar proposal is made in the future, it will be reconsidered.	b	
16	PITF	Recoverability of deferred tax assets (related to JICPA Audit Committee Report No. 66) (Preparer: ASAC member)	19	○	At the previous ASAC meeting, it was decided to request the ASBJ to conduct an investigation, and at this meeting the ASBJ has reported the results of that investigation. According to the ASBJ's investigation report, it is appropriate to deliberate, as a package, on transferring to the ASBJ the practical guidance relating to deferred tax assets that is currently being prepared by the Japanese Institute of Certified Public Accountants (JICPA). In light of this investigation report, how about recommending this as a new agenda item for the ASBJ?	a	

16	PITF	Leases in substance (IFRIC 4) (Preparer: Practical Issues Task Force member)	17		(The assessment by the Practical Issues Task Force was as follows.) While recognizing that this may become a matter for future consideration, it was decided not to take it up as a new agenda item this time. If a similar proposal is made in the future, it will be reconsidered.	b	
16	PITF	Review of Practical Issues Task Force Report No. 18 (Auditor: Practical Issues Task Force member)	17		How about recommending this as a new agenda item for the ASBJ?	a	
16	PITF	Accounting treatment of early additional retirement benefits (clarification of the timing of expense recognition for such benefits) (Auditor: Practical Issues Task Force member)	21	○	According to the ASBJ's report, regarding provisions related to restructuring and the accounting treatment of early additional retirement benefits, "if taken up as a new agenda item, the standard-setting process may not proceed smoothly." Therefore, how about not recommending it as a new agenda item for the ASBJ this time, and instead treating it as a theme to be deferred (kept on hold) by the ASAC?	b	
16	PITF	Accounting treatment of class shares (accounting treatment when a parent company additionally acquires preferred shares issued by a subsidiary and held by non-controlling shareholders) (Auditor: Practical Issues Task Force member)	17		How about not making a recommendation as a new agenda item this time? If a similar proposal is made in the future, it will be reconsidered.	b	
16	PITF	Accounting treatment of in-kind distributions (Auditor: Practical Issues Task Force member)	17		How about not making a recommendation as a new agenda item this time? If a similar proposal is made in the future, it will be reconsidered.	b	
16	PITF	Consistency between tax effects under the consolidated tax regime and tax effects in business combination accounting (Auditor: Practical Issues Task Force member)	17		How about recommending this as a new agenda item for the ASBJ?	a	

17	AS	Review of the consolidation scope (carryover of fair value measurement of investees) (User: ASAC member)	17		As Proposal 1 concerns issues relating to the consolidation of investment entities and is considered to involve introducing an exception to the principle of control, (omitted) how about reporting these comments to the ASBJ so that they may be used as reference in the ASBJ's deliberations? (Note) The proposal has already been under consideration by the ASBJ's Consolidation and Special Purpose Entities Expert Committee, and it is understood that the intent is to treat it as input for the ASBJ's ongoing deliberations.	c-3	Although the "Interim Summary of Deliberations on the Scope of Consolidation for Special Purpose Entities, etc." (March 29, 2013) was subsequently published, no materials suggesting any further deliberations have been identified since then.
17	AS	Accounting Standards for Consolidated Financial Statements (determination of the scope of subsidiaries and associates) (Preparer: ASAC member)	17		(omitted) Proposal 2 is considered to be comments regarding convergence with IFRS 10. How about reporting these comments to the ASBJ so that they may be used as reference in the ASBJ's deliberations? (Note) The proposal has already been under consideration by the ASBJ's Consolidation and Special Purpose Entities Expert Committee, and it is understood that the intent is to treat it as input for the ASBJ's ongoing deliberations.	c-3	Although the "Interim Summary of Deliberations on the Scope of Consolidation for Special Purpose Entities, etc." (March 29, 2013) was subsequently published, no materials suggesting any further deliberations have been identified since then.
17	AS	Development of accounting standards to be applied in circumstances where the going concern assumption is not met (Auditor: ASAC member)	24	○	Given that the need to develop an accounting standard cannot be said to be high, and that broad consideration would be necessary, how about not recommending it as a new agenda item for the ASBJ, but instead recording it as a "theme that was previously deliberated but did not result in a recommendation"?	b	
17	PITF	Provision for loyalty points (Auditor: Practical Issues Task Force member)	18	○	How about not recommending it as a new agenda item for the ASBJ this time, and instead treating it as a theme to be deferred (kept on hold) by the ASAC?	b	
17	PITF	Provisions related to restructuring (Auditor: Practical Issues Task Force member)	21	○	According to the ASBJ's report, regarding provisions related to restructuring and the accounting treatment of early additional retirement benefits, "if taken up as a new agenda item, the standard-setting process may not proceed smoothly." Therefore, how about not recommending it as a new agenda item for the ASBJ this time, and instead treating it as a theme to be deferred (kept on hold) by the ASAC?	b	

18	AS	Subsequent events (User: ASAC member)	19	○	(Excerpt from the 19th ASAC meeting materials)  (Proposal at the 18th ASAC meeting regarding subsequent events) 5. At the 18th ASAC meeting, a proposal was made to add "subsequent events" as a new agenda item. Although consideration of subsequent events has currently been suspended, it remains a topic under deliberation by the ASBJ. Accordingly, the status of the ASBJ's deliberations is summarized in Document (1)-7.	c-2	Subsequently, at the 51st Accounting Standards Advisory Council meeting, the ASBJ consulted the Council regarding the development of the relevant accounting standard.
18	AS	Accounting treatment when a wholly owned parent company transfers a business to its wholly owned subsidiary through a demerger without consideration (Auditor: Practical Issues Task Force member)	21	○	According to the theme evaluation by the Practical Issues Task Force, "if the issue were taken up as an agenda item, it would not be easy to reach a conclusion." Therefore, how about not recommending it as a new agenda item for the ASBJ this time, and instead treating it as a theme to be deferred (kept on hold) by the ASAC?	b	
18	PITF	Treatment of contingent consideration under the Accounting Standard for Business Combinations (Auditor)	19	○	In light of the evaluation by the Practical Issues Task Force, how about recommending it as a new agenda item for the ASBJ, while treating it as a low-priority matter?	a	Although it took a long time, it ultimately led to Exposure Draft No. 62 (a proposed amendment to ASBJ Statement No. 21), "Accounting Standard for Business Combinations (Draft)" (August 21, 2018).
19	PITF	Accounting treatment related to an investment support scheme for advanced equipment, etc. utilizing lease arrangements (METI, Commerce and Distribution Security Group)	19		The proposal received states that "this scheme is a measure to be implemented as part of Japan's Revitalization Strategy, and because it is highly urgent—given that, if the Industrial Competitiveness Enhancement Act bill is passed by the Diet and budgetary support is secured, implementation will be required at an early stage next year—we would like you to present to the general public, as soon as practicable, accounting treatments and related concepts for the above, so that the policy can be implemented promptly after it comes into effect." Ordinarily, an evaluation of the new theme would be requested from the Practical Issues Task Force, and consideration would be undertaken at the next (or later) ASAC meeting. However, in light of the urgency described above, how about recommending it as a new agenda item for the ASBJ at this ASAC meeting?	a	

19	PITF	Hedge accounting-related provisions for commodity derivative transactions (METI, Commerce and Distribution Security Group, and MAFF, Food Industry Affairs Bureau)	20	○	Although it is noted that “highly specialized consideration may be required, and difficulties in development are also anticipated,” the evaluation is that it may nevertheless warrant consideration; therefore, how about making a recommendation as a new agenda item?	a	The Board began developing the accounting standard; however, it ultimately did not proceed to the issuance of an exposure draft.
20	PITF	Concept of “appropriate book value” for assets and liabilities received from a subsidiary in a merger in which the parent company absorbs the subsidiary, where the company has voluntarily adopted “Designated IFRSs” (Auditor)	21	○	According to the theme evaluation by the Practical Issues Task Force, “as the interpretation is considered clear, the need to take it up as a new agenda item for the ASBJ is considered limited.” Therefore, how about not recommending it as a new agenda item for the ASBJ, and instead treating it as a theme to be deferred (kept on hold) by the ASAC?	b	
20	PITF	Accounting treatment of accelerated share repurchases (ASR: Accelerated Share Repurchase) (Auditor)	22	○	Although there are difficulties in undertaking the consideration, how about recommending it to the ASBJ as a new agenda item?	a	Although deliberations were initiated, the deliberation on this matter was ultimately withdrawn.
21	PITF	Accounting treatment in the special dissolution of a comprehensive-type Employees’ Pension Fund (Auditor)	22	○	According to the theme evaluation by the Practical Issues Task Force, regarding the existing Practical Issues Task Force Report No. 2, “Practical Guidance on Accounting Treatment for Transfers between Retirement Benefit Plans, etc.,” “the need to take it up as a new agenda item for the ASBJ is considered limited.” Therefore, how about not recommending it as a new agenda item for the ASBJ, and instead carrying it forward within the ASAC as a theme that was deliberated but did not result in a recommendation?	b	
21	PITF	Accounting treatment of advance payments related to the substituted portion of an Employees’ Pension Fund (Auditor)	22	○	According to the evaluation by the Practical Issues Task Force, regarding the existing Practical Issues Task Force Report No. 2, “Practical Guidance on Accounting Treatment for Transfers between Retirement Benefit Plans, etc.,” “the need to take it up as a new agenda item for the ASBJ is considered limited.” Therefore, how about not recommending it as a new agenda item for the ASBJ, and instead carrying it forward within the ASAC as a theme that was deliberated but did not result in a recommendation?	b	

21	PITF	Accounting treatment by the issuing company of stock options issued for consideration to employees, etc., subject to vesting conditions (Auditor)	22	○	According to the evaluation by the Practical Issues Task Force, regarding the relevant transaction, "it may be necessary to organize the relationship with the Companies Act, and therefore standard-setting may not be easy; however, given that there is a strong need to clarify the accounting treatment, it is considered appropriate for the ASBJ to examine this transaction." Accordingly, how about recommending it as a new agenda item for the ASBJ?	a	
21	PITF	Treatment of impairment of listed shares of affiliated companies under accounting for financial instruments (Preparer)	23	○	In light of the results of the questionnaire survey of preparers and auditors, and the results of the analysis of the accounting treatment, how about not recommending it as a new agenda item for the ASBJ, and instead carrying it forward within the ASAC as a theme that was previously deliberated?	b	
21	AS	Accounting treatment for tax effect accounting under the consolidated tax regime in connection with local corporate tax for FY2014				c-3	
21	AS	Footnotes for multi-employer plans in accounting for retirement benefits				c-3	
21	AS	Consistency between disclosure requirements and the Ordinance on Financial Statements, etc. and related regulations				c-3	

24	PITF	Accounting treatment of public facility concession rights, etc. (Cabinet Office)	25	○	The Practical Issues Task Force (PITF) assessed the matter as follows. It is expected that the transaction amounts related to public facilities, etc. concession rights will be substantial, and therefore there is considered to be a need to clarify the accounting treatment. In addition, if the accounting treatment is not clarified, it is considered likely that diverse accounting practices may develop. In light of these considerations, it is considered appropriate for the ASBJ to examine this transaction. However, at present there have been no such transactions in Japan, and it is anticipated that judgment will be difficult because, for several issues, the outcomes for the financial statements may differ significantly depending on the method adopted. Accordingly, it is considered possible that development may not be easy, and this point should be noted. Based on this PITF assessment, how about recommending this as a new agenda item for the ASBJ?	a	
24	PITF	Accounting treatment of share exchanges without consideration (Auditor)	30	○	The PITF assessment was that it does not rise to the level of being taken up as a new agenda item for the ASBJ. Based on this PITF assessment, how about treating it as a theme that was deliberated but did not result in a recommendation?	b	
24	PITF	Parent company's absorption-type merger of a subsidiary (Auditor)	30	○	The PITF assessment was that it does not rise to the level of being taken up as a new agenda item for the ASBJ. Based on this PITF assessment, how about treating it as a theme that was deliberated but did not result in a recommendation?	b	
25	PITF	Accounting treatment of the new defined benefit corporate pension scheme known as the "risk-sharing DB (tentative name)" (MHLW)	25		This regime is considered likely to have broad impacts in the future. In general, retirement benefit obligations are material for companies, and if a company were to introduce this system, it could have a significant impact on the financial statements. Accordingly, there is considered to be a certain level of need for this theme, and it is considered highly urgent. Ordinarily, an evaluation of the proposed new theme would be requested from the PITF and the matter would be considered at the next or later meeting of the Accounting Standards Advisory Council (ASAC); however, in light of the urgency of the proposal, how about recommending it as a new agenda item for the ASBJ at this ASAC meeting?	a	

25	PITF	Clarification of the treatment of domestic subsidiaries in preparing consolidated financial statements where the parent applies Japanese GAAP and domestic subsidiaries apply IFRS (Japan Business Federation (Keidanren))	25		Because this is a request to review the treatment related to Practical Issues Task Force Report No. 18, how about asking the ASBJ to include consideration of this theme in its planned future review of that Practical Issues Task Force Report?	c-3	As a result of the deliberations on this matter, Exposure Draft of Practical Issues Task Force Report No. 49 (Proposed Amendments to Practical Issues Task Force Report No. 18), "Tentative Accounting Treatment for Overseas Subsidiaries, etc. in Preparing Consolidated Financial Statements (Draft)" (December 22, 2016), was issued.
25	PITF	Revision of provisions regarding overdraft arrangements and loan commitments in JICPA Accounting System Committee Report No. 14 "Practical Guidelines on Accounting Standards for Financial Instruments" (Japanese Bankers Association)	33	○	The PITF assessment was that it does not rise to the level of being taken up as a new agenda item for the ASBJ. Based on this PITF assessment, how about treating it as a theme that was deliberated but did not result in a recommendation?	b	
26	AS	Review of the Accounting Standard for Lease Transactions (ASBJ Statement No. 13), etc. (Preparer: ASAC member)	26		The ASBJ plans to publish its medium-term operational policy in the future, and it is expected that this policy will also set out basic policies regarding the future development of Japanese GAAP. Regarding this proposal, how about asking the ASBJ to include it in its consideration of that medium-term operational policy?	c-3	In the Medium-term Operational Policy issued in August 2016, lease accounting was included as one of the "future agenda items for initiatives to make Japanese GAAP internationally consistent." Subsequently, discussions began on whether to commence deliberations toward a revision of the standards (see the materials for the 375th ASBJ Board meeting), and substantive deliberations started from the 387th ASBJ Board meeting (held in June 2018). Ultimately, Exposure Draft No. 73, "Accounting Standard for Leases (Draft)" (May 2, 2023), was issued.

26	PITF	Enhancement of footnote disclosure information on “judgments made by management in applying accounting policies” and “sources of estimation uncertainty” (JICPA)	34	○	A summary of the results of the Disclosure Expert Committee’s deliberations is as follows. First, regarding disclosure of “judgments made by management in applying accounting policies,” the benefits of developing an accounting standard are not considered to be high. On the other hand, clarifying the disclosure treatment for “the accounting principles and procedures applied when relevant accounting standards, etc. do not clearly specify the treatment” is considered useful. Also, regarding disclosure of “sources of estimation uncertainty,” enhancing disclosure is considered useful. Based on these results of the Disclosure Expert Committee’s deliberations, how about recommending, as a new agenda item for the ASBJ, the enhancement of note disclosures relating to “the accounting principles and procedures applied when relevant accounting standards, etc. do not clearly specify the treatment” and “sources of estimation uncertainty”?	a	
26	PITF	Relationship between impairment of investments in subsidiaries and associates and impairment of goodwill (Keidanren Economic Infrastructure Headquarters and Japanese Bankers Association)	27	○	The PITF assessment was as follows. This theme is a proposal to amend the additional amortization treatment of goodwill in consolidated financial statements as prescribed in the Practical Guidance on Capital Consolidation issued by the JICPA. With respect to this accounting treatment, there may be cases where it is not consistent with the approach to goodwill impairment in consolidated financial statements, and given that it is an accounting treatment with broad effects, it is considered appropriate for the ASBJ to examine it. Based on this PITF assessment, how about recommending it as a new agenda item for the ASBJ?	a	Still under consideration (or on hold) as of February 2026
27	PITF	Addressing various accounting issues related to negative interest rates (Auditor: ASAC member)	27		Because the negative interest rate environment continues, it is considered useful for the ASBJ to clarify the accounting issues. However, it is difficult to predict future negative interest rate levels, and internationally the accounting treatment has not been established in this area. In light of these considerations, how about leaving it to the ASBJ’s judgment whether and when standard-setting is necessary, and requesting the ASBJ to take timely action as appropriate?	a	

28	PITF	Accounting treatment of virtual currencies (JICPA)	29	○	<p>The PITF assessment was as follows. At present, holdings of virtual currencies by listed companies, etc. are very limited, and therefore virtual currencies are not considered to have widespread effects on accounting practice. On the other hand, from the perspective of ensuring the smooth operation of the financial statement audit regime for virtual currency exchange service providers under the Payment Services Act, there is considered to be a certain need to clarify, promptly, the accounting treatment for such providers. Moreover, if the accounting treatment is not clarified, it is considered likely that diverse accounting practices may develop. In light of these considerations, it is considered appropriate for the ASBJ to examine the accounting treatment for virtual currency exchange service providers and users of virtual currencies. However, at present there has been no international consideration, and it is difficult to predict future developments in businesses using virtual currencies. Accordingly, as an interim approach, it is considered appropriate to develop only the minimum necessary items. Based on this PITF assessment, how about recommending this as a new agenda item for the ASBJ?</p>	a	
29	PITF	Differences in descriptions between the Accounting Standard for Business Divestitures and the Implementation Guidance on Accounting Standards for Business Combinations and Business Divestitures (ASAC member)	29		<p>Because this theme proposal relates to drafting (wording) issues in accounting standards, how about asking the ASBJ to address it in the next amendment to the “Guidance on Accounting Standards for Business Combinations and Business Divestitures, etc.”?</p>	c-3	<p>When issuing Exposure Draft No. 62, Accounting Standard for Business Combinations (Draft) (proposed amendments to Accounting Standard No. 21) and Exposure Draft No. 62 of the Implementation Guidance, Implementation Guidance on Accounting Standards for Business Combinations and for Business Divestitures, etc. (Draft) (proposed amendments to Implementation Guidance No. 10) (August 21, 2018), measures were taken to address this matter.</p>

31	AS	Enhancement of footnote disclosure information on “judgments made by management in applying accounting policies” and “sources of estimation uncertainty” (Japan Securities Analysts Association)	34	○	A summary of the results of the Disclosure Expert Committee’s deliberations is as follows (see Document (1)–2). First, regarding disclosure of “judgments made by management in applying accounting policies,” the benefits of developing an accounting standard are not considered to be high. On the other hand, clarifying the disclosure treatment for “the accounting principles and procedures applied when relevant accounting standards, etc. do not clearly specify the treatment” is considered useful. In addition, regarding disclosure of “sources of estimation uncertainty,” enhancing disclosure is also considered useful. Based on these results of the Disclosure Expert Committee’s deliberations, how about recommending, as a new agenda item for the ASBJ, the enhancement of note disclosures relating to “the accounting principles and procedures applied when relevant accounting standards, etc. do not clearly specify the treatment” and “sources of estimation uncertainty”?	a	
32	PITF	Business combination accounting: treatment of comparative-period financial statements when provisional accounting is finalized (Note 6 to the Accounting Standard for Business Combinations; paragraph 104–2) (Japanese Bankers Association)	35	○	The PITF assessment was that, at present, it does not rise to the level of being taken up as a new agenda item for the ASBJ. Based on this PITF assessment, how about treating it as a theme that was deliberated but did not result in a recommendation?	b	
34	AS	Development of criteria for assessing whether it is appropriate to prepare financial statements on a going concern basis (JICPA)	35	○	As a result of the Secretariat’s consideration, it is considered that, if standard-setting is undertaken with reference to existing Audit Standards Committee Reports, etc., it would be possible to develop the standard at a cost commensurate with the benefits. Therefore, how about recommending it as a new agenda item for the ASBJ?	a	At its 406th meeting (April 11, 2019), the ASBJ accepted this recommendation and commenced deliberations. Subsequently, at the 409th ASBJ meeting (May 28, 2019), the issues were analyzed. Ultimately, however, at the 433rd ASBJ meeting (May 14, 2020), it was approved that this matter be removed from the list of projects under development. As the reason, it was emphasized that the original assumption—namely, that “it would be sufficient to refer to existing guidance (such as Audit and Assurance Practice Committee Reports)” —had no longer held.

35	AS	Accounting issues arising from interest rate benchmark reform (Japanese Bankers Association)	35		How about making a comprehensive recommendation as a new agenda item and asking the ASBJ to consider it in a timely manner, including whether standard-setting is necessary?	a	
37	PITF	Accounting treatment of the issuance and holding, etc. of ICO tokens that fall under “electronically recorded transferable rights” under the Financial Instruments and Exchange Act or “crypto-assets” under the Payment Services Act (FSA)	37		How about recommending, as a new agenda item for the ASBJ, the examination of accounting treatments for the issuance and holding, etc. of ICO tokens that fall under “electronically recorded transferable rights” under the Financial Instruments and Exchange Act or “crypto-assets” under the Payment Services Act?	a	
37	PITF	Accounting treatment of installment sales transactions in the leasing industry (JICPA)	37		How about asking the ASBJ to consider the treatment of installment sales transactions in the leasing industry as part of its ongoing work on lease accounting?	c-3	This agenda recommendation ultimately led to the issuance of Exposure Draft No. 73, Accounting Standard for Leases (Draft) (May 2, 2023).
37	AS	Response to the consolidated tax regime	37		When it becomes clear that tax reform will be implemented, the ASBJ is considering, based on Article 22, paragraph 3 of the “Rules on Due Process for the Development of Accounting Standards and Modified International Standards,” treating the matter as a new agenda item of the ASBJ.	c-4	This agenda recommendation resulted in the issuance of Exposure Draft No. 58, Tentative Accounting Treatment for the Application of Tax Effect Accounting Related to the Transition from the Consolidated Taxation Regime to the Group Tax Sharing Regime (Draft) (February 13, 2020), and Exposure Draft No. 61, Tentative Accounting Treatment for Accounting and Disclosure When Applying the Group Tax Sharing Regime (Draft) (March 30, 2021). In addition, some of the related issues ultimately fed into Exposure Draft No. 71 (proposed amendments to ASBJ Statement No. 27), Accounting Standard for Corporate Taxes, Inhabitants Taxes and Enterprise Taxes, etc. (Draft) (March 30, 2022).

37 (臨時)	AS	Development of accounting standards for cases where shares are issued, etc. without requiring a cash contribution, etc., as remuneration, etc. for directors and other officers (Ministry of Justice)	37 (臨時)		As described in the preceding items (1) and (2), the remuneration scheme in question may be widely used by listed companies as a means of paying remuneration to directors, etc.; therefore, it is considered to have broad impacts and that there is a need for the development of accounting standards. Accordingly, it is considered appropriate for the ASBJ to examine the proposed transaction in accounting standards. Therefore, it is considered appropriate to recommend, as a new agenda item for the ASBJ, the development of accounting standards for “the issuance of shares, etc. without requiring payment of money, etc. as remuneration to directors, etc.”	a	(Excerpt from the deliberation materials for the 38th Accounting Standards Advisory Council meeting) Report on the agenda recommendation regarding “Development of an accounting standard for cases where shares are issued, etc., without requiring monetary contributions, etc., as remuneration for directors and other officers” With respect to the new agenda proposal submitted by the Ministry of Justice—“Development of an accounting standard for cases where shares are issued, etc., without requiring monetary contributions, etc., as remuneration for directors and other officers”—written deliberations (by email) were conducted from December 25, 2019 to January 28, 2020. As a result, the Accounting Standards Advisory Council made an agenda recommendation to the 424th ASBJ Board meeting held on January 31, 2020. Based on the Advisory Council’s recommendation, at its 425th ASBJ Board meeting held on February 12, 2020, the ASBJ added this matter to its agenda of projects to be undertaken.
43	AS / PITF	Development of accounting treatment and disclosure practices for share-based payments (JICPA)	55	○	(Themes proposed up to the previous meeting: development of accounting treatment and disclosure for share-based payments) Regarding the theme “development of accounting treatment and disclosure for share-based payments,” which was proposed at the 43rd ASAC meeting (held on November 29, 2021), the ASAC Secretariat proposed withdrawing the theme based on the status of deliberations to date on this theme and the status of consideration of related legal developments.	b	

45	PITF	Accounting treatment of the issuance and holding, etc. of “electronic payment instruments” under the Payment Services Act (FSA)	45		<p>With regard to electronic payment instruments that have characteristics such as being issued at a price linked to the value of legal tender, in light of the need to develop accounting treatments in response to the recently enacted “Act for Partial Amendment of the Payment Services Act and Other Acts for the Purpose of Establishing a Stable and Efficient Payment Services System” (Act No. 61 of 2022), it is recommended that the matter be addressed as a new agenda item for the ASBJ in two parts: (1) first, examine the accounting treatment for the issuance and holding, etc. of electronic payment instruments under items (i) through (iii); and (2) for electronic payment instruments under item (iv), after the content of the relevant Cabinet Office Ordinance is published, determine—based on an assessment of the accounting nature in light of that content—whether to include them in the examination in (1) or to consider them separately from (1).</p>	a	
46	AS	Response to the review concerning the abolition of quarterly disclosure requirements (Q1 and Q3) under the Financial Instruments and Exchange Act	46		<p>The Chair of the ASBJ, Mr. Kawanishi, explained the following two matters that, due to their high urgency, might lead the ASBJ to commence standard-setting promptly without consulting the ASAC once the details become clear, and a Q&amp;A session took place. Regarding the review of quarterly disclosure, discussions on amendments to the Financial Instruments and Exchange Act are progressing. Regarding the review of quarterly disclosure, users are most concerned that, under the policy of consolidating first- and third-quarter disclosures into quarterly earnings reports under stock exchange rules, quarterly disclosure may deteriorate. Therefore, it is requested that the development of related accounting standards be undertaken swiftly but also with careful deliberation. Regarding the standard for preparation of interim financial statements, there are perceived consistency issues between Accounting Standard No. 12 “Accounting Standard for Quarterly Financial Statements” and Implementation Guidance No. 14 “Implementation Guidance on Accounting Standard for Quarterly Financial Statements,” and therefore it is considered desirable to conduct revisions as necessary.</p>	c-5	<p>The ASBJ began concrete standard-setting work in response to the enactment and promulgation of the Act to Amend the Financial Instruments and Exchange Act, etc. (Act No. 79 of 2023), and the abolition of the quarterly reporting system effective April 1, 2024. As an initial outcome, it issued Accounting Standards Board Exposure Draft No. 80, “Accounting Standard for Interim Financial Statements (Draft),” etc. (December 15, 2023), which, for the time being, set out the framework for interim financial statements under the post-reform regime. It subsequently issued Exposure Draft No. 83, “Accounting Standard for Financial Statements for Interim Periods (Draft),” etc. (April 23, 2025), thereby harmonizing the accounting standards for interim and quarterly reporting.</p>

46	PITF	<p>Response in the event of tax reforms related to international initiatives on taxation known as "BEPS 2.0"</p> <p>Accounting treatment of partial spin-offs (METI)</p>	46		<p>The Chair of the ASBJ, Mr. Kawanishi, explained the following two matters that, due to their high urgency, might lead the ASBJ to commence standard-setting promptly without consulting the ASAC once the details become clear, and a Q&amp;A session took place. (omitted) In addition, regarding BEPS 2.0, industry is also proceeding with discussions on responses to the regime reformation in cooperation with relevant ministries and agencies. Under these circumstances, it is possible that the two matters mentioned may not be in time for the next ASAC meeting, and the ASAC members expressed support for the ASBJ Secretariat's policy of proceeding with standard-setting once preparations are in place.</p>	c-5	<p>This consultation ultimately led to Practical Issues Task Force Exposure Draft No. 64, "Tentative Treatment for the Application of Accounting for Income Taxes Related to the Amendment of the Corporation Tax Act in Response to the Global Minimum Tax" (February 8, 2023).</p>
47	AS	<p>Accounting treatment of partial spin-offs (METI)</p>	47		<p>At present, environmental development such as tax arrangements is progressing regarding the use of spin-offs, and it is expected that more companies will consider and implement such schemes in the future. Under the current accounting standards, the accounting treatment is said to differ between (i) a spin-off in which the implementing entity distributes all shares of a wholly owned subsidiary as an in-kind dividend and (ii) a spin-off in which the implementing entity retains a partial interest at the time of the spin-off (a "partial spin-off"), and it has been proposed to eliminate the difference in accounting treatment between the two. Given that there is a need for standard-setting on this matter and the main issues to be examined are considered identifiable, it is proposed to recommend it to the ASBJ as a new agenda item.</p>	a	

47	PITF	Accounting treatment of single-investor private placement investment trusts (Auditor: ASAC member)	48		<p>Because the degree of impact, etc. is unclear, at the 47th ASAC meeting (held on March 1, 2023), it was decided to request the ASBJ's Financial Instruments Expert Committee to evaluate the theme. The evaluation by the Financial Instruments Expert Committee was that it does not rise to the level of being taken up as a new agenda item for the ASBJ. Based on this evaluation, how about treating this matter as a theme that was deliberated but did not result in a recommendation? In addition, how about proposing to the ASBJ that it be treated as one of the matters to be considered when the ASBJ discusses whether to commence development of an accounting standard for the classification and measurement of financial instruments?</p>	b	
48	AS / PITF	Amendment to Practical Issues Task Force Report No. 19, "Practical Guidance on Accounting for Deferred Assets" (Academic expert: ASAC member)	51	○	<p>This matter proposes examining the accounting treatment, among the accounting treatments for deferred assets prescribed in Practical Issues Task Force Report No. 19, of share issuance costs, stock acquisition rights issuance costs, bond issuance costs, organization costs, and start-up costs. This matter was deliberated at the 49th ASAC meeting (held on November 22, 2023), and it was decided that, in recommending the theme to the ASBJ, the scope of review of accounting treatments for deferred assets should be considered. It was also decided that, if the theme is recommended to the ASBJ, it should be noted that the ASBJ should respond in a manner consistent with its available resources. This time, based on additional information gathering conducted by the ASAC Secretariat, it is proposed to recommend it as a new agenda item for the ASBJ (see Document (1)-2). It should also be noted that the timing, etc. for the ASBJ to take up the deferred asset items addressed in Practical Issues Task Force Report No. 19 as a standard-setting topic is left to the ASBJ's judgment.</p>	a	<p>(Excerpt from "Future Plans for Accounting Standards Currently under Development" (January 21, 2026))</p> <p>(3) Accounting Treatment for Deferred Assets (Main content) In July 2024, following a recommendation from the Accounting Standards Advisory Council, the ASBJ plans to consider the accounting treatment for deferred assets going forward.</p> <p>(Status of deliberations and future plans) The ASBJ plans to begin its deliberations in due course, taking into account the status of other projects and the availability of resources.</p>

48	AS	Accounting treatment of interests in venture capital funds held by listed companies, etc. (Japan Venture Capital Association)	49	○	This matter proposes examining the accounting treatment, including fair value measurement, for investment interests in VC funds held by listed companies, etc. Regarding this matter, the theme evaluation by the ASBJ's Financial Instruments Expert Committee concluded that an approach that permits an option to measure, at fair value (with changes in fair value recognized in profit or loss), equity instruments without a quoted market price meets the requirements to be taken up as a new agenda item, and therefore it may be considered appropriate to recommend this matter to the ASBJ. (Note) It was decided to make the recommendation as a new agenda item, with an additional note that the scope of consideration would be limited mainly to equity instruments without a quoted market price that constitute the underlying assets of VC funds.	a	The proposal regarding the accounting treatment of interests in VC funds held by listed companies and other entities ultimately resulted in standard-setting work, with the scope of consideration limited to unquoted shares (i.e., shares with no market price) that constitute the underlying assets of VC funds. Specifically, Exposure Draft of Implementation Guidance on Transfers No. 15 (proposed amendments to Implementation Guidance on Transfers No. 9), "Practical Guidance on Accounting for Financial Instruments (Draft)" (September 20, 2024), was issued.
49	PITF	Accounting treatment of virtual PPA (JICPA)	51	○	This matter requests clarification of the accounting treatment for virtual PPAs (a type of power purchase agreement), which are expected to expand in the future amid rising environmental awareness. At the 49th ASAC meeting (held on November 22, 2023), the ASBJ's Practical Issues Task Force was asked to evaluate the theme. The theme evaluation by the Task Force concluded that an approach to examine the accounting treatment for virtual PPAs—limiting the scope to high-priority issues from the customer perspective (such as the unit of account and whether fair value measurement is required)—meets the requirements to be taken up as a new agenda item. This time, based on additional information gathering and analysis conducted by the ASAC Secretariat, it is proposed to recommend it as a new agenda item for the ASBJ.	a	The standard-setting work on accounting for virtual PPAs ultimately led to the issuance of the Exposure Draft of Practical Issues Task Force Report No. 70, "Tentative Accounting Treatment for Customers in Certain Purchase Transactions of Non-Fossil Value" (March 11, 2025).
51	AS						
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52	PITF		52				
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**Appendix2 Interim progress in the deliberations on agenda topics discussed over multiple SAC meetings**

**[Minutes of the SAC meetings held over multiple sessions up to the final decision on the agenda topic]**

**Recoverability of Deferred Tax Assets (related to JICPA Audit Committee Report No. 66) (Proponent: ASAC member) (16th meeting)**

(17) Would it be appropriate to continue deliberations at the next ASAC meeting?

(18) With respect to the issues set out in Document (3)-3, would it be appropriate to request the ASBJ to conduct research, and for the ASAC to receive its report?

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**Accounting for Extra Retirement Benefits (clarification of the timing of expense recognition for extra retirement benefits) (Auditor: member of the Practical Issues Task Force) (16th meeting)**

(17) *(Evaluation by the Practical Issues Task Force)* It is necessary to coordinate the relationship with provisions for restructuring, and it is considered appropriate to continue considering the matter.

(18) Regarding extra retirement benefits, would it be appropriate to recommend this as a new ASBJ agenda item to develop guidance?

(19) At the previous ASAC meeting, the ASAC requested the ASBJ to conduct research, and the ASBJ is continuing its research.

(20) At the 18th ASAC meeting, the ASAC requested the ASBJ to conduct research, and the ASBJ is continuing its research.

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## **Development of Accounting Standards to Be Applied When the Going–Concern Assumption Does Not Hold (Auditor: ASAC member) (17th meeting)**

(17) (*Secretariat proposal*) This is a proposal to develop accounting standards for financial statements prepared by entities for which the going–concern assumption does not hold; however, it concerns an area that the ASBJ has not addressed to date. After the Secretariat organizes the possible response, including international practices, would it be appropriate to consider at the next ASAC meeting whether it should be taken up as a new agenda item?

(18) Would it be appropriate to monitor developments at the Business Accounting Council regarding audits of special–purpose financial statements, and, once its conclusions are reached, to consider the matter and deliberate at a subsequent ASAC meeting?

(19) At the previous ASAC meeting, it was decided to monitor the Business Accounting Council’ s developments regarding audits of special–purpose financial statements and, once its conclusions are reached, to consider the matter and deliberate at a subsequent ASAC meeting. The Business Accounting Council is currently deliberating this matter.

(20) At the 17th ASAC meeting, it was decided to monitor the Business Accounting Council’ s developments regarding audits of special–purpose financial statements and, once its conclusions are reached, to consider the matter and deliberate at a subsequent ASAC meeting. As the Business Accounting Council revised auditing standards on February 18, 2014 to introduce audits of special–purpose financial statements, the ASAC will consider the matter at a subsequent meeting.

(21) This theme was proposed at the 17th ASAC meeting, but it was decided to monitor the Business Accounting Council’ s developments regarding audits of special–purpose financial statements. Thereafter, in February 2014, the Business Accounting Council revised auditing standards to introduce audits of special–purpose financial statements. The Secretariat is currently considering the matter and will deliberate it at a subsequent ASAC meeting.

(22) This theme was proposed at the 17th ASAC meeting. The Secretariat is currently organizing the relevant rules and confirming the need for standard-setting, and will undertake specific deliberations at a subsequent ASAC meeting.

(23) This theme was proposed at the 17th ASAC meeting. The Secretariat is currently organizing the relevant rules and confirming the need for standard-setting, and will undertake specific deliberations at a subsequent ASAC meeting.

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### **Provision for Point Programs (Auditor: member of the Practical Issues Task Force) (17th meeting)**

(17) The Practical Issues Task Force is currently evaluating whether to take this theme onto its agenda.

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### **Provisions Related to Restructuring (Auditor: member of the Practical Issues Task Force) (17th meeting)**

(17) The Practical Issues Task Force is currently evaluating whether to take this theme onto its agenda.

(18) While it may be difficult to conduct a comprehensive review of provisions related to restructuring, would it be appropriate to recommend it as a new ASBJ agenda item, including consideration of approaches that do not tie it to provisions in general?

(19) At the previous ASAC meeting, the ASAC requested the ASBJ to conduct research, and the ASBJ is continuing its research.

(20) At the 18th ASAC meeting, the ASAC requested the ASBJ to conduct research, and the ASBJ is continuing its research.

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### **Subsequent Events (User: ASAC member) (18th meeting)**

(18) Although consideration has currently been suspended, this is a theme under deliberation at the ASBJ. Would it be appropriate for the ASAC to receive a report on the status of the ASBJ's deliberations at the next ASAC meeting?

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**Accounting Treatment When a Wholly Owing Parent Transfers a Business to a Wholly Owned Subsidiary Through a No-Consideration Company Split (Auditor: member of the Practical Issues Task Force) (18th meeting)**

(18) The Practical Issues Task Force is currently evaluating whether to take this theme onto its agenda.

(19) The Practical Issues Task Force is currently evaluating whether to take this theme onto its agenda.

(20) The Practical Issues Task Force is currently evaluating whether to take this theme onto its agenda.

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**Treatment of Contingent Consideration Under the "Accounting Standard for Business Combinations" (Auditor) (18th meeting)**

(18) The Practical Issues Task Force is currently evaluating whether to take this theme onto its agenda.

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**Hedge Accounting Requirements Related to Commodity Derivative Transactions (METI Commerce and Distribution Security Group and MAFF Food Industry Bureau) (19th meeting)**

(19) As this is considered to be a technically challenging theme, would it be appropriate to request the Practical Issues Task Force to evaluate it as a potential new agenda item?

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**Appropriate Book Values of Assets and Liabilities Received from a Subsidiary When a Parent Company Merges with the Subsidiary in Companies Voluntarily Applying Designated IFRSs (Auditor) (20th meeting)**

(20) Would it be appropriate to request the Practical Issues Task Force to evaluate whether to commence deliberations on this theme as a new agenda item?

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**Accounting for Accelerated Share Repurchases (ASR: Accelerated Share Repurchase) (Auditor) (20th meeting)**

(20) Would it be appropriate to request the Practical Issues Task Force to evaluate whether to commence deliberations on this theme as a new agenda item?

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**Accounting for Special Dissolution of a Comprehensive Employees' Pension Fund (Auditor) (21st meeting)**

(21) Would it be appropriate to request the Practical Issues Task Force to evaluate whether to commence deliberations on this theme as a new agenda item?

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**Accounting for Advance Payments Related to the Substitute Portion of an Employees' Pension Fund (Auditor) (21st meeting)**

(21) Would it be appropriate to request the Practical Issues Task Force to evaluate whether to commence deliberations on this theme as a new agenda item?

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**Accounting by an Entity for Share Subscription Rights Issued for Consideration to Employees, etc., Subject to Vesting Conditions (Auditor) (21st meeting)**

(21) Would it be appropriate to request the Practical Issues Task Force to evaluate whether to commence deliberations on this theme as a new agenda item?

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**Treatment of Impairment of Listed Affiliate Shares Under Accounting for Financial Instruments (Proponent) (21st meeting)**

(21) This has been proposed as a practical-issues-level theme; however, substantively it appears to be a theme at the level of accounting standards. Accordingly, would it be appropriate for the Secretariat to organize the matter and to deliberate the Secretariat's organization at the next ASAC meeting?

(22) This was recommended at the 21st ASAC meeting, and the Secretariat is at the stage of organizing it. A survey of the proponent and auditors is currently being conducted in order to confirm the need for standard-setting. Based on those results, the ASAC will consider the matter at a subsequent meeting.

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**Accounting Treatment for Concession Arrangements for Public Facilities, etc. (Cabinet Office) (24th meeting)**

(24) Would it be appropriate to request the Practical Issues Task Force to evaluate whether to commence deliberations on this theme as a new agenda item?

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**Accounting for Share-for-Share Exchanges Without Consideration (Auditor) (24th meeting)**

(24) Would it be appropriate to request the Practical Issues Task Force to evaluate whether to commence deliberations on this theme as a new agenda item?

(26) The Practical Issues Task Force is currently evaluating whether to commence deliberations on this theme as a new agenda item.

(27) The Practical Issues Task Force is currently evaluating whether to commence deliberations on this theme as a new agenda item.

(28) The Practical Issues Task Force is currently evaluating whether to commence deliberations on this theme as a new agenda item.

(29) The Practical Issues Task Force is currently evaluating whether to commence deliberations on this theme as a new agenda item.

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**Parent-Subsidiary Merger (Absorption-Type Merger by Parent Company of Subsidiary) (Auditor) (24th meeting)**

(24) Would it be appropriate to request the Practical Issues Task Force to evaluate whether to commence deliberations on this theme as a new agenda item?

(26) The Practical Issues Task Force is currently evaluating whether to commence deliberations on this theme as a new agenda item.

(27) The Practical Issues Task Force is currently evaluating whether to commence deliberations on this theme as a new agenda item.

(28) The Practical Issues Task Force is currently evaluating whether to commence deliberations on this theme as a new agenda item.

(29) The Practical Issues Task Force is currently evaluating whether to commence deliberations on this theme as a new agenda item. In addition, the Business Combinations Expert Committee has been reconvened and has begun deliberations.

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**Amendments to the Provisions on Overdraft Agreements and Loan Commitments in the Accounting System Committee Report No. 14, “Practical Guidance on Accounting for Financial Instruments” (Japanese Bankers Association) (25th meeting)**

(25) Would it be appropriate to request the Practical Issues Task Force to evaluate whether to commence deliberations on this theme as a new agenda item?

(26) The Practical Issues Task Force is currently evaluating whether to commence deliberations on this theme as a new agenda item.

(27) The Practical Issues Task Force is currently evaluating whether to commence deliberations on this theme as a new agenda item.

(28) The Practical Issues Task Force is currently evaluating whether to commence deliberations on this theme as a new agenda item.

(29) The Practical Issues Task Force is currently evaluating whether to commence deliberations on this theme as a new agenda item. At the previous ASAC meeting, the Japanese Bankers Association (the proponent) reported that the final conclusions of the international regulatory review had not yet been finalized. The Secretariat is currently monitoring this situation.

(30) The Practical Issues Task Force is currently evaluating whether to commence deliberations on this theme as a new agenda item. At the ASAC meeting before last, the Japanese Bankers Association (the proponent) reported that the final conclusions of the international regulatory review had not yet been finalized. The Secretariat continues to monitor this situation.

(31) The Practical Issues Task Force is currently evaluating whether to commence deliberations on this theme as a new agenda item. At the previous ASAC meeting, the Japanese Bankers Association (the proponent) reported that the final conclusions of the international regulatory review had not yet been finalized. The Secretariat continues to monitor this situation.

(32) Following the finalization of international regulation (Basel III), the Practical Issues Task Force is expected to conduct an evaluation of this theme as a potential new agenda item.

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**Enhancing Note Disclosures on “Judgments Made by Management in Applying Accounting Policies” and “Sources of Estimation Uncertainty” (JICPA) (26th meeting)**

(26) This was proposed as a practical-issues-level matter; however, if deliberations were commenced on this theme, the result would be the development of accounting standards on disclosures. In other words, it should be regarded as a proposal at the accounting-standards level. Would it be appropriate for the Secretariat to examine the proposal in detail and then, at the next ASAC meeting, consider whether to commence deliberations?

(27) At this ASAC meeting, the Secretariat's analysis will be deliberated. At the next ASAC meeting, would it be appropriate to decide whether to make a recommendation to the ASBJ as a new agenda item?

(28) The Secretariat is currently considering possible responses. At the next ASAC meeting, would it be appropriate—while taking international developments into account—to decide whether to make a recommendation to the ASBJ as a new agenda item?

(29) The Secretariat's assessment is as follows:

- For the time being, the ASAC will monitor Japan's international outreach by market participants through the process of developing a draft comment letter on the disclosure-principles Discussion Paper (DP) expected to be issued by the IASB. After completion of deliberations on the draft comment letter (if the DP is issued in April 2017, the comment period would be around October 2017), would it be appropriate to resume discussion of this theme?

(30) At the previous ASAC meeting, it was decided to take the following approach:

- For the time being, the ASAC will monitor Japan's international outreach by market participants through the process of developing a draft comment letter on the disclosure-principles DP expected to be issued by the IASB. After completion of deliberations on the draft comment letter (if the DP is issued in April 2017, the comment period would be around October 2017), discussion of this theme will be resumed.

(31) This will be considered together with the proposal made by the Japan Securities Analysts Association described in paragraph 3.

(32) To determine whether to recommend that the ASBJ take up new disclosure items as agenda items, it is considered necessary to examine in depth the scope of disclosure items and the usefulness of the disclosed information. Accordingly, would it be appropriate to request the ASBJ's Disclosure Expert Committee to examine—taking international developments into account—the scope of the disclosures and the usefulness of the disclosed information? After receiving its report, would it be appropriate for the ASAC to decide again whether to make a recommendation to the ASBJ as a new agenda item?

(33) *(Future plan)*

17. The Disclosure Expert Committee is scheduled to meet monthly and intends to continue discussing this matter.

18. In discussions to date, expert committee members have not necessarily shared a common understanding of what is meant by “judgments made by management in applying accounting policies.” Going forward, it may be appropriate to clarify this and then proceed with the discussion.

19. Expert committee members have also noted that it is difficult to envisage what the disclosures would look like unless concrete examples are provided; the ASBJ Secretariat is currently considering how to respond to this point.

20. The ASBJ Secretariat believes that, if possible, it would like to report the results of these discussions at the next ASAC meeting.

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### **Relationship Between Impairment of Investments in Subsidiaries and Affiliates and Impairment of Goodwill (Keidanren Economic Infrastructure Division and the Japanese Bankers Association) (26th meeting)**

(26) Would it be appropriate to request the Practical Issues Task Force to evaluate whether to commence deliberations on this theme as a new agenda item?

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### **Accounting Treatment of Virtual Currencies (JICPA) (28th meeting)**

(28) Would it be appropriate to request the Practical Issues Task Force to evaluate whether to commence deliberations on this theme as a new agenda item?

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### **Enhancing Note Disclosures on “Judgments Made by Management in Applying Accounting Policies” and “Sources of Estimation Uncertainty” (Japan Securities Analysts Association) (31st meeting)**

(31) This will be considered together with the proposal made by the JICPA (Note: the proposal made at the 26th ASAC meeting on enhancing note disclosures on “judgments

made by management in applying accounting policies” and “sources of estimation uncertainty”). The ASAC will consider the matter at a subsequent meeting.

(32) To determine whether to recommend that the ASBJ take up new disclosure items as agenda items, it is considered necessary to examine in depth the scope of disclosure items and the usefulness of the disclosed information. Accordingly, would it be appropriate to request the ASBJ’s Disclosure Expert Committee to examine—taking international developments into account—the scope of the disclosures and the usefulness of the disclosed information? After receiving its report, would it be appropriate for the ASAC to decide again whether to make a recommendation to the ASBJ as a new agenda item?

(33) *(Future plan)*

17. The Disclosure Expert Committee is scheduled to meet monthly and intends to continue discussing this matter.

18. In discussions to date, expert committee members have not necessarily shared a common understanding of what is meant by “judgments made by management in applying accounting policies.” Going forward, it may be appropriate to clarify this and then proceed with the discussion.

19. Expert committee members have also noted that it is difficult to envisage what the disclosures would look like unless concrete examples are provided; the ASBJ Secretariat is currently considering how to respond to this point.

20. The ASBJ Secretariat believes that, if possible, it would like to report the results of these discussions at the next ASAC meeting.

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**Business Combinations Accounting: Treatment of Financial Statements for Comparative Periods When Provisional Accounting Is Finalized (“Accounting Standard for Business Combinations,” Note 6, paragraph 104-2) (Japanese Bankers Association) (32nd meeting)**

(32) Would it be appropriate to request the Practical Issues Task Force to evaluate whether to commence deliberations on this theme as a new agenda item?

(33) The Practical Issues Task Force is currently evaluating whether to commence deliberations on this theme as a new agenda item.

(34) The Practical Issues Task Force is currently evaluating whether to commence deliberations on this theme as a new agenda item.

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### **Preparation of Criteria to Assess Whether It Is Appropriate to Prepare Financial Statements on a Going–Concern Basis (JICPA) (34th meeting)**

(34) This is a proposal at the accounting–standards level. Would it be appropriate for the Secretariat first to examine the proposal in detail and then, at a subsequent ASAC meeting, consider whether to commence deliberations?

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### **Improvement of Accounting Treatments and Disclosures for Share–Based Payment Transactions (JICPA) (43rd meeting)**

(43) This proposal contains multiple themes. For each theme, would it be appropriate to proceed as follows?

(1) For the development of accounting standards for transactions structured as contributions in kind, request the Practical Issues Task Force to evaluate whether deliberations should be commenced, and, after organizing the issues, discuss the matter at a subsequent ASAC meeting.

(2) Developing accounting standards for cash–settled share–based payment transactions is an accounting–standards–level theme. However, the impact on market participants is limited, and it is also a matter that would be encompassed within a comprehensive accounting standard on incentive compensation discussed below. Accordingly, the Secretariat will organize the issues together with those on a comprehensive accounting standard on incentive compensation, and discuss them at a subsequent ASAC meeting.

(3) For the development of a comprehensive accounting standard on incentive compensation, the Secretariat will first organize the issues, and then discuss the matter at a subsequent ASAC meeting.

(44) This proposal contains multiple themes. At the previous ASAC meeting, it was decided to proceed as follows for each theme:

(1) For the development of accounting standards for transactions structured as contributions in kind, it was decided to request the Practical Issues Task Force to

evaluate whether deliberations should be commenced; the Secretariat is currently organizing the issues.

(2) Priority will be given to organizing issues on transactions structured as contributions in kind over developing accounting standards for cash-settled share-based payment transactions. After the organization of issues is completed, the Secretariat will organize issues on cash-settled share-based payment transactions and incentive compensation, and discuss them at a subsequent ASAC meeting.

(45) This proposal contains multiple themes. At the 43rd ASAC meeting (held on November 29, 2021), it was decided to proceed as follows for each theme:

(1) For the development of accounting standards for transactions structured as contributions in kind, it was decided to request the Practical Issues Task Force to evaluate whether deliberations should be commenced.

(2) For cash-settled share-based payment transactions, the Secretariat will organize issues together with those on incentive compensation, and discuss them at or after the 44th ASAC meeting (held on March 2, 2022). The 44th ASAC meeting will also include a report on the status of consideration, and priority will be given to progressing the evaluation related to (1).

This time, a report is provided on the status of deliberations by the Practical Issues Task Force regarding (1). Priority is currently being given to (1), and the other issues have not yet been considered.

(46) This proposal contains multiple themes. At the 43rd ASAC meeting (held on November 29, 2021), it was decided to proceed as follows for each theme:

(1) For the development of accounting standards for transactions structured as contributions in kind, it was decided to request the Practical Issues Task Force to evaluate whether deliberations should be commenced.

(2) For cash-settled share-based payment transactions, the Secretariat will organize issues together with those on incentive compensation, and discuss them at or after the 44th ASAC meeting (held on March 2, 2022). The 44th ASAC meeting will also include a report on the status of consideration, and priority will be given to progressing the evaluation related to (1).

The Practical Issues Task Force is currently prioritizing deliberations on “Accounting treatment for the issuance and holding, etc. of ‘electronic payment instruments’ under the Payment Services Act,” which has become an ASBJ agenda item, and there is nothing to report to this ASAC meeting regarding (1).

(47) *(same as (46))*

The Practical Issues Task Force is currently prioritizing deliberations on “Accounting treatment for the issuance and holding, etc. of ‘electronic payment instruments’ under the Payment Services Act,” which has become an ASBJ agenda item, and there is nothing to report to this ASAC meeting regarding (1).

(48) *(same as (46))*

The Practical Issues Task Force considered (1) and explored responses under the current law, but was unable to identify a direction, and the evaluation remains incomplete. Accordingly, there is nothing to report to this ASAC meeting regarding the theme evaluation for (1).

(49) *(same as (48))*

Accordingly, there is nothing to report to this ASAC meeting regarding the theme evaluation for (1).

(50) *(same as (48))*

Accordingly, there is nothing to report to this ASAC meeting regarding the theme evaluation for (1).

(51) *(same as (48))*

Accordingly, there is nothing to report to this ASAC meeting regarding the theme evaluation for (1).

(52) *(same as (48))*

Accordingly, there is nothing to report to this ASAC meeting regarding the theme evaluation for (1).

(53) *(same as (48))*

Accordingly, there is nothing to report to this ASAC meeting regarding the theme evaluation for (1).

(54) *(same as (48))*

Accordingly, there is nothing to report to this ASAC meeting regarding the theme evaluation for (1).

## **Accounting Treatment for “Single-Investor Private Placement Investment Trusts” (Auditor: ASAC member) (47th meeting)**

(47) Recently, investment trusts with a single beneficiary (so-called “single-investor private placement investment trusts”) have been observed. Existing accounting standards, however, provide accounting treatments for investment trusts only on the assumption that there are multiple beneficiaries. In this context, concerns have been raised about the adverse consequences of having accounting treatments that differ significantly from those for money trusts with a single beneficiary. Accordingly, deliberation on the accounting treatment has been proposed. Because the extent of the impact is unclear, the ASAC will request the ASBJ’s Financial Instruments Expert Committee to evaluate whether deliberations should be commenced.

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## **Amendments to Practical Issues Task Force Report No. 19, “Tentative Accounting Treatment for Deferred Assets” (Academic expert: ASAC member) (48th meeting)**

(48) This matter proposes considering the accounting treatments for share issuance costs, share subscription rights issuance costs, bond issuance costs, organization costs, and start-up costs among the deferred asset items specified in Practical Issues Task Force Report No. 19.

Although this includes themes at the accounting-standards level, it is proposed that the ASAC request the ASBJ’s Practical Issues Task Force to evaluate the theme together with themes at the practical-issues level.

(49) This matter proposes considering the accounting treatments for share issuance costs, share subscription rights issuance costs, bond issuance costs, organization costs, and start-up costs among the deferred asset items specified in Practical Issues Task Force Report No. 19.

In the theme evaluation by the ASBJ’s Practical Issues Task Force, it was indicated that there is a certain need to revise Practical Issues Task Force Report No. 19 and that it is worthwhile for the ASBJ to undertake standard-setting; however, it was also indicated that the ASAC should consider the scope of revision. In considering whether

to make a recommendation, would it be appropriate for the ASAC to consider the scope of revision? (See Document (1)–2.)

(50) This matter proposes considering the accounting treatments for share issuance costs, share subscription rights issuance costs, bond issuance costs, organization costs, and start-up costs among the deferred asset items specified in Practical Issues Task Force Report No. 19.

At the 49th ASAC meeting (held on November 22, 2023), deliberation took place and it was decided that, in making a recommendation, the ASAC would consider the scope of revision of the accounting treatment for deferred assets. It was also decided that, if the theme is recommended to the ASBJ, a note should be added that the ASBJ should respond in light of its resources.

This time, a report is provided on the status of the survey on deferred assets at non-listed companies.

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### **Accounting Treatment for Interests in VC Funds Held by Listed Companies and Other Entities (Japan Venture Capital Association)**

(48) This matter proposes considering the accounting treatment for interests in VC funds held by listed companies and other entities, including fair value measurement.

Although it is proposed by the proponent as an accounting-standards-level theme, it is considered that practical knowledge relating to funds is necessary. Accordingly, it is proposed that the ASAC request the ASBJ's Financial Instruments Expert Committee to perform a theme evaluation.

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### **Accounting for Virtual PPAs (JICPA) (49th meeting)**

(49) This matter requests clarification of the accounting treatment for virtual PPAs (a type of power purchase agreement), which are expected to expand as transactions as environmental awareness increases.

It is proposed that the ASAC request the ASBJ's Practical Issues Task Force to evaluate whether deliberations should be commenced.

(50) This matter requests clarification of the accounting treatment for virtual PPAs (a type of power purchase agreement), which are expected to expand as transactions as environmental awareness increases.

At the 49th ASAC meeting (held on November 22, 2023), the ASAC requested the ASBJ's Practical Issues Task Force to evaluate whether deliberations should be commenced. In its evaluation, the Practical Issues Task Force concluded that an approach that limits the scope to issues of higher priority from the customer's perspective (such as the unit of account and whether fair value measurement is required) meets the requirements to be taken up as a new agenda item.

Additional information will be collected and analyzed, and the Secretariat intends to propose this matter to a subsequent ASAC meeting; accordingly, this time a progress report is provided.

## **Appendix3 Discussions held by ASAC and the ASBJ prior to the issuance of the Exposure Draft (based on the meeting minutes)**

**Exposure Draft of Practical Solution No. 39 “Practical Solution on Transactions in which an Entity Delivers Its Own Shares to Employees, etc. through a Trust (Draft)” (July 2, 2013)**

**[Reference information on the background to the development of the standard, etc.]**

**Excerpt from the “Background to Conclusions” of the Exposure Draft**

### **History**

21. At the 166th meeting of the Accounting Standards Board of Japan (ASBJ) in November 2008, the Accounting Standards Advisory Council (ASAC) recommended that the ASBJ examine the accounting treatment for transactions in which an entity delivers its own shares to an employees’ shareholding association through a trust, etc. Based on this recommendation, the ASBJ summarized the treatments considered necessary in relation to “new schemes for holding an entity’s own shares” in the Issues Paper on the Treatment of Special Purpose Entities in Consolidated Financial Statements, etc. published in February 2009 (hereinafter, the “Consolidation Issues Paper”).
22. Thereafter, as transactions began to be conducted in which an entity’s own shares are delivered through a trust to employees who have been granted rights to receive such shares, diversity in accounting practice came to be observed. Accordingly, at the 255th meeting of the ASBJ in November 2012, the ASAC recommended that the accounting treatment and disclosures for such transactions be taken up as a new agenda item. The ASBJ then decided to deliberate the accounting treatment and disclosures for such transactions.
23. This Practical Solution sets out interim guidance, taking into account current practice.

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## **[Deliberations at the Accounting Standards Advisory Council]**

### **15th meeting (July 11, 2012)**

#### **(2) Proposal of new agenda topics**

ASAC members Tezuka, Mori, and Shinohara proposed, as a new agenda topic, a stock benefit trust (ESOP) using treasury shares. Izumoto, Executive Director of the Japanese Institute of Certified Public Accountants, who attended as an observer, provided an explanation of the content. An exchange of views followed, after which the Chair stated that, rather than deciding today to recommend it to the ASBJ, it would be appropriate—consistent with the discussion under “Method for selecting topics to recommend”—for the ASBJ’s Practical Issues Task Force to evaluate whether the matter should be taken onto the agenda, and then for the ASAC to discuss it again. This was agreed.

### **16th meeting (November 8, 2012)**

#### **(1) Recommendation of agenda topics**

Under the item on agenda recommendations, Miyako, Full-time Board Member of the ASBJ, first explained the Practical Issues Task Force’s evaluation of adding “schemes for granting an entity’s own shares to employees using a trust” as an agenda item. After an exchange of views, the ASAC decided to recommend this topic to the ASBJ.

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## **[Deliberations at the ASBJ]**

### **255th meeting**

(omitted) Finally, Chair Nishikawa stated that he had acknowledged the agenda recommendation made by the ASAC. He also noted that deliberation on adding this topic to the ASBJ's agenda would be taken up at the next Board meeting.

### **256th meeting**

Kogasaka, Senior Researcher, explained—based on the explanatory materials [Agenda Items (3)–1 through (3)–2]—the ASBJ's response to the agenda recommendation from the ASAC.

No particular objections were raised by the Board members regarding the direction of the ASBJ's response. The main comments from members on the explanation were as follows:

- One member requested that, in the course of examination, the ASBJ analyze the nature of the trust products that fall within the scope of this topic, including their contractual terms.

As a result, the ASBJ decided to proceed with its examination of the topic recommended by the ASAC.

### **259th meeting**

#### **Minutes (2) Status of deliberations at the Practical Issues Task Force**

At the outset, Kogasaka, Senior Researcher (Chair of the Task Force), explained that the Practical Issues Task Force had been considering schemes for granting an entity's own shares to employees using a trust, and requested the Board's deliberation on its content. In addition, Nishimura, Professional Staff, provided a detailed explanation based on the explanatory materials [Agenda Item (2)–1].

The principal comments and questions from Board members on the explanation, and the Secretariat's responses, were as follows: (omitted)

### **263rd meeting**

#### **Minutes (5) Status of deliberations at the Practical Issues Task Force**

At the outset, Kogasaka, Vice Chair (Chair of the Task Force), gave an overview of the status of the Practical Issues Task Force's consideration of "transactions in which an entity delivers its own shares to employees, etc. through a trust," and Nishimura, Professional Staff, then provided a detailed explanation based on the explanatory materials [Agenda Item (5)].

The main comments from Board members and the Secretariat's responses were as follows: (omitted)

## **266th meeting**

### **Minutes (4) Examination of accounting treatment for transactions involving the delivery of an entity's own shares through a trust**

At the outset, Kogasaka, Vice Chair (Chair of the Task Force), gave an overview of the status of the Practical Issues Task Force's consideration of "transactions in which an entity delivers its own shares to employees, etc. through a trust," and Nishimura, Professional Staff, then provided a detailed explanation based on the explanatory materials [Agenda Items (4)-1 through (4)-3].

The main comments from Board members and the Secretariat's responses were as follows: (omitted)

## **267th meeting (vote to issue the Exposure Draft)**

### **Minutes (4) Exposure Draft of Practical Solution "Practical Solution on Transactions in which an Entity Delivers Its Own Shares to Employees, etc. through a Trust (Draft)" [Vote to issue]**

At the outset, Chair Nishikawa explained that, following today's deliberation, the Board planned to vote to issue the Exposure Draft of Practical Solution "Practical Solution on Transactions in which an Entity Delivers Its Own Shares to Employees, etc. through a Trust (Draft)." Next, Kogasaka, Vice Chair (Chair of the Task Force), explained an outline of the Exposure Draft and the comment period. Nishimura, Professional Staff, then provided a detailed explanation focusing mainly on revisions since the previous meeting, based on the explanatory materials [Agenda Items (4)-1 and (4)-2]. (omitted)

After deliberation, a vote was taken, and on the understanding that the Chair would be entrusted with making any wording and other minor revisions, the issuance of this Exposure Draft of the Practical Solution was approved unanimously by all 12 attendees.

**Exposure Draft of Practical Solution Report No. 44 (Draft Amendments to Practical Solution Report No. 18) “Interim Practical Solution on Accounting Treatments for Foreign Subsidiaries in Preparing Consolidated Financial Statements (Draft)”  
(December 24, 2014)**

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**[Reference information on the background to the development of the standard, etc.]**

**(From the Draft Practical Solution Report)**

**Amendment in Heisei XX**

In the United States, in January 2014, Topic 350 “Intangibles—Goodwill and Other” of the FASB Accounting Standards Codification (the codified system of accounting standards issued by the FASB) (hereinafter, “FASB ASC Topic 350”) was amended so that nonpublic entities could elect an accounting policy to amortize goodwill. In response, this Practical Solution Report as amended in Heisei XX (hereinafter, the “Heisei XX Amended Practical Solution Report”) revised the guidance in the interim practical solution relating to “(1) amortization of goodwill,” in order to clarify the scope of adjustments to be made in consolidation procedures. In addition, for goodwill recognized in consolidated financial statements at the beginning of the first fiscal year in which the Heisei XX Amended Practical Solution Report is applied, transitional provisions were provided as a practical expedient for goodwill for which a foreign subsidiary elected amortization based on FASB ASC Topic 350 as amended in January 2014.

Furthermore, in Accounting Standard No. 22, *Accounting Standard for Consolidated Financial Statements* (hereinafter, the “Consolidation Accounting Standard”), as amended in September 2013, “net income before minority interests adjustment” was changed to be presented as “net income,” and “net income attributable to owners of the parent” was required to be presented separately as a breakdown (or by note). Accordingly, because differences from international accounting standards regarding

the “accounting treatment of minority interests’ share of profit or loss” were eliminated, other necessary amendments were also made.

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## [Deliberations at the Accounting Standards Advisory Council]

### 16th meeting (November 8, 2012)

**Proponent:** Auditor (member of the Practical Issues Task Force)

**(Topic)**

Examination of whether a review of Practical Solution Report No. 18 is necessary

**(Reason for proposal)**

Six years have passed since the issuance of Practical Solution Report No. 18, *Interim Practical Solution on Accounting Treatments for Foreign Subsidiaries in Preparing Consolidated Financial Statements*, and four years since its application began. During this period, several amendments have been made to U.S. GAAP and IFRSs, and it is possible that new differences from Japanese GAAP (i.e., matters that depart from concepts commonly underlying Japanese GAAP) have arisen.

In particular, because the Practical Solution Report includes the statement that “it should be noted that, even for items other than the following items, adjustments are required in consolidation procedures when they are clearly recognized as unreasonable,” discussions sometimes arise as to which accounting treatments among the amended U.S. GAAP and IFRSs should be regarded as “clearly recognized as unreasonable.”

**(Specific content)**

Would it be appropriate to examine whether there are any items, other than the so-called five adjustment items, that require adjustment, and whether a review of Practical Solution Report No. 18 is necessary?

**(Secretariat’s proposed response)**

Although this is a Practical Solution Report, it is considered to have an impact on practice substantively similar to that of an accounting standard. However, in order to

understand practical implications, would it be appropriate to request the Practical Issues Task Force to evaluate whether the matter should be taken onto the agenda?

### **17th meeting (March 11, 2013)**

#### **(Topic)**

Examination of whether a review of Practical Solution Report No. 18 is necessary

#### **(Reason for proposal)**

Six years have passed since the issuance of Practical Solution Report No. 18, *Interim Practical Solution on Accounting Treatments for Foreign Subsidiaries in Preparing Consolidated Financial Statements*, and four years since its application began. During this period, several amendments have been made to U.S. GAAP and IFRSs, and it is possible that new differences from Japanese GAAP (i.e., matters that depart from concepts commonly underlying Japanese GAAP) have arisen.

In particular, because the Practical Solution Report includes the statement that “it should be noted that, even for items other than the following items, adjustments are required in consolidation procedures when they are clearly recognized as unreasonable,” discussions sometimes arise as to which accounting treatments among the amended U.S. GAAP and IFRSs should be regarded as “clearly recognized as unreasonable.”

#### **(Specific content)**

Would it be appropriate to examine whether there are any items, other than the so-called five adjustment items, that require adjustment, and whether a review of Practical Solution Report No. 18 is necessary?

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## [Deliberations at the ASBJ]

### **261st meeting**

#### **Summary of minutes (1) Agenda recommendation from the Accounting Standards Advisory Council**

Nozaki, Chair of the Accounting Standards Advisory Council, explained—based on the explanatory materials [Agenda Items (1)–1 through (1)–5]—that, at the meeting of the Accounting Standards Advisory Council held on March 11, it had been approved to recommend to the Accounting Standards Board of Japan, as new agenda items, “Review of Practical Solution Report No. 18” and “Consistency of tax effect accounting relating to consolidated tax filing and business combinations.” He also explained the status of consideration at the Accounting Standards Advisory Council regarding new topics at the level of accounting standards and topics at the level of practical solutions. (omitted)

Finally, Chair Nishikawa stated that he had acknowledged the agenda recommendation made by the Accounting Standards Advisory Council, and that deliberations on commencing work on the two recommended topics would be discussed at Board meetings from the next meeting onward.

### **263rd meeting**

#### **Summary of minutes (3) Response to the agenda recommendation from the Accounting Standards Advisory Council**

Kogasaka, Vice Chair (Chair of the Task Force), provided a detailed explanation—based on the explanatory materials [Agenda Item (3)]—of the response to the agenda recommendation from the Accounting Standards Advisory Council. (omitted)

With respect to taking the recommended topic onto the agenda of the Accounting Standards Board of Japan, the Board members approved it without any particular objections. Chair Nishikawa commented that, based on the recommendation, the matter would be examined by the Practical Issues Task Force and deliberated by the Board.

## **270th meeting**

### **Summary of minutes (5) Review of Practical Solution Report No. 18**

At the outset, Kogasaka, Vice Chair (Chair of the Task Force), explained an overview of the review of Practical Solution Report No. 18. Murata, Professional Staff, then provided a detailed explanation based on the explanatory materials [Agenda Item (5)-1]. (omitted)

## **271st meeting**

### **Summary of minutes (5) Review of Practical Solution Report No. 18**

At the outset, Kogasaka, Vice Chair (Chair of the Task Force), explained an overview of the review of Practical Solution Report No. 18. Murata, Professional Staff, then provided a detailed explanation based on the explanatory materials [Agenda Items (5)-1 through (5)-2].

The main comments from Board members and the Secretariat's responses were as follows: (omitted)

## **296th meeting**

### **Summary of minutes (4) Review of Practical Solution Report No. 18**

At the outset, Kogasaka, Vice Chair, provided an overview of the status of deliberations at the Practical Issues Task Force. Maeda, Director, then gave a detailed explanation based on the explanatory materials [Agenda Items (4)-1], [Agenda Item (4)-2], and [Agenda Item (4)-3].

The main comments and questions from Board members, and the Secretariat's responses, were as follows: (omitted)

## **299th meeting**

### **Summary of minutes (3) Review of Practical Solution Report No. 18**

At the outset, Kogasaka, Vice Chair, provided an overview of the status of deliberations at the Practical Issues Task Force. Maeda, Director, then gave a

detailed explanation based on the explanatory materials [Agenda Items (3)–1], [Agenda Item (3)–2], and [Agenda Item (3)–3].

The main comments from Board members and the Secretariat’s responses were as follows: (omitted)

### **301st meeting**

#### **Summary of minutes (5) Review of Practical Solution Report No. 18**

At the outset, Kogasaka, Vice Chair, provided an overview of the status of deliberations at the Practical Issues Task Force. Maeda, Director, then gave a detailed explanation based on the explanatory materials [Agenda Items (5)–1] through [Agenda Item (5)–3]. (omitted)

Finally, Kogasaka, Vice Chair, explained that, from the next meeting onward, the Board would be asked to deliberate on the issuance of the Exposure Draft.

### **302nd meeting**

#### **Summary of minutes (4) Exposure Draft of Practical Solution Report “Interim Practical Solution on Accounting Treatments for Foreign Subsidiaries in Preparing Consolidated Financial Statements (Draft)” [Vote to issue]**

At the outset, Chair Ono explained that, following today’s deliberation, the Board intended to vote on issuing the Exposure Draft of Practical Solution Report “Interim Practical Solution on Accounting Treatments for Foreign Subsidiaries in Preparing Consolidated Financial Statements (Draft).” Kogasaka, Vice Chair, then explained the history of deliberations to date relating to this practical solution. Maeda, Director, subsequently explained, based on the explanatory materials [Agenda Items (4)–1 and (4)–2], the revisions made to the draft wording of “Interim Practical Solution on Accounting Treatments for Foreign Subsidiaries in Preparing Consolidated Financial Statements (Draft)” since the previous Board meeting. (omitted)

After deliberation, a vote was taken, and on the understanding that amendments relating to the matters described above and any wording and other minor revisions would be entrusted to the Chair, the issuance of “Interim Practical Solution on

Accounting Treatments for Foreign Subsidiaries in Preparing Consolidated Financial Statements (Draft)” was approved unanimously by all 13 attending Board members.

## **(The Case Where No Exposure Draft Was Issued) Consistency between Tax Effects under the Consolidated Tax Filing System and Tax Effects in Business Combination Accounting**

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### **[Outcome of this topic]**

With respect to this matter, the ASBJ ultimately reached a decision to maintain the status quo without seeking consistency. This fact is stated in the “Request for Comments” related to Accounting Standards Exposure Draft No. 60, “Partial Amendments to the Accounting Standard for Tax Effect Accounting (Draft)” (June 6, 2017).

In addition, in the document titled “Comments on Accounting Standards Exposure Draft No. 60, ‘Partial Amendments to the Accounting Standard for Tax Effect Accounting (Draft),’ etc.” (February 16, 2018), which compiles the comments received on the Exposure Draft and the responses thereto, the response to Comment 54) explains in detail the reasons why the ASBJ decided to maintain the status quo without seeking consistency.

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### **[Deliberations at the Accounting Standards Advisory Council]**

#### **16th meeting (November 8, 2012)**

##### **(Topic)**

Consistency between tax effects under the consolidated tax filing system and tax effects in business combination accounting

##### **(Reason for proposal)**

I believe there are areas where consistency has not been achieved between the tax effects when applying the consolidated tax filing system and the tax effects in

business combination accounting, and therefore I think it would be preferable to organize the underlying concepts.

In “Publication of comments on Exposure Draft of Practical Solution Report No. 33, ‘Interim Practical Solution on Tax Effect Accounting when Applying the Consolidated Tax Filing System (Part 1) (Draft),’ and Exposure Draft of Practical Solution Report No. 34, ‘Interim Practical Solution on Tax Effect Accounting when Applying the Consolidated Tax Filing System (Part 2) (Draft),’ ” Comment 10 states the following:

“In the proposed amendments to Part 1, Q12–2 and Q13 provide that, upon new adoption, entry into, or exit from the consolidated tax filing system, the effects of such adoption/entry/exit are reflected in assessing the recoverability of deferred tax assets from the time at which each decision is made and it is highly probable that it will be executed, etc. On the other hand, paragraph 75 of ASBJ Guidance No. 10, ‘Implementation Guidance on Accounting Standards for Business Combinations and for Business Divestitures, etc.,’ provides, as the tax effect accounting treatment for the acquiree, that the effects of a business combination are to be reflected from the fiscal year of the business combination. Also, based on the intent of this provision, it is considered that, from the time additional acquisition of subsidiary shares is carried out and the consolidated tax filing system is joined, the effects should be reflected in assessing recoverability in both (i) the consolidated financial statements of the consolidated group including the consolidated tax filing parent, and (ii) the separate financial statements of the consolidated subsidiary that becomes a consolidated tax filing subsidiary (see paragraphs 89 and 90).

Under the current requirements, when a decision to enter the consolidated tax filing system is made, it is not clear which of these requirements takes precedence. Therefore, the treatment should be clarified; and if there is a particular rationale that necessitates different treatments, that rationale needs to be clearly stated.”

In response to this comment, it is stated that:

“Because this treatment is not an item related to the FY2010 Tax Reform, it is outside the scope of the current amendments to the Practical Solution Report. However, going forward, we will analyze whether any inconsistency exists between the respective concepts of the accounting standards, etc., and consider the need to address the matter.”

**(Specific content)**

When changes in organizational restructuring or changes in the scope of consolidated tax filing companies give rise to effects on tax effect accounting, is the relevant timing (i) the time when the tax-paying entity formally and legally becomes the same, or (ii) the time when the relevant decision is made?

**(Secretariat's proposed response)**

Would it be appropriate to request the Practical Issues Task Force to evaluate whether to take this matter onto the agenda?

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**17th meeting**

**(Evaluation by the Practical Issues Task Force)**

This matter is one that the ASBJ had previously stated it would examine as necessary, and it is appropriate to make it a new agenda item of the ASBJ in order to organize differences in treatments between standards.

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## [Deliberations at the ASBJ]

### **261st meeting (March 29, 2013)**

#### **Summary of minutes (1) Agenda recommendations from the Accounting Standards Advisory Council**

Nozaki, Chair of the Accounting Standards Advisory Council, explained—based on the explanatory materials [Agenda Items (1)–1 through (1)–5]—that at the Accounting Standards Advisory Council meeting held on March 11, it had been approved to recommend to the ASBJ, as new agenda items, “Review of Practical Solution Report No. 18” and “Consistency of tax effect accounting relating to consolidated tax filing and business combinations,” and he also explained the status of consideration at the Accounting Standards Advisory Council regarding new topics at the accounting–standards level and at the practical–solutions level. (omitted)

Finally, Chair Nishikawa stated that he had acknowledged the agenda recommendations made by the Accounting Standards Advisory Council, and that the commencement of deliberations on the two recommended topics would be discussed at Board meetings from the next meeting onward.

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### **277th meeting (December 12, 2013) — excerpt from Discussion Paper (2)**

#### **(Guidance on tax effect accounting)**

2. The recommendations from the Accounting Standards Advisory Council are as follows:

“We recommend that your Board take up, as a new agenda item, deliberations to transfer to your Board the accounting–related portions of the JICPA’s ‘Audit Treatment Relating to the Assessing Recoverability of Deferred Tax Assets’ (Audit Committee Report No. 66). In addition, when conducting such deliberations, we recommend that you also deliberate the transfer to your Board of the JICPA’s accounting practical guidelines relating to tax effect accounting and other auditing practical guidelines (accounting–related portions).”

3. The above recommendation was based on the report the ASBJ submitted to the Accounting Standards Advisory Council. In response to the recommendation, would it be appropriate to make the development of implementation guidance on tax effect accounting a new agenda item, and to deliberate the transfer of the JICPA's accounting practical guidelines relating to tax effect accounting and auditing practical guidelines (accounting-related portions) to the ASBJ?
  4. This topic is expected to require a substantial amount of work. In light of its importance, would it be appropriate to establish a new Tax Effect Accounting Expert Committee?
  5. In conducting the examination, given that the current JICPA practical guidelines are well established in practice, it may be considered to include examining the possibility of continuing those contents. At the same time, it is considered necessary to examine the issues identified with the current treatment, giving full consideration to practical impacts.
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**277th meeting (December 12, 2013) — excerpt from Summary of minutes (2) “Response to recommendations from the Accounting Standards Advisory Council”**

(omitted)

Finally, Chair Nishikawa stated that the commencement of deliberations on the three recommended topics would be discussed at Board meetings from the next meeting onward.

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**280th meeting (January 27, 2014) — excerpt from Discussion Paper (4)**

**(Approach to proceeding with deliberations)**

5. As stated in paragraph 3, the Board materials for the 277th meeting indicated: “In conducting the examination, given that the current JICPA practical guidelines are well established in practice, it may be considered to include examining the possibility of continuing those contents. At the same time, it is necessary to

examine the issues identified with the current treatment, giving full consideration to practical impacts.”

6. At the 19th meeting of the Accounting Standards Advisory Council (November 2013), the ASBJ reported the results of a survey on accounting treatment regarding the recoverability of deferred tax assets. As described in the report section “Impacts on financial statement preparation practice and audit practice if the current treatment is changed,” stakeholders expressed concerns about changing the current treatment.

In addition, as described in the report section “Impacts on various systems from fluctuations in financial figures arising from changes to the current treatment,” because deferred tax asset amounts are deeply related to various systems, if the accounting treatment is changed, it is considered necessary to carefully examine the impacts.

7. On the other hand, as described in the report section “Impacts on financial statement preparation practice and audit practice if the current treatment is changed,” various concerns regarding the current treatment have also been expressed.
8. In light of the above, for “Audit Treatment Relating to the Assessing Recoverability of Deferred Tax Assets” (Audit Committee Report No. 66), it may be considered to proceed with transfer based on continuing the current contents as a principle, while also identifying issues with the current treatment and, as necessary, revising the treatment and then transferring it.

**Excerpt from Summary of minutes (4) “Approach to the Tax Effect Accounting Expert Committee”**

At the outset, Kogasaka, Vice Chair (Chair of the Expert Committee), explained—based on the explanatory materials [Agenda Item (4)]—that the Board was asked to deliberate the approach for examining matters related to tax effect accounting, and Murata, Professional Staff, provided an explanation based on the same materials. (omitted)

Finally, Chair Nishikawa stated that wording would be revised, but that he wished to proceed with deliberations in this direction.

**(Note)**

The 277th and 280th meetings of the ASBJ did not directly discuss “Consistency between tax effects under the consolidated tax filing system and tax effects in business combinations.” However, as described below, the ultimate decision not to address that consistency was indicated in Accounting Standards Exposure Draft No. 60, “Partial Amendments to the Accounting Standard for Tax Effect Accounting (Draft),” etc. (June 6, 2017). Because deliberations at the 277th and 280th meetings related to commencing deliberations on the relevant draft accounting standards, they are included in this explanation.

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**314th meeting (June 29, 2015) — excerpt from Discussion Paper (4)–1 (1/3)**

**History**

**(Deliberations to date)**

5. At the 280th meeting of the ASBJ and the 1st Expert Committee meeting, it was decided, regarding the scope and approach of deliberations, not to proceed by developing new implementation guidance, but rather to proceed as follows:

- (1) Ask the expert committee members to identify issues with current treatments with respect to the practical guidelines that were selected as subjects of examination.
- (2) For issues where problems with current treatments were identified, deliberate at the Expert Committee whether to revise the treatments.
- (3) For items where no significant issues with current treatments were identified, as a general rule, continue and transfer the contents of the current JICPA practical guidelines.

6. In addition, because issues raised by expert committee members covered a broad range, the issues were grouped and it was decided to proceed in the following order: Group 1 (important issues among tax effect accounting issues other than recoverability of deferred tax assets), Group 2 (important issues among issues relating to recoverability of deferred tax assets), and

Group 3 (issues other than those in Groups 1 and 2) (details are set out in (Appendix 1) and in Reference Material 1 to Agenda Item (4)-1).

7. The following four issues in Group 1 were deliberated at the 286th and 288th ASBJ meetings and at the 3rd and 4th Expert Committee meetings; however, the direction as to whether to revise the current treatments was not examined:

- Tax effects related to elimination of unrealized profits
- Tax effects related to retained earnings of subsidiaries, etc.
- Tax effects on future taxable temporary differences related to investments in subsidiaries and the payability of deferred tax liabilities
- Treatment when the tax rate applicable to tax effect accounting changes

Group 3 has not been deliberated to date.

**(Note)**

Because consistency between tax effects under consolidated tax filing and in business combinations is considered to fall within Group 3, it is considered to have remained in an undeliberated state. In Appendix 1 to Discussion Paper (4)-1, “Overview of issues raised by expert committee members,” “Consistency between tax effects under consolidated tax filing and in business combinations” is not listed as an example in any group. However, given that the issue titled “Review of scheduling in separate financial statements from the perspective of consolidated financial statements,” which is positioned as closely related to “Consistency between tax effects under consolidated tax filing and in business combinations,” is included in Group 3, the issue in question is likewise considered to belong to Group 3. Accordingly, it is considered that this issue has not been examined since the 280th ASBJ meeting.

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**Issues requiring prompt action**

**(3) Consistency between tax effects under consolidated tax filing and in business combinations**

31. At the 261st meeting of the ASBJ held on March 29, 2013, the Accounting Standards Advisory Council proposed, as a new agenda item, “Consistency

between tax effects under the consolidated tax filing system and tax effects in business combinations” (see Reference Materials 2 and 3 to Reference Material 2 of Agenda Item (4)–1). Specifically, this is an issue regarding consistency between (i) the treatments in tax effect accounting upon new adoption, entry into, or exit from the consolidated tax filing system as set out in Q12–2 and Q13 of Practical Solution Report No. 5, “Interim Practical Solution on Tax Effect Accounting when Applying the Consolidated Tax Filing System (Part 1)” (hereinafter, the “Interim Practical Solution on Consolidated Tax Filing”), and (ii) the tax effect accounting treatment for the acquiree as set out in paragraph 75 of ASBJ Guidance No. 10, “Implementation Guidance on Accounting Standards for Business Combinations and for Business Divestitures, etc.” (hereinafter, the “Business Combination Implementation Guidance”).

*Footnote 3:* In Q12–2 and Q13 of the Interim Practical Solution on Consolidated Tax Filing, upon new adoption, entry into, or exit from the consolidated tax filing system, the effects of such adoption/entry/exit are reflected in assessing recoverability of deferred tax assets from the time at which each decision is made and it is recognized as highly probable that it will be executed, etc.

*Footnote 4:* Paragraph 75 of the Business Combination Implementation Guidance states: “Recoverability of deferred tax assets shall be assessed based on the sufficiency of taxable income derived from the earning power of the acquiree, etc., and the effects of the business combination shall be reflected from the fiscal year of the business combination.”

32. Although both (i) mergers, etc. between parent and subsidiary companies that are transactions under common control and (ii) new entry into consolidated tax filing through an additional acquisition of subsidiary shares both result in the tax-paying entity becoming the same after the transaction even though they were previously different tax-paying entities, the effect on assessing recoverability of deferred tax assets results in different outcomes in practice, as follows:

(1) Transactions under common control

Although not explicitly codified, in practice—for example, in the case of a merger between a parent and subsidiary—there are cases where the effects of the merger

are considered from after the merger in assessing recoverability of deferred tax assets, similarly to the business combination accounting treatment for the acquiree's tax effect accounting (paragraph 75 of the Business Combination Implementation Guidance).

(2) New entry into consolidated tax filing through an additional acquisition of subsidiary shares

It is explicitly stated in the Interim Practical Solution on Consolidated Tax Filing that the effect shall be considered in assessing recoverability of deferred tax assets at the time when the decision to additionally acquire the shares of the relevant subsidiary is made and it is recognized as highly probable that the acquisition will be executed.

33. In evaluating this matter as a new agenda item at the Practical Issues Task Force, the following response alternatives were presented:

(Alternative 1) Delete the provisions in the Interim Practical Solution on Consolidated Tax Filing regarding assessment of recoverability of deferred tax assets upon entry into or exit from consolidated tax filing for existing subsidiaries, and align the treatment with that in business combination accounting.

(Alternative 2) Align the assessment of recoverability of deferred tax assets for transactions under common control with the treatment for entry into or exit from consolidated tax filing in the Interim Practical Solution on Consolidated Tax Filing.

(Alternative 3) Retain the current treatments under both standards, and clarify that, for transactions under common control in business combinations, the same treatment as for acquisitions is applied.

34. In examining the response alternatives, the conclusion would depend on which of the following perspectives is emphasized: ensuring consistent treatment in organizational restructuring actions as in Alternative 1; achieving consistency in treating similar economic events as in Alternative 2; or respecting differing underlying concepts as in Alternative 3.

35. In this respect, one key point for examination is whether to emphasize that the fundamental concept in assessing recoverability of deferred tax assets is to determine whether it provides an effect of reducing future tax burdens.

## **316th meeting (July 24, 2015) — excerpt from Discussion Paper (3)–2**

### **(Future schedule)**

2. At the 314th ASBJ meeting and the 21st Expert Committee meeting, it was proposed to treat the following seven issues as those requiring prompt action and to proceed with examination:

- (1) Issues related to disclosures
  - (2) Treatment of the tax rate applicable to tax effect accounting (enacted-date basis)
  - (3) Consistency between tax effects under consolidated tax filing and in business combinations
  - (4) Payability of deferred tax liabilities (consistency between accounting standards and practical guidelines)
  - (5) Tax effects related to retained earnings of subsidiaries (consistency with provisions in the consolidated tax effect practical guidelines)
  - (6) Tax effects related to elimination of unrealized profits (deferral method or asset-liability method)
  - (7) Tax effects related to retained earnings, etc. of associates (recognition criteria)
- 

## **316th meeting (July 24, 2015) — excerpt from Discussion Paper (3)–4**

6. Regarding “Consistency between tax effects under consolidated tax filing and in business combinations,” the following views were expressed at the Expert Committee:

(1) For example, regarding (i) a merger between wholly owned subsidiaries and (ii) entry into consolidated tax filing through making an entity a wholly owned subsidiary, please discuss the fact that the recognized amount of deferred tax assets changes depending on the accounting standards’ treatment, focusing on whether the treatment provides an effect of reducing future tax burdens.

(2) For transactions under common control, it is necessary to discuss separately the treatment in consolidated financial statements and the treatment in separate financial statements.

Because the guidance for transactions under common control addresses separate

financial statements, when, in the fiscal year immediately before a merger, recoverability of deferred tax assets is discussed on the premise of the merger, it is necessary to organize the treatment for the surviving company and for the disappearing company. On the other hand, when discussing treatment in consolidated financial statements, it may be possible that a different judgment from that in separate financial statements could arise.

(3) At present, in the case of a merger between wholly owned subsidiaries, the surviving company prepares both a plan premised on the merger and a plan not premised on the merger, which is operationally complicated. Therefore, would it be possible to allow consideration of future tax burdens? In such a case, for example, effects may arise with respect to adjustments to investment book value and other items; therefore, we would also like to consider which items need to be examined together.

**(Secretariat's proposed response)**

The matters described above are planned to be addressed when examining this issue in the future.

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**316th meeting (July 24, 2015) — excerpt from Discussion Paper (3)–5**

**III Examination of adding issues to be treated as requiring prompt action**

(omitted)

4. At the 21st Expert Committee meeting, seven issues were proposed as those requiring prompt action. At the previous Expert Committee meeting, the contents of the other 16 issues were explained, and deliberations were held as to whether any issues should be added to those requiring prompt action.

5. In this respect, no views were heard that any issues should be added to those requiring prompt action. However, the following views were heard regarding related matters. (omitted)

**(Note)**

“Consistency between tax effects under consolidated tax filing and in business combinations” was not included among the issues requiring prompt action.

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## 329th meeting (February 10, 2016) – excerpt from Discussion Paper (2)–2

### Consistency between tax effects under consolidated tax filing and in business combinations

2. At the 261st ASBJ meeting (held March 29, 2013), the Accounting Standards Advisory Council proposed, as a new agenda item, consistency between tax effects when applying the consolidated tax filing system and tax effects in business combinations.

3. Specifically, this is an issue regarding consistency between (i) the treatments in tax effect accounting upon new adoption, entry into, or exit from the consolidated tax filing system as set out in Q12–2 and Q13 of Practical Solution Report No. 5, “Interim Practical Solution on Tax Effect Accounting when Applying the Consolidated Tax Filing System (Part 1)” (hereinafter, the “Interim Practical Solution on Consolidated Tax Filing”), and (ii) the tax effect accounting treatment for the acquiree as set out in paragraph 75 of ASBJ Guidance No. 10, “Implementation Guidance on Accounting Standards for Business Combinations and for Business Divestitures, etc.” (hereinafter, the “Business Combination Implementation Guidance”).
4. Although both (i) mergers, etc. between parent and subsidiary companies that are transactions under common control and (ii) new entry into consolidated tax filing through an additional acquisition of subsidiary shares both result in the tax-paying entity becoming the same after the transaction even though they were previously different tax-paying entities, the effect on assessing recoverability of deferred tax assets results in different outcomes in practice, as follows:

#### (1) Transactions under common control

Although not explicitly codified, in practice—for example, in the case of a merger between a parent and subsidiary—there are cases where the effects of the merger are considered from after the merger in assessing recoverability of deferred tax assets, similarly to the business combination accounting treatment for the acquiree’s tax effect accounting (paragraph 75 of the Business Combination Implementation Guidance).

(2) New entry into consolidated tax filing through an additional acquisition of subsidiary shares

It is explicitly stated in the Interim Practical Solution on Consolidated Tax Filing that the effect shall be considered in assessing recoverability of deferred tax assets at the time when the decision to additionally acquire the shares of the relevant subsidiary is made and it is recognized as highly probable that the acquisition will be executed.

5. In evaluating this matter as a new agenda item at the Practical Issues Task Force, the following response alternatives were presented:

(Alternative 1) Delete the provisions in the Interim Practical Solution on Consolidated Tax Filing regarding assessment of recoverability of deferred tax assets upon entry into or exit from consolidated tax filing for existing subsidiaries, and align the treatment with that in business combination accounting.

(Alternative 2) Align the assessment of recoverability of deferred tax assets for transactions under common control with the treatment for entry into or exit from consolidated tax filing in the Interim Practical Solution on Consolidated Tax Filing.

(Alternative 3) Retain the current treatments under both standards, and clarify that, for transactions under common control in business combinations, the same treatment as for acquisitions is applied.

6. In examining the response alternatives, the conclusion would depend on which of the following perspectives is emphasized: ensuring consistent treatment in organizational restructuring actions as in Alternative 1; achieving consistency in treating similar economic events as in Alternative 2; or respecting differing underlying concepts as in Alternative 3.
7. In this respect, one key point for examination is whether to emphasize that the fundamental concept in assessing recoverability of deferred tax assets is to determine whether it provides an effect of reducing future tax burdens.

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**Excerpt from the “Request for Comments” document issued upon publication of Accounting Standards Exposure Draft No. 60, “Partial Amendments to the Accounting Standard for Tax Effect Accounting (Draft),” etc. (June 6, 2017)**

(omitted)

### **Overview of this Exposure Draft and questions**

The following overview is intended to be provided for the convenience of those who submit comments, by summarizing the main points where the accounting practical guidelines on tax effect accounting (accounting-related portions) published by the JICPA were reviewed in this Exposure Draft. When submitting comments, for a more accurate examination, please read this Exposure Draft and clearly indicate to which accounting standard(s), etc. your comment relates.

In addition, for the convenience of those who submit comments, individual questions are included in the overview below. Note that the comments are not limited to these questions, and you do not need to respond to all items.

In addition, regarding **consistency between the tax effect accounting treatment when applying the consolidated tax filing system and the tax effect accounting treatment in business combinations**, which was recommended by the Accounting Standards Advisory Council as a new agenda item at the 261st ASBJ meeting held in March 2013, the ASBJ has also examined this matter in connection with the present transfer, and this examination is described in (Appendix 2).

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### **(Appendix 2) Consistency between the tax effect accounting treatment when applying the consolidated tax filing system and the tax effect accounting treatment in business combinations**

1. At the 261st ASBJ meeting held in March 2013, the Accounting Standards Advisory Council recommended that the ASBJ deliberate the consistency between (i) the tax effect accounting treatment upon new adoption, entry into, or exit from the consolidated tax filing system as set out in Q12-2 and Q13 of Practical Solution Report No. 5, “Interim Practical Solution on Tax Effect Accounting when Applying the Consolidated Tax Filing System (Part 1)” (hereinafter, “Interim Practical Solution on Consolidated Tax Filing (Part 1)”), and (ii) the tax effect accounting treatment for the acquiree as set out in paragraph 75 of ASBJ Guidance No. 10, “Implementation Guidance on Accounting Standards for Business Combinations and for Business

Divestitures, etc.” (hereinafter, the “Combination/Divestiture Implementation Guidance”). Accordingly, the ASBJ examined this matter in connection with the present transfer as well.

2. As a result of the examination, for the following reasons, the ASBJ decided not to seek consistency in particular between the two standards, and not to change the current treatments.

**(Reasons)**

(1) The current treatment in Interim Practical Solution on Consolidated Tax Filing (Part 1) is established on the basis of certain rationales, taking into account consistency with other accounting standards, etc. related to tax effect accounting. Therefore, it is not easy to identify a basis for refuting the current treatment, and it is considered difficult to align it with the treatment in business combination accounting (including the Combination/Divestiture Implementation Guidance; hereinafter the same).

(2) If only the tax effect accounting treatment in business combination accounting were aligned with the treatment in Interim Practical Solution on Consolidated Tax Filing (Part 1), there is a possibility that the accounting treatments within business combination accounting would become internally inconsistent.

(3) Since the recommendation regarding consistency between the two standards was made, no significant practical issues have been heard from practice, from the perspective of the usefulness of information, regarding the current treatments in Interim Practical Solution on Consolidated Tax Filing (Part 1) and in business combination accounting. Accordingly, it is considered that the need to change the treatments is not necessarily strong.

## [Deliberations at the Accounting Standards Advisory Council]

### 18th meeting (July 16, 2013)

#### Background to date

1. At the Accounting Standards Advisory Council meeting in November 2012 (Note: the 16th meeting), it was proposed that the Accounting Standards Board of Japan (ASBJ) should take up, as a new agenda item, a review of the accounting treatment relating to the Japanese Institute of Certified Public Accountants’ (JICPA) Audit Committee Report No. 66, “Audit Treatment Relating to the Assessment of Recoverability of Deferred Tax Assets” (hereinafter, “Audit Committee Report No. 66”). The proposal made by the proponent was as follows:
  - (1) Transfer the rules on recoverability of deferred tax assets from the JICPA’s audit guidance to ASBJ implementation guidance.
  - (2) Organize the relationship between the carryforward period of tax loss carryforwards under tax law amendments and the provisions on recoverability.At that Advisory Council meeting, the Practical Issues Task Force was asked to evaluate whether it should be taken up as a new agenda item.
2. Thereafter, the Practical Issues Task Force discussed the agenda evaluation, and the Advisory Council secretariat conducted hearings with relevant parties. The results were summarized as shown in Reference Material (3)–3 and were reported at the 17th Advisory Council meeting in March 2013. At that meeting, opinions were heard on both sides as to whether this should be taken up as a new agenda item, and given the significant impact on practice, it was decided to continue the discussion at the next Advisory Council meeting.

### **Current proposal by the secretariat**

3. As stated in Reference Material (3)–3 (materials for the 17th Advisory Council meeting), this topic includes mainly the following issues:
    - (1) Allocation of roles between ASBJ accounting standards/implementation guidance and the JICPA’s practical guidance relating to audits
    - (2) Impacts arising if current treatments are changed
      - ① Impacts on financial statement preparation practice
      - ② Impacts on audit practice
      - ③ Impacts on various systems of fluctuations in financial figures resulting from changes to current treatments
    - (3) The appropriate form of guidance on recoverability of deferred tax assets (e.g., numerical thresholds)
    - (4) Relationship with optional adoption of IFRSs
  4. To resolve this matter, it is considered necessary to sufficiently organize the issues set out in the preceding paragraph and to coordinate with the JICPA and other parties as well. Accordingly, would it be appropriate to request the ASBJ to conduct an investigation of the issues in the preceding paragraph, and for the Advisory Council to receive a report on the results?
- 

### **19th meeting (November 20, 2013)**

#### **Current proposal by the secretariat**

4. As of today, the Advisory Council has received from the ASBJ a report on the investigation, as shown in Material (1)–2. In the section “Allocation of roles between ASBJ accounting standards/implementation guidance and the JICPA’s practical guidance relating to audits,” the report states as follows:

“8. With respect to the accounting–treatment–related portions of Audit Committee Report No. 66, it is considered appropriate, based on the discussions at the Advisory Council and this investigation report, for the ASBJ to deliberate with a view to transferring those portions to the ASBJ. In doing so, it is considered appropriate to deliberate both the Accounting System Committee’s practical guidance (item (6) in paragraph 5) and the Audit and Assurance Practice Committee’s practical guidance

(item (17) in paragraph 5), which are practical guidance relating to tax effect accounting.

In addition, given that the current JICPA practical guidance is established in practice, it may be considered to include examining the possibility of continuing those contents; at the same time, it is considered necessary to examine issues identified with current treatments, giving full consideration to impacts on practice.”

5. In light of the above, would it be appropriate to recommend this as a new agenda item for the ASBJ?
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## [Deliberations at the ASBJ]

### 269th meeting (July 25, 2013)

#### Summary of minutes (1) Report from the Accounting Standards Advisory Council

Nozaki, Chair of the Accounting Standards Advisory Council, explained—based on the explanatory materials [Agenda Items (1)–1 and (1)–2]—that at the 18th Advisory Council meeting held on July 16, it had been decided to request the ASBJ to conduct “an investigation into the accounting treatment relating to recoverability of deferred tax assets” and “an investigation and examination of accounting treatment related to restructuring,” and he also explained the status of consideration at the Advisory Council regarding new topics at the accounting–standards level and at the practical–solution level. (omitted)

Finally, Chair Nishikawa stated that he wished to commence these investigations and examinations requested by the Advisory Council, and this was agreed.

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### 277th meeting (December 12, 2013)

#### Purpose of this material

1. At today’s Board meeting, as set out in Agenda Item (1)–1, the Advisory Council recommended three new agenda items to the Board. This material sets out a draft of the Board’s response policy to those recommendations for the purpose of obtaining views.

#### Guidance on tax effect accounting

2. The recommendation from the Advisory Council is as follows:

“The Advisory Council recommends, as a new agenda item, that the Board deliberate with a view to transferring to the Board the accounting–related portions of the JICPA’s ‘Audit Treatment Relating to the Assessment of Recoverability of Deferred Tax Assets’ (Audit Committee Report No. 66). In conducting such deliberations, the Advisory Council also recommends that the Board deliberate with

a view to transferring to the Board the JICPA's accounting practical guidance relating to tax effect accounting and other audit-related practical guidance (accounting-related portions).”

3. The above recommendation is based on the ASBJ's investigation report submitted to the Advisory Council. In response to the recommendation, would it be appropriate to make the development of implementation guidance on tax effect accounting a new agenda item, and to deliberate the transfer of the JICPA's accounting practical guidance relating to tax effect accounting and audit-related practical guidance (accounting-related portions) to the Board?
4. This topic is expected to require a substantial volume of work; in light of its importance, would it be appropriate to establish a new Tax Effect Accounting Expert Committee?
5. In conducting the examination, given that the current JICPA practical guidance is established in practice, it may be considered to include examining the possibility of continuing those contents; at the same time, it is considered necessary to examine issues identified with current treatments, giving full consideration to impacts on practice.

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## **279th meeting (January 10, 2014)**

### **Appointment of members of the Tax Effect Accounting Expert Committee**

1. At the 277th Board meeting held on December 12, 2013, in response to the recommendation from the Advisory Council, it was proposed and approved that the Board would deliberate with a view to transferring to the Board the practical guidance relating to tax effect accounting currently prepared by the JICPA, and that a new Tax Effect Accounting Expert Committee would be established for that purpose. The following page sets out the proposed appointments of members of the Tax Effect Accounting Expert Committee, and the Board is requested to deliberate on the proposal.
2. In addition, the materials proposed at the 277th Board meeting stated that “given that the current JICPA practical guidance is established in practice, it may be considered to include examining the possibility of continuing those contents; at the same time, it is considered necessary to examine issues

identified with current treatments, giving full consideration to impacts on practice.” In light of these points, it may be considered appropriate to commence deliberations promptly.

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## **280th meeting (January 27, 2014)**

### **Summary of minutes (4) Approach to proceeding with the Tax Effect Accounting Expert Committee**

At the outset, Kogasaka, Vice Chair (Chair of the Expert Committee), explained—based on the explanatory materials [Agenda Item (4)]—that the Board was asked to deliberate the approach for examining matters related to tax effect accounting, and Murata, Professional Staff, provided an explanation based on the same materials. (omitted)

Finally, Chair Nishikawa stated that wording would be revised, but that he wished to proceed with deliberations in this direction.

#### **(From Agenda Item (4))**

8. In light of the above, for “Audit Treatment Relating to the Assessment of Recoverability of Deferred Tax Assets” (Audit Committee Report No. 66), it may be considered to proceed with the transfer based on continuing the current contents as a principle, while also identifying issues with the current treatments and, as necessary, revising the treatments and then transferring them. In addition, with respect to the JICPA’s other practical guidance related to tax effect accounting, it is considered necessary to confirm whether any issues exist in connection with transfer; therefore, it may be appropriate to proceed in the same manner.
9. Specifically, would it be appropriate to proceed as follows?
  - (1) Request the members of the Tax Effect Accounting Expert Committee to identify issues with current treatments regarding the tax-effect-related practical guidance listed in paragraph 4.
  - (2) For issues where problems with current treatments are identified by expert committee members, deliberate at the Expert Committee whether to revise the treatments.

(3) For items where no significant issues with current treatments are identified, as a general rule, continue and transfer the contents of the current JICPA practical guidance.

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### **282nd meeting (February 24, 2014)**

#### **Summary of minutes (4) Status of deliberations at the Tax Effect Accounting Expert Committee**

At the outset, Kogasaka, Vice Chair (Chair of the Expert Committee), provided an overview of the status of deliberations at the Expert Committee, after which Murata, Professional Staff, gave a detailed explanation based on the explanatory materials [Agenda Item (4)]. (omitted)

Finally, Chair Nishikawa commented that the Board wished to continue discussions on this matter.

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### **284th meeting (March 27, 2014)**

#### **Summary of minutes (5) Status of deliberations at the Tax Effect Accounting Expert Committee**

At the outset, Kogasaka, Vice Chair (Chair of the Expert Committee), provided an overview of the status of deliberations at the Expert Committee, after which Murata, Professional Staff, gave a detailed explanation based on the explanatory materials [Agenda Item (5)].

The main comments and questions from Board members, and the Secretariat's responses, were as follows: (omitted)

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### **286th meeting (April 30, 2014)**

**Summary of minutes (3) Status of deliberations at the Tax Effect Accounting Expert Committee**

At the outset, Kogasaka, Vice Chair (Chair of the Expert Committee), provided an overview of the status of deliberations at the Expert Committee, after which Murata, Professional Staff, gave a detailed explanation based on the explanatory materials [Agenda Item (3)].

The main comments and questions from Board members, and the Secretariat's responses, were as follows: (omitted)

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**288th meeting (May 29, 2014)**

**Summary of minutes (5) Status of deliberations at the Tax Effect Accounting Expert Committee**

At the outset, Kogasaka, Vice Chair (Chair of the Expert Committee), provided an overview of the status of deliberations at the Expert Committee, after which Murata, Professional Staff, gave a detailed explanation based on the explanatory materials [Agenda Item (5)]. (omitted)

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**290th meeting (June 26, 2014)**

**Summary of minutes (5) Status of deliberations at the Tax Effect Accounting Expert Committee**

At the outset, Kogasaka, Vice Chair (Chair of the Expert Committee), provided an overview of the status of deliberations at the Expert Committee, after which Murata, Professional Staff, gave a detailed explanation based on the explanatory materials [Agenda Item (5)]. (omitted)

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**291st meeting (July 11, 2014)**

**Summary of minutes (5) Status of deliberations at the Tax Effect Accounting Expert Committee**

At the outset, Kogasaka, Vice Chair (Chair of the Expert Committee), provided an overview of the status of deliberations at the Expert Committee, after which Maeda, Director, gave a detailed explanation based on the explanatory materials [Agenda Items (5)-1 through (5)-4]. (omitted)

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**293rd meeting (August 8, 2014)**

**Summary of minutes (1) Status of deliberations at the Tax Effect Accounting Expert Committee (Invitation of a guest speaker)**

At the outset, Kogasaka, Vice Chair (Chair of the Expert Committee), explained that at today's Board meeting, in connection with examination relating to recoverability of deferred tax assets, the Board would first hear an overview of a questionnaire survey conducted by the Japan Business Federation (hereinafter, the "Questionnaire Survey") from Shinkawa Shinya, a member of the Tax Effect Accounting Expert Committee invited as a guest speaker, and then conduct Q&A. The guest speaker then explained an overview of responses to the Questionnaire Survey based on the explanatory materials [Agenda Item (1)-1]. (omitted)

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**295th meeting (September 10, 2014)**

**Summary of minutes (5) Status of deliberations at the Tax Effect Accounting Expert Committee**

At the outset, Kogasaka, Vice Chair, provided an overview of the status of deliberations at the Expert Committee, after which Maeda, Director, gave a detailed explanation based on the explanatory materials [Agenda Item (5)-2]. (omitted)

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**297th meeting (October 10, 2014)**

**Summary of minutes (3) Status of deliberations at the Tax Effect Accounting Expert Committee**

At the outset, Kogasaka, Vice Chair, provided an overview of the status of deliberations at the Expert Committee, after which Maeda, Director, gave a detailed explanation based on the explanatory materials [Agenda Item (3)–2]. (omitted)

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**298th meeting (October 23, 2014)**

**Summary of minutes (2) Status of deliberations at the Tax Effect Accounting Expert Committee**

At the outset, Kogasaka, Vice Chair, provided an overview of the status of deliberations at the Expert Committee, after which Maeda, Director, and Kamiya, Director, gave a detailed explanation based on the explanatory materials [Agenda Item (2)–2], [Agenda Item (2)–3], and [Agenda Item (2)–4]. (omitted)

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**300th meeting (November 18, 2014)**

**Summary of minutes (4) Status of deliberations at the Tax Effect Accounting Expert Committee**

At the outset, Kogasaka, Vice Chair, provided an overview of the status of deliberations at the Expert Committee, after which Kamiya, Director, gave a detailed explanation based on the explanatory materials [Agenda Item (4)–2]. (omitted)

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**303rd meeting (January 9, 2015)**

**Summary of minutes (4) Status of deliberations at the Tax Effect Accounting Expert Committee**

At the outset, Kogasaka, Vice Chair, explained that today's meeting would deliberate the direction of specific response measures (Approach 1 or Approach 2),

and, if Approach 2 were selected, the draft implementation guidance and the feedback heard in outreach. Thereafter, Maeda, Director, provided a detailed explanation mainly based on [Agenda Item (4)–2], [Agenda Item (4)–5], and [Agenda Item (4)–6]. (omitted)

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### **304th meeting (January 23, 2015)**

#### **Summary of minutes (2) Status of deliberations at the Tax Effect Accounting Expert Committee**

At the outset, Kogasaka, Vice Chair, explained that the meeting would deliberate the status of deliberations at the Expert Committee, after which Maeda, Director, provided a detailed explanation mainly based on [Agenda Item (2)–2], [Agenda Item (2)–3], and [Agenda Item (2)–4]. (omitted)

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### **305th meeting (February 6, 2015)**

#### **Summary of minutes (4) Status of deliberations at the Tax Effect Accounting Expert Committee**

At the outset, Kogasaka, Vice Chair, explained that the meeting would deliberate the status of deliberations at the Expert Committee, after which Maeda, Director, provided a detailed explanation based on the Board materials. (omitted)

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### **306th meeting (February 20, 2015)**

#### **Summary of minutes (3) Status of deliberations at the Tax Effect Accounting Expert Committee**

At the outset, Kogasaka, Vice Chair, explained that the meeting would deliberate the status of deliberations at the Expert Committee, after which Maeda, Director, provided a detailed explanation based on the Board materials. (omitted)

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### **307th meeting (March 6, 2015)**

#### **Summary of minutes (5) Review of guidance on recoverability of deferred tax assets**

At the outset, Kogasaka, Vice Chair, explained that the meeting would deliberate the review of guidance on recoverability of deferred tax assets, after which Maeda, Director, provided a detailed explanation based on the Board materials. (omitted)

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### **308th meeting (March 20, 2015)**

#### **Summary of minutes (7) Review of guidance on recoverability of deferred tax assets**

At the outset, Kogasaka, Vice Chair, explained that the meeting would deliberate the review of guidance on recoverability of deferred tax assets, after which Maeda, Director, provided a detailed explanation based on the Board materials. (omitted)

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### **309th meeting (April 7, 2015)**

#### **Summary of minutes (3) Review of guidance on recoverability of deferred tax assets**

At the outset, Kogasaka, Vice Chair, explained that the meeting would deliberate the review of guidance on recoverability of deferred tax assets, after which Maeda, Director, provided a detailed explanation based on the Board materials. (omitted)

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### **310th meeting (April 30, 2015)**

#### **Summary of minutes (1) Review of guidance on recoverability of deferred tax assets**

At the outset, Kogasaka, Vice Chair, explained that the meeting would deliberate the review of guidance on recoverability of deferred tax assets, after which Maeda, Director, provided a detailed explanation based on the Board materials. (omitted)

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## **311th meeting (May 15, 2015)**

### **Summary of minutes (5) Exposure Draft of ASBJ Implementation Guidance “Implementation Guidance on Recoverability of Deferred Tax Assets (Draft)” [Vote to issue]**

At the outset, Chair Ono explained that, following today’s deliberation, the Board intended to vote on issuing the Exposure Draft of ASBJ Implementation Guidance “Implementation Guidance on Recoverability of Deferred Tax Assets (Draft).” Next, Kogasaka, Vice Chair, explained the background and history of deliberations to date relating to this Exposure Draft. Maeda, Director, subsequently explained—based on the Board materials—the revisions made to the draft wording of “Implementation Guidance on Recoverability of Deferred Tax Assets (Draft)” since the previous Board meeting. (omitted)

After deliberation, a vote was taken, and on the understanding that amendments relating to the matters described above and any wording and other minor revisions would be entrusted to the Chair, the issuance of the Exposure Draft of ASBJ Implementation Guidance “Implementation Guidance on Recoverability of Deferred Tax Assets (Draft)” was approved unanimously by all 13 attending Board members.

## [Deliberations at the Accounting Standards Advisory Council]

### 19th meeting (November 20, 2013)

**Proponent:** Ministry of Economy, Trade and Industry (METI), Commerce and Distribution Safety Group

**Accounting treatment for an advanced equipment, etc. investment support scheme utilizing lease arrangements**

*(Practical-solution level)*

#### **(Reason for proposal)**

As part of the government’s growth strategy (the *Japan Revitalization Strategy*, Cabinet decision dated June 14, 2013), the Ministry of Economy, Trade and Industry is examining the establishment of a scheme to promote corporate capital investment—particularly investment in advanced equipment, etc., which entails relatively high risk—by utilizing lease arrangements (hereinafter, the “Scheme”).

In designing the Scheme, METI recognizes it as essential to take measures to enhance predictability regarding the accounting treatment of the relevant lease transactions for the lessee of the leased assets (hereinafter, the “equipment user”). Accordingly, METI would like the ASBJ to provide guidance to the public, in broad terms, as to the accounting treatment and underlying thinking for the Scheme from the perspective of the equipment user when applying the existing lease accounting standard, and therefore proposes this topic.

In addition, the Scheme contemplates lease transactions in which lease payments are determined based on actual usage of the leased asset (hereinafter, “variable-type” leases). Paragraph 90 of the Implementation Guidance on Accounting Standards for Lease Transactions provides that “special lease transactions, such as

lease transactions where lease payments fluctuate based on a certain future indicator (e.g., sales), are not addressed in this Implementation Guidance.” For lease transactions for which detailed accounting treatment is not specified in the Implementation Guidance, it is considered that accounting will be applied based on the substance of the transaction (see paragraph 89 of the same Implementation Guidance). Therefore, METI would also like the ASBJ to broadly provide to the public the accounting treatment and underlying thinking for the Scheme from the perspective of the equipment user in the event that variable-type leases under the Scheme are used.

Furthermore, because the Scheme is a policy measure intended to be implemented as part of the Japan Revitalization Strategy, and because, if the Industrial Competitiveness Enhancement Act bill were enacted by the Diet and budgetary support secured, the Scheme would be required to be put into effect at an early timing next year, it is highly urgent. Therefore, in order to enable prompt implementation of the policy measure after it comes into force, METI would like the ASBJ to provide the above accounting treatment and underlying thinking to the public as soon as practicable.

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## [Deliberations at the ASBJ]

### 277th meeting (December 2013)

#### Summary of minutes (1) Agenda recommendations from the Advisory Council

Suzuki, Vice Chair of the Accounting Standards Advisory Council, explained—based on the explanatory materials [Agenda Items (1)-1 and (1)-2]—that at the 19th Advisory Council meeting held on November 20, it had been approved to recommend to the ASBJ, as new agenda items, “Guidance on tax effect accounting,” “Accounting treatment for an advanced equipment, etc. investment support scheme utilizing lease arrangements,” and “Accounting treatment for contingent consideration under the Accounting Standard for Business Combinations,” and he also explained the status of consideration at the Advisory Council regarding new topics at the accounting-standards level and at the practical-solution level.

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### 278th meeting (December 25, 2013)

#### Summary of minutes (1) Accounting treatment for an advanced equipment, etc. investment support scheme (leases)

At the outset, Kogasaka, Vice Chair (Chair of the task force), explained the status of examination of accounting treatment for leases under the Scheme. Thereafter, Kamiya, Senior Project Manager, explained—based on the explanatory materials [Agenda Item (1)]—the details of the Scheme and provided a detailed explanation of the accounting treatment for lessees under the Scheme. In addition, Sasaki, Director of the Industrial Finance Division of the Industrial Policy Bureau of the Ministry of Economy, Trade and Industry, who had been invited as a guest speaker, provided supplementary explanations regarding the Scheme. (omitted)

Finally, Chair Nishikawa stated that, based on the comments received at the ASBJ Board meeting and at the Lease Accounting Expert Committee, the Secretariat would continue its examination.

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## **282nd meeting (February 24, 2014)**

### **Summary of minutes (2) Exposure Draft of Practical Solution Report “Practical Solution on Accounting Treatments for Lessees in an Advanced Equipment, etc. Investment Support Scheme Utilizing Lease Arrangements (Draft)” [Vote to issue]**

At the outset, Chair Nishikawa explained that, following today’s deliberation, the Board planned to vote to issue the Exposure Draft of Practical Solution Report “Practical Solution on Accounting Treatments for Lessees in an Advanced Equipment, etc. Investment Support Scheme Utilizing Lease Arrangements (Draft).” Next, Kogasaka, Vice Chair (Chair of the task force), explained an outline of the Exposure Draft and the comment period. Kamiya, Senior Project Manager, then provided a detailed explanation focusing mainly on revisions since the previous meeting, based on the explanatory materials [Agenda Items (2)-1 and (2)-2].  
(omitted)

It was stated that the Exposure Draft would be issued after METI establishes administrative handling guidelines, etc., in early March. It was also noted that, if changes were made to such guidelines, etc. before their issuance that would materially affect the substance of the draft Practical Solution Report, it was possible that the matter would be discussed again at the Board meeting. Subject to this understanding, and on the premise that any wording and other minor revisions would be entrusted to the Chair, the issuance of the Exposure Draft was approved unanimously by all attending Board members.

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**Exposure Draft of Practical Solution Report No. 43 (Draft Amendments to Practical Solution Report No. 31) “Practical Solution on Accounting Treatments, etc. for Lessees in an Advanced Equipment Investment Support Scheme Utilizing Lease Arrangements (Draft)” (November 21, 2014)**

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## **[Background to the development of the standard]**

No explicit information is stated. Because this deliberation relates to items that Practical Solution Report No. 31, “Practical Solution on Accounting Treatments, etc. for Lessees in an Advanced Equipment Investment Support Scheme Utilizing Lease Arrangements,” issued on June 30, 2014, indicated would be “prescribed separately” at a later date, it is considered that deliberations were resumed without going through the Advisory Council.

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## **[Deliberations at the ASBJ]**

### **295th meeting (September 10, 2014)**

#### **Summary of minutes (4) Practical Solution on accounting treatments for lessees in an advanced equipment investment support scheme utilizing lease arrangements**

At the outset, Kogasaka, Vice Chair, explained that the ASBJ wished to examine how to address the accounting treatment for lessees upon contract modifications under the Scheme, which Practical Solution Report No. 31 issued in June 2014 had stated would be prescribed separately. Kamiya, Visiting Researcher, then provided a detailed explanation based on the explanatory materials [Agenda Item (4)].

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### **297th meeting (October 10, 2014)**

#### **Summary of minutes (4) Practical Solution on accounting treatments for lessees in an advanced equipment investment support scheme utilizing lease arrangements**

At the outset, Kogasaka, Vice Chair, explained that the ASBJ wished to continue examining how to address the accounting treatment for lessees upon contract modifications under the Scheme, which Practical Solution Report No. 31 issued in June 2014 had stated would be prescribed separately. Kamiya, Visiting Researcher, then provided a detailed explanation based on the explanatory materials [Agenda Items (4)-1 and (4)-2].

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#### **299th meeting (November 6, 2014)**

##### **Summary of minutes (2) Practical Solution on accounting treatments, etc. for lessees in an advanced equipment investment support scheme utilizing lease arrangements**

At the outset, Kogasaka, Vice Chair, explained that the ASBJ wished to continue examining how to address the accounting treatment for lessees upon contract modifications under the Scheme, which Practical Solution Report No. 31 issued in June 2014 had stated would be prescribed separately. Kamiya, Visiting Researcher, then provided a detailed explanation based on the explanatory materials [Agenda Items (2)-1 and (2)-2]. (omitted)

Finally, Kogasaka, Vice Chair, explained that the Exposure Draft of Practical Solution Report “Practical Solution on Accounting Treatments, etc. for Lessees in an Advanced Equipment Investment Support Scheme Utilizing Lease Arrangements (Draft)” would be brought to the next Board meeting, and that the Board would be asked to vote on issuing it after deliberations.

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#### **300th meeting (November 18, 2014)**

##### **Summary of minutes (3) Exposure Draft of Practical Solution Report “Practical Solution on Accounting Treatments, etc. for Lessees in an Advanced**

**Equipment Investment Support Scheme Utilizing Lease Arrangements (Draft)”**  
**[Vote to issue]**

At the outset, Chair Ono explained that, following today’s deliberation, the Board intended to vote on issuing the Exposure Draft of Practical Solution Report “Practical Solution on Accounting Treatments, etc. for Lessees in an Advanced Equipment Investment Support Scheme Utilizing Lease Arrangements (Draft).” Kogasaka, Vice Chair, then explained an overview of the amendments to the Practical Solution Report and the comment period. Kamiya, Visiting Researcher, subsequently explained—based on the explanatory materials [Agenda Items (3)–1 and (3)–2]—the revisions made since the previous deliberation, focusing mainly on wording changes. (omitted)

After deliberation, a vote was taken, and on the understanding that any wording and other minor revisions would be entrusted to the Chair, the issuance of this Exposure Draft of the Practical Solution Report was approved unanimously by all 13 attendees.

(No Exposure Draft was issued on this topic)

## Provisions Related to Hedge Accounting for Commodity Derivative Transactions

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### [Outcome of this agenda item]

The ASBJ did not address this matter. Instead, it was addressed through amendments to the Japanese Institute of Certified Public Accountants (JICPA) Accounting System Committee Report No. 14, “Practical Guidelines on Accounting for Financial Instruments.”

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### [Deliberations at the Accounting Standards Advisory Council]

#### Provisions related to hedge accounting for commodity derivative transactions

*(Practical-solution level)*

##### (Reason for proposal)

Due to the recent surge and extreme volatility in energy and resource prices, Japan’s economy has been significantly affected. Since the Great East Japan Earthquake, prices of LNG and electricity have risen sharply, and more recently gasoline and kerosene prices have become highly unstable (gasoline prices temporarily exceeded 160 yen). Under these circumstances, the importance of hedging transactions to fix otherwise unpredictable price fluctuations has increased. However, when companies engage in hedging transactions relating to energy and resource prices, there are cases in which hedge accounting cannot be applied, and this has become a constraint on such transactions.

In other words, although a company enters into derivative transactions for the purpose of hedging the price of underlying physical transactions, there are many

cases where the transactions are not recognized as hedging transactions for accounting purposes and gains and losses are recognized in profit or loss. For example, at one company, only about 10% of commodity derivative transactions entered into for hedging purposes qualify for hedge accounting. In addition, as the fiscal year-end approaches, some companies reduce commodity derivative transactions to avoid volatility in realized gains and losses, and others discontinue hedging transactions altogether because hedge accounting is difficult to apply.

Because hedging transactions are intended to fix price fluctuations in underlying physical transactions, recognizing gains and losses from hedges undertaken for hedging purposes in profit or loss at timing that does not align with the underlying physical transactions would present, for external and internal explanation of financial results, a financial position that does not reflect management's objectives. Moreover, financial derivative transactions and commodity derivative transactions differ significantly in nature—for example, in the latter, the hedged item and the hedging instrument may involve different commodities. Therefore, rather than treating both in the same manner, it is considered reasonable to take actions that take into account the characteristics of commodity derivative transactions.

In light of the above circumstances, the proponent requests that practical operation of hedge accounting be addressed in a manner that takes into account the characteristics of commodity derivative transactions.

As described above, because the surge and volatility of energy and resource prices are affecting Japanese companies on a daily basis, and because financial reporting that fails to reflect management objectives should be improved as quickly as possible, the “Regulatory Reform Implementation Plan” (Cabinet decision dated June 14, 2013) stated, with respect to “clarification of hedge accounting guidance” (item 5 (1) No. 11), that the matter would be “examined and concluded in FY2013.” Accordingly, the proponent requests that certain measures be taken within the current fiscal year.

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**19th meeting (November 20, 2013) — Summary of minutes (1) Agenda recommendations**

### **[Provisions related to hedge accounting for commodity derivative transactions]**

- Because it is understood that the matter includes elements that relate to revising the content of certain accounting standards, a member supported having the Practical Issues Task Force examine it, and then deciding—based on the results—whether to add it as an agenda item.
- A member considered it appropriate to request an evaluation by the Practical Issues Task Force, but also stated that, if revision of the existing accounting standards on hedge accounting for financial instruments is necessary in order to maintain consistency, that revision should also be examined.
- A member stated that, because it may relate to the revision of IFRS on financial instruments and to financial derivatives, the Practical Issues Task Force should evaluate the new agenda item including those points.
- A member stated that it would be preferable to request an evaluation on the premise of a practical—solution response limited to commodity derivatives within the existing Japanese hedge accounting framework, without broadening the scope.

In response to these comments, the Chair made the following remarks:

- Regarding “Accounting treatment for an advanced equipment investment support scheme utilizing lease arrangements,” given its urgency and the fact that it does not involve major revisions to accounting standards, the Advisory Council would recommend it to the ASBJ as a new agenda item without going through an evaluation by the Practical Issues Task Force.
- Regarding provisions related to hedge accounting for commodity derivative transactions, because the transactions are complex, the Advisory Council would request the Practical Issues Task Force to evaluate it as a new agenda item.

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### **20th meeting (March 18, 2014) — From deliberation material (1)–2**

#### **Results of the evaluation by the Practical Issues Task Force**

25. Of the items proposed by the proponent, the following items were considered potentially worthwhile to examine, and it was considered that they could be

taken up as a new agenda item by the ASBJ. However, as noted in the preceding paragraph, discussion on testing hedge effectiveness may require highly specialized consideration and difficulties in development are also anticipated. The following items are also related to hedging of financial instruments.

**(1) Items to be added to standards / practical guidance**

- Whether to permit regression analysis as a retrospective (after-the-fact) test for effectiveness (paragraph 2(4))

**(2) Items for which dissemination of existing standards / practical guidance should be promoted**

- Whether hedging between different commodities is permitted (paragraph 2(2))

**(3) Items for which clarification of standards / practical guidance is needed**

- Whether transactions involving so-called “rollover” qualify for hedge accounting (paragraph 2(3))
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## **[Deliberations at the ASBJ]**

### **284th meeting (March 27, 2014) – Summary of minutes (1) Report from the Advisory Council**

Nozaki, Chair of the Accounting Standards Advisory Council, explained—based on the explanatory materials [Agenda Items (1)–1] and [Agenda Item (1)–2]—that at the 20th Advisory Council meeting held on March 18 it had been approved to recommend to the ASBJ, as a new agenda item, a “limited review of hedge accounting,” and he also explained other deliberations at the Advisory Council. After the explanation, there were no comments from Board members, etc. Finally, Chair Nishikawa stated that he had received the agenda recommendation from the Advisory Council and that commencement of deliberations on the recommended topic would be discussed at future Board meetings.

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### **285th meeting (April 14, 2014) – Summary of minutes (4) Response to the Advisory Council’s recommendation**

Kogasaka, Vice Chair, explained—based on the explanatory materials [Agenda Item (4)]—a draft response policy regarding the “limited review of hedge accounting,” which had been recommended as a new agenda item by the Advisory Council. After the explanation, there were no comments from Board members, etc., and it was agreed to take it up as a new agenda item of the ASBJ.

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### **302nd meeting (December 18, 2014) – From deliberation material (8)–1**

3. With respect to whether hedging between different commodities is permitted, the following analysis by the Practical Issues Task Force was presented at the 20th Advisory Council meeting:  
The treatments in Standard No. 2 and the Practical Guidelines are clear on whether hedging between different commodities is permitted, and where no other appropriate hedging instrument exists, it is considered possible—subject to prospective effectiveness assessment—to use, as the hedging instrument,

a derivative transaction of a type different from the hedged item. Therefore, the problem identified in the proposal is considered to be an issue of disseminating the content of the standards, etc.

4. Accordingly, methods to promote dissemination of the content of the Accounting Standard for Financial Instruments, etc., would be examined.

#### **Examination of direction of response**

5. The Accounting Standard for Financial Instruments permits, in certain cases, the use of a derivative transaction of a type different from the hedged item as the hedging instrument. In order to disseminate this treatment, it is considered appropriate to ask the JICPA to consider amending, as shown in the appendix, the JICPA Accounting System Committee Report No. 14, “Practical Guidelines on Accounting for Financial Instruments” (hereinafter, the “Financial Instruments Practical Guidelines”), which is frequently referred to in practice—would this be appropriate?

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#### **Summary of minutes (8) Limited review of hedge accounting**

At the outset, Chair Ono explained that the Board would deliberate requesting the JICPA to amend Accounting System Committee Report No. 14, “Practical Guidelines on Accounting for Financial Instruments,” etc., with respect to [Agenda Items (8)-1] and [Agenda Item (8)-2], and that the Board would also deliberate, with respect to [Agenda Item (8)-3], not to proceed with further examination. Thereafter, Director Itabashi provided a detailed explanation based on the deliberation materials. (omitted)

Based on the deliberations, Chair Ono explained that, regarding “hedging between different commodities” and “qualification for hedge accounting for transactions involving rollover,” the ASBJ would approach the JICPA to discuss responses. Based on the deliberations, Chair Ono stated that examination of introducing regression analysis as a retrospective test would be discontinued.

Exposure Draft of Practical Solution Report No. 41 (*Draft Amendments to Practical Solution Report No. 5*) “Practical Solution on Tax Effect Accounting When Applying the Consolidated Taxation System (Part 1) (Draft)” and Exposure Draft of Practical Solution Report No. 42 (*Draft Amendments to Practical Solution Report No. 7*) “Practical Solution on Tax Effect Accounting When Applying the Consolidated Taxation System (Part 2) (Draft)” (September 26, 2014)

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## [Reference information on the background leading to development]

*(Excerpt from “Commentary Article by a Professional Staff Member”)*

### II. Overview of the amendments

#### 1. Background to the amendments

Laws relating to the FY2014 tax reform were promulgated on March 31, 2014. In the FY2014 tax reform, measures such as the creation of the local corporation tax were implemented. In response, the ASBJ organized the impact of the creation of the local corporation tax on tax effect accounting when applying the consolidated taxation system, and examined whether to revise the descriptions in Practical Solution Report No. 5, “Practical Solution on Tax Effect Accounting When Applying the Consolidated Taxation System (Part 1)” (hereinafter, “Practical Solution Report No. 5”), and Practical Solution Report No. 7, “Practical Solution on Tax Effect Accounting When Applying the Consolidated Taxation System (Part 2)” (hereinafter, “Practical Solution Report No. 7”). (omitted)

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## [Deliberations at the Accounting Standards Advisory Council]

## **21st meeting – Deliberation material (1)–1 (July 10, 2014): Report by the ASBJ on new agenda items**

5. The ASBJ reported that, in response to amendments to laws and regulations, it planned to take up the following items as new agenda items:

### Items

- (1) Accounting treatment for tax effect accounting when applying the consolidated taxation system in connection with the FY2014 local corporation tax
- (2) Disclosures regarding multi-employer plans in retirement benefit accounting
- (3) Consistency of disclosure requirements with the Ordinance on Financial Statements, etc.

## **21st meeting – Deliberation material (2): Review of Practical Solution Reports relating to the consolidated taxation system in connection with the FY2014 local tax reform**

2. As part of the FY2014 local tax reform, the Local Corporation Tax Act promulgated on March 31, 2014 created the local corporation tax, and the Act for Partial Revision of the Local Tax Act, etc., promulgated on the same date reduced the tax rate of the inhabitants' tax (corporate tax portion).
3. With respect to responses for fiscal year-ends in March 2014, awareness had been raised in the outline of minutes of the 284th ASBJ Board meeting held on March 27, 2014. That outline stated that, by the enforcement date of the Local Corporation Tax Act and the Act amending the Local Tax Act, etc. (October 1, 2014), the ASBJ planned to examine revisions to Practical Solution Report No. 5, "Practical Solution on Tax Effect Accounting When Applying the Consolidated Taxation System (Part 1)," and Practical Solution Report No. 7, "Practical Solution on Tax Effect Accounting When Applying the Consolidated Taxation System (Part 2)," including the matters set out below. Accordingly, these documents aim to address those matters.

## **21st meeting (July 10, 2014) – Summary of minutes (1) Agenda recommendations**

(omitted)

Next, Kogasaka, Vice Chair of the ASBJ, reported on three new agenda items being

undertaken by the ASBJ.

After that, members of the Advisory Council expressed the following comment:

- With respect to disclosures regarding multi-employer plans in retirement benefit accounting, specialized pension knowledge is necessary, and therefore the views of the Retirement Benefits Expert Committee should also be sought.

Regarding these matters, the Chair stated that, for new agenda items undertaken by the ASBJ, the ASBJ should report progress to the Advisory Council on an ongoing basis.

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## [Deliberations at the ASBJ]

### 294th meeting (August 26, 2014)

#### Summary of minutes (5) Review of “Practical Solution on Tax Effect Accounting When Applying the Consolidated Taxation System” in connection with the creation of the local corporation tax

At the outset, Kogasaka, Vice Chair (Chair of the task force), explained the background and history of examination to date regarding revision of the “Practical Solution on Tax Effect Accounting When Applying the Consolidated Taxation System” in connection with the creation of the local corporation tax. Thereafter, Maeda, Director, provided a detailed explanation—based on the explanatory materials [Agenda Item (5)–1]—of the amendments, and explained the draft amendments to Practical Solution Report No. 5, “Practical Solution on Tax Effect Accounting When Applying the Consolidated Taxation System (Part 1),” and Practical Solution Report No. 7, “Practical Solution on Tax Effect Accounting When Applying the Consolidated Taxation System (Part 2),” as well as the proposed comment period. (omitted)

#### From deliberation material (5)–1

#### Tax effects when applying the consolidated taxation system

8. Under the Local Corporation Tax Act, for a consolidated parent corporation applying the consolidated taxation system, the base corporate tax amount, which is the tax base for the local corporation tax, is prescribed—as described in paragraph 3—to be the amount of corporate tax calculated from the amount of consolidated income for the consolidated fiscal year.
9. Under Practical Solution Report No. 5 and Practical Solution Report No. 7, tax effect accounting when applying the consolidated taxation system requires that the assessment of recoverability of deferred tax assets be performed separately for corporate tax, inhabitants’ tax, and enterprise tax based on the tax system. Accordingly, recoverability of deferred tax assets relating to corporate tax is assessed for the consolidated taxation group as a single unit, whereas recoverability of deferred tax assets relating to

inhabitants' tax and enterprise tax is assessed on a consolidated-tax-company-by-company basis.

Since the local corporation tax is based on the amount of corporate tax calculated from the amount of consolidated income, it is considered that the local corporation tax should be treated in the same manner as corporate tax for consolidated tax effect accounting.

10. Therefore, unlike deferred tax assets relating to inhabitants' tax, for which recoverability is assessed on a consolidated-tax-company-by-company basis, deferred tax assets relating to the local corporation tax are considered to be assessed for recoverability based on consolidated income in the same manner as corporate tax.
11. To reflect these matters, it is necessary to examine revisions to Practical Solution Report No. 5 and Practical Solution Report No. 7, such as describing specific procedures—similar to those for corporate tax—for assessing recoverability of deferred tax assets relating to the local corporation tax for local corporation tax applicable to fiscal years beginning on or after October 1, 2014.

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## **296th meeting (September 22, 2014)**

**Summary of minutes (3) Exposure Draft of Practical Solution Report  
“Practical Solution on Tax Effect Accounting When Applying the Consolidated  
Taxation System (Part 1) (Draft)” and  
“Practical Solution on Tax Effect Accounting When Applying the Consolidated  
Taxation System (Part 2) (Draft)” [Vote to issue]**

At the outset, Chair Ono explained that, following today's deliberation, the Board intended to vote on issuing the Exposure Draft of Practical Solution Report “Practical Solution on Tax Effect Accounting When Applying the Consolidated Taxation System (Part 1) (Draft)” and “Practical Solution on Tax Effect Accounting When Applying the Consolidated Taxation System (Part 2) (Draft).” Next, Kogasaka, Vice Chair, explained an outline of the Exposure Drafts and the comment period. Maeda, Director, then explained, focusing mainly on revisions since the previous

Board meeting, the Exposure Drafts “Practical Solution on Tax Effect Accounting When Applying the Consolidated Taxation System (Part 1) (Draft)” and “Practical Solution on Tax Effect Accounting When Applying the Consolidated Taxation System (Part 2) (Draft).”

After the explanation, there were no particular comments from Board members, etc. After deliberation, a vote was taken, and on the understanding that wording and other minor revisions would be entrusted to the Chair, issuance of the Exposure Drafts of these Practical Solution Reports was approved unanimously by all 12 attendees.

**Exposure Draft of Accounting Standards Implementation Guidance No. 52 (*Draft Amendments to Accounting Standards Implementation Guidance No. 25*)**

**“Implementation Guidance on Accounting Standards for Retirement Benefits (Draft)” (December 24, 2014)**

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## **[Reference information on the background leading to development]**

*(From the “Request for Comments”)*

The Accounting Standards Board of Japan (ASBJ) has been considering revisions to accounting standards, etc. relating to retirement benefits in response to the issuance, on January 31, 2012, by the Ministry of Health, Labor and Welfare (MHLW), of the MHLW notifications concerning (i) partial amendments and special treatments regarding the MHLW notification titled “On the Financial Management of Employees’ Pension Funds, etc.” and (ii) partial amendments regarding “Standards for Approval and Authorization of Rules of Defined Benefit Corporate Pension Plans” and “Procedures for Transition (Return of Substituted Portion) from Employees’ Pension Funds to Defined Benefit Corporate Pension Plans and Requirements/Procedures for Payment in Kind” (collectively, the “MHLW Notifications”). These notifications changed the presentation format of financial statements of employees’ pension funds and defined benefit corporate pension plans.

At the 302nd ASBJ Board meeting on December 18, 2014, it was approved to issue the above “Implementation Guidance on Accounting Standards for Retirement Benefits (Draft)” (hereinafter, the “Exposure Draft”), and therefore it is issued today.

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## [Deliberations at the Accounting Standards Advisory Council]

### **21st meeting — Deliberation material (1)–1 (July 10, 2014): Report by the ASBJ on new agenda items**

5. The ASBJ reported that, in response to amendments to laws and regulations, it planned to take up the following items as new agenda items:

#### Items

- (1) Accounting treatment for tax effect accounting when applying the consolidated taxation system in connection with the FY2014 local corporation tax
- (2) Disclosures regarding multi-employer plans in retirement benefit accounting
- (3) Consistency of disclosure requirements with the Ordinance on Financial Statements, etc.

### **21st meeting — Deliberation material (2): Treatment of disclosures regarding multi-employer plans in retirement benefit accounting**

4. For multi-employer plans where it is not possible to reasonably calculate the amount of plan assets corresponding to the entity's contributions, entities are required to disclose information such as the most recent funded status of the overall plan (Accounting Standard for Retirement Benefits, paragraph 33(2)).

The “most recent funded status, etc.” is defined to mean the most recent funded status, etc. of the overall plan (the amount of plan assets, the amount of benefit obligation calculated on an actuarial valuation basis, and the difference between those amounts), the entity's proportion of contributions, etc. to the overall plan, and supplementary explanations regarding these items (Implementation Guidance on Accounting Standards for Retirement Benefits, paragraph 65).

5. On January 31, 2012, the MHLW issued the notification titled “Partial Amendments and Special Treatments Regarding ‘On the Financial Management of Employees’ Pension Funds, etc.’,” which resulted in changes, from the FY2012 actuarial financial statements onward, to the line

items in the financial statements of the employees' pension fund system, as shown in the appendix.

Specifically, prior to this revision, the liability section recognized the benefit obligation (actuarial obligation + reserve for benefits (on a going-concern basis)). Following the revision, instead of that, the liabilities now recognize the reserve for benefits (reserve for benefits (plus-alpha portion) + minimum reserve for benefits + minimum reserve for benefits adjustment amount).

6. As a result of this revision, a practical issue has arisen as to how to present, in disclosures, the “most recent funded status, etc. (amount of benefit obligation calculated on an actuarial valuation basis)” required under the Implementation Guidance—namely, what amounts should be disclosed and under what captions. Accordingly, this agenda item aims to address matters arising from the issuance of these MHLW Notifications.

## **21st meeting (July 10, 2014) — Summary of minutes (1) Agenda recommendations**

(omitted)

Next, Kogasaka, Vice Chair of the ASBJ, reported on three new agenda items being undertaken by the ASBJ.

Thereafter, members of the Advisory Council expressed the following comment:

- With respect to disclosures regarding multi-employer plans in retirement benefit accounting, specialized pension knowledge is necessary, and therefore the views of the Retirement Benefits Expert Committee should also be sought.

Regarding these matters, the Chair stated that, for new agenda items undertaken by the ASBJ, the ASBJ should report progress to the Advisory Council on an ongoing basis.

## [Deliberations at the ASBJ]

### 293rd meeting (August 8, 2014)

#### Summary of minutes (3) New agenda items

At the outset, Kogasaka, Vice Chair, provided an outline of a proposal to take up “treatment of disclosures regarding multi-employer plans in retirement benefit accounting” as a new agenda item. Thereafter, Maeda, Director, provided a detailed explanation based on the explanatory materials [Agenda Item (3)]. (omitted)

#### From deliberation material (3)

#### Matters to be examined

6. The following matters are considered to require examination:

(1) To date, in disclosures of the most recent funded status, etc. of the overall plan for multi-employer plans, it is considered that entities disclosed, as the benefit obligation, the total of “actuarial obligation” and “minimum reserve for benefits (on a going-concern basis).” As a result of the present revision, the actuarial obligation that had constituted part of the benefit obligation is no longer recognized on the balance sheet. Therefore, a key issue is what amounts should be disclosed to satisfy the disclosures required by the retirement benefit accounting standard.

(2) As a result of the present revision, benefit obligations are no longer presented on the balance sheet of the employees’ pension fund system, and therefore another issue is whether the caption “benefit obligation” used in paragraph 65 of the Retirement Benefits Implementation Guidance should be revised.

#### Specific response

7. This matter will be examined by the Practical Issues Task Force. In addition, views will be obtained separately from members of the Retirement Benefits Expert Committee.

## **298th meeting (October 23, 2014)**

### **Summary of minutes (3) Review of disclosures regarding multi-employer plans in retirement benefit accounting**

At the outset, Kogasaka, Vice Chair, explained the background and history of examination to date regarding the review of disclosures regarding multi-employer plans in retirement benefit accounting. Thereafter, Maeda, Director, provided a detailed explanation based on the explanatory materials [Agenda Item (3)]. (omitted)

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## **301st meeting (December 1, 2014)**

### **Summary of minutes (6) Review of disclosures regarding multi-employer plans in retirement benefit accounting**

At the outset, Kogasaka, Vice Chair, explained an outline of the review of disclosures regarding multi-employer plans in retirement benefit accounting. Subsequently, Maeda, Director, provided detailed explanations based on the explanatory materials [Agenda Items (6)-1] and [Agenda Item (6)-2].

In response to the explanations, a Board member asked a question regarding certain wording in the draft.

Finally, Kogasaka, Vice Chair, stated that, from the next meeting onward, the Board would be asked to deliberate on issuance of the exposure draft.

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## **302nd meeting (December 18, 2014)**

### **Summary of minutes (5) Exposure Draft of Accounting Standards Implementation Guidance**

#### **“Implementation Guidance on Accounting Standards for Retirement Benefits (Draft)” [Vote to issue]**

At the outset, Chair Ono explained that, following today’s deliberation, the Board intended to vote on issuance of the Exposure Draft of Accounting Standards Implementation Guidance “Implementation Guidance on Accounting Standards for

Retirement Benefits (Draft).” Next, Kogasaka, Vice Chair, explained the background and history of examination to date regarding the draft amendments. Maeda, Director, then explained—based on the explanatory materials [Agenda Items (5)–1 and (5)–2]—the revisions made since the previous Board meeting to the drafting of the “Implementation Guidance on Accounting Standards for Retirement Benefits (Draft).”

After the explanation, there were no particular questions from Board members, etc. After deliberation, a vote was taken, and on the understanding that revisions regarding the above matters and wording and other minor revisions would be entrusted to the Chair, issuance of the “Implementation Guidance on Accounting Standards for Retirement Benefits (Draft)” was approved unanimously by all 13 attendees.

Exposure Draft of ASBJ Statement No. 57 (*Draft Amendments to ASBJ Statement No. 1*) “Accounting Standard for Treasury Shares and Appropriation of Legal Reserve, etc. (Draft)”, Exposure Draft of ASBJ Guidance No. 53 (*Draft Amendments to ASBJ Guidance No. 2*) “Implementation Guidance on the Accounting Standard for Treasury Shares and Appropriation of Legal Reserve, etc. (Draft)”, and Exposure Draft of ASBJ Practical Issues Task Force Report No. 45 (*Draft Amendments to PITF Report No. 30*) “Practical Guidance on Transactions to Deliver an Entity’s Own Shares to Employees, etc. through a Trust (Draft)” (December 24, 2014)

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## [Reference information on the background leading to development]

(From the “Explanatory Article by a Technical Staff Member”)

### 1. Background to the amendments

On March 26, 2014, the Cabinet Office Ordinance titled “Cabinet Office Ordinance for Partial Amendments to the Ordinance on Terminology, Forms and Preparation Methods of Financial Statements, etc.” (Cabinet Office Ordinance No. 19 of 2014) came into effect, and the “Ordinance on Terminology, Forms and Preparation Methods of Financial Statements” (hereinafter, the “Ordinance on Financial Statements, etc.”) and related ordinances were amended. These amendments were made to simplify disclosures in non-consolidated (separate) financial statements, based on the “Interim Policy on the Way Forward for Responding to International Financial Reporting Standards (IFRS)” published by the Business Accounting Council on June 20, 2013. The principal amendments were as follows:

- Among companies that prepare consolidated financial statements, those that appoint accounting auditors are treated as companies filing “special financial statements,” and may (i) use new formats for separate financial statements aligned with the level of requirements under the Companies Act and (ii)

satisfy certain note disclosure requirements by applying the provisions of the Companies Accounting Regulations.

- For companies that prepare consolidated financial statements, if sufficient information is disclosed in consolidated disclosures, certain note disclosures may be exempted from separate disclosures.

In connection with these amendments to the Ordinance on Financial Statements, etc. relating to simplification of separate disclosures, the ASBJ reviewed disclosure requirements in accounting standards issued by the ASBJ (including Implementation Guidance and Practical Issues Task Force Reports; collectively, “ASBJ Accounting Standards, etc.”) from the perspective of clarifying practical application, and revised the disclosure content accordingly.

## **2. Relationship between ASBJ Accounting Standards, etc. and the Ordinance on Financial Statements, etc.**

Article 1, paragraph 1 of the Ordinance on Financial Statements, etc. provides the general principle for application under the Financial Instruments and Exchange Act, as follows:

1. Terminology, forms, and preparation methods of financial statements submitted pursuant to the Financial Instruments and Exchange Act shall, except for special provisions for foreign companies, be in accordance with the Ordinance on Financial Statements, etc.
2. Matters not prescribed in the Ordinance on Financial Statements, etc. shall be in accordance with generally accepted corporate accounting standards.

It also provides that the following constitute generally accepted corporate accounting standards:

- Corporate accounting standards published by the Business Accounting Council (Article 1, paragraph 2 of the Ordinance on Financial Statements, etc.)
- Among ASBJ Statements prepared and published by the ASBJ, those designated by the Commissioner of the Financial Services Agency as having been prepared and published through fair and appropriate due process and expected to be recognized as generally accepted corporate accounting

standards (Article 1, paragraph 3 of the Ordinance on Financial Statements, etc.)

Pursuant to Article 1, paragraph 3 of the Ordinance on Financial Statements, etc., the accounting standards prepared and published by the ASBJ to date have been designated by the Commissioner of the Financial Services Agency as generally accepted corporate accounting standards.

Under these provisions of the Ordinance on Financial Statements, etc., if the Ordinance and related regulations prescribe more detailed disclosure requirements than those provided by ASBJ Accounting Standards, etc. (for example, where an ASBJ standard requires a disclosure without distinguishing between consolidated and separate financial statements, but the Ordinance provides that the disclosure is not required in separate financial statements when the same content is disclosed in consolidated financial statements), entities are required to follow the Ordinance and related regulations.

On the other hand, following the amendments to the Ordinance on Financial Statements, etc. relating to simplification of separate disclosures, it was noted in practice that there are items for which ASBJ Accounting Standards, etc. provide requirements but the Ordinance does not, and which are no longer disclosed due to the simplification—resulting in uncertainty as to whether disclosure is required. Accordingly, the ASBJ compared, item by item, the disclosure requirements in ASBJ Accounting Standards, etc. related to the simplification amendments with the provisions of the Ordinance, and identified issues that might not be clear as a matter of interpretation. In this exposure draft, amendments are proposed for the following items:

1. Notes in separate financial statements when, at the balance sheet date, there are treasury shares for which cancellation has been resolved but the cancellation procedures have not been completed, and the carrying amount or number of shares is material
2. Notes when the number of treasury shares acquired without consideration is material in separate financial statements
3. Notes on per-share information and on the statement of changes in net assets in separate financial statements when transactions are conducted to deliver an entity's own shares to employees, etc. through a trust

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## **[Deliberations at the Accounting Standards Advisory Council]**

### **21st meeting (July 10, 2014) – Summary of minutes (1) Agenda recommendations**

(omitted)

Next, Kogasaka, Vice Chair of the ASBJ, reported on three new agenda items being undertaken by the ASBJ.

Thereafter, members of the Advisory Council expressed the following comment:

- With respect to disclosures regarding multi-employer plans in retirement benefit accounting, specialized pension knowledge is necessary, and therefore the views of the Retirement Benefits Expert Committee should also be sought.

Regarding these matters, the Chair stated that, for new agenda items undertaken by the ASBJ, the ASBJ should report progress to the Advisory Council on an ongoing basis.

### **Extract from Deliberation material (1)–1: Agenda recommendations (summary)**

#### **Report by the ASBJ on new agenda items**

5. The ASBJ reported that, in response to amendments to laws and regulations, it planned to take up the following items as new agenda items (see deliberation material (2) for each):
  1. Accounting treatment for tax effect accounting when applying the consolidated taxation system in connection with the FY2014 local corporation tax
  2. Disclosures regarding multi-employer plans in retirement benefit accounting

3. Consistency with the Ordinance on Financial Statements, etc. relating to disclosure requirements

*(Note)*

Only deliberation material (1)–1 for the 21st meeting uses the wording “consistency with the Ordinance on Financial Statements, etc. relating to disclosure requirements,” whereas subsequent deliberations consistently use the wording “simplification of separate disclosures.” In context, these are considered to refer to the same subject matter.

### **Deliberation material (2): Consistency with the Ordinance on Financial Statements, etc. relating to disclosure requirements**

7. In March 2014, the Ordinance on Financial Statements, etc. was amended to simplify separate disclosures. Among companies that prepare consolidated financial statements, those that appoint accounting auditors were treated as “specified financial statement filing companies,” and special provisions were introduced, including the use of new separate financial statement formats aligned with the requirements under the Companies Act and permitting certain note disclosures to be made by applying the Companies Accounting Regulations.
8. In implementing this simplification for March 2014 year-ends, situations have arisen where interpretations are considered unclear between disclosure requirements under the Ordinance and those under ASBJ Accounting Standards, etc., for example:
  - Under the amended Ordinance, in separate financial statements, disclosure of basic earnings per share is not required when consolidated financial statements are prepared. Accordingly, even if an ASBJ accounting standard contains similar provisions, the note disclosure is not required. However, where a Practical Issues Task Force Report prescribes disclosures relating to per-share information and such disclosures are not provided for in the Ordinance, it has been noted in practice that it is unclear whether note disclosure is required in separate financial statements (Note: Article 1, paragraph 1 of the Ordinance provides that matters not prescribed in the Ordinance shall be in accordance with generally accepted corporate accounting standards).

9. Separately from the simplification of separate disclosures, similar issues may arise, as in the preceding paragraph, in disclosure requirements for consolidated and separate financial statements. Accordingly, it is considered necessary to examine whether other similar issues exist and, as necessary, to revise the requirements.
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## [Deliberations at the ASBJ]

### 300th meeting (November 18, 2014)

#### Summary of minutes (5) New agenda items

At the outset, Kogasaka, Vice Chair, explained the background and outline of taking up “limited amendments to disclosure items related to the simplification of separate disclosures” as a new agenda item. Thereafter, Maeda, Director, provided a detailed explanation based on the explanatory materials [Agenda Item (5)]. (omitted)

In response to these comments, Chair Ono stated that “limited amendments to disclosure items related to the simplification of separate disclosures” would be taken up as a new agenda item, and this was approved.

#### From deliberation material (5)

#### Items for which it has been noted that it is unclear whether disclosure is required

7. Under the provisions of the Ordinance on Financial Statements, etc. described in paragraphs 2 and 3, if the Ordinance prescribes more detailed disclosure requirements than those provided by ASBJ Accounting Standards, etc. (including Implementation Guidance and Practical Issues Task Force Reports; collectively “ASBJ Accounting Standards, etc.”)—for example, where an ASBJ standard requires disclosure without distinguishing between consolidated and separate financial statements, but the Ordinance provides that the disclosure is not required in separate financial statements when the same content is disclosed in consolidated financial statements—entities are required to follow the Ordinance.
8. On the other hand, following the present simplification of separate disclosures, it has been noted that there is uncertainty as to whether disclosure is required for items that (i) are required by ASBJ Accounting Standards, etc., (ii) are not prescribed in the Ordinance, and (iii) are no longer disclosed due to the simplification of separate disclosures.
9. From the perspectives described in paragraphs 7 and 8, the ASBJ compared, item by item, the disclosure requirements in ASBJ Accounting Standards, etc. related to the amendments to the Ordinance for the simplification of

separate disclosures with the provisions of the Ordinance, and identified issues that might not be clear as a matter of interpretation. As a result, the following items were identified:

- (1) Notes in separate financial statements when, at the balance sheet date, there are treasury shares for which cancellation has been resolved but the cancellation procedures have not been completed, and the carrying amount or number of shares is material
- (2) Notes in separate financial statements when the number of treasury shares acquired without consideration is material
- (3) Notes on per-share information and on the statement of changes in net assets in separate financial statements when transactions are conducted to deliver an entity's own shares to employees, etc. through a trust

*(Note)*

This indicates the understanding that simplification of separate disclosures is required for the above three items. Because each relates to different ASBJ Accounting Standards, etc., amendments to three sets of ASBJ Accounting Standards, etc. are pursued to achieve the objective of "simplification of separate disclosures." Which specific ASBJ Accounting Standards, etc. will be amended is clarified at the 301st ASBJ Board meeting.

10. The outline of the issue described in paragraph 9(1) is as follows:

- (1) Paragraph 22 of ASBJ Statement No. 1 "Accounting Standard for Treasury Shares and Appropriation of Legal Reserve, etc." provides that, when a company cancels treasury shares by a resolution of the Board of Directors, etc., if at the balance sheet date there are treasury shares for which cancellation has been resolved but the cancellation procedures have not been completed and the carrying amount or number of shares is material, the carrying amount, class, and number of such treasury shares shall be disclosed in notes to both consolidated and separate balance sheets.

On the other hand, following the March 2014 simplification of separate disclosures, the Ordinance provides that notes regarding treasury shares in the separate statement of changes in net assets are not required when the filing company

prepares consolidated financial statements (Article 107, paragraph 2 of the Ordinance on Financial Statements, etc.).

(2) Accordingly, although notes regarding treasury shares are not included in separate financial statements when consolidated financial statements are prepared, ASBJ Statement No. 1 requires notes regarding the carrying amount, class, and number of treasury shares for which cancellation has been resolved but cancellation procedures have not been completed and the amounts are material, whereas the Ordinance does not. Therefore, it has been noted that it is unclear whether such disclosure is required.

11. The outline of the issue described in paragraph 9(2) is as follows:

(1) Paragraph 15 of ASBJ Guidance No. 2 “Implementation Guidance on the Accounting Standard for Treasury Shares and Appropriation of Legal Reserve, etc.” provides that, if the number of treasury shares acquired without consideration is material, this fact and the number of shares shall be disclosed in notes to both consolidated and separate financial statements.

On the other hand, following the March 2014 simplification of separate disclosures, the Ordinance provides that notes regarding treasury shares in the separate statement of changes in net assets are not required when the filing company prepares consolidated financial statements (Article 107, paragraph 2 of the Ordinance on Financial Statements, etc.).

(2) Accordingly, although notes regarding treasury shares are not included in separate financial statements when consolidated financial statements are prepared, ASBJ Guidance No. 2 requires notes regarding the fact and the number of shares when the number of treasury shares acquired without consideration is material, whereas the Ordinance does not. Therefore, it has been noted that it is unclear whether such disclosure is required.

12. The outline of the issue described in paragraph 9(3) is as follows:

(1) Practical Issues Task Force Report No. 30 “Practical Guidance on Transactions to Deliver an Entity’s Own Shares to Employees, etc. through a Trust” (hereinafter, “PITF Report No. 30”) provides that, when such transactions are conducted, entities shall disclose in notes that, for purposes of calculating basic earnings per

share, the entity's own shares remaining in the trust are included in treasury shares to be deducted in calculating the weighted average number of shares, and that, for purposes of calculating net assets per share, such shares are included in treasury shares to be deducted from the number of shares issued at period-end (see the proviso to paragraph 17 of PITF Report No. 30).

On the other hand, following the March 2014 simplification of separate disclosures, the Ordinance provides that notes regarding per-share information are not required when an entity prepares consolidated financial statements (see Article 68-4, paragraph 2 and Article 95-5-2, paragraph 3 of the Ordinance on Financial Statements, etc.).

(2) Accordingly, although notes regarding per-share information are not included in separate financial statements when consolidated financial statements are prepared, PITF Report No. 30 requires the above notes, whereas the Ordinance does not. Therefore, it has been noted that it is unclear whether such disclosure is required.

(3) In addition, PITF Report No. 30 provides that, when such transactions are conducted, the following shall be disclosed in notes in the statement of changes in net assets: the number of the entity's own shares held by the trust included in treasury shares at the beginning and end of the period; the number of the entity's own shares acquired, sold, or delivered by the trust included in increases/decreases in treasury shares during the period; and the amount of dividends on the entity's own shares held by the trust (see paragraph 18 of PITF Report No. 30).

On the other hand, following the March 2014 simplification of separate disclosures, the Ordinance provides that notes regarding treasury shares are not required when an entity prepares consolidated financial statements (see Article 107, paragraph 2 of the Ordinance on Financial Statements, etc.).

(4) Accordingly, although notes regarding treasury shares and dividends are not included in separate financial statements when consolidated financial statements are prepared, PITF Report No. 30 requires the above notes, whereas the Ordinance does not. Therefore, it has been noted that it is unclear whether such disclosure is required.

#### **Proposal regarding the new agenda item**

13. It is proposed that the items described above, for which it has been noted that it is unclear whether disclosure is required, be taken up as a new agenda item from the perspective of clarifying practical application. If taken up as a new agenda item, it is considered appropriate for the Practical Issues Task Force to undertake specific deliberations.
  14. Considering the impact on practice, it is considered necessary to complete this agenda item by the end of March 2015.
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### **301st meeting (December 1, 2014)**

#### **Summary of minutes (7) Limited amendments to disclosure items related to the simplification of separate disclosures**

At the outset, Kogasaka, Vice Chair, explained the background and outline of “limited amendments to disclosure items related to the simplification of separate disclosures.” Thereafter, Maeda, Director, provided a detailed explanation of the drafting.

The principal comments and questions from Board members, etc., and the secretariat’s responses were as follows:

- A Board member asked the following question:
  - Is it correct to understand that the purpose of these amendments is to require the additional disclosures only when, in separate financial statements, the entity voluntarily discloses notes regarding treasury shares and per-share information?

In response, the secretariat explained as follows:

- The purpose is to clarify that, in a situation where notes regarding treasury shares and per-share information themselves are not disclosed in separate financial statements, the entity is not required to disclose only the notes prescribed in PITF Report No. 30, etc. Rather, if the entity includes the notes regarding treasury shares and per-share information themselves in separate financial statements, it is required to disclose the related notes together.

- An observer expressed the following view:
  - Within the simplification of separate disclosures, questions arising in practice for preparers should be resolved promptly. Considering the comment period and preparation time for March year-ends, the exposure drafts should be approved for issuance at an early date.

In response, the secretariat explained as follows:

- In order to enable smooth implementation for March year-ends, the Board will be asked to deliberate on the exposure drafts at an early date from the next meeting onward.

#### **From deliberation material (7)–1**

(omitted)

14. Possible measures to address the items for which it has been noted that it is unclear whether disclosure is required are as follows:

**Notes in separate financial statements when, at the balance sheet date, there are treasury shares for which cancellation has been resolved but cancellation procedures have not been completed, and the carrying amount or number of shares is material**

15. With respect to paragraph 22 of ASBJ Statement No. 1, which requires disclosure in notes to both consolidated and separate balance sheets of the carrying amount, class, and number of such treasury shares, it may be appropriate to revise ASBJ Statement No. 1—taking into account that notes regarding treasury shares in separate financial statements have been exempted under the Ordinance due to the simplification of separate disclosures—so as to specify that, when such treasury shares exist at the balance sheet date, the note disclosure is to be made only if notes regarding treasury shares are disclosed in the consolidated statement of changes in net assets or the separate statement of changes in net assets. Should the ASBJ revise Statement No. 1 in this manner?

**Notes in separate financial statements when the number of treasury shares acquired without consideration is material**

16. With respect to paragraph 15 of ASBJ Guidance No. 2, which requires disclosure in notes to both consolidated and separate financial statements of the fact and the number of shares when the number of treasury shares acquired without consideration is material, it may be appropriate to revise ASBJ Guidance No. 2—taking into account that notes regarding treasury shares in separate financial statements have been exempted under the Ordinance due to the simplification of separate disclosures—so as to specify that, when treasury shares are acquired without consideration, the note disclosure is to be made only if notes regarding treasury shares are disclosed in the consolidated statement of changes in net assets or the separate statement of changes in net assets. Should the ASBJ revise ASBJ Guidance No. 2 in this manner?

**Notes on per-share information and on the statement of changes in net assets in separate financial statements when transactions are conducted to deliver an entity's own shares to employees, etc. through a trust**

17. With respect to the proviso to paragraph 17 of PITF Report No. 30, which requires note disclosure that the entity's own shares remaining in the trust are included in treasury shares to be deducted in calculating the weighted average number of shares for basic earnings per share, and are included in treasury shares to be deducted from the number of shares issued at period-end for net assets per share, it may be appropriate to revise PITF Report No. 30 by reference to paragraph 33 of ASBJ Statement No. 2 "Accounting Standard for Earnings Per Share," which provides that "when basic earnings per share or diluted earnings per share is disclosed in financial statements, the basis for calculation of such amounts shall also be disclosed in notes." Should the ASBJ revise PITF Report No. 30 in this manner?

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**302nd meeting (December 18, 2014)**

**Summary of minutes (6) Exposure Drafts including "Accounting Standard for Treasury Shares and Appropriation of Legal Reserve, etc. (Draft)" [Vote to issue]**

At the outset, Chair Ono explained that, following today's deliberation, the Board intended to vote on issuance of the exposure drafts, including the Exposure Draft of ASBJ Statement "Accounting Standard for Treasury Shares and Appropriation of Legal Reserve, etc. (Draft)." Next, Kogasaka, Vice Chair, provided an explanation of the outline of the exposure drafts. Maeda, Director, then explained—focusing mainly on revisions since the previous Board meeting—the amendments reflected in the exposure drafts.

Questions raised by an observer in response to the explanations were as follows:

- An observer asked the following question:
  - Is it correct to understand that, for the three exposure drafts to be approved for issuance by the Board today (including these accounting standards, etc.), the exposure drafts will be published on the same date, and comments will be due on the same date after a two-month comment period?

In response, the secretariat explained as follows:

- Under the secretariat's schedule following the Board's approval for issuance, the goal is to publish them on the same date within the year-end, and the comment deadline is also planned to be the same date.

After deliberation, a vote was taken, and on the understanding that wording and other minor revisions would be entrusted to the Chair, issuance of the exposure drafts of these accounting standards, etc. was approved unanimously by all 13 attendees.

Exposure Draft of Practical Issues Task Force Report No. 52 “Accounting Treatment for Transactions in which Paid Share Options with Vesting Conditions Are Granted to Employees, etc. (Draft)” and Exposure Draft of ASBJ Guidance No. 57 (*Draft Amendments to ASBJ Guidance No. 17*) “Accounting for Compound Financial Instruments Including Components that May Increase Paid-in Capital (Draft)” (May 10, 2017)

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## [Deliberations at the Accounting Standards Advisory Council]

### 22nd Meeting (November 19, 2014) — Deliberation Material (2)–5

#### I. Contents of the request for consideration by the Advisory Council

##### (Topic)

Accounting treatment by an entity for share options issued for consideration to employees, etc. with vesting conditions

##### (Reason for the proposal)

Because the accounting treatment for entities that issue, for consideration to employees and directors, share options with vesting conditions such as service conditions and performance conditions is not clearly specified in ASBJ Statement No. 8 “Accounting Standard for Stock Options, etc.” (hereinafter, the “Stock Option Accounting Standard”), this matter is proposed as a new agenda item.

##### (Details)

Recently, there have been cases in which an entity issues share options with vesting conditions such as service conditions and performance conditions to employees and directors (hereinafter, “employees, etc.”), and employees, etc. pay cash equal to the fair value reflecting the vesting conditions and subscribe to such share options for consideration. With respect to such share options, the following accounting issues are considered to arise; however, the Stock Option Accounting Standard does not necessarily provide clear guidance on these issues.

**1. Whether the transaction is within the scope of the Stock Option Accounting Standard**

It is unclear under the Stock Option Accounting Standard whether share options issued for consideration to employees, etc. with vesting conditions are included within its scope.

If the Stock Option Accounting Standard is considered applicable, expense recognition would be required for the additional services provided by employees as consideration for the granted stock options. On the other hand, if the Stock Option Accounting Standard is considered not applicable, the transaction would be viewed as undertaken for financing purposes, and it would be considered that expense recognition after the grant is not necessary.

Because whether expense recognition is required may change depending on whether the transaction is within the scope of the Stock Option Accounting Standard, it is desirable to clarify the underlying thinking.

**2. Specific accounting treatment when the Stock Option Accounting Standard is applicable**

If share options issued for consideration to employees, etc. with vesting conditions are within the scope of the Stock Option Accounting Standard, the accounting treatment is not clearly specified.

In particular, depending on whether performance conditions are taken into account when determining the fair value per stock option that serves as the basis for calculating the amount to be expensed, the amount to be recognized as expense could differ significantly.

Including these issues, it is desirable to clarify the underlying thinking regarding the specific accounting treatment when the Stock Option Accounting Standard is applicable. In addition, in clarifying the accounting treatment, it is also desirable to specify transitional measures for entities that have already issued such share options. (omitted)

**(Practical issues level)**

**Items proposed in the Advisory Council up to the previous meeting**

3. With respect to the following item that has been proposed and deliberated in the Advisory Council up to the previous meeting, the secretariat's consideration results indicate that it would like to proceed as follows. Should this approach be adopted?

**Initial proposal (21st Meeting)**

Accounting treatment by an entity for share options issued for consideration to employees, etc. with vesting conditions

According to the theme evaluation conducted by the Practical Issues Task Force, for this transaction, "while it may be necessary to organize the relationship with the Companies Act and therefore standard-setting may not be straightforward, given the strong need to clarify the accounting treatment, it is considered appropriate for the ASBJ to undertake consideration of this transaction." Accordingly, should the Advisory Council recommend this as a new agenda item for the ASBJ?

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## **[Deliberations at the ASBJ]**

### **301st Meeting (December 1, 2014)**

#### **Summary of minutes (1) Report from the Advisory Council**

Suzuki, Vice Chair of the Advisory Council, reported—based on the explanatory materials [Agenda Item (1)–1] and [Agenda Item (1)–2]—that at the 22nd Advisory Council meeting held on November 19, it was approved to recommend “Accounting for accelerated share repurchase (ASR) transactions (Accelerated Share Repurchase transactions)” and “Accounting treatment by an entity for share options issued for consideration to employees, etc. with vesting conditions” as new agenda items for the ASBJ, and also provided an explanation of other deliberations at the Advisory Council. (omitted)

### **302nd Meeting (2014/12/28)**

#### **Summary of minutes (7) Response to recommendations of new agenda items from the Advisory Council**

Kogasaka, Vice Chair, explained—based on the explanatory materials [Agenda Item (7)]—the background and circumstances regarding the two items recommended as new agenda items by the Advisory Council at the 301st ASBJ meeting: “Accounting for transactions to acquire an entity’s own shares through a single-lump acquisition (ASR (Accelerated Share Repurchase) transactions)” and “Accounting treatment by an entity for share options issued for consideration to employees, etc. with vesting conditions.” (omitted)

After Q&A, it was approved to take up these matters as new agenda items for the ASBJ.

### **323rd Meeting (November 6, 2015)**

#### **Summary of minutes (6) Consideration of accounting treatment by an entity for share options issued for consideration to employees, etc. with vesting conditions**

At the outset, Kogasaka, Vice Chair, stated that deliberations would be conducted on the consideration of accounting treatment by an entity for share options issued for consideration to employees, etc. with vesting conditions. Subsequently, Technical Staff Member Ougo provided a detailed explanation based on the deliberation materials. (omitted)

### **325th Meeting (December 4, 2015)**

#### **Summary of minutes (7) Consideration of accounting treatment by an entity for share options issued for consideration to employees, etc. with vesting conditions**

At the outset, Kogasaka, Vice Chair, explained that deliberations would be conducted in connection with the consideration of accounting treatment by an entity for share options issued for consideration to employees, etc. with vesting conditions. Thereafter, Technical Staff Member Ougo provided a detailed explanation based on the deliberation materials. (omitted)

### **326th Meeting (December 25, 2015)**

#### **Summary of minutes (6) Accounting treatment by an entity for share options issued for consideration to employees, etc. with vesting conditions**

At the outset, Chair Ono explained that deliberations would be conducted on accounting treatment by an entity for share options issued for consideration to employees, etc. with vesting conditions. Thereafter, Kogasaka, Vice Chair, and Technical Staff Member Ougo provided a detailed explanation based on the deliberation materials. (omitted)

### **332nd Meeting (March 23, 2016)**

#### **Summary of minutes (7) Consideration of accounting treatment by an entity for share options issued for consideration to employees, etc. with vesting conditions**

At the outset, Kogasaka, Vice Chair, explained that deliberations would be conducted on the consideration of accounting treatment by an entity for share options issued for consideration to employees, etc. with vesting conditions. Thereafter, Technical Staff Member Ougo provided a detailed explanation based on the deliberation materials. (omitted)

### **344th Meeting (September 9, 2016)**

#### **Summary of minutes (6) Consideration of accounting treatment by an entity for share options issued for consideration to employees, etc. with vesting conditions**

At the outset, Kogasaka, Vice Chair, explained that deliberations would be conducted on the consideration of accounting treatment by an entity for share options issued for consideration to employees, etc. with vesting conditions. Subsequently, Maeda, Director, provided a detailed explanation based on the deliberation materials. (omitted)

### **352nd Meeting (January 10, 2017)**

#### **(3) Consideration of accounting treatment by an entity for share options issued for consideration to employees, etc. with vesting conditions**

Kogasaka, Vice Chair, and Maeda, Director, explained the draft of the Practical Issues Task Force Report regarding accounting treatment by an entity for share options issued for consideration to employees, etc. with vesting conditions. Deliberations were conducted, taking into account the deliberation status at the 96th Practical Issues Task Force meeting (held on December 19, 2016).

### **354th Meeting (February 8, 2017)**

#### **(3) Consideration of accounting treatment by an entity for share options issued for consideration to employees, etc. with vesting conditions**

Kogasaka, Vice Chair, and Maeda, Director, explained the draft of the Practical Issues Task Force Report regarding accounting treatment by an entity for share options issued for consideration to employees, etc. with vesting conditions. Deliberations were conducted, taking into account the deliberation status at the 97th Practical Issues Task Force meeting (held on January 27, 2017).

### **357th Meeting (March 28, 2017)**

#### **(4) Consideration of accounting treatment by an entity for share options issued for consideration to employees, etc. with vesting conditions**

Kogasaka, Vice Chair, and Maeda, Director, explained the draft of the Practical Issues Task Force Report regarding accounting treatment by an entity for share options issued for consideration to employees, etc. with vesting conditions. Deliberations were conducted, taking into account the deliberation status at the 99th Practical Issues Task Force meeting (held on February 24, 2017). As a result of the deliberations, it was explained that, from the next meeting onward, the ASBJ would consider conducting deliberations on approval for publication of an exposure draft.

### **359th Meeting (April 28, 2017)**

#### **(3) Exposure Draft of Practical Issues Task Force Report “Accounting Treatment for Transactions in which Paid Share Options with Vesting Conditions Are Granted to Employees, etc. (Draft)” [Approval to issue]**

Kogasaka, Vice Chair, and Maeda, Director, provided an explanation regarding the Exposure Draft of Practical Issues Task Force Report “Accounting Treatment for Transactions in which Paid Share Options with Vesting Conditions Are Granted to Employees, etc. (Draft),” and deliberations and a vote were conducted. As a result of the vote, on the understanding that revisions to wording and other minor matters would be entrusted to the Chair, approval to publish the exposure draft was granted unanimously by all attending Board members.

## **(No Exposure Draft Was Issued on This Topic) Accounting for Accelerated Share Repurchase (ASR: Accelerated Share Repurchase) Transactions**

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### **[How this matter ultimately concluded]**

On the Accounting Standards Board of Japan (ASBJ) website, under the “List of Completed Projects,” there is an item titled “Guidance on Accounting for Transactions to Acquire Treasury Shares through a Lump-sum Acquisition Method.” (See: [https://www.asb-j.jp/jp/project/project\\_list/completedproject/pj-20150220.html](https://www.asb-j.jp/jp/project/project_list/completedproject/pj-20150220.html).)

In addition, at the 405th ASBJ meeting (March 22, 2019), it was decided to remove this project from the list of ongoing agenda items. While two accounting approaches could be contemplated—(1) accounting for each component transaction separately, and (2) accounting for the arrangement as a single integrated transaction—both were considered to have issues. Moreover, the need for difficult coordination with the Companies Act was a major factor leading to its removal from the agenda.

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### **[Deliberations at the Accounting Standards Advisory Council]**

#### **22nd Meeting (November 19, 2014) — Deliberation Material (2)–2**

##### **Background up to the 21st Advisory Council meeting**

1. At the 20th Advisory Council meeting (held March 18, 2014), the following proposal was made regarding the accounting treatment of accelerated share repurchase transactions (hereinafter, “ASR transactions”).

**(Topic)**

Accounting for Accelerated Share Repurchase (ASR: Accelerated Share Repurchase) Transactions

**(Reason for the proposal)**

Under U.S. accounting standards, ASR transactions (accelerated share repurchases) are addressed in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (FASB ASC 505–30–25). Under Japanese GAAP, however, there is no clear accounting guidance. Recently, inquiries have been received regarding ASR transactions, but because there is no clear accounting guidance in Japan—and because these are capital transactions—it is not possible simply to rely on U.S. practice. As a result, there is difficulty in making judgments. Accordingly, it is considered necessary to clarify the accounting treatment in a Practical Issues Task Force Report.

**(Details)**

In an ASR transaction, a company acquires its own shares; however, those shares are ones that the counterparty financial institution has borrowed in the market as loaned shares. Subsequently, adjustments are made between the company and the financial institution depending on subsequent share price movements. Specifically, if the average share price over a certain subsequent period exceeds the initial acquisition price, settlement is made in the form of the company delivering its own shares to the financial institution or paying cash. Conversely, if the average share price over a certain subsequent period falls below the initial acquisition price, the company receives cash from the financial institution. This is a common transaction structure.

At that time, the key issue is whether the settlement amount should be treated as: (a) an ex post adjustment to the acquisition cost of treasury shares by viewing the acquisition and subsequent settlement as a single transaction; or (b) a separate transaction (two transactions) by viewing the acquisition and subsequent settlement separately and recognizing gain or loss at settlement, or treating it as “gain/loss on disposal of treasury shares.”

3. After deliberation, the Practical Issues Task Force conducted the following evaluation and reported the evaluation results to the 21st Advisory Council meeting.

If such transactions were executed, the transaction amounts could be substantial, and thus there is a strong demand to clarify the accounting treatment. However, for the reasons below, it was considered that, at the present time, the level of difficulty is too high for the ASBJ to proceed with this as a new agenda item.

(1) Within the scope investigated by the secretariat, there are currently no cases in Japan where such transactions have been executed. Therefore, if the accounting treatment were to be examined, it would necessarily be based on cases in the United States and similar examples. However, due to the relationship with the Companies Act and other relevant laws and regulations, even if U.S. cases are analyzed, it is unclear whether they would be applicable to Japan.

(2) In principle, accounting standards are developed for arrangements that are institutionally feasible to implement, and there are no examples of standards being developed for hypothetical transactions. In light of the above, it was considered difficult at this time to take this up as a new ASBJ agenda item, and it was considered appropriate, for the time being, to monitor developments regarding this type of transaction.

4. At the 21st Advisory Council meeting held on July 18, 2014, deliberations were conducted on the Practical Issues Task Force evaluation described in the preceding paragraph, and the following views were expressed. (omitted)
5. In response to these views, the Chair stated: “There are arguments on both sides as to whether the accounting for accelerated share repurchase transactions should be taken up as a new agenda item, and consensus has not yet been reached; therefore, would it be appropriate to discuss this once again at the next Advisory Council meeting?” This was agreed.

#### **Secretariat considerations after the 21st Advisory Council meeting**

6. With respect to this matter, as heard at the previous Advisory Council meeting, it is considered that there is strong practical demand for developing an accounting standard; however, it is also recognized that the following difficulties exist if the ASBJ were to develop an accounting standard as a new agenda item:

(1) Because there is no track record of past transactions, it is difficult to determine whether a scheme that can be applied in Japan (including treatment under relevant legal frameworks, etc.) is feasible.

(2) As described in paragraph 2, this matter falls within the difficult area of classification between liabilities and equity.

7. After the 21st Advisory Council meeting, the secretariat conducted further consideration and consulted with related parties. As a result, if the ASBJ were to deliberate this matter, it was arranged that the Japan Securities Dealers Association would be able to respond. Specifically, it was envisaged that, in the course of ASBJ deliberations, the Association would participate as a reference speaker and explain the scheme in the United States, the scheme envisaged in Japan, and the constraints and treatment under the relevant legal frameworks, etc.
  8. This would be expected to address to some extent the difficulty in (1) of paragraph 6; however, the difficulty in (2) of paragraph 6 would still remain. With that difficulty recognized, given the strong need to develop accounting guidance for this matter, would it be appropriate for the Advisory Council to recommend it to the ASBJ as a new agenda item?
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## **[Deliberations at the ASBJ]**

### **301st Meeting (December 1, 2014)**

#### **Summary of minutes (1) Report from the Advisory Council**

Suzuki, Vice Chair of the Advisory Council, reported—based on the explanatory materials [Agenda Item (1)–1] and [Agenda Item (1)–2]—that at the 22nd Advisory Council meeting held on November 19, it was approved to recommend “Accounting for accelerated share repurchase (ASR (Accelerated Share Repurchase)) transactions” and “Accounting treatment by an entity for share options issued for consideration to employees, etc. with vesting conditions” as new agenda items for the ASBJ, and also explained other deliberations at the Advisory Council. (omitted)

### **302nd Meeting (December 28, 2014)**

#### **Summary of minutes (7) Response to recommendations of new agenda items from the Advisory Council**

Kogasaka, Vice Chair, explained—based on the explanatory materials [Agenda Item (7)]—the background and circumstances regarding the two items recommended as new agenda items by the Advisory Council at the 301st ASBJ meeting: “Accounting for transactions to acquire an entity’s own shares through a lump-sum acquisition method (ASR (Accelerated Share Repurchase) transactions)” and “Accounting treatment by an entity for share options issued for consideration to employees, etc. with vesting conditions.” (omitted)

After Q&A, it was approved to take up these matters as new agenda items for the ASBJ.

### **306th Meeting (February 20, 2015)**

#### **Summary of minutes (5) Consideration of accounting for transactions to acquire treasury shares through a lump-sum acquisition method (ASR transactions)**

At the outset, Kogasaka, Vice Chair, explained the background and overview regarding the consideration of accounting for transactions to acquire treasury shares through a lump-sum acquisition method (ASR transactions). Thereafter, Maeda, Director, provided a detailed explanation based on the deliberation materials. (omitted)

### **309th Meeting (April 7, 2015)**

#### **Summary of minutes (4) Consideration of accounting for transactions to acquire treasury shares through a lump-sum acquisition method (ASR transactions)**

At the outset, Kogasaka, Vice Chair, explained that deliberations would be conducted on the consideration of accounting for a Japanese-style ASR transaction (hereinafter, “this scheme”) relating to transactions to acquire treasury shares through a lump-sum acquisition method (ASR transactions). Thereafter, Maeda, Director, provided a detailed explanation based on the deliberation materials. (omitted)

### **329th Meeting (February 10, 2016)**

#### **Summary of minutes (3) Consideration of accounting for transactions to acquire treasury shares through a lump-sum acquisition method (ASR transactions)**

At the outset, Kogasaka, Vice Chair, explained that deliberations would be conducted on the consideration of accounting for transactions to acquire treasury shares through a lump-sum acquisition method (ASR transactions). Thereafter, Maeda, Director, provided a detailed explanation based on the deliberation materials. (omitted)

### **405th Meeting (March 22, 2019)**

#### **(7) The ASBJ’s agenda items under consideration**

Kogasaka, Vice Chair, explained the direction of the project titled “Guidance on Accounting for Transactions to Acquire Treasury Shares through a Lump-sum Acquisition Method,” and deliberations were conducted. As a result of the deliberations, it was approved that, while this project could become a subject for future consideration, the consideration of accounting treatment premised on the scheme currently under consideration would be removed from the list of ongoing agenda items.

## [Deliberations at the Accounting Standards Advisory Council]

### 24th Meeting (July 13, 2015)

**Item: Proposal of new agenda item at this Advisory Council meeting <Practical-issues level>**

Proponent: Cabinet Office

#### **(Topic)**

Accounting treatment for public facility concession rights

#### **(Reason for the proposal)**

The public facility concession rights system, established through the 2011 amendment of the PFI Act, has been progressing in fields such as airports and water utilities. Based on the current schedule, for leading projects, the transfer of the business is expected to occur by the end of March 2016, and operations by the concession operator are expected to commence.

Against this backdrop, in the government’s growth strategy (the “Japan Revitalization Strategy” Revised 2014 – Challenge for the Future – Cabinet Decision of June 24, 2014), it is stated that, in order to improve the business environment when utilizing the concession method, “from a practical perspective, the amortization of renewal investments and the expense recognition of items such as taxes will be organized and clarified in accounting treatment.” To encourage private-sector participation, it is recognized as essential to implement measures that enhance predictability regarding the accounting treatment of public facility concession rights by concession operators.

Accordingly, the Cabinet Office proposes this topic in order to have the accounting treatment for public facility concession rights, and the underlying thinking, broadly presented to the public.

**(Specific contents)**

1. While both the administrators of public facilities (who grant the rights) and the concession operators (who acquire the concession rights) are envisaged, this topic requests that the accounting treatment by concession operators be examined.
2. At present, potential issues include the following:
  - (1) Recognition of costs upon acquisition of the concession right and during the operating period (including the applicability of impairment accounting)
    - Accounting treatment at the time of acquiring the concession right
    - Method for expensing (amortizing) the acquired concession right
    - Applicability of impairment accounting
  - (2) Determination of the consideration for the concession right
    - Conceptual basis for determining concession consideration
    - Treatment of incidental costs incurred to acquire the concession right
  - (3) Treatment when provisions such as profit-sharing clauses are included
  - (4) Treatment of renewal investments

**(Secretariat's proposed response)**

This matter requests consideration of accounting treatment by concession operators for public facility concession rights, etc., under the public facility concession rights system based on the PFI Act. In order to organize the relationship with relevant accounting standards, etc., and to conduct technical evaluation, would it be appropriate to request the Practical Issues Task Force to evaluate this as a potential new agenda item?

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**25th Meeting (November 12, 2015) – Secretariat proposal**

**Accounting treatment for public facility concession rights**

The evaluation by the Practical Issues Task Force is as follows:

- The transaction amounts related to public facility concession rights are expected to be substantial, and there is a need to clarify the accounting treatment. Moreover, if the accounting treatment is not clarified, there is a possibility that diverse accounting practices could develop. In light of these factors, it is considered appropriate for the ASBJ to examine this transaction.
- However, this is a type of transaction for which there are currently no cases in Japan, and for several issues, the impact on financial statements could differ significantly depending on the method adopted, which is expected to make judgment difficult. Accordingly, development may not be straightforward, and this point is noted.

Based on this evaluation by the Practical Issues Task Force, would it be appropriate to recommend this as a new agenda item for the ASBJ?

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## [Deliberations at the ASBJ]

### **316th Meeting (July 24, 2015)**

#### **Summary of minutes (1) Report from the Advisory Council**

At the outset, Nozaki, Chair of the Advisory Council, explained—based on the deliberation materials—that at the 24th Advisory Council meeting held on July 13, it was decided that no matters would be recommended to the ASBJ as new agenda items, and also provided an explanation of the new items for which evaluation was requested of the Practical Issues Task Force, as well as the items that did not proceed to recommendations. (omitted)

### **324th Meeting (November 20, 2015)**

#### **Summary of minutes (1) Recommendations from the Advisory Council**

Nozaki, Chair of the Advisory Council, reported—based on the explanatory materials [Agenda Item (1)–1] and [Agenda Item (1)–2]—that at the 25th Advisory Council meeting held on November 12, it was approved to recommend “Accounting treatment for public facility concession rights” and “Accounting treatment for the new defined benefit corporate pension scheme ‘risk-sharing DB (tentative name)’” as new agenda items for the ASBJ, and also explained other deliberations at the Advisory Council. (omitted)

#### **I. Accounting treatment for public facility concession rights**

We hereby recommend, as a new agenda item for your Board, that you examine the accounting treatment for public facility concession rights.

#### **(Background to the recommendation)**

1. At the 24th Advisory Council meeting held on July 13, 2015, the Cabinet Office proposed as a new agenda item the accounting treatment for public facility concession rights. In response, the Advisory Council requested the Practical Issues Task Force to evaluate the proposed new agenda item.
2. At the 25th Advisory Council meeting held on November 12, 2015, the evaluation by the Practical Issues Task Force was reported as shown in Reference Material (1) to Agenda Item (1)–1. The outcome was as follows: The transaction amounts for public facility concession rights are expected to

be substantial, and there is a need to clarify the accounting treatment. Moreover, if the accounting treatment is not clarified, there is a possibility that diverse accounting practices could develop. In light of these factors, it is considered appropriate for the ASBJ to examine this transaction. However, this is a type of transaction for which there are currently no cases in Japan, and for several issues, the impact on financial statements could differ significantly depending on the method adopted, which is expected to make judgment difficult. Accordingly, development may not be straightforward, and this point is noted.

3. Based on the Practical Issues Task Force evaluation described above, the Advisory Council deliberated and decided to make a recommendation as a new agenda item.

### **325th Meeting (December 4, 2015)**

#### **Summary of minutes (4) Response to agenda recommendations from the Advisory Council**

Kogasaka, Vice Chair, explained—based on the deliberation materials—the content of the Advisory Council’s recommendations and the Board’s proposed response regarding “Accounting treatment for public facility concession rights” and “Accounting treatment for the new defined benefit corporate pension scheme ‘risk-sharing DB (tentative name)’,” which had been recommended as new agenda items at the 324th ASBJ meeting. (omitted)

After Q&A, it was approved to take up these matters as new agenda items of the ASBJ.

### **328th Meeting (January 27, 2016)**

#### **Summary of minutes (2) Consideration of accounting for public facility concession rights**

At the outset, Kogasaka, Vice Chair, explained that deliberations would be conducted on the consideration of accounting for public facility concession rights. Thereafter, Fujisawa, staff member, provided a detailed explanation based on the deliberation materials.

In addition, at today’s meeting, Murata, Councilor, and Kobayashi, Assistant Councilor, from the Cabinet Office Public-Private Partnership (PPP/PFI) Promotion Office, and Maeda, Specialist Officer, from the Civil Aviation Bureau of the Ministry

of Land, Infrastructure, Transport and Tourism, attended as reference speakers.  
(omitted)

### **335th Meeting (April 21, 2016)**

#### **Summary of minutes (5) Consideration of accounting for public facility concession rights**

At the outset, Kogasaka, Vice Chair, explained that deliberations would be conducted on the consideration of accounting for public facility concession rights. Thereafter, Fujisawa, staff member, provided a detailed explanation based on the deliberation materials. (omitted)

### **336th Meeting (May 11, 2016)**

#### **Summary of minutes (3) Consideration of accounting for public facility concession rights**

At the outset, Kogasaka, Vice Chair, explained that deliberations would be conducted on the consideration of accounting for public facility concession rights. Thereafter, Fujisawa, staff member, provided a detailed explanation based on the deliberation materials. (omitted)

(\* No deliberation materials are publicly available.

### **338th Meeting (June 16, 2016)**

#### **Summary of minutes (6) Consideration of accounting for public facility concession rights**

At the outset, Kogasaka, Vice Chair, explained that deliberations would be conducted on the consideration of accounting for public facility concession rights. Subsequently, Fujisawa, staff member, provided a detailed explanation based on the deliberation materials. (omitted)

### **341st Meeting (July 25, 2016)**

#### **Summary of minutes (6) Consideration of accounting for public facility concession rights**

At the outset, Kogasaka, Vice Chair, explained that deliberations would be conducted on the consideration of accounting for public facility concession rights.

Thereafter, Fujisawa, Senior Staff, provided a detailed explanation based on the deliberation materials. (omitted)

### **342nd Meeting (August 10, 2016)**

#### **Summary of minutes (3) Accounting for public facility concession rights**

At the outset, Kogasaka, Vice Chair, explained that deliberations would be conducted on the consideration of accounting for public facility concession rights. Subsequently, Fujisawa, Senior Staff, provided a detailed explanation based on the deliberation materials. (omitted)

### **349th Meeting (November 18, 2016)**

#### **Summary of minutes (3) Consideration of accounting for public facility concession rights**

At the outset, Kogasaka, Vice Chair, explained that deliberations would be conducted on the consideration of accounting for public facility concession rights. Subsequently, Fujisawa, Senior Staff, provided a detailed explanation based on the deliberation materials. (omitted)

### **350th Meeting (December 2, 2016)**

#### **(4) Consideration of accounting for public facility concession rights**

Kogasaka, Vice Chair, and Fujisawa, Senior Staff, explained the draft wording of a Practical Issues Task Force Report regarding accounting for public facility concession rights. Deliberations were conducted taking into account the status of discussions at the 94th Practical Issues Task Force meeting (held November 22, 2016). It was also explained that, at the next or subsequent Board meeting, deliberation would be conducted regarding approval for issuing an exposure draft of the Practical Issues Task Force Report.

### **351st Meeting (December 20, 2016)**

#### **(1) Practical Issues Task Force Report (Exposure Draft) “Practical Guidance on Accounting by Operators in Public Facility Concession Projects (Draft)” [Approval for issuance]**

Kogasaka, Vice Chair, and Fujisawa, Senior Staff, explained the Practical Issues Task Force Report Exposure Draft titled “Practical Guidance on Accounting by Operators

in Public Facility Concession Projects (Draft).” Deliberation and voting were conducted. As a result of the vote, it was approved to issue the exposure draft with the understanding that revisions to wording, etc., would be entrusted to the Chair, and with the unanimous consent of all members present.

(Example of a case where the topic was not taken up as an agenda item)

Accounting for Share Exchanges Conducted Without Consideration

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## [Deliberations at the Accounting Standards Advisory Council]

24th Meeting (July 13, 2015)

Proponent: Auditor

(Topic)

Accounting for share exchanges conducted without consideration

(Reason for the proposal)

While the tax treatment of share exchanges conducted without consideration was established through the FY2010 tax reform, the accounting treatment of reorganizations without consideration is prescribed only for mergers and company splits in paragraph 203-2 of Implementation Guidance No. 10, "Implementation Guidance on Accounting Standards for Business Combinations and Accounting Standards for Business Divestitures, etc." There is no provision for share exchanges. Accordingly, it is necessary to clarify the accounting treatment for share exchanges conducted without consideration.

(Specific contents)

Through the FY2010 tax reform, the tax treatment of share exchanges conducted without consideration was organized, and it was specified that, even when no consideration is provided, such a transaction qualifies as a tax-qualified share exchange only where it is limited to cases in which the shares of the entity that becomes the wholly owning parent company are deemed to have been delivered, but the delivery of shares can be regarded as omitted because the capital relationship remains unchanged. As a result, the tax treatment has been clarified and it is considered that such transactions have been increasing.

However, from an accounting perspective, the Implementation Guidance on Accounting Standards for Business Combinations and Accounting Standards for Business Divestitures, etc. provides guidance for transactions without consideration only for mergers and company splits in paragraph 203-2, and does not prescribe the treatment for share exchanges. In addition, under the Ordinance on Company Accounting, it is considered that Article 39, which provides for share exchanges, does not explicitly state the treatment in cases where no consideration is provided.

Accordingly, it is necessary to set out guidance on the accounting treatment for share exchanges conducted without consideration. While the tax treatment has been clarified, some accounting books present treatments different from the tax treatment, and in current practice it appears that several accounting treatments are being applied. Among these, the following two treatments may be envisaged as accounting that reflects the substance of the transaction.

#### <Example>

Company A and Company B were wholly owned subsidiaries of Company P (sister companies). A share exchange is carried out with Company A as the wholly owning parent company in the share exchange and Company B as the wholly owned subsidiary in the share exchange.

#### <Accounting>

Company P: *Shares in Company A / Shares in Company B* ... Reclassify the carrying amount of the shares in Company B to shares in Company A.

1. **Treatment similar to a share exchange with share consideration**

Company A: *Shares in Company B / Paid-in capital* ... Amount of Company B's shareholders' equity (Company B, which becomes the wholly owned subsidiary in the share exchange)

2. **Treatment similar to a non-cash capital contribution from the parent to the subsidiary (same as tax treatment)**

Company A: *Shares in Company B / Paid-in capital* ... Carrying amount of the shares in Company B held by Company P

For Company P, the accounting would be a reclassification of the shares of subsidiaries it holds, reflecting continuity of investment. However, for the subsidiary that becomes the wholly owning parent company in the share exchange, it is

necessary to examine and clarify whether (1) or (2) should be applied, or whether there is another appropriate treatment.

**(Secretariat's proposed response)**

This is a request to clarify accounting treatment related to business combinations. In order to organize the relationship with the relevant 制度 and accounting standards, etc., and to conduct a technical evaluation, would it be appropriate to request the Practical Issues Task Force to evaluate this as a potential new agenda item?

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**30th Meeting (July 11, 2017) – From Deliberation Material (1)–2**

**III. Evaluation of this topic by the Practical Issues Task Force**

2. This topic is a proposal to clarify, in the separate financial statements, the accounting treatment of share exchanges conducted without consideration between subsidiaries that are in a wholly parent–subsidiary relationship (meaning a relationship in which all combining parties are directly or indirectly wholly owned by the same shareholder; the same applies here) under the Business Combinations and Business Divestitures Implementation Guidance.
  3. With respect to this topic, although cases of share exchanges without consideration are assumed not to be relatively frequent as described in paragraph 1(1), if the topic were to be taken up, it would be necessary to reconcile it with the Ordinance on Company Accounting as described in paragraph 1(5), and it is considered that reaching a conclusion would not be easy. Taking these factors into account, it is considered that it would not be appropriate to take this up as a new agenda item of the ASBJ.
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## [Deliberations at the ASBJ]

### **316th Meeting (July 24, 2015)**

#### **Summary of minutes (1) Report from the Advisory Council**

At the outset, Nozaki, Chair of the Advisory Council, explained—based on the deliberation materials—that at the 24th Advisory Council meeting held on July 13, it was decided that no matters would be recommended to the ASBJ as new agenda items, and also explained the topics for which evaluation was requested of the Practical Issues Task Force and the topics that did not proceed to recommendations as new agenda items. (omitted)

### **353rd Meeting (January 26, 2017) – From Deliberation Material (4)**

3. Currently, the following recommendations have been made by the Advisory Council to this Board, and it has been decided to take them up as new agenda items. In response, it is considered that the Business Combinations Expert Committee may conduct deliberations.
  - (1) Treatment of contingent consideration related to the “Accounting Standard for Business Combinations”

At the 277th ASBJ meeting (held December 12, 2013), it was approved to take this up as a new agenda item of the Board and to conduct detailed deliberations in the Practical Issues Task Force or the Business Combinations Expert Committee.
  - (2) Relationship between impairment of investments in subsidiaries and affiliates and impairment of goodwill

At the 341st ASBJ meeting (held July 25, 2016), it was approved to take this up as a new agenda item of the Board and to conduct detailed deliberations in the Practical Issues Task Force.
4. In addition, the Advisory Council has requested the Practical Issues Task Force to evaluate the following practical-level topics, and it is considered that the Business Combinations Expert Committee may support the Practical Issues Task Force:
  - (1) Accounting for share exchanges conducted without consideration
  - (2) Absorption-type merger of a subsidiary by its parent

5. In light of the above situation, the Business Combinations Expert Committee will be reconvened.

### **364th Meeting (July 14, 2017)**

#### **(1) Report from the Advisory Council**

Yuasa, Chair of the Advisory Council, reported that at the 30th Advisory Council meeting (held July 11, 2017), it was decided that the two practical-level topic proposals— “Accounting for share exchanges conducted without consideration” and “Absorption-type merger of a subsidiary by its parent”—would not be recommended as new agenda items of the ASBJ. (omitted)

(An Example where the matter was not taken up as an agenda) Absorption-type Merger of a Subsidiary by its Parent Company (Final decision at the 30th Advisory Council meeting)

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## [Deliberations at the Accounting Standards Advisory Council]

### 24th Meeting (July 13, 2015)

Proponent: Auditor

#### (Topic)

Absorption-type merger of a subsidiary by its parent company

#### (Reason for the proposal)

- Among transactions under common control, when a parent company merges a subsidiary by way of an absorption-type merger, the parent company accepts the subsidiary's assets and liabilities at their carrying amounts in the consolidated financial statements (Implementation Guidance on Business Combinations and Business Divestitures, etc., paragraph 207).
- Under the Accounting Standard for Business Combinations and the Accounting Standard for Consolidated Financial Statements as amended in 2013, any difference arising from transactions between a parent company and non-controlling shareholders is to be accounted for not as goodwill (an asset) but as capital surplus (other capital surplus) (Accounting Standard for Consolidated Financial Statements, paragraphs 28–30; Accounting Standard for Business Divestitures, etc., paragraphs 17–19). Since such capital surplus (other capital surplus) is not an asset or liability of the subsidiary, it is considered that it is not included in the “carrying amounts in the consolidated financial statements” referred to in paragraph 207 of the Implementation Guidance (adjustments to the assets and liabilities accepted by the parent company from the subsidiary).

- Based on the above, if a parent company first establishes a wholly controlling relationship by acquiring the shares of a subsidiary that has non-controlling shareholders and then carries out an absorption-type merger, the parent company would no longer be able, in its separate financial statements after the merger, to succeed to the capital surplus (other capital surplus) as part of the carrying amounts in the consolidated financial statements with respect to the difference arising from the portion attributable to the former non-controlling interests; instead, such difference would be recognized in profit or loss (gain/loss on the extinguishment of shares arising from the merger).
- Accordingly, where a parent company acquires shares from non-controlling shareholders to make the subsidiary wholly owned and then carries out an absorption-type merger, an amount that is accounted for as capital surplus as the difference arising from the additional acquisition in the consolidated financial statements would become profit or loss (gain/loss on the extinguishment of shares arising from the merger) in the parent company's separate financial statements after the merger, resulting in inconsistency between the consolidated and separate financial statements.
- In addition, when a parent company merges a subsidiary by way of an absorption-type merger using cash as consideration while non-controlling shareholders exist, it is not clear whether this should be viewed as a "transaction under common control with cash consideration," and whether the difference arising from the portion attributable to non-controlling interests should be recognized as "goodwill" or, as in the case where shares are the consideration, as "capital surplus." Accordingly, clarification of the accounting treatment is desirable.
- Although it is considered that the economic effect is the same between (i) "an absorption-type merger of a subsidiary with non-controlling shareholders using cash consideration" and (ii) "an absorption-type merger carried out after acquiring shares from non-controlling shareholders to make the subsidiary wholly owned," there is a possibility that the accounting treatment for the difference arising from the portion attributable to non-controlling interests may differ significantly: in the former case, it could be "goodwill" or "capital surplus (other capital surplus)," whereas in the latter case it would be "profit or loss (gain/loss on the extinguishment of shares arising from the merger)."

- Because such reorganizations are transactions commonly carried out in practice and may have a significant impact on the parent company's separate financial statements, it is requested that the specific accounting treatment be examined promptly.

**(Secretariat's proposed response)**

This is a request to clarify accounting treatment related to business combinations. In order to organize the relationship with the relevant regimes and accounting standards, etc., and to conduct a technical evaluation, would it be appropriate to request the Practical Issues Task Force to evaluate this as a potential new agenda item?

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**30th Meeting (July 11, 2017)**

(Excerpt from Deliberation Material (1)–3)

**III. Evaluation of this topic by the Practical Issues Task Force**

2. This topic is a proposal to eliminate inconsistencies with, and to clarify, the accounting treatment in the parent company's separate financial statements under the Implementation Guidance on Business Combinations and Business Divestitures, etc., when a parent company merges a subsidiary by way of an absorption-type merger, with respect to the following two restructuring methods:
  - (1) A transaction in which the parent company additionally acquires shares of the subsidiary and then carries out an absorption-type merger
  - (2) A transaction in which the parent company merges the subsidiary by way of an absorption-type merger using cash or other consideration
3. First, with respect to eliminating inconsistencies with the accounting treatment in the consolidated financial statements for a transaction in which the parent company additionally acquires shares of the subsidiary and then carries out an absorption-type merger (paragraph 2(1)), considering the scope of capital transactions with shareholders in the separate financial statements, it is considered that this is not the kind of matter for which alignment between consolidated and separate financial statements should be

pursued. It is considered that there is little basis for a treatment whereby the capital surplus arising from the additional acquisition of the subsidiary's shares in the consolidated financial statements is carried forward as other capital surplus in the parent company's separate financial statements. Accordingly, in accordance with the current provisions of the Implementation Guidance, the capital surplus related to the additional acquisition of the subsidiary's shares in the consolidated financial statements would be accounted for as the difference arising from the extinguishment of shares due to the merger and recognized in profit or loss for the current period in the parent company's separate financial statements.

However, it has been noted that, if the period between the parent company's additional acquisition of the subsidiary's shares and the absorption-type merger is short, there is little basis for immediately recognizing the related difference in profit or loss for the current period, because it could be viewed as part of the recovery calculation of the investment in the subsidiary. If this point were to be examined, it could extend to amendments at the accounting-standard level (including consistency with the concept of transactions under common control in the Accounting Standard for Business Combinations), and would be expected to require a substantial amount of time. Nevertheless, it is considered that this matter is not sufficiently important to warrant such time-consuming examination.

In light of the above, it is considered that this should not be taken up as a new agenda item of the ASBJ.

4. Next, a transaction in which the parent company merges the subsidiary by way of an absorption-type merger using cash or other consideration (paragraph 2(2)) is considered to be rare even at present and to have limited impact; therefore, it is considered that the need to explicitly specify the treatment is low. In addition, if deliberation were to be undertaken, it could extend to accounting-standard-level considerations (including consistency with the concept of transactions with non-controlling shareholders in the Accounting Standard for Business Combinations, etc.), and would be expected to require a substantial amount of time.

Accordingly, it is considered that this should not be taken up as a new agenda item of the ASBJ.

## [Deliberations at the ASBJ]

### 316th Meeting (July 24, 2015)

#### Summary of minutes (1) Report from the Advisory Council

At the outset, Nozaki, Chair of the Advisory Council, explained—based on the deliberation materials—that at the 24th Advisory Council meeting held on July 13, it was decided that no matters would be recommended to the ASBJ as new agenda items, and also explained the topics for which evaluation was requested of the Practical Issues Task Force and the topics that did not proceed to recommendations as new agenda items. (omitted)

### 353rd Meeting (January 26, 2017)

(From Deliberation Material (4))

3. Currently, the following recommendations have been made by the Advisory Council to this Board, and it has been decided to take them up as new agenda items. In response, it is considered that the Business Combinations Expert Committee may conduct deliberations:
  - (1) Treatment of contingent consideration related to the “Accounting Standard for Business Combinations”  
At the 277th ASBJ meeting (held December 12, 2013), it was approved to take this up as a new agenda item of the Board and to conduct detailed deliberations in the Practical Issues Task Force or the Business Combinations Expert Committee.
  - (2) Relationship between impairment of investments in subsidiaries and affiliates and impairment of goodwill  
At the 341st ASBJ meeting (held July 25, 2016), it was approved to take this up as a new agenda item of the Board and to conduct detailed deliberations in the Practical Issues Task Force.
4. In addition, the Advisory Council has requested the Practical Issues Task Force to evaluate the following potential new topics, and it is considered that the Business Combinations Expert Committee may support the Practical Issues Task Force:

- (1) Accounting for share exchanges conducted without consideration
  - (2) Absorption-type merger of a subsidiary by its parent company
5. In light of the above situation, the Business Combinations Expert Committee will be reconvened.

### **364th Meeting (July 14, 2017)**

#### **(1) Report from the Advisory Council**

Yuasa, Chair of the Advisory Council, reported that at the 30th Advisory Council meeting (held July 11, 2017), it was decided that the two practical-level topic proposals— “Accounting for share exchanges conducted without consideration” and “Absorption-type merger of a subsidiary by its parent company”—would not be recommended as new agenda items of the ASBJ. (omitted)

Exposure Draft of Practical Issues Task Force Report No. 47: “Practical Guidance on the Accounting Treatment, etc. for Risk-Sharing Corporate Pension Plans (Draft),” Exposure Draft of Accounting Standard No. 58 (Proposed amendments to Accounting Standard No. 26): “Accounting Standard for Retirement Benefits (Draft),” and Exposure Draft of Implementation Guidance No. 56 (Proposed amendments to Implementation Guidance No. 1): “Accounting Treatment for Transfers between Retirement Benefit Plans, etc. (Draft)” (June 2, 2016)

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## [Deliberations at the Accounting Standards Advisory Council]

### 25th Meeting (November 12, 2015)

**Accounting treatment for a new type of defined benefit corporate pension plan, the “Risk-Sharing DB (provisional name)”**

This system is considered likely to have a broad impact in the future. In general, retirement benefit obligations are material for companies, and if a company adopts this system, it may have a significant impact on its financial statements. Accordingly, there is a certain level of need for this topic, and it is considered to be urgent.

Normally, an evaluation of the potential new agenda item would be requested from the Practical Issues Task Force, and the matter would then be considered at the next and subsequent meetings of the Advisory Council. However, in light of the urgency of the proposal, would it be appropriate for the Advisory Council to recommend this as a new agenda item of the ASBJ at this meeting?

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## [Deliberations at the ASBJ]

### 324th Meeting (November 20, 2015)

#### Summary of minutes (1) Recommendation from the Advisory Council

At the outset, Nozaki, Chair of the Advisory Council, explained—based on the explanatory materials [Agenda Item (1)–1] and [Agenda Item (1)–2]—that at the 25th Advisory Council meeting held on November 12, it was approved to recommend as new agenda items for the ASBJ (i) “Accounting treatment for public facility concession rights” and (ii) “Accounting treatment for the new type of defined benefit corporate pension plan, the ‘Risk-Sharing DB (provisional name)’,” and also explained other deliberations at the Advisory Council. (omitted)

#### **II. Accounting treatment for the new type of defined benefit corporate pension plan, the “Risk-Sharing DB (provisional name)”**

With respect to the “Risk-Sharing DB (provisional name),” a new initiative in defined benefit corporate pension plans, we recommend as a new agenda item for your Board that you examine whether it falls under either “defined contribution plans” or “defined benefit plans” as set out in Accounting Standard No. 26, “Accounting Standard for Retirement Benefits.”

#### *(Background to the recommendation)*

1. At the 24th Advisory Council meeting held on July 13, 2015, the Ministry of Health, Labor and Welfare explained improvements to defined benefit corporate pension plans as a topic that might be proposed as a new agenda item in the future.
2. At the 25th Advisory Council meeting held on November 12, 2015, as shown in Reference Material (2) to Agenda Item (1)–1, the Ministry of Health, Labor and Welfare proposed this as a new agenda item. In response to the proposal, the Advisory Council secretariat presented the following proposed approach:

This system is considered likely to have a broad impact in the future. In general, retirement benefit obligations are material for companies, and if a company adopts this system, it may have a significant impact on its financial

statements. Accordingly, there is a certain level of need for this topic, and it is considered to be urgent.

Normally, an evaluation of the potential new agenda item would be requested from the Practical Issues Task Force, and the matter would then be considered at the next and subsequent meetings of the Advisory Council. However, in light of the urgency of the proposal, would it be appropriate for the Advisory Council to recommend this as a new agenda item of the ASBJ at this meeting?

3. Based on the secretariat's proposed approach above, the Advisory Council deliberated the matter and decided to make the recommendation as a new agenda item.

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### **325th Meeting (December 4, 2015)**

#### **Summary of minutes (4) Response to agenda item recommendations from the Advisory Council**

Kogasaka, Vice Chair, explained—based on the deliberation materials—that at the 324th ASBJ meeting, recommendations were received from the Advisory Council regarding “Accounting treatment for public facility concession rights” and “Accounting treatment for the new type of defined benefit corporate pension plan, the ‘Risk-Sharing DB (provisional name)’,” and also explained the content of the recommendations and the proposed response policy of the Board. (omitted)  
After Q&A, it was approved to take these up as new agenda items of the Board.

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### **326th Meeting (December 25, 2015)**

#### **Summary of minutes (2) Examination of accounting treatment for Risk-Sharing DB (invitation of a guest speaker)**

At the outset, Kogasaka, Vice Chair, explained the background to the examination of the accounting treatment for the Risk-Sharing DB (hereinafter, “the system”), and stated that, at today's meeting, Susumu Yamamoto, Director of the Fund Actuarial Office, National Pension Fund Division, Pension Bureau, Ministry of Health, Labor

and Welfare, invited as a guest speaker, would provide an explanation of the system. Subsequently, the guest speaker provided a detailed explanation based on [Agenda Item (2)-2]. (omitted)

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### **328th Meeting (January 27, 2016)**

#### **Summary of minutes (1) Examination of accounting treatment for Risk-Sharing DB**

At the outset, Kogasaka, Vice Chair, stated that the Board would deliberate the examination of the accounting treatment for the Risk-Sharing DB, and then Fujisawa, Staff, provided a detailed explanation based on the deliberation materials. At today's meeting, Susumu Yamamoto (Ministry of Health, Labor and Welfare) attended as a guest speaker. (omitted)

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### **331st Meeting (March 9, 2016)**

#### **Summary of minutes (3) Examination of accounting treatment for Risk-Sharing DB**

At the outset, Kogasaka, Vice Chair, stated that the Board would deliberate the examination of the accounting treatment for the Risk-Sharing DB (hereinafter, "the system"), and then Fujisawa, Staff, provided a detailed explanation based on the deliberation materials.

At today's meeting, Susumu Yamamoto (Ministry of Health, Labor and Welfare) attended as a guest speaker.

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### **332nd Meeting (March 23, 2016)**

#### **Summary of minutes (1) Examination of accounting treatment for Risk-Sharing DB**

At the outset, Kogasaka, Vice Chair, stated that the Board would deliberate the examination of the accounting treatment for the Risk-Sharing DB (hereinafter, "the system"), and then Fujisawa, Staff, provided a detailed explanation based on the deliberation materials.

At today's meeting, Susumu Yamamoto (Ministry of Health, Labor and Welfare) attended as a guest speaker.

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### **335th Meeting (April 21, 2016)**

#### **Summary of minutes (1) Examination of accounting treatment for Risk-Sharing DB**

At the outset, Kogasaka, Vice Chair, stated that the Board would deliberate the examination of the accounting treatment for the Risk-Sharing DB (hereinafter, “the system”), and then Fujisawa, Staff, provided a detailed explanation based on the deliberation materials.

At today’s meeting, Susumu Yamamoto (Ministry of Health, Labor and Welfare) attended as a guest speaker.

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### **336th Meeting (May 11, 2016)**

#### **Summary of minutes (1) Examination of accounting treatment for Risk-Sharing DB**

At the outset, Kogasaka, Vice Chair, stated that the Board would deliberate the examination of the accounting treatment for the Risk-Sharing DB, and, continuing, Fujisawa, Staff, provided a detailed explanation based on the deliberation materials. (omitted)

It was also explained that, if possible, at the next Board meeting, deliberation would be conducted on approving the publication of the exposure draft of the Practical Issues Task Force Report.

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### **337th Meeting (May 31, 2016)**

#### **Summary of minutes (1) Exposure Draft of Practical Issues Task Force Report: “Practical Guidance on the Accounting Treatment, etc. for Risk-Sharing Corporate Pension Plans (Draft)” [Decision to publish]**

At the outset, Kogasaka, Vice Chair, explained that, after today’s deliberation, the Board would like to vote on the decision to publish the Exposure Draft of the Practical Issues Task Force Report, “Practical Guidance on the Accounting Treatment, etc. for Risk-Sharing Corporate Pension Plans (Draft).” Fujisawa, Staff, then provided a detailed explanation based on the deliberation materials.

At today's meeting, Susumu Yamamoto, Director of the Fund Actuarial Office, National Pension Fund Division, Pension Bureau, Ministry of Health, Labor and Welfare, attended as a guest speaker.

There were no particular comments from Board members or observers in response to the explanation, and a vote was taken. With the understanding that specific wording and other minor editorial changes would be delegated to the Chair, the publication of the Exposure Draft of the Practical Issues Task Force Report, "Practical Guidance on the Accounting Treatment, etc. for Risk-Sharing Corporate Pension Plans (Draft)," was approved by the affirmative vote of all 13 members present.

**(No Exposure Draft Was Issued on This Topic) Amendments to the Provisions in JICPA Accounting System Committee Report No. 14, “*Practical Guidelines on Accounting for Financial Instruments,*” Concerning Overdraft Agreements and Loan Commitments**

**[Outcome of this topic]**

This is a case that ultimately became a “topic that was discussed in the past but did not lead to a recommendation.”

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**[Deliberations at the Accounting Standards Advisory Council]**

**25th Meeting (November 12, 2015)**

**Amendments to the provisions in JICPA Accounting System Committee Report No. 14, “Practical Guidelines on Accounting for Financial Instruments,” concerning overdraft agreements and loan commitments**

Would it be appropriate to request the Practical Issues Task Force to evaluate this proposed new agenda item?

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**33rd Meeting (July 23, 2018)**

From Deliberation Material (1)–1:

The Practical Issues Task Force’s evaluation was that this should not be taken up as a new agenda item of the ASBJ (see Material (1)–3).

Based on that evaluation by the Practical Issues Task Force, would it be appropriate to treat this as a “topic that was discussed but did not lead to a recommendation”?

From Deliberation Material (1)–3:

**III. Evaluation of this topic by the Practical Issues Task Force**

2. This topic is a proposal to amend the disclosure requirements regarding overdraft agreements (including similar contracts) and loan commitments as set out in the Practical Guidelines on Accounting for Financial Instruments issued by the Japanese Institute of Certified Public Accountants (JICPA).

Regarding these disclosures, it is considered that there is little need to revise the treatment in the Practical Guidelines on Accounting for Financial Instruments for the following reasons:

- (1) Based on the current state of disclosures, it is considered that useful information is being provided to financial statement users by disclosing supplementary information about the contract terms.
- (2) With respect to overdraft agreements (including similar contracts) and loan commitments, there has not been a significant change in circumstances that would warrant changing the approach in the Practical Guidelines on Accounting for Financial Instruments, in that lenders may be exposed to certain credit risk and liquidity risk.
- (3) In addition to the view that the approach in the Practical Guidelines on Accounting for Financial Instruments is not necessarily intended to be aligned with credit risk management under capital adequacy regulations, regulatory treatment in Japan has not yet been determined in light of changes in international regulatory treatment.

Accordingly, it is considered that this should not be taken up as a new agenda item of the ASBJ.

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## **(Minutes Summary 1) Recommendation of Topics**

### **(Topics proposed up to the previous Advisory Council meetings)**

**(omitted)** Continuing, Watabe, Director of Planning and Disclosure at the FASF, explained that among the topics proposed by market participants at prior Advisory Council meetings, the topic of “Amendments to the provisions in JICPA Accounting System Committee Report No. 14 ‘Practical Guidelines on Accounting for Financial Instruments’ concerning overdraft agreements and loan commitments” should not be taken up as a new agenda item of the ASBJ, based on the Practical Issues Task Force’s evaluation, and proposed that it be treated as a “topic that was discussed

in the past but did not lead to a recommendation.”

Next, Kogasaka, Chair of the Practical Issues Task Force, explained the content of the Practical Issues Task Force’s evaluation of the topic.

Thereafter, members of the Advisory Council expressed the following views:

- While agreeing with the secretariat’s proposal, one member commented that the disclosure does not seem very useful and that it might have been preferable to hear more from financial statement users.
- One member agreed with the secretariat’s proposal and noted that it could be considered to re-examine the matter once the regulatory treatment in Japan becomes clear.
- One member agreed with the secretariat’s proposal and stated that the disclosure information under this topic could become extremely important in the event of a financial crisis.

In response to these views, the Chair stated that, as proposed by the secretariat, the topic would be treated as a “topic that was discussed in the past but did not lead to a recommendation.”

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## (An Agenda Still under deliberation) Relationship between Impairment of Investments in Subsidiaries/Associates and Impairment of Goodwill

### [Current status]

“Future Plan for Accounting Standards Currently Under Development” (published by the ASBJ on January 9, 2026)

[https://www.asb-j.jp/jp/wp-content/uploads/sites/4/2026\\_0109.pdf](https://www.asb-j.jp/jp/wp-content/uploads/sites/4/2026_0109.pdf)

#### 2. Guidance under development (including practical guidance, etc.)

(omitted)

#### (4) Relationship between impairment of investments in subsidiaries and associates and impairment of goodwill

(Main content)

The ASBJ is examining, with respect to the additional amortization of goodwill in consolidated financial statements as set out in JICPA Accounting System Committee Report No. 7, “*Practical Guidance on Capital Consolidation Procedures in Consolidated Financial Statements*” (Note: JICPA Accounting System Committee Report No. 7 was transferred to the ASBJ on July 1, 2024 as **Transfer Guidance No. 4**, “*Practical Guidance on Capital Consolidation Procedures in Consolidated Financial Statements*”), the relationship between impairment of investments in subsidiaries and associates and impairment of goodwill.

(Progress and future plan)

Deliberations have been underway since October 2017.

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## [Deliberations at the Accounting Standards Advisory Council]

27th Meeting (July 4, 2016)

→ At the 26th meeting (March 2016), the Advisory Council requested the Practical Issues Task Force to evaluate this proposed new agenda item.

**(Topic)** Relationship between impairment of investments in subsidiaries and associates and impairment of goodwill

**(Proponents)** Keidanren (Economic Policy Bureau) and the Japanese Bankers Association

**(Reason for proposal)**

Paragraph 32 of the *“Practical Guidance on Capital Consolidation Procedures in Consolidated Financial Statements”* requires that, when the carrying amount of an investment in a subsidiary is impaired in the parent’s separate financial statements, goodwill must also be amortized. For investments in associates, the same treatment is required in accordance with the note to Paragraph 9 of the *“Practical Guidance on Equity Method Accounting.”*

As a result, when listed investments in subsidiaries or associates (hereinafter, “listed investments in subsidiaries, etc.”) are impaired in separate financial statements, goodwill must be amortized in the consolidated financial statements. However, under the *“Implementation Guidance on Accounting Standard for Impairment of Fixed Assets,”* a significant decline in market price does not necessarily lead to a conclusion of impairment.

In this way, Paragraph 32 of the *“Practical Guidance on Capital Consolidation Procedures in Consolidated Financial Statements”* may force recognition of impairment even in cases where recognition of impairment of goodwill is not necessarily required, and therefore may not properly reflect economic substance. Accordingly, this proposal requests the deletion of Paragraph 32.

**From the minutes (summary)**

**2. Recommendation of new topics**

Regarding the topic “Relationship between impairment of investments in subsidiaries and associates and impairment of goodwill,” which was proposed at the previous Advisory Council meeting, Kogasaka, Vice Chair of the ASBJ, explained the Practical Issues Task Force’s evaluation of the proposed new agenda item. Based on that evaluation, Watabe, Director of Planning and Disclosure at the FASF, explained the secretariat’s proposed approach to recommend the topic to the ASBJ as a new agenda item.

In response, an Advisory Council member commented that cases inconsistent with

the concept of impairment of goodwill in consolidated financial statements could continue to arise, and therefore requested that the ASBJ reach a conclusion on this topic as early as possible.

In response to these views, the Chair stated that, in line with the secretariat's proposal, the topic would be recommended to the ASBJ as a new agenda item.

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## [Deliberations at the ASBJ]

### **340th Meeting (July 13, 2016)**

(\*) The minutes (1) include a description relating to this issue; however, there is no explicit statement that it was formally approved as a new agenda item.

### **341st Meeting (July 25, 2016)**

#### **Summary of minutes (3) Response to recommendations from the Advisory Council**

At the outset, Kogasaka, Vice Chair, explained that deliberations would be conducted regarding the response to the Advisory Council's recommendations of agenda items, and then a detailed explanation was provided based on the deliberation materials.

Key comments from members, and the secretariat's responses, were as follows:

- Several members commented that the topics recommended by the Advisory Council should be taken up and deliberations commenced promptly.
  - In response, the secretariat stated that this topic would be addressed by the Practical Issues Task Force, and that they would like to respond as early as possible while coordinating with other topics.

Practical Issues Task Force Report Exposure Draft No. 51 “Provisional Treatment of the Discount Rate in Calculating Retirement Benefit Obligations, etc., When Bond Yields Are Negative (Draft)” (January 27, 2017)

## [Deliberations at the Accounting Standards Advisory Council]

### 27th Meeting (July 4, 2016)

**Proponent:** Auditor (a member of the Advisory Council)

**(Topic)**

Response to various accounting issues relating to negative interest rates

**(Reason for proposal)**

Since the Bank of Japan announced the introduction of a negative interest rate policy on January 29, 2016, yields on short- to medium-term Japanese government bonds have been negative. This situation remained unchanged even as of the date on which the topic submission form was filed (May 20, 2016), as indicated by the 10-year Japanese government bond yield (market yield) of -0.11%.

It has already been recognized that the emergence of negative interest rates gives rise to various accounting issues. The ASBJ has also taken emergency action in March of this year by issuing meeting highlights of the ASBJ Board to address, among other matters, the treatment of the discount rate used in calculating retirement benefit obligations and the special accounting treatment for interest rate swaps.

However, as described above, that response had a strongly emergency and provisional character aimed at financial statements for the year ended March 2016. In light of the current economic environment, it is considered necessary for the ASBJ to address negative interest rates again, for example through publication of a Practical Issues Task Force Report or similar guidance.

**From the minutes (summary)**

### 3. Regarding the current proposal

With respect to the new topic proposal submitted to this Advisory Council meeting—

“Response to various accounting issues relating to negative interest rates”—Watabe, Director of Planning and Disclosure at the FASF, explained the content of the proposed topic and the secretariat’s proposed approach. Maeda, Director of the ASBJ, then provided a detailed explanation of the topic.

Thereafter, Advisory Council members expressed the following views:

- Deliberations should proceed so that companies will not be required to take emergency measures.
- It is unlikely that the negative interest rate environment will be resolved in the short term; therefore, deliberations should be conducted on the assumption that this situation will continue.
- If it takes approximately three months of due process to publish standards or other guidance, the ASBJ should monitor developments through year-end and be prepared to respond at any time.
- Regarding the discount rate for retirement benefit obligations, if a method that sets zero as a floor is not permitted, actuarial gains/losses could become substantial and may cause breaches of financial covenants; therefore, the ASBJ should respond with sufficient lead time before the fiscal year-end.
- For the special accounting treatment for interest rate swaps, diverse practices have already begun to develop by financial institution; deliberations should take that situation into account.

In response to these views, the Chair stated that, in light of the current situation, the Advisory Council would request the ASBJ to determine whether and when standard-setting is necessary and to respond in a timely manner.

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## [Deliberations at the ASBJ]

### 340th Meeting (July 13, 2016)

#### Summary of minutes (1) Recommendation of topics from the Advisory Council

Nozaki, Chair of the Advisory Council, explained—based on the materials [Deliberation Item (1)–1] and [Deliberation Item (1)–2]—that, at the 27th Advisory Council meeting held on July 4, it was approved to recommend “Relationship between impairment of investments in subsidiaries and associates and impairment of goodwill” as a new agenda item of the ASBJ and, with respect to “Response to various accounting issues relating to negative interest rates,” to request that the ASBJ determine whether and when standard–setting is necessary and to respond in a timely manner. He also explained the status of other deliberations at the Advisory Council.

A principal comment from a Board member and the Chair’s response were as follows:

- One member commented:
  - For “Response to various accounting issues relating to negative interest rates,” is it correct to understand that no standard–setting would be undertaken if the negative interest rate situation is resolved by the fiscal year–end?
- The Chair responded:
  - If interest rates decline further and have a significant impact on accounting, the ASBJ has been requested to develop standards without waiting for an Advisory Council recommendation; however, if the situation becomes such that this is not necessary, then there would be no need to undertake standard–setting.
  - In addition, it is expected that, at the next Advisory Council meeting to be held in November, the need for standard–setting at that time will be discussed again.

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### 349th Meeting (November 18, 2016)

## **Summary of minutes (5) Response to accounting issues related to negative interest rates**

At the outset, Kogasaka, Vice Chair, stated that the Board would consider responses to accounting issues related to negative interest rates, after which Maeda, Director, provided a detailed explanation based on the deliberation materials.

Key comments from members and the secretariat's responses were as follows:

- One member commented:
  - Although long-term interest rates have risen and turned positive, and therefore the urgency and necessity of examining negative interest rates are not particularly high, there remains a possibility that interest rates could become significantly negative in the future; accordingly, the member supported beginning consideration of a permanent approach to negative interest rates. In that case, given reports that the lower bound of negative interest rates is the cost of holding cash, it would be desirable to consider scenarios where negative interest rates reach around 1% to 2%.
  - Regarding the schedule, if, at the time of applying a Practical Issues Task Force Report, negative interest rates fall within a certain range, the issues are clear, and comments can be collected within a relatively short period, it may be possible to shorten the comment period from the standard two months. Otherwise, there is no need to insist on finalizing a Practical Issues Task Force Report by the end of March even if that would require shortening the comment period.
- Another member commented:
  - Interest rates, like foreign exchange rates and stock prices, can change rapidly and may reverse direction significantly; therefore, it would be beneficial to begin examining the accounting issues related to negative interest rates at this time.

In response, the secretariat stated that, taking these views into account, it would proceed in the direction of beginning deliberations on the issue of the discount rate used in calculating retirement benefit obligations among the accounting issues related to negative interest rates.

## **350th Meeting (December 2, 2016)**

### **(5) Examination of accounting issues related to negative interest rates**

Kogasaka, Vice Chair, and Maeda, Director, explained—using a draft Practical Issues Task Force Report—issues relating to the discount rate used in calculating retirement benefit obligations when bond yields are negative, and deliberations were held.

From Deliberation Material (5)–1:

3. At the 349th ASBJ Board meeting (held on November 18, 2016), it was approved to proceed with deliberations, aiming to finalize the matter by March 2017 after publishing an exposure draft of a Practical Issues Task Force Report (or similar) regarding the discount rate used in calculating retirement benefit obligations among the accounting issues related to negative interest rates.

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## **351st Meeting (December 20, 2016)**

### **(5) Examination of accounting issues related to negative interest rates**

Kogasaka, Vice Chair, and Maeda, Director, explained the draft Practical Issues Task Force Report regarding the discount rate used in calculating retirement benefit obligations when bond yields are negative, and deliberations were held, taking into account the status of discussions at the 87th Retirement Benefits Expert Committee (held on December 5, 2016).

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## **352nd Meeting (January 10, 2017)**

### **(1) Examination of accounting issues related to negative interest rates**

Kogasaka, Vice Chair, and Maeda, Director, explained the draft Practical Issues Task Force Report regarding the discount rate used in calculating retirement benefit obligations when bond yields are negative, and deliberations were held. It was also explained that deliberations regarding publication of the exposure draft would be conducted at the next Board meeting.

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## **353rd Meeting (January 26, 2017)**

### **(1) Practical Issues Task Force Report Exposure Draft “Provisional Treatment of the Discount Rate in Calculating Retirement Benefit Obligations, etc., When Bond Yields Are Negative (Draft)” [Resolution to Issue]**

Kogasaka, Vice Chair, and Maeda, Director, explained the Practical Issues Task Force Report Exposure Draft, “Provisional Treatment of the Discount Rate in Calculating Retirement Benefit Obligations, etc., When Bond Yields Are Negative (Draft),” and deliberations and a vote were conducted.

As a result of the vote, it was approved to publish the exposure draft unanimously by all attending members, on the understanding that the Chair would be entrusted with making any revisions to wording and similar matters.

**Practical Issues Task Force Report Exposure Draft No. 53 “Provisional Treatment of Accounting and Other Matters Related to Virtual Currencies under the Payment Services Act (Draft)” (December 6, 2017)**

**[Deliberations at the Accounting Standards Advisory Council]**

**28th Meeting (November 14, 2016)**

Proponent: The Japanese Institute of Certified Public Accountants (JICPA)

**(Topic)**

Accounting treatment for virtual currencies (practical-issues level)

**(Reason for the proposal)**

The amended Payment Services Act promulgated on June 3, 2016 defined “virtual currency” and introduced a registration system for “virtual currency exchange service providers,” as well as imposing obligations to undergo financial statement audits and segregation-of-assets audits. As the amended Act is to take effect within one year, preparations are understood to be underway toward that implementation, including registration by service providers and the certification of an industry association as a self-regulatory body.

In conducting financial statement audits, the accounting standards—which constitute the basis for preparing financial statements and also serve as the benchmark for determining fair presentation in audits—currently contain no accounting treatment for virtual currencies. As a result, it is difficult to prepare financial statements that ensure comparability across service providers, and auditors have expressed concerns when accepting audit engagements for such financial statements. Transactions using virtual currencies are expanding globally, and Japan is no exception. At present, exchange service providers are generally relatively small companies, but bank groups are also considering introducing virtual currencies. In step with the expansion in the use of virtual currencies and developments in the establishment of the surrounding environment, including the introduction of regulation, it is considered necessary to clarify the accounting treatment. Accordingly, clarification of the accounting treatment for virtual currencies is requested.

**(Secretariat's proposed response)**

Should the matter be referred to the Practical Issues Task Force for evaluation as a new topic?

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**29th Meeting (March 14, 2017)**

From Agenda Paper (1)-3:

The Practical Issues Task Force's evaluation is as follows (see Agenda Paper (1)-3):

- At present, holdings of virtual currencies by listed companies and other entities are extremely limited and are not considered to have a widespread impact on accounting practice. On the other hand, from the perspective of facilitating the smooth operation of the financial statement audit system for virtual currency exchange service providers under the Payment Services Act, there is, to a certain extent, a need to promptly clarify the accounting treatment applied by virtual currency exchange service providers. Moreover, if accounting treatment is not clarified, diverse accounting practices may develop. In light of these considerations, it is considered appropriate for the ASBJ to examine the accounting treatment for virtual currency exchange service providers as well as users of virtual currencies.
- However, as no international deliberations are being conducted at this time and it is difficult to predict future developments in virtual-currency-related business, it is considered appropriate, as a provisional treatment, to develop guidance limited to the minimum necessary items.

Based on this evaluation by the Practical Issues Task Force, should it be proposed that the matter be recommended to the ASBJ as a new topic?

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## **[Deliberations at the ASBJ Board]**

### **357th ASBJ Board Meeting (March 28, 2017)**

(6) Report on topic recommendations from the Accounting Standards Advisory Council

Vice Chair Takahama of the Accounting Standards Advisory Council reported that, as a result of deliberations at the 29th Accounting Standards Advisory Council meeting (held March 14, 2017), it had been decided to recommend “Accounting treatment for virtual currencies” to the ASBJ as a new topic.

In addition, it was reported that, with respect to the topic proposed at the Accounting Standards Advisory Council—“Differences in the wording between the Accounting Standard for Business Divestitures and the Accounting Standard for Business Combinations and the Implementation Guidance on Accounting Standard for Business Combinations and Business Divestitures”—the ASBJ was requested to address the matter when the Implementation Guidance is revised in the future.

### **358th ASBJ Board Meeting (April 10, 2017)**

(6) Response to topic recommendations from the Accounting Standards Advisory Council

Vice Chair Kogasaka explained the response to the topic recommendation “Accounting treatment for virtual currencies,” which had been recommended to the Board by the Accounting Standards Advisory Council at the 357th ASBJ Board meeting (held March 28, 2017). The Board deliberated the matter, and as a result, approved taking it up as a new topic of the ASBJ.

From Agenda Paper (6):

#### **Accounting treatment for virtual currencies**

(Details of the Accounting Standards Advisory Council’s recommendation)

2. This is the recommendation regarding “Accounting treatment for virtual currencies” set out in the attached document titled “Accounting Standards Advisory Council: Recommendations, etc. on New Topics.” The content of the recommendation is as follows:

“Recommend that your Board examine the accounting treatment for virtual

currencies as a new topic. In addition, note that, as a provisional treatment, it is appropriate to develop guidance limited to the minimum necessary items.”

(Planned response of the Board (draft))

3. Respecting the Accounting Standards Advisory Council’s recommendation, should the ASBJ take up, as a new topic, the accounting treatment for users of virtual currencies and virtual currency exchange service providers? In examining the topic, taking into account the note in the Accounting Standards Advisory Council’s recommendation that development should be limited to the minimum necessary items as a provisional treatment, and also the need to ensure the smooth operation of the financial statement audit system for virtual currency exchange service providers under the Payment Services Act, should the ASBJ set a target of publishing an exposure draft in July to August of this year?

In addition, should the Practical Issues Task Force—which has conducted the topic evaluation and understands the nature of the transactions—be tasked with addressing this matter?

#### **359th ASBJ Board Meeting (April 28, 2017)**

(6) Examination of accounting treatment for virtual currencies

Vice Chair Kogasaka and Director Nishida provided an explanation of a proposal regarding the scope of the examination for accounting treatment for virtual currencies, taking into account the deliberations at the 103rd Practical Issues Task Force meeting (held April 18, 2017). The Board deliberated the matter.

#### **360th ASBJ Board Meeting (May 12, 2017)**

(5) Examination of accounting treatment for virtual currencies

Vice Chair Kogasaka and Director Nishida explained that, at the 104th Practical Issues Task Force meeting (held May 2, 2017), opinions had been obtained from resource persons (the Japan Blockchain Association and the Japan Virtual Currency Exchange Association) regarding (i) virtual currencies, (ii) the nature of virtual currency exchange service providers’ business, and (iii) the scope to be covered in standard-setting. The Board deliberated the matter.

#### **363rd ASBJ Board Meeting (June 30, 2017)**

(4) Examination of accounting treatment for virtual currencies

Vice Chair Kogasaka and Director Nishida explained the scope of items to be addressed in standard-setting, accounting treatment for assets held on deposit from

customers (virtual currencies), and the period-end measurement of virtual currencies, taking into account the deliberations at the 105th Practical Issues Task Force meeting (held June 21, 2017). The Board deliberated the matter.

#### **365th ASBJ Board Meeting (July 28, 2017)**

(3) Examination of accounting treatment for virtual currencies

Vice Chair Kogasaka and Director Nishida explained (i) the timing of recognition of gains and losses on the sale of virtual currencies, (ii) accounting treatment for assets held on deposit from customers (virtual currencies), and (iii) period-end measurement of virtual currencies, taking into account the deliberations at the 106th Practical Issues Task Force meeting (held July 18, 2017). As a result of deliberations, it was decided that outreach would be conducted with virtual currency exchange service providers, etc., regarding the feasibility of the Secretariat's proposals going forward.

#### **370th ASBJ Board Meeting (October 12, 2017)**

(5) Examination of accounting treatment for virtual currencies

Vice Chair Kogasaka and Director Nishida explained the draft wording of the Practical Issues Task Force Report exposure draft, reflecting the results of outreach to virtual currency exchange service providers, as well as a specific issue regarding presentation in the income statement of virtual currency exchange service providers, taking into account the deliberations at the 108th Practical Issues Task Force meeting (held October 5, 2017). The Board deliberated the matter.

#### **371st ASBJ Board Meeting (October 26, 2017)**

(2) Examination of accounting treatment for virtual currencies

Vice Chair Kogasaka and Director Nishida explained the draft wording of the Practical Issues Task Force Report exposure draft, reflecting the results of outreach to virtual currency exchange service providers, taking into account the deliberations at the 109th Practical Issues Task Force meeting (held October 19, 2017). The Board deliberated the matter.

#### **372nd ASBJ Board Meeting (November 10, 2017)**

(2) Examination of accounting treatment for virtual currencies

Vice Chair Kogasaka and Director Nishida explained the draft wording of the Practical Issues Task Force Report exposure draft and, as a specific issue, disclosure requirements, taking into account the deliberations at the 110th Practical

Issues Task Force meeting (held November 2, 2017). The Board deliberated the matter.

### **373rd ASBJ Board Meeting (November 22, 2017)**

(5) Examination of accounting treatment for virtual currencies

Vice Chair Kogasaka and Director Nishida explained the draft wording of the Practical Issues Task Force Report on accounting treatment for virtual currencies and the plan to solicit comments, taking into account the deliberations at the 111th Practical Issues Task Force meeting (held November 17, 2017). As a result of deliberations, it was explained that, if possible, the Board would like to consider approval for publication of the exposure draft at the next Board meeting.

### **374th ASBJ Board Meeting (December 5, 2017)**

(4) Practical Issues Task Force Report Exposure Draft “Provisional Treatment of Accounting and Other Matters Related to Virtual Currencies under the Payment Services Act (Draft)” [Resolution to Publish]

Vice Chair Kogasaka and Director Nishida explained the Practical Issues Task Force Report exposure draft “Provisional Treatment of Accounting and Other Matters Related to Virtual Currencies under the Payment Services Act (Draft).” Deliberation and voting were conducted. As a result of the vote, publication was approved unanimously by all members present, on the premise that the Chair would be entrusted with making any specific wording and similar edits.

**Practical Issues Task Force Report Exposure Draft No. 46 “Practical Treatment of Changes in Depreciation Method Arising from the FY2016 Tax Reform (Draft)” (April 22, 2016)**

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**[Background Leading to Standard-Setting]**

It is inferred that, because this matter originated from questions received regarding how to respond to the tax reform and required urgent action, the ASBJ itself initiated the project without going through the Accounting Standards Advisory Council.

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## [Deliberations at the ASBJ Board]

### 332nd ASBJ Board Meeting (March 23, 2016)

#### Minutes (3) Response to Tax Reform Related to Depreciation

At the outset, Vice Chair Kogasaka explained, based on the agenda materials, the response to tax reform related to depreciation. (Omitted)

In response, the Secretariat indicated that it would proceed with urgent measures on this matter going forward.

#### From Agenda Paper (3)

##### Purpose of the agenda paper

1. The purpose of this paper is to consider how to respond to the FY2016 tax reform related to depreciation.

##### Background

2. In the “Outline of the FY2016 Tax Reform,” approved by Cabinet on December 24, 2015, it was indicated that, for tax purposes, the declining-balance method would be abolished and only the straight-line method would be permitted for depreciation of building fixtures and structures acquired on or after April 1, 2016.

(The following considerations are premised on the above content being finalized.)

3. To date, the Japanese Institute of Certified Public Accountants (JICPA) has published the following audit guidance related to depreciation (see Appendix 1 for details):
  - (1) Audit First Committee Report No. 3 “Accounting Treatment and Audit Treatment Related to Depreciation” (abolished)
  - (2) Audit Committee Report No. 57 “FY1998 Tax Reform and Related Audit Treatment” (abolished)
  - (3) Audit and Assurance Practice Committee Practical Guideline No. 81 “Interim Audit Treatment Related to Depreciation” (hereafter, “No. 81”)
4. With respect to this matter, it is understood that the JICPA does not plan to make any particular announcement, as it includes aspects relating to accounting treatment.

5. Against this background, the ASBJ has received questions as to whether, for entities that have previously determined their depreciation method based on so-called tax-based accounting, a change to the straight-line method—starting with building fixtures and structures acquired on or after April 1, 2016 in line with the tax reform—would constitute a change in accounting policy based on a justifiable reason.
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### **334th ASBJ Board Meeting (April 12, 2016)**

#### **Minutes (1) Response to Tax Reform Related to Depreciation**

Vice Chair Kogasaka and Director Maeda explained, based on the agenda materials, the response to tax reform related to depreciation. (Omitted)

Finally, the Secretariat explained that, in light of today's comments, the comment period would be one month, and that the Board would like to deliberate at the next meeting on approval to publish the exposure draft of the Practical Issues Task Force Report.

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### **335th ASBJ Board Meeting (April 21, 2016)**

#### **Minutes (2) Practical Issues Task Force Report Exposure Draft “Practical Treatment of Changes in Depreciation Method Arising from the FY2016 Tax Reform (Draft)” [Resolution to Publish]**

At the outset, Vice Chair Kogasaka explained that, after deliberations on the Practical Issues Task Force Report exposure draft “Practical Treatment of Changes in Depreciation Method Arising from the FY2016 Tax Reform (Draft)” (the “Exposure Draft”), the Board would proceed to a vote on its publication. Director Maeda then provided a detailed explanation based on the agenda materials. (Omitted)

After deliberations, a vote was taken. On the premise that revisions to the matters noted above and wording and similar edits would be entrusted to the Chair, publication of the Practical Issues Task Force Report exposure draft “Practical Treatment of Changes in Depreciation Method Arising from the FY2016 Tax Reform (Draft)” was approved by unanimous consent of all 12 Board members present.

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## From Agenda Paper (2)-1

### Purpose of the agenda paper

1. In the FY2016 tax reform, the depreciation method under the Corporation Tax Act for building fixtures and structures acquired on or after April 1, 2016 was revised such that the declining-balance method was abolished and only the straight-line method would be permitted. In response, the ASBJ has received questions as to whether, when an entity changes its depreciation method to the straight-line method—starting with building fixtures and structures acquired on or after April 1, 2016 in line with the tax reform—such change in depreciation method constitutes a change in accounting policy based on a justifiable reason.

The ASBJ deliberated the matter at the 332nd ASBJ Board meeting; however, given the urgency of the matter, the ASBJ convened an extraordinary 334th Board meeting to deliberate it. This paper is a partially revised version of the agenda materials used for the 334th Board meeting.

**Accounting Standard Exposure Draft No. 59 “Accounting Standard for Corporate Tax, Inhabitants Tax and Enterprise Tax, etc. (Draft)”  
(November 9, 2016)**

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**[Deliberations at the Accounting Standards Advisory Council]**

**Accounting Standards Advisory Council — Recommendation on New Agenda Items**

At the 19th Accounting Standards Advisory Council meeting held on November 20, 2013, following deliberations, the Council compiled recommendations on agenda items for deliberation by the Accounting Standards Board of Japan (ASBJ), as set out below, and respectfully requests your consideration.

**1. Guidance on Tax Effect Accounting**

With respect to the accounting-related portions of the Japanese Institute of Certified Public Accountants’ (hereinafter, the “JICPA”) “Audit Treatment for Assessing the Recoverability of Deferred Tax Assets” (Audit Committee Report No. 66), we recommend that deliberations be undertaken as a new agenda item in order to transfer those portions to your Board. In addition, when conducting such deliberations, we also recommend that the Board deliberate, with a view to transferring to the Board, the JICPA’s accounting practice guidelines on tax effect accounting and other audit practice guidelines (limited to the accounting-related portions).

**(Background to the recommendation)**

A proposal was received at the 16th Accounting Standards Advisory Council meeting held in November 2012 regarding “Recoverability of Deferred Tax Assets (related to JICPA Audit Committee Report No. 66).” Subsequently, the matter was considered at the 17th Accounting Standards Advisory Council meeting held in March 2013 and the 18th meeting held in July 2013. As a result, the Council requested that your Board conduct an investigation on this matter.

At the 19th Accounting Standards Advisory Council meeting held in November 2013, the Council received a report from your Board on the investigation (Reference Material 1). That report included, among others, the following statement:

“With respect to the accounting treatment–related portions of Audit Committee Report No. 66, it is considered appropriate to undertake deliberations for the purpose of transferring them to the ASBJ, in light of the discussions at the present Accounting Standards Advisory Council meeting and this investigation report. In doing so, it is considered appropriate to deliberate both the Accounting Systems Committee’s practice guidelines and the Audit and Assurance Practice Committee’s practice guidelines, which are practice guidelines relating to tax effect accounting.”

At the 19th Accounting Standards Advisory Council meeting, many opinions were expressed in support of these statements, and accordingly, the above recommendation on a new agenda item was made.

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## [Deliberations at the ASBJ Board]

*(Note)*

The review of guidance related to tax effect accounting commenced from the **329th** ASBJ Board meeting.

### **340th ASBJ Board Meeting (July 13, 2016)**

#### **Minutes (4) Review of Guidance Related to Tax Effect Accounting**

At the outset, Vice Chair Kogasaka explained that deliberations would be conducted on the review of guidance related to tax effect accounting, and Specialist Researcher Ougo then provided a detailed explanation based on the agenda materials. (Omitted)

### **344th ASBJ Board Meeting (September 9, 2016)**

#### **Minutes (7) Review of Guidance Related to Tax Effect Accounting**

At the outset, Vice Chair Kogasaka explained that deliberations would be conducted, as part of the review of guidance related to tax effect accounting, on the transfer of “Audit Treatment Related to Accounting and Presentation of Various Taxes” (hereinafter, “Audit and Assurance Practice Guideline No. 63”). Specialist Researcher Ougo then provided a detailed explanation based on the agenda materials. (Omitted)

Finally, the Secretariat responded that it would continue further consideration in the direction of publishing an exposure draft of this Accounting Standard (Draft) ahead of the other tax effect accounting implementation guidance, etc.

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### **(Reference) From the 341st Meeting Agenda Paper (5)–1**

#### **Matters considered to date**

1. The Tax Effect Accounting Expert Committee (hereinafter, the “Expert Committee”) has been deliberating—since the 329th ASBJ Board meeting and the 30th Expert Committee meeting—on transferring to the ASBJ certain accounting practice guidelines and audit practice guidelines (limited to the

portions related to accounting treatment) on tax effect accounting published by the JICPA (hereinafter, the “Practice Guidelines”), excluding Audit Committee Report No. 66 and Audit Committee Report No. 70. The Practice Guidelines are as follows:

- (1) Accounting Systems Committee Report No. 6 “Practical Guideline on Tax Effect Accounting in Consolidated Financial Statements” (hereinafter, the “Consolidated Tax Effect Practical Guideline”)
  - (2) Accounting Systems Committee Report No. 10 “Practical Guideline on Tax Effect Accounting in Non-consolidated Financial Statements” (hereinafter, the “Non-consolidated Tax Effect Practical Guideline”)
  - (3) Accounting Systems Committee Report No. 11 “Practical Guideline on Tax Effect Accounting in Interim Financial Statements, etc.”
  - (4) Accounting Systems Committee “Q&A on Tax Effect Accounting” (hereinafter, the “Tax Effect Q&A”)
  - (5) Audit and Assurance Practice Committee Practical Guideline No. 63 “Audit Treatment Related to Accounting and Presentation of Various Taxes” (hereinafter, “Audit and Assurance Practice Guideline No. 63”)
2. With respect to items (1) through (5) above, the status of consideration of issues being addressed as matters requiring prompt action is as follows.
  3. In addition, at the 340th ASBJ Board meeting (July 13, 2016) and the 35th and 36th Expert Committee meetings (June 10, 2016 and June 28, 2016), deliberations were conducted on item (5) in paragraph 1 above—Audit and Assurance Practice Guideline No. 63—assuming that it would be transferred as the “Accounting Standard for Corporate Tax, Inhabitants Tax and Enterprise Tax, etc. (Draft)” (hereinafter, the “Corporate Tax, etc. Accounting Standard (Draft)”).

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## **346th ASBJ Board Meeting (October 6, 2016)**

### **Minutes (3) Review of Guidance Related to Tax Effect Accounting**

At the outset, Vice Chair Kogasaka explained that deliberations would be conducted, as part of the review of guidance related to tax effect accounting, on the transfer of “Audit Treatment Related to Accounting and Presentation of Various Taxes” (Audit and Assurance Practice Guideline No. 63). Specialist Researcher Ougo then provided a detailed explanation based on the agenda materials. (Omitted)

### **347th ASBJ Board Meeting (October 21, 2016)**

#### **Minutes (3) Review of Guidance Related to Tax Effect Accounting**

At the outset, Vice Chair Kogasaka explained that deliberations would be conducted, as part of the review of guidance related to tax effect accounting, on the transfer of “Audit Treatment Related to Accounting and Presentation of Various Taxes.”

Specialist Researcher Ougo then provided a detailed explanation, based on the agenda materials, of the draft text of the tentative Accounting Standard for Corporate Tax, Inhabitants Tax and Enterprise Tax, etc. (the “Corporate Tax, etc. Accounting Standard (Draft)”), as well as details regarding the comment solicitation period and an outline of the exposure draft (Draft), etc. (Omitted)

Finally, the Secretariat explained that, from the next meeting onward, deliberations would be conducted regarding approval to publish the exposure draft.

### **348th ASBJ Board Meeting (November 4, 2016)**

#### **Minutes (2) Accounting Standard Exposure Draft “Accounting Standard for Corporate Tax, Inhabitants Tax and Enterprise Tax, etc. (Draft)” [Resolution to Publish]**

At the outset, Vice Chair Kogasaka explained that, after deliberations at today’s meeting on the Accounting Standard exposure draft “Accounting Standard for Corporate Tax, Inhabitants Tax and Enterprise Tax, etc. (Draft),” the Board would like to proceed to a vote on its publication. Specialist Researcher Ougo then explained the draft text of the exposure draft, including revisions made since the previous Board meeting, and Director Maeda explained that the comment period would be two months. (Omitted)

After deliberations, a vote was taken. On the premise that specific wording and similar edits would be entrusted to the Chair, publication of the Accounting Standard exposure draft “Accounting Standard for Corporate Tax, Inhabitants Tax and Enterprise Tax, etc. (Draft)” was approved by unanimous consent of all 13 Board members present.

Accounting Standards Exposure Draft No. 56 (Proposed Amendments to ASBJ Statement No. 12) “Accounting Standard for Quarterly Financial Statements (Draft)” and Implementation Guidance Exposure Draft No. 51 (Proposed Amendments to ASBJ Implementation Guidance No. 14) “Implementation Guidance on Accounting Standard for Quarterly Financial Statements (Draft)” (February 25, 2014)

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## [Background to the standard-setting project]

It is considered that this project was initiated based on comments received on Accounting Standards Exposure Draft No. 49, “*Accounting Standard for Business Combinations (Draft)*,” and related proposed amendments to other accounting standards, which were published in January 2013. There was no direct recommendation by ASAC as an agenda item relating to this issue.

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## [Deliberations at the ASBJ Board]

### 267th ASBJ Board Meeting (June 27, 2013)

#### Minutes (6) Consideration of Business Combinations (Step 2)

At the outset, Vice Chair Arai (Chair of the Expert Committee) explained that, based on comments received on the exposure draft, the Board was requested to deliberate on issues relating to disclosure requirements and the effective date. Specialist Researcher Murata then provided a detailed explanation based on the explanatory materials [Agenda Items (6)–1 through (6)–3]. (Omitted)

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### From the 267th Meeting Agenda Paper (6)–1

#### I. Background of the deliberations

1. In January 2013, the Board published Accounting Standards Exposure Draft No. 49, “*Accounting Standard for Business Combinations (Draft)*,” together with related proposed amendments to other accounting standards, etc. The deadline for comments on the exposure draft was March 15, 2013, and the Board is analyzing the comments received and considering proposed responses. (Omitted)

### **III. Issues to be considered today**

3. Today, the Board will consider the following issues:
  - (1) Issues related to disclosure requirements ..... Agenda Item (6)–2
    - Disclosure of acquisition–related costs
    - Disclosure of revisions to provisional accounting treatment
    - Disclosure of changes in a parent’s ownership interests arising from transactions with non–controlling interests (statement of changes in net assets)
    - Disclosure of the amount of the effect of a change in accounting policy
  - (2) Effective date and transitional measures ..... Agenda Item (6)–3
    - Effective date (matters related to presentation prescribed in paragraph 39 of the proposed Consolidated Accounting Standard) (Omitted)

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### **From the 267th Meeting Agenda Paper (6)–2**

#### **1. Comments received on the exposure draft proposals relating to disclosure**

The following comments, among others, were received on the exposure draft’s proposals relating to disclosures.

##### **Exposure draft proposal (1)**

(Proposed Business Combinations Accounting Standard, paragraph 49)

Disclosures for business combinations accounted for as acquisitions

(3) Matters relating to the calculation of acquisition cost, etc.

(iv) Acquisition–related costs that were not included in the acquisition cost

### **Summary of comments received (in response to the above proposal)**

- It is questionable whether disclosure is necessary when preparers have no discretion in selecting the accounting treatment.
- If material, it is sufficient to disclose as supplementary information; the same should apply to quarterly reporting.
- The scope of acquisition-related costs that should be disclosed should be clarified.

### **Exposure draft proposal (2)**

(Proposed Business Combinations Accounting Standard, paragraph 49-2)

If, in the fiscal year following the business combination year, the initial allocation of the acquisition cost is materially revised as a result of finalizing provisional accounting treatment, the entity shall disclose, in the fiscal year in which the revision is made, the nature and amount of the revision.

### **Summary of comments received (in response to the above proposal)**

- Because the primary financial statements are restated retroactively for prior periods, such disclosure should be unnecessary; the same should apply to quarterly reporting.

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## **II. Disclosure of acquisition-related costs Consideration**

2. Under international accounting standards, acquisition-related costs have been accounted for as expenses when incurred, on the grounds that they are transactions separate from the business combination, and that it is inconsistent to include direct costs in acquisition cost while excluding indirect costs. Under current Japanese GAAP practice, it has often been pointed out that there is significant debate over how far acquisition-related costs should be included within acquisition cost. The current exposure draft proposal was made to address these issues and to converge with international accounting standards.
3. The reasons for proposing disclosure of acquisition-related costs in the exposure draft are as follows:

- The amount of acquisition-related costs is important information for evaluating the nature of the business combination and the financial effects of the acquisition.
  - International accounting standards also require disclosure of acquisition-related costs (IFRS 3, paragraph B64(m); ASC 805-10-50-2f).
  - Current accounting standards also require disclosure of the acquisition cost and its breakdown (Business Combinations Accounting Standard, paragraph 49(3)(i)).
4. Acquisition-related costs in business combinations can be useful information for understanding the substance of the business combination when they are material, and disclosure is expected to enhance comparability with entities applying international accounting standards. However, in light of the issues raised under the current standards, and taking into account both the purpose of the disclosure requirement and the burden on preparers, would it be appropriate to require disclosure of acquisition-related costs only when they are material?
  5. As acquisition-related costs subject to disclosure, would it be appropriate to exclude internal costs such as in-house personnel expenses?
  6. In addition, because timeliness of disclosure is emphasized under the quarterly accounting standard, disclosure requirements for business combination matters are already simplified in the current standard compared with annual reporting. Accordingly, considering the nature of quarterly financial statements, would it be appropriate not to require disclosure of acquisition-related costs at the quarterly stage?
  7. At the Business Combinations Expert Committee meeting held on **June 20**, opinions were expressed in support of the Secretariat's proposal regarding the treatment for annual and quarterly reporting.
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### **III. Disclosure of revisions to the allocation of acquisition cost due to finalizing provisional accounting treatment**

## Consideration

8. The reasons for proposing disclosure of the nature and amount of revisions to the allocation of acquisition cost due to finalizing provisional accounting treatment are as follows:

- When the allocation of acquisition cost is materially revised as a result of finalizing provisional accounting treatment, the amounts of goodwill, acquired assets, and assumed liabilities may change materially; therefore, information on the nature and amount of the revision is important for time-series comparisons.
- International accounting standards also require disclosure of the nature and amount of such revisions (IFRS 3, paragraph B67(b)(iii); ASC 805-10-50-6c).
- Current accounting standards also require that, when the allocation of acquisition cost is materially revised in the fiscal year following the business combination year, the nature and amount of the revision be disclosed in the fiscal year in which the revision is made (Business Combinations Accounting Standard, paragraph 49(4)(iii)).

9. Comments were received that such disclosures should be unnecessary because the revised allocations are reflected in comparative prior-period primary financial statements. However, in relation to the previously published prior-year primary financial statements, information identifying which items were materially revised is useful for time-series analysis. Accordingly, as proposed in the exposure draft, would it be appropriate to require disclosure of the nature and amount of the revision when the initial allocation of acquisition cost is materially revised due to finalizing provisional accounting treatment? In addition, would it be appropriate to apply the same approach to comparative information disclosed in quarterly reports (consideration of quarterly treatment is set out in an appendix)?

10. At the Business Combinations Expert Committee meeting held on June 20, many members expressed the view that disclosures should be required for both annual and quarterly reporting when there are material changes between the previously published prior-year primary financial statements and the prior-year primary financial statements presented as comparative information.



## [Deliberations at the ASBJ Board]

### 281st ASBJ Board Meeting (February 7, 2014)

*(No published minutes for this meeting)*

Quoted from Agenda Paper (3)–1

**Project:** Business Combinations

**Item:** Amendments to the Quarterly Accounting Standard accompanying amendments to the Business Combinations Accounting Standard

*(Treatment relating to finalizing provisional accounting treatment)*

1. Under the amended ASBJ Statement No. 21, “Accounting Standard for Business Combinations,” published on September 13, 2013 (hereinafter, the “2013 Amendments”), when provisional accounting treatment is finalized in the fiscal year following the business combination year, in order to enhance the usefulness of comparative information, accounting treatment is applied as if the finalization had occurred in the business combination year, in the same manner as international accounting standards. Accordingly, when the financial statements for the business combination year are presented together with the financial statements for the fiscal year following the business combination year, the financial statements for the business combination year reflect revisions to the allocation of acquisition cost due to finalizing provisional accounting treatment (2013 Amendments, Note 6).
2. In addition, under the 2013 Amendments, when, in the fiscal year following the business combination year, the initial allocation of acquisition cost is materially revised due to finalizing provisional accounting treatment, the entity discloses, in the fiscal year in which the revision is made, the nature and amount of the revision (2013 Amendments, paragraph 49–2).
3. With respect to whether such disclosures are required in quarterly financial statements, the 267th ASBJ Board meeting and the 88th Business Combinations Expert Committee meeting considered the matter with respect to the quarterly income statement for the business combination year and the summary balance sheet as of the end of the prior fiscal year that are presented together with the quarterly financial statements for the quarter in which provisional accounting treatment is finalized and subsequent quarters

(i.e., comparative information disclosed in quarterly reports) (267th ASBJ Board meeting, Agenda Item (6)–2).

As a result of deliberations, because information on what material revisions were made is useful to financial statement users, it was decided to require disclosures in quarterly financial statements as well, as follows (ASBJ Implementation Guidance No. 14, “Implementation Guidance on Accounting Standard for Quarterly Financial Statements,” paragraph 66(2)(ii)).

**(Deliberation items regarding amendments to the Quarterly Accounting Standard)**

4. While ASBJ Statement No. 12, “Accounting Standard for Quarterly Financial Statements” (hereinafter, the “Quarterly Accounting Standard”) explicitly prescribes the treatment (retrospective application) for changes in accounting policies, it does not explicitly state that revisions to the allocation of acquisition cost due to finalizing provisional accounting treatment should be reflected. Accordingly, financial statement preparers have expressed a view that accounting treatment should be clarified.

5. In light of this, would it be appropriate to specify in the Quarterly Accounting Standard that, in the quarterly accounting period in which provisional accounting treatment related to a business combination is finalized, accounting treatment is applied, consistent with the Business Combinations Accounting Standard (Note 6), as if the finalization had occurred retrospectively in the quarterly accounting period that includes the business combination date?
6. Also, in the quarterly accounting period in which provisional accounting treatment related to a business combination is finalized, would it be appropriate to require disclosure that the provisional treatment has been finalized, in order to align with the existing requirement to disclose, in the quarterly period in which provisional accounting treatment is applied, that provisional accounting treatment has been applied?
7. In addition, for the quarterly income statement for the business combination year and the summary balance sheet as of the end of the prior fiscal year that are presented together with the quarterly financial statements for the quarter in which provisional accounting treatment is finalized, in order to enhance the usefulness of comparative information, such comparative information reflects accounting treatment as if the finalization had occurred

retrospectively at the time of the business combination. As a result, there may be material differences from the quarterly financial statements and prior year-end balance sheet previously published based on provisional accounting treatment. In such cases, as described in paragraph 3, comparative information disclosed in quarterly reports is also required to include disclosures of the nature and amount of revisions when the initial allocation of acquisition cost is materially revised due to finalizing provisional accounting treatment. It was therefore proposed that, in addition, the Quarterly Accounting Standard would clarify more clearly the cases in which disclosures are required.

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## **282nd ASBJ Board Meeting (February 24, 2014)**

### **Minutes (3) Accounting Standards Exposure Draft “Accounting Standard for Quarterly Financial Statements (Draft)” and Implementation Guidance Exposure Draft “Implementation Guidance on Accounting Standard for Quarterly Financial Statements (Draft)” [Resolution to Publish]**

At the outset, Chair Nishikawa explained that, after deliberations on the Accounting Standards Exposure Draft “Accounting Standard for Quarterly Financial Statements (Draft)” and the Implementation Guidance Exposure Draft “Implementation Guidance on Accounting Standard for Quarterly Financial Statements (Draft)”, the Board planned to vote on their publication. Vice Chair Arai (Chair of the Expert Committee) then explained an overview of the exposure drafts and the comment period, and Specialist Researcher Murata explained the draft amendment text.

After the explanations, no comments were raised by Board members or others.

Following deliberations, a vote was taken. On the premise that wording and similar revisions would be entrusted to the Chair, publication of the Accounting Standards Exposure Draft “Accounting Standard for Quarterly Financial Statements (Draft)” and the Implementation Guidance Exposure Draft “Implementation Guidance on Accounting Standard for Quarterly Financial Statements (Draft)” was approved unanimously by all 14 Board members.

Practical Issues Task Force Draft No. 49 (Proposed Amendments to PITF Report No. 18) “Tentative Treatment on Accounting for Domestic Subsidiaries, etc. in Preparing Consolidated Financial Statements (Draft)” and Practical Issues Task Force Draft No. 50 (Proposed Amendments to PITF Report No. 24) “Tentative Treatment on Accounting for Equity-Method Affiliates (Draft)” (December 22, 2016)

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## [Deliberations at the Accounting Standards Advisory Council]

### 25th ASAC Meeting (November 12, 2015)

From Agenda Paper (1)-1

**Item:** New agenda proposals presented at this ASAC meeting (2) <Practical issues level>

**Proponent:** Japan Business Federation (Keidanren)

**Topic:**

Clarification of the treatment of domestic subsidiaries in preparing consolidated financial statements when the parent applies Japanese GAAP and the domestic subsidiaries apply IFRS.

**Reason for the proposal:**

As the number of companies applying IFRS in Japan increases, cases have arisen in which the parent company applies Japanese GAAP while domestic consolidated subsidiaries apply IFRS.

In this regard, PITF Report No. 18, “*Tentative Treatment on Accounting for Foreign Subsidiaries in Preparing Consolidated Financial Statements*” (hereinafter, “PITF Report No. 18”), provides that when the financial statements of a foreign subsidiary are prepared in accordance with IFRS (or U.S. GAAP), those financial statements may be used in consolidation procedures, except for differences in four major items between Japanese GAAP and IFRS (or U.S. GAAP).

Accordingly, when a parent applies Japanese GAAP, if an IFRS-applying subsidiary is overseas, the parent can apply PITF Report No. 18 and use the IFRS-based financial statements in consolidation procedures. However, if an IFRS-applying subsidiary is domestic and PITF Report No. 18 cannot be applied, a practical inconsistency would arise. Therefore, it is requested that, even when the IFRS-applying subsidiary is domestic, an approach analogous to PITF Report No. 18 be permitted.

**Specific details:**

The purpose of PITF Report No. 18 is to allow a parent applying Japanese GAAP to use, for consolidation procedures, financial statements prepared in accordance with IFRS (or U.S. GAAP) when an IFRS (or U.S. GAAP)-applying subsidiary is located overseas, in an environment where convergence between Japanese GAAP and IFRS (or U.S. GAAP) is progressing. This rationale applies not only when an IFRS-applying subsidiary is overseas but also when such a subsidiary is domestic, and there is no reason to treat the two cases differently.

PITF Report No. 18 focuses on foreign subsidiaries because, at the time it was originally issued, IFRS was not permitted to be applied in Japan and therefore the situation where the parent applies Japanese GAAP and the domestic subsidiary applies IFRS was not contemplated. Now that IFRS adoption in Japan has progressed and such situations have emerged, it is considered necessary to address this in a PITF Report.

At present, the need may not be particularly large; however, because the Financial Services Agency has relaxed the eligibility requirements for voluntary IFRS adoption, enabling even unlisted companies, etc. to apply IFRS, it is possible that situations in which the parent applies Japanese GAAP and domestic subsidiaries apply IFRS will continue to arise. For a company that has transitioned from Japanese GAAP to IFRS, continuing to prepare consolidated financial statements under Japanese GAAP and conducting dual-closing processes would impose a significant practical burden and could act as a disincentive to apply IFRS. In order not to create obstacles to voluntary IFRS adoption, it is requested that PITF Report No. 18 clarify the treatment of domestic subsidiaries in preparing consolidated financial statements when the parent applies Japanese GAAP and domestic subsidiaries apply IFRS.

**Secretariat's proposed response:**

This is a request to review the treatment under PITF Report No. 18. In the revised

PITF Report No. 18 published on March 26 of this year, it is stated that “it is planned to consider in the future whether to add, as adjustment items, the non-recycling treatment, etc. for changes in fair value of investments in equity instruments designated at fair value through other comprehensive income under IFRS 9.” Therefore, a review of PITF Report No. 18 is scheduled to be undertaken by the ASBJ.

Accordingly, would it be appropriate to include consideration of this topic in the forthcoming ASBJ review of PITF Report No. 18?

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## [Deliberations at the ASBJ Board]

### 324th ASBJ Board Meeting (November 20, 2015)

#### Minutes (1) Recommendations from the ASAC

ASAC Chair Nozaki explained, based on the explanatory materials [Agenda Items (1)–1] and [Agenda Items (1)–2], that at the 25th ASAC meeting held on November 12, it was approved to recommend to the ASBJ Board, as new agenda items, (i) “Accounting treatment relating to public-sector concession rights,” and (ii) “Accounting treatment for the new type of defined benefit corporate pension arrangement, ‘risk-sharing DB (tentative name).’ ” He also explained other deliberation status at the ASAC. (Omitted)

- A Board member made the following comment:
  - Regarding the clarification of PITF Report No. 18 in cases where domestic subsidiaries apply IFRS (mentioned as part of “other deliberation status”), the issues are clear, and the proposal would provide useful information both for financial statement preparers and for users. Therefore, the member agreed with the ASAC proposal.
- In response, the Secretariat stated as follows:
  - The ASAC proposed that implementation be carried out as promptly as possible, and the Secretariat will consider how to proceed.

*(Note)*

Although the wording “recommendation” was not used, the request is essentially

that, when reviewing PITF Report No. 18 as already scheduled, the ASBJ should also include consideration of this topic.

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## **[Reference] PITF Report No. 18 (Published March 26, 2016)**

PITF Report No. 18, *“Tentative Treatment on Accounting for Foreign Subsidiaries in Preparing Consolidated Financial Statements”*

(2015 Amendments)

(Omitted)

In the course of deliberations, the Board considered whether there were items that should be added to the adjustment items with respect to major IFRSs and U.S. GAAP standards newly issued or amended after the PITF Report was first published in 2006. As a result, the Board considered whether to add, as an adjustment item, the non-recycling treatment, etc. for changes in fair value of investments in equity instruments designated at fair value through other comprehensive income under IFRS 9 “Financial Instruments.” However, because IFRS 9 is, at present, basically not used by foreign subsidiaries in Europe and the U.S., and the impact is considered limited, and because it would take time to determine whether such treatment should be included as an adjustment item after considering consistency with other adjustment items in cases where it differs from concepts common to Japanese GAAP, the 2015 Amendments addressed, as a tentative measure, only the amendments to accounting standards relating to goodwill for nonpublic companies in the U.S.

It is also stated that the ASBJ plans to consider in the future whether to add the non-recycling treatment, etc. under IFRS 9 as an adjustment item.

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## [Deliberations at the ASBJ Board (continued)]

### 345th ASBJ Board Meeting (September 23, 2016)

#### Minutes (4) Consideration of a Review of PITF Report No. 18

At the outset, Vice Chair Kogasaka explained that the Board would deliberate on the review of PITF Report No. 18, *“Tentative Treatment on Accounting for Foreign Subsidiaries in Preparing Consolidated Financial Statements”* (hereinafter, “PITF Report No. 18”), and Director Maeda provided a detailed explanation based on the agenda papers. (Omitted)

#### Extract from the 345th Meeting Agenda Paper (4)–1

##### Purpose of this agenda paper

1. The amendments to PITF Report No. 18 published on March 26, 2015 stated that “the ASBJ plans to consider in the future whether to add, as adjustment items, the non-recycling treatment, etc. for changes in fair value of investments in equity instruments designated at fair value through other comprehensive income under IFRS 9.”
2. Also, at the 324th ASBJ Board meeting held on November 20, 2015, the ASAC requested that the ASBJ include, in the forthcoming review of PITF Report No. 18, consideration of clarifying the treatment of domestic subsidiaries in preparing consolidated financial statements when the parent applies Japanese GAAP and domestic subsidiaries apply IFRS. This request also includes consideration of the treatment of domestic associates under PITF Report No. 24, *“Tentative Treatment on Accounting for Equity-Method Affiliates”* (hereinafter, “PITF Report No. 24”).
3. In light of the above, the ASBJ will proceed to consider the review of PITF Report No. 18 and PITF Report No. 24.

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### 348th ASBJ Board Meeting (November 4, 2016)

#### Minutes (4) Consideration of a Review of PITF Report No. 18

At the outset, Vice Chair Kogasaka explained that the Board would deliberate on the

review of PITF Report No. 18, and Director Maeda provided a detailed explanation based on the agenda papers. (Omitted)

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## **350th ASBJ Board Meeting (December 2, 2016)**

### **(6) Consideration of a Review of PITF Report No. 18**

Vice Chair Kogasaka and Director Maeda explained that they wished to publish, on a priority basis, an exposure draft reflecting the treatment when domestic subsidiaries, etc. apply IFRS in PITF Report No. 18. Deliberations were held, taking into account the status of discussions at the 94th Practical Issues Task Force meeting (held November 22, 2016).

It was also explained that, at a subsequent Board meeting, the Board intended to deliberate on approving publication of the exposure draft.

### **From Agenda Paper (6)-1**

#### **Purpose of this agenda paper**

1. At the 91st, 92nd, and 94th Practical Issues Task Force meetings (held September 8, October 24, and November 22, 2016) and at the 345th and 348th ASBJ Board meetings (held September 23 and November 4, 2016), the ASBJ has been considering a review of PITF Report No. 18 and PITF Report No. 24 in light of the following:
  - (1) Consideration of the treatment of domestic subsidiaries and domestic associates in preparing consolidated financial statements when domestic subsidiaries or domestic associates apply IFRS or Japan's Modified International Standards (JMIS)
  - (2) Consideration of adjustment items
2. Based on the above, the ASBJ will continue its consideration of the review of PITF Report No. 18 and PITF Report No. 24.

#### **Matters for today's deliberation**

(Approach going forward)

3. In considering adjustment items in paragraph 1(2), the following proposals were presented at the 92nd Practical Issues Task Force meeting and the 348th ASBJ Board meeting:

(1) “Non–recycling treatment related to the OCI option for equity instruments” would be treated as an adjustment item.

(2) For “recognizing in profit or loss the difference arising from measuring shares at fair value,” one of the following approaches would be adopted:

- Option 1: Treat it as an adjustment item.
  - Option 2: Do not treat it as an adjustment item.
  - Option 3: Treat the U.S. GAAP approach as an adjustment item, but do not treat the IFRS approach as an adjustment item.
4. In the discussions to date, concerns have been expressed about the Secretariat’s proposal in paragraph (1) due to the practical burden of applying impairment accounting. Also, in paragraph (2), opposition has been expressed to the Secretariat’s proposals (Options 1 and 3) due to the practical burden related to applying impairment accounting and determining the purpose of holding shares.
5. Meanwhile, outreach has been conducted to financial statement preparers since the 92nd Practical Issues Task Force meeting and the 348th ASBJ Board meeting, and the following views have been heard strongly in particular:
- (1) With respect to “recognizing in profit or loss the difference arising from fair value measurement of shares,” it is understood to be closely related—especially from the perspective of the usefulness of net profit—to the two items that were “deleted or modified” in Japan’s Modified International Standards. If PITF Report No. 18 does not treat this as an adjustment item, it would diverge significantly from the stance Japan has taken in its international outreach and would be an unacceptable response.
- (2) While practical concerns regarding impairment accounting are understood, there is concern that reversing the stance previously advocated would invite questions from other countries regarding Japan’s position. After treating it as an adjustment item, the direction for a practically feasible response should be discussed.
6. In light of these views, for adjustment items, it may be appropriate to make a decision after conducting a broad survey of preparers and others to collect data on the extent of the burden on subsidiaries and associates.

While such a survey would require some time, there is a possibility of demand for early application regarding the treatment when domestic subsidiaries, etc. prepare

consolidated financial statements in accordance with Designated IFRSs or Japan's Modified International Standards. Therefore, it is desirable to publish an exposure draft by year-end and finalize it by March.

Accordingly, as an approach going forward, would it be appropriate to separate the matters described in paragraph 1(1) and (2), and first issue an exposure draft that amends only the treatment when domestic subsidiaries, etc. prepare consolidated financial statements in accordance with Designated IFRSs or Japan's Modified International Standards?

In addition, would it be appropriate to proceed with the work on adjustment items by conducting a survey of preparers and others and, after finalizing the amendments related to domestic subsidiaries, etc., implementing the necessary measures promptly?

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### **351st ASBJ Board Meeting (December 20, 2016)**

#### **(2) Practical Issues Task Force Draft "Tentative Treatment on Accounting for Domestic Subsidiaries, etc. in Preparing Consolidated Financial Statements (Draft)" [Resolution to Publish]**

Vice Chair Kogasaka and Director Maeda explained the Practical Issues Task Force Draft "Tentative Treatment on Accounting for Domestic Subsidiaries, etc. in Preparing Consolidated Financial Statements (Draft)" and the Practical Issues Task Force Draft "Tentative Treatment on Accounting for Equity-Method Affiliates (Draft)". Deliberations and a vote were conducted. As a result of the vote, on the premise that wording and similar revisions would be entrusted to the Chair, publication was approved unanimously by all Board members in attendance.

**ASBJ Exposure Draft No. 68 “Accounting Standard for Disclosures about Accounting Estimates (Draft)” and ASBJ Exposure Draft No. 69**

**(Proposed Amendments to ASBJ Statement No. 24) “Accounting Standard for Disclosures of Accounting Policies, Changes in Accounting Policies and Correction of Errors (Draft)” (October 30, 2019)**

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## **[Reference information on background leading to the development of these standards]**

*(From the explanation by a Technical Staff Member, “II. Background to the issuance of this Exposure Draft”)*

In March 2016 and November 2017, requests were submitted to the Accounting Standards Advisory Council (ASAC), established within the Financial Accounting Standards Foundation of Japan (FASF), asking the ASBJ to consider requiring, under Japanese GAAP as note disclosures, information on the “sources of estimation uncertainty” that the International Accounting Standards Board (IASB) requires to be disclosed in paragraph 125 of International Accounting Standard (IAS) 1, Presentation of Financial Statements (hereinafter, “IAS 1”), as information highly useful to financial statement users.

Subsequently, at the 397th ASBJ Board meeting held in November 2018, the ASAC recommended that the ASBJ examine enhanced note disclosures relating to sources of estimation uncertainty. These Exposure Drafts were issued as a result of deliberations conducted in response to that recommendation.

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## **[Deliberations at the Accounting Standards Advisory Council]**

### **34th ASAC Meeting (November 12, 2018)**

*(Minutes 1) Recommendations on agenda topics  
(Themes proposed at previous ASAC meetings)*

Watabe, Director of Planning and Disclosure of the FASF, explained that among the themes proposed by market participants at previous ASAC meetings, “Business combination accounting: treatment of comparative-period financial statements when provisional accounting is finalized” continued to be evaluated as a potential new topic by the Practical Issues Task Force.

Next, Watabe explained that, based on the results of deliberations at the ASBJ Disclosure Committee, with respect to “enhancement of note disclosure information regarding ‘judgments made by management in applying accounting policies’ and ‘sources of estimation uncertainty,’ ” it was proposed that although the disclosure of “judgments made by management in applying accounting policies” would not be recommended as a new agenda topic, the enhancement of note disclosures regarding (i) “principles and procedures of accounting treatment adopted when relevant accounting standards, etc. do not clearly prescribe such treatment,” and (ii) “sources of estimation uncertainty,” should be recommended as new ASBJ agenda topics. Subsequently, Kawanishi, Chair of the Disclosure Committee, explained the Disclosure Committee’s deliberations. (Omitted)

In response to these views, the Chair stated that, based on the results of deliberations by the ASBJ Disclosure Committee, the disclosure of “judgments made by management in applying accounting policies” would not be recommended as a new agenda topic, while the enhancement of note disclosures regarding “principles and procedures of accounting treatment adopted when relevant accounting standards, etc. do not clearly prescribe such treatment,” and “sources of estimation uncertainty,” would be recommended as new ASBJ agenda topics. It was also explained that, in making this recommendation, the ASAC would add a note requesting careful consideration of the usefulness of the newly required disclosures, the cost-benefit balance of disclosure, the need for disclosure in nonconsolidated (separate) financial statements, and whether it is necessary to provide more specific requirements regarding materiality.

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## From Agenda Paper (1)–2

1. At the 26th ASAC meeting (held March 4, 2016), the Japanese Institute of Certified Public Accountants (JICPA) made the following proposal:

**(Topic)** Enhancement of note disclosure information regarding “judgments made by management in applying accounting policies” and “sources of estimation uncertainty”

**(Proponent)** JICPA

### **(Reason for the proposal)**

In its request for comments, “A Study on the Presentation and Disclosure of Financial Statements in Japan,” published on April 16, 2015, the JICPA broadly solicited views primarily from two perspectives: (i) enhancement of note disclosures and (ii) standardization of presentation. It received views from four organizations and eight individuals. Among these, with respect to (i) enhancement of note disclosures, several supportive opinions were obtained, including from financial statement users.

Enhancing note disclosures is an issue that can be addressed at a practical-issues level, and it is considered to be an item that should be revised on a priority basis from the standpoint of improving the usefulness of Japanese companies’ financial statements.

### **(Specific content)**

When comparing disclosure items required under Japanese accounting standards and IFRS, there are items that should also be required to be disclosed under Japanese GAAP as information highly useful to financial statement users.

In particular, the following note disclosures required under IAS 1 *Presentation of Financial Statements* are considered useful for users to understand the premises underlying the preparation of an entity’s financial statements and to grasp significant uncertainties (risks), and are considered to provide foundational information that promotes dialogue between investors and companies. Therefore, it should be considered whether such information should also be required as note disclosures under Japanese GAAP. In considering these disclosures, it should also be considered, at the same time, whether Japan’s note disclosures of “significant

accounting policies” should require more specific descriptions that reflect an entity’s circumstances.

**(1) Judgments made by management in applying accounting policies**

*(An entity shall disclose, together with its significant accounting policies or other notes, the judgments that management has made in the process of applying the entity’s accounting policies that have the most significant effect on the amounts recognized in the financial statements.)*

**(2) Sources of estimation uncertainty**

*(An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty, at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.)*

For example, in accounting for revenue recognition, management makes judgments in light of various factors such as the nature of the entity’s business and the terms of contracts with customers, in accordance with the realization principle. Disclosing explanations of those judgments is considered highly useful for financial statement users. In addition, given that inappropriate cases such as overstatement of revenue have also been observed, from this perspective as well, disclosures that help users understand whether revenue has been appropriately recognized and presented are considered highly useful.

On the other hand, rather than merely adding new disclosure items, it may be appropriate to consider whether note disclosures that are considered to be of low usefulness to financial statement users can be simplified or omitted. (Omitted)

2. Also, at the 31st ASAC meeting (held November 13, 2017), the Japan Securities Analysts Association made the following proposal:

**(Topic)** Enhancement of note disclosure information regarding “judgments made by management in applying accounting policies” and “sources of estimation uncertainty”

**(Proponent)** Japan Securities Analysts Association

**(Reason for the proposal)**

At the 29th ASAC meeting, it was decided that discussion of this topic would be

resumed after responding to the IASB's Discussion Paper (Disclosure Initiative—Disclosure Principles). The IASB published the Discussion Paper on March 30, 2017, and the relevant note disclosures were proposed as disclosures that should be required.

In addition, on June 29, 2017, the Financial Services Agency published “Enhancing the Transparency of Audit Reports,” which indicated a direction toward undertaking concrete consideration of including “Key Audit Matters (KAM)” in audit reports. To ensure the effectiveness of KAM, it is considered necessary to disclose the related note information that serves as its reference source.

In light of the IASB Discussion Paper's direction and the need to ensure the effectiveness of KAM, these note disclosures are considered to have increased in necessity and priority compared with prior discussions, and thus revisions should be pursued.

#### **(Specific content)**

The enhancement of note disclosures that is the subject of this proposal was originally proposed by the JICPA at the 27th ASAC meeting. Based on opinions from financial statement users and others submitted in response to the JICPA's April 16, 2015 request for comments (“A Study on the Presentation and Disclosure of Financial Statements in Japan”), the rationale was to improve the usefulness of financial statements. After subsequent deliberations, at the 29th ASAC meeting it was decided to resume discussion after responding to the IASB's Discussion Paper (Disclosure Initiative—Disclosure Principles).

The IASB published the Discussion Paper on March 30, 2017 (comment deadline: October 2, 2017). In the Discussion Paper, the IASB proposes that accounting policies requiring significant judgments and/or assumptions as described in IAS 1 paragraphs 122 and 125 should be disclosed as one of “accounting policies that are always necessary to understand the information included in the financial statements, and that relate to material items, transactions or events” (Category 1). The Financial Services Agency also published “Enhancing the Transparency of Audit Reports” on June 29, 2017, and it is expected that discussions on KAM in audit reports will progress.

Looking at European cases where KAM has already been introduced, many descriptions relate to impairment, tax effects, revenue recognition, etc. However, reviewing current note disclosures, qualitative information about impairment accounting is disclosed only in periods when an impairment loss is recognized. For revenue recognition, an exposure draft was published on July 20, 2017, but it was proposed that disclosures would be considered by the time of application.

KAM is a mechanism whereby auditors identify key matters from an audit perspective and describe them in the audit report based on disclosed information. To ensure its effectiveness, it is necessary that “judgments made by management in applying accounting policies” and “sources of estimation uncertainty” be disclosed. Moreover, because these note disclosures are important qualitative information that underlies the preparation of financial statement numbers, it is appropriate that they be disclosed as “financial information,” not as “non-financial information.” Therefore, in light of the IASB Discussion Paper’s direction and the need to ensure the effectiveness of KAM, the enhancement of note disclosures regarding “judgments made by management in applying accounting policies” and “sources of estimation uncertainty” is considered to have increased in necessity and priority compared with prior discussions, and thus revisions should be pursued.

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## [Deliberations at the ASBJ Board]

### **397th ASBJ Board Meeting (November 29, 2018)**

#### **IV. Meeting summary**

##### **(Agenda item)**

##### **(1) Recommendations on agenda topics from the ASAC**

ASAC Chair Yuasa reported that, as a result of deliberations at the 34th ASAC meeting (held November 12, 2018), the ASBJ received a recommendation to add, as new agenda topics, “enhancement of note disclosures relating to ‘sources of estimation uncertainty’ and ‘principles and procedures of accounting treatment adopted when relevant accounting standards, etc. do not clearly prescribe such treatment.’ ”

He also reported that, regarding “development of criteria for assessing whether it is appropriate to prepare financial statements on a going concern basis,” which was proposed at the ASAC, it would be considered at the next and subsequent ASAC meetings.

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### **398th ASBJ Board Meeting (December 13, 2018)**

##### **(4) Response to the agenda recommendation from the ASAC**

Full-time Board Member Kawanishi explained the response to the recommendation from the ASAC at the 397th ASBJ Board meeting (held November 29, 2018) regarding “enhancement of note disclosures relating to ‘sources of estimation uncertainty’ and ‘principles and procedures of accounting treatment adopted when relevant accounting standards, etc. do not clearly prescribe such treatment.’ ”

Deliberations were held, and as a result, it was approved to take up this matter as a new agenda topic of the ASBJ.

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### **402nd ASBJ Board Meeting (February 6, 2019)**

#### **IV. Meeting summary**

##### **(Agenda item)**

(1) Disclosures regarding “principles and procedures of accounting treatment adopted when relevant accounting standards, etc. do not clearly prescribe such treatment”

Full-time Board Member Kawanishi and Technical Staff Member Konishi explained the development policy for accounting standards on disclosures regarding “principles and procedures of accounting treatment adopted when relevant accounting standards, etc. do not clearly prescribe such treatment,” taking into account the status of discussions at the 20th Disclosure Committee meeting (held January 28, 2019). Deliberations were held.

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#### **410th ASBJ Board Meeting (June 13, 2019)**

##### **(Agenda item)**

(1) Consideration of disclosures regarding “sources of estimation uncertainty” and “principles and procedures of accounting treatment adopted when relevant accounting standards, etc. do not clearly prescribe such treatment”

Vice Chair Kawanishi and Technical Staff Member Konishi provided explanations on the disclosure objective and basic approach for disclosures regarding “sources of estimation uncertainty,” and on the development policy for accounting standards on disclosures regarding “principles and procedures of accounting treatment adopted when relevant accounting standards, etc. do not clearly prescribe such treatment,” taking into account the status of discussions from the 20th to the 24th Disclosure Committee meetings (held January 28, 2019 to May 27, 2019). Deliberations were held.

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#### **412th ASBJ Board Meeting (July 17, 2019)**

(2) Consideration of disclosures regarding “principles and procedures of accounting treatment adopted when relevant accounting standards, etc. do not clearly prescribe such treatment”

Vice Chair Kawanishi and Technical Staff Member Konishi explained, regarding disclosures on “principles and procedures of accounting treatment adopted when relevant accounting standards, etc. do not clearly prescribe such treatment,” the effective date and the proposed amendments to the “Accounting Standard for Changes in Accounting Policies and Correction of Errors,” etc. Deliberations were held.

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### **415th ASBJ Board Meeting (August 26, 2019)**

#### **(Agenda item)**

(3) Consideration of disclosures regarding “sources of estimation uncertainty” and “principles and procedures of accounting treatment adopted when relevant accounting standards, etc. do not clearly prescribe such treatment”

Vice Chair Kawanishi explained that, regarding consideration of disclosures on “sources of estimation uncertainty,” the following would be addressed: (i) the effective date, (ii) the draft text of the “Accounting Standard for Disclosures about Accounting Estimates,” (iii) the plan for comment solicitation and an outline of the exposure draft, and (iv) the treatment in quarterly financial statements. He also explained, regarding consideration of disclosures on “principles and procedures of accounting treatment adopted when relevant accounting standards, etc. do not clearly prescribe such treatment,” the following would be addressed: (i) the proposed amendments to the “Accounting Standard for Changes in Accounting Policies and Correction of Errors,” and (ii) the plan for comment solicitation and an outline of the exposure draft. Deliberations were held, taking into account the status of discussions at the 27th Disclosure Committee meeting (held August 23, 2019).

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### **417th ASBJ Board Meeting (September 25, 2019)**

#### **(Agenda item)**

(5) Consideration of disclosures regarding “sources of estimation uncertainty” and “principles and procedures of accounting treatment adopted when relevant accounting standards, etc. do not clearly prescribe such treatment”

Vice Chair Kawanishi explained that, regarding consideration of disclosures on “sources of estimation uncertainty,” a re-examination would be conducted on application to separate financial statements. He also explained, regarding consideration of disclosures on “principles and procedures of accounting treatment adopted when relevant accounting standards, etc. do not clearly prescribe such treatment,” the proposed amendments to the “Accounting Standard for Changes in Accounting Policies and Correction of Errors.” Deliberations were held, taking into account the status of discussions at the 28th Disclosure Committee meeting (held September 24, 2019).

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### **418th ASBJ Board Meeting (October 10, 2019)**

#### **(Agenda item)**

(6) Consideration of disclosures regarding “sources of estimation uncertainty” and “principles and procedures of accounting treatment adopted when relevant accounting standards, etc. do not clearly prescribe such treatment”

Vice Chair Kawanishi and Assistant Director Miyaji explained, regarding consideration of disclosures on “sources of estimation uncertainty,” the following: (i) re-examination of application to separate financial statements, (ii) the draft text of the “Accounting Standard for Disclosures about Accounting Estimates,” and (iii) the plan for comment solicitation and an outline of the exposure draft. They also explained, regarding consideration of disclosures on “principles and procedures of accounting treatment adopted when relevant accounting standards, etc. do not clearly prescribe such treatment,” the following: (i) the proposed amendments to the “Accounting Standard for Changes in Accounting Policies and Correction of Errors,” and (ii) the plan for comment solicitation and an outline of the exposure draft. Deliberations were held, taking into account the status of discussions at the 29th Disclosure Committee meeting (held October 7, 2019). As a result of deliberations, it was explained that, if possible, the Board wished to deliberate at the next and subsequent Board meetings on approval of publication of both exposure drafts.

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### **419th ASBJ Board Meeting (October 25, 2019)**

**(Agenda item)**

(3) ASBJ Exposure Draft “Accounting Standard for Disclosures about Accounting Estimates (Draft)” and ASBJ Exposure Draft (Proposed Amendments) “Accounting Standard for Disclosures of Accounting Policies, Changes in Accounting Policies and Correction of Errors (Draft)” [Resolution to Publish]

Vice Chair Kawanishi explained the ASBJ Exposure Draft “Accounting Standard for Disclosures about Accounting Estimates (Draft),” and deliberations and a vote were conducted. As a result of the vote, on the premise that wording and similar revisions would be entrusted to the Chair, publication was approved unanimously by all Board members in attendance.

In addition, Vice Chair Kawanishi explained the revised ASBJ Exposure Draft “Accounting Standard for Disclosures of Accounting Policies, Changes in Accounting Policies and Correction of Errors (Draft),” and deliberations and a vote were conducted. As a result of the vote, on the premise that wording and similar revisions would be entrusted to the Chair, publication was approved unanimously by all Board members in attendance.

**Practical Issues Task Force Report Exposure Draft No. 63 “Accounting and Disclosure Treatment for the Issuance and Holding of Electronically Recorded Transferable Securities—Represented Rights, etc. (Draft)”  
(March 15, 2022)**

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**[Reference information on background leading to the development of this report]**

**Background, etc.**

14. The *Act for Partial Revision of the Payment Services Act and Other Acts in Response to Diversification of Financial Transactions Accompanying Advances in Information and Communications Technology* (Act No. 28 of Reiwa 1 (2019)) was enacted in 2019, and, as a result, the Financial Instruments and Exchange Act was amended (hereinafter, the “Amended Financial Instruments and Exchange Act”). Under the Amended Financial Instruments and Exchange Act, so-called investment-type ICOs (Initial Coin Offerings—an umbrella term for acts in which a company, etc. issues tokens (electronic records/symbols) to raise funds from investors) were brought under regulation by the Financial Instruments and Exchange Act, and various related provisions were developed.

More specifically, with respect to trust beneficiary rights and membership rights of general partnerships, limited partnerships, and limited liability companies (hereinafter, these three types of entities collectively, “partnership-type companies”), rights based on voluntary partnership agreements under the Civil Code, rights based on silent partnership agreements under the Commercial Code, rights based on limited liability partnership agreements for investment, rights based on limited liability partnership agreements, and other items prescribed in the items of paragraph 2 of Article 2 of the Financial Instruments and Exchange Act (hereinafter, collectively, “interests in collective investment schemes, etc.”), which had previously been regarded as having a low likelihood of circulation and were classified as paragraph-2 securities, it was recognized that when such interests are represented as proprietary value transferable using electronic data processing systems, they can in

practice circulate in a manner similar to shares and other securities. Accordingly, such interests were defined as “electronically recorded transferable rights” and were included within paragraph-1 securities, thereby, in principle, subjecting them to disclosure regulation; and registration as a Type I Financial Instruments Business was required for handling them as a business.

15. In addition, for ICO tokens other than investment-type ICOs, to the extent that they fall within the scope of “crypto-assets” as defined in paragraph 5 of Article 2 of the concurrently amended Payment Services Act (Act No. 59 of 2009; hereinafter, the “Payment Services Act”), they were to continue to be included within the scope of regulation under the Payment Services Act.

16. In response to these amendments to the Financial Instruments and Exchange Act and the Payment Services Act, at the 421st ASBJ Board meeting held in November 2019, the Financial Accounting Standards Advisory Council established within the Financial Accounting Standards Foundation of Japan recommended that the ASBJ examine the accounting treatment for the issuance, holding, etc. of ICO tokens that qualify as electronically recorded transferable rights under the Financial Instruments and Exchange Act or as crypto-assets under the Payment Services Act. The ASBJ began its consideration from December 2019.

17. Thereafter, in the Cabinet Office Ordinance on Financial Instruments Business, etc., which was amended and became effective in May 2020, the term “electronically recorded transferable securities-represented rights, etc.”—a concept broader than electronically recorded transferable rights—was prescribed. This refers to cases where, among “deemed securities” stipulated in paragraph 2 of Article 2 of the Financial Instruments and Exchange Act (including interests in collective investment schemes, etc.), proprietary value that can be transferred using electronic data processing systems is represented; and it also includes securities-represented rights such as shares and bonds, where these are represented as proprietary value transferable using electronic data processing systems. When financial instruments business operators handle such rights, additional regulations apply—for example, they must submit an application for registration that states that fact.

# [Deliberations at the Accounting Standards Advisory Council]

## 37th ASAC Meeting (November 22, 2019)

**Proponent:** Financial Services Agency

**(Topic)** Accounting treatment for the issuance, holding, etc. of ICO tokens that qualify as “electronically recorded transferable rights” under the Financial Instruments and Exchange Act or as “crypto-assets” under the Payment Services Act

### **(Reason for the proposal)**

The Act amending the Payment Services Act, etc. (Act No. 28 of Reiwa 1 (2019)) enacted by the Diet brought so-called investment-type ICOs (Initial Coin Offerings: an umbrella term for acts in which a company, etc. issues tokens (electronic records/symbols) to raise funds from investors) under regulation by the Financial Instruments and Exchange Act, and developed various related provisions.

Specifically, with respect to so-called interests in collective investment schemes, etc. stipulated in the items of paragraph 2 of Article 2 of the Financial Instruments and Exchange Act, which had previously been regarded as having a low likelihood of circulation and were classified as paragraph-2 securities, it was recognized that when distributed ledger technology, etc. is utilized, such interests can in practice circulate similarly to shares, etc. Accordingly, such interests were defined as “electronically recorded transferable rights” and included within paragraph-1 securities, thereby, in principle, subjecting them to disclosure regulation; and registration as a Type I Financial Instruments Business was required for handling them as a business. The amendment also clarified that interests in collective investment schemes funded by contributions in crypto-assets are subject to regulation under the Financial Instruments and Exchange Act.

In addition, for ICO tokens other than investment-type ICOs, to the extent they qualify as “crypto-assets” under the Payment Services Act, they continue to be included within the scope of regulation under the Payment Services Act (including those where the issuer, etc. bears some obligation to holders), and, through

administrative guidelines for crypto-asset exchange service providers and rules of self-regulatory organizations, the content of obligations to provide information to users has been expanded to include information about the issuer and its business, among other matters.

Against this background, the amending act was accompanied by supplementary resolutions of both the House of Representatives and the House of Councilors to the effect that “because the accounting treatment, etc. for ICOs is considered to differ depending on the nature of the issued tokens, it is necessary to organize the concept of accounting treatment, etc., taking into account international discussions, and to take necessary measures such as establishing guidelines.” Accordingly, it is an urgent issue to develop accounting treatment for ICO tokens that qualify as “electronically recorded transferable rights” and “crypto-assets,” and this was the reason for proposing this topic.

**(Specific content)**

1. As described above, “electronically recorded transferable rights” under the Financial Instruments and Exchange Act are interests in collective investment schemes, etc. stipulated in the items of paragraph 2 of Article 2 of the Financial Instruments and Exchange Act that utilize distributed ledger technology, etc., and do not differ in nature from existing securities. The ASBJ is requested to consider the accounting treatment for cases such rights are issued, held, etc.
2. On the other hand, for ICO tokens that qualify as “crypto-assets” under the Payment Services Act, various structures are possible, including whether the issuer bears obligations (and the existence/content of such obligations, including monetary evaluation) and whether there are third parties other than the issuer that bear guarantee obligations, etc. Therefore, it may be necessary to organize these structures into typical categories. Taking this into account, the ASBJ is requested to consider the accounting treatment for cases ICO tokens are issued or held, etc., after organizing the relevant categories.

## [Deliberations at the ASBJ Board]

### 421st ASBJ Board Meeting (November 29, 2019)

#### (Agenda items)

#### (1) Recommendations on agenda topics from the Financial Accounting Standards Advisory Council

The ASAC Chair, Yuasa, reported that as a result of deliberations at the 37th ASAC meeting (held November 22, 2019), the ASAC recommended that “accounting treatment for the issuance, holding, etc. of ICO tokens that qualify as ‘electronically recorded transferable rights’ under the Financial Instruments and Exchange Act or as ‘crypto-assets’ under the Payment Services Act” be taken up as a new agenda topic of the ASBJ.

He also reported that, with respect to “accounting treatment for installment sales transactions in the leasing industry,” the ASAC requested that this be examined as part of the ASBJ’s ongoing project on the “Accounting Standard for Leases.”

Furthermore, he reported that at the 37th ASAC meeting the ASBJ explained to the ASAC that, if it were judged necessary to make an urgent response due to tax reforms relating to the consolidated tax system, the ASBJ was considering handling the matter as a new agenda topic based on Article 22, paragraph 3 of the “Rules on Due Process for the Development of ASBJ Accounting Standards and Modified International Standards.” The ASAC confirmed that it had no objection to the ASBJ responding promptly.

#### (2) Response to the agenda recommendation from the ASAC

The ASBJ Chair, Kogasaka, explained the response to (i) the recommendation from the ASAC regarding “accounting treatment for the issuance, holding, etc. of ICO tokens that qualify as ‘electronically recorded transferable rights’ under the Financial Instruments and Exchange Act or as ‘crypto-assets’ under the Payment Services Act,” and (ii) the request that the ASBJ examine “accounting treatment for installment sales transactions in the leasing industry.” Deliberations were held, and as a result, it was approved that the former be taken up as a new ASBJ agenda topic, and that the latter be examined as part of the ASBJ’s ongoing project on the “Accounting Standard for Leases.”

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## **423rd ASBJ Board Meeting (December 26, 2019)**

**(Agenda item)**

**(3) Consideration of accounting treatment for the issuance, holding, etc. of ICO tokens that qualify as “electronically recorded transferable rights” under the Financial Instruments and Exchange Act or as “crypto-assets” under the Payment Services Act**

Full-time Board Member Yanou and Technical Staff Member Hayashi explained the content of the recommendation received from the ASAC, their understanding of relevant laws and regulations, and an overview of accounting issues relating to the accounting treatment for the issuance, holding, etc. of ICO tokens that qualify as “electronically recorded transferable rights” under the Financial Instruments and Exchange Act or as “crypto-assets” under the Payment Services Act, taking into account the status of discussions at the 126th Practical Issues Task Force meeting (held December 24, 2019). Deliberations were held.

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## **431st ASBJ Board Meeting (April 30, 2020)**

**(Agenda item)**

**(2) Consideration of accounting treatment for the issuance, holding, etc. of ICO tokens that qualify as “electronically recorded transferable rights” under the Financial Instruments and Exchange Act or as “crypto-assets” under the Payment Services Act**

Full-time Board Member Yanou and Technical Staff Member Hayashi explained the planned approach for future deliberations and the direction of consideration regarding the accounting treatment for the issuance and holding of electronically recorded transferable rights under the Financial Instruments and Exchange Act, taking into account the status of discussions at the 127th Practical Issues Task Force meeting (held March 23, 2020). Deliberations were held.

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## **435th ASBJ Board Meeting (June 12, 2020)**

**(Agenda item)**

**(2) Consideration of accounting treatment for the issuance, holding, etc. of ICO tokens that qualify as “electronically recorded transferable rights” under the Financial Instruments and Exchange Act or as “crypto-assets” under the Payment Services Act**

Full-time Board Member Yanou and Technical Staff Member Hayashi explained a staff proposal regarding the content to be included in a Practical Issues Task Force Report with respect to the accounting treatment for the issuance and holding of electronically recorded transferable securities-represented rights, etc., taking into account the status of discussions at the 129th Practical Issues Task Force meeting (held May 27, 2020). Deliberations were held.

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#### **458th ASBJ Board Meeting (May 31, 2021)**

**(Agenda item)**

**(4) How to proceed with the consideration of accounting treatment for the issuance, holding, etc. of ICO tokens that qualify as “electronically recorded transferable rights” under the Financial Instruments and Exchange Act or as “crypto-assets” under the Payment Services Act**

Full-time Board Member Yanou explained how the ASBJ would proceed with future deliberations regarding the accounting treatment for the issuance, holding, etc. of ICO tokens that qualify as “electronically recorded transferable rights” under the Financial Instruments and Exchange Act or as “crypto-assets” under the Payment Services Act. Deliberations were held.

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#### **471st ASBJ Board Meeting (January 12, 2022)**

**(Agenda item)**

**(2) Accounting treatment for the issuance, holding, etc. of ICO tokens that qualify as “electronically recorded transferable rights” under the Financial Instruments and Exchange Act or as “crypto-assets” under the Payment Services Act**

Full-time Board Member Yanou and Technical Staff Member Kimura explained the issues relating to accounting and disclosure for electronically recorded transferable

securities–represented rights, etc.; how the ASBJ would proceed with future deliberations regarding the accounting treatment for the issuance and holding of electronically recorded transferable securities–represented rights, etc.; and the draft text of “Issues to be Organized regarding Accounting Treatment for the Issuance and Holding of ICO Tokens that Qualify as Crypto–assets under the Payment Services Act,” taking into account the status of discussions at the 141st Practical Issues Task Force meeting (held December 2, 2021) and the 142nd Practical Issues Task Force meeting (held December 22, 2021). Deliberations were held.

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### **472nd ASBJ Board Meeting (January 26, 2022)**

**(Agenda item)**

**(2) Consideration of accounting treatment for the issuance, holding, etc. of ICO tokens that qualify as “electronically recorded transferable rights” under the Financial Instruments and Exchange Act or as “crypto–assets” under the Payment Services Act**

Full-time Board Member Yanou and Technical Staff Member Kimura explained the draft text of “Accounting and Disclosure Treatment for the Issuance and Holding of Electronically Recorded Transferable Securities–Represented Rights, etc.”; the draft text of “Issues to be Organized regarding Accounting Treatment for the Issuance and Holding of ICO Tokens that Qualify as Electronically Recorded Transferable Rights under the Financial Instruments and Exchange Act or as Crypto–assets under the Payment Services Act”; and the draft text of “Request for Comments and Outline of the Issues Paper,” taking into account the status of discussions at the 143rd Practical Issues Task Force meeting (held January 18, 2022). Deliberations were held.

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### **473rd ASBJ Board Meeting (February 8, 2022)**

**(Agenda item)**

**(1) Consideration of accounting treatment for the issuance, holding, etc. of ICO tokens that qualify as “electronically recorded transferable rights” under the Financial Instruments and Exchange Act or as “crypto–assets” under the Payment**

## **Services Act**

Full-time Board Member Yanou and Technical Staff Member Kimura explained issues regarding the timing of recognition of occurrence and extinguishment for holders of electronically recorded transferable securities–represented rights, etc.; the draft text of the Practical Issues Task Force Report Exposure Draft “Accounting and Disclosure Treatment for the Issuance and Holding of Electronically Recorded Transferable Securities–Represented Rights, etc. (Draft)” (including the draft “Request for Comments and Outline of the Exposure Draft”); and the draft text of “Issues to be Organized regarding Accounting Treatment for the Issuance and Holding of ICO Tokens that Qualify as Crypto–assets under the Payment Services Act or as Electronically Recorded Transferable Rights under the Financial Instruments and Exchange Act” (including the draft “Request for Comments and Outline of the Issues Paper”), taking into account the status of discussions at the 144th Practical Issues Task Force meeting (held February 1, 2022). Deliberations were held.

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## **474th ASBJ Board Meeting (February 21, 2022)**

### **(Agenda item)**

#### **(1) Consideration of accounting treatment for the issuance, holding, etc. of ICO tokens that qualify as “electronically recorded transferable rights” under the Financial Instruments and Exchange Act or as “crypto–assets” under the Payment Services Act**

Full-time Board Member Yanou and Technical Staff Member Kimura explained the effective date and transition measures for the Practical Issues Task Force Report on accounting and disclosure treatment for the issuance and holding of electronically recorded transferable securities–represented rights, etc.; the draft text of the Practical Issues Task Force Report Exposure Draft “Accounting and Disclosure Treatment for the Issuance and Holding of Electronically Recorded Transferable Securities–Represented Rights, etc. (Draft)” (including the draft “Request for Comments and Outline of the Exposure Draft”); and the draft text of “Issues to be Organized regarding Accounting Treatment for the Issuance and Holding of ICO Tokens that Qualify as Crypto–assets under the Payment Services Act or as Electronically Recorded Transferable Rights under the Financial Instruments and Exchange Act” (including the draft “Request for Comments and

Outline of the Issues Paper”), taking into account the status of discussions at the 145th Practical Issues Task Force meeting (held February 15, 2022). As a result of deliberations, it was explained that, if possible, the ASBJ wished to deliberate at the next Board meeting on approval of publication of the exposure draft and the issues paper.

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## **475th ASBJ Board Meeting (March 11, 2022)**

**(Agenda item)**

**(3) Practical Issues Task Force Report Exposure Draft “Accounting and Disclosure Treatment for the Issuance and Holding of Electronically Recorded Transferable Securities–Represented Rights, etc. (Draft)” and “Issues to be Organized regarding Accounting Treatment for the Issuance and Holding of ICO Tokens that Qualify as Crypto–assets under the Payment Services Act or as Electronically Recorded Transferable Rights under the Financial Instruments and Exchange Act” [Resolution to Publish]**

Full-time Board Member Yanou and Technical Staff Member Kimura explained the draft text of the Practical Issues Task Force Report Exposure Draft “Accounting and Disclosure Treatment for the Issuance and Holding of Electronically Recorded Transferable Securities–Represented Rights, etc. (Draft)” (including the draft “Request for Comments and Outline of the Exposure Draft”) and the draft text of “Issues to be Organized regarding Accounting Treatment for the Issuance and Holding of ICO Tokens that Qualify as Crypto–assets under the Payment Services Act or as Electronically Recorded Transferable Rights under the Financial Instruments and Exchange Act” (including the draft “Request for Comments and Outline of the Issues Paper”), and deliberations and a vote were conducted. As a result of the vote, on the premise that wording and similar revisions would be entrusted to the Vice Chair, publication of the Practical Issues Task Force Report Exposure Draft “Accounting and Disclosure Treatment for the Issuance and Holding of Electronically Recorded Transferable Securities–Represented Rights, etc. (Draft)” and “Issues to be Organized regarding Accounting Treatment for the Issuance and Holding of ICO Tokens that Qualify as Crypto–assets under the Payment Services Act or as Electronically Recorded Transferable Rights under the Financial

Instruments and Exchange Act” was approved unanimously by all Board members in attendance.

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## **From Agenda Paper (3)–1 of the 475th ASBJ Board**

### **Meeting**

#### **Background to date**

1. At the 421st ASBJ Board meeting (held November 29, 2019), the ASBJ received from the ASAC a recommendation that “accounting treatment for the issuance, holding, etc. of Initial Coin Offering (ICO) tokens that qualify as ‘electronically recorded transferable rights’ under the Financial Instruments and Exchange Act or as ‘crypto-assets’ under the Payment Services Act” be taken up as a new agenda topic of the ASBJ. In response to that recommendation, at the ASBJ Board meeting held on the same date, it was approved to take up this matter as a new agenda topic of the ASBJ and to conduct deliberations at the Practical Issues Task Force, and consideration began from the 126th Practical Issues Task Force meeting (held December 24, 2019) and the 423rd ASBJ Board meeting (held December 26, 2019).

2. Thereafter, with respect to this matter, deliberations or reports have been made as follows.

**Practical Issues Task Force Report Exposure Draft No. 59 “Hedge Accounting Treatment for Financial Instruments Referencing LIBOR (Draft)” (June 13, 2020)**

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**[Reference information on background leading to the development of this report]**

**Background**

19. In July 2014, the FSB published a report titled “*Reforming Major Interest Rate Benchmarks*” and made recommendations on the following points:

- (1) Enhancing the reliability and robustness of existing interbank offered rates (IBORs)—such as LIBOR, the Euro Interbank Offered Rate (EURIBOR), and the Japanese Bankers Association TIBOR (TIBOR)—and identifying risk-free rates that do not reflect banks’ credit risk, etc.
- (2) The desirability of using each benchmark interest rate in light of the nature of the relevant financial instruments and transactions.

20. Based on the FSB’s recommendations in the preceding paragraph, benchmark interest rate reforms—such as the discontinuation/replacement of IBORs and the development of risk-free rates—have been progressing in each currency. In this context, it is expected that the publication of LIBOR will be permanently discontinued as of the end of December 2021, forcing replacement with successor benchmark rates. In that process, it is also possible that different benchmark rates may replace LIBOR for derivatives transactions and for non-derivative financial instruments such as loans, borrowings, and bonds. Because LIBOR is published for five major currencies and transactions referencing LIBOR are widely conducted, benchmark reform is highly likely to affect a large number of transactions.

21. Replacement of LIBOR arising from benchmark reform is not based on a company’s own decision-making; from the company’s perspective, it is an unavoidable event. If accounting standards that were not developed with such circumstances in mind are applied to these unavoidable events, outcomes not

contemplated when those standards were developed may result. Providing financial information based on such accounting treatments may fail to appropriately represent the substance of transactions undertaken by financial statement preparers and, as a consequence, may not lead to the provision of useful financial information to financial statement users. Therefore, it is considered necessary to establish exceptional treatments after defining an appropriate scope of application, and accordingly this Practical Issues Task Force Report is to be issued.

**22.** Although this Practical Issues Task Force Report addresses LIBOR, for which discontinuation is expected at the time of publication, if it is expected in the future that benchmark rates other than LIBOR will also be discontinued due to benchmark reform, it may be appropriate to refer to this Practical Issues Task Force Report when considering the treatment of financial instruments that reference those benchmark rates.

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## [Deliberations at the Accounting Standards Advisory Council]

### **35th ASAC Meeting (March 7, 2019)**

**Proponent:** Japanese Bankers Association

**(Topic)** Accounting issues arising from benchmark interest rate reform

**(Accounting standard level)**

**(Reason for the proposal)**

#### <Background>

ICE LIBOR (hereinafter, “LIBOR”) is one of the major benchmark interest rates and is widely used globally in financial instruments such as loans and derivatives; the outstanding number of transactions referencing it is said to exceed USD 350 trillion worldwide. In the wake of manipulation scandals by LIBOR panel banks since 2011, reforms have been promoted to base benchmark rates, to the extent possible, on actual transaction data. However, due to insufficient underlying data and other factors, doubts have emerged about the sustainability of LIBOR, and recently

expectations have strengthened that it will be permanently discontinued at the end of December 2021. Potential successors to LIBOR are being discussed globally within working groups for each major currency, and in Japan as well, broad discussions are underway among a wide range of market participants, including not only financial institutions but also business corporations, within the “Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks” established in August 2018 with the Bank of Japan as its secretariat. However, constructing a successor benchmark that is closely compatible with LIBOR is not easy, and discussions are proceeding in parallel with multiple candidate successors, including some that differ in nature.

#### **<Event/Circumstances>**

As described above, in a situation where a single successor benchmark for LIBOR has not been definitively determined, it is anticipated that different successor benchmarks may be used in bilateral contracts such as loans and derivatives. For example, loans and derivatives (e.g., interest rate swaps) that referenced JPY LIBOR may, upon permanent discontinuation of LIBOR, transition to successor benchmarks such as TIBOR-referenced loans, loans referencing a new term benchmark, or derivatives referencing a new overnight benchmark.

If the benchmark interest rate in an original contract is changed during the contract term, broad impacts are expected across financial performance and accounting processes, among other areas. In particular, discussions in the Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks have identified hedge accounting issues as one of the major concerns for both financial institutions and business corporations.

#### **<Hedge accounting issues>**

When a JPY LIBOR-referenced loan is hedged with a JPY LIBOR-referenced derivative, there is a high likelihood that both prospective and retrospective effectiveness testing will be satisfied, and ordinarily hedge accounting or the special treatment for interest rate swaps can be applied. However, if, due to permanent discontinuation of LIBOR, the loan is changed to reference TIBOR while the derivative is changed to reference a new overnight benchmark, the hedged item and the hedging instrument would reference different benchmark rates, raising the question of whether hedge accounting can continue to be applied. If the circumstances fall under a reason to discontinue hedge accounting, gains or losses

(or valuation differences) on the hedging instrument up to that point would be allocated to net profit or loss as an interest adjustment over the remaining term until the hedged item matures, while thereafter the hedging instrument would need to be measured at fair value. If the circumstances instead fall under a reason to terminate hedge accounting, deferred gains or losses (or valuation differences) on the hedging instrument would need to be recognized in net profit or loss. Because such gains or losses could arise that were not foreseeable between contract parties at the time hedge accounting was introduced, financial stability could be significantly impaired.

In addition, even prior to the permanent discontinuation of LIBOR, matters such as the requirements for forecast transactions and the treatment of prospective tests could also become issues.

Furthermore, based on disclosure information of companies (consolidated financial statement preparers) that have filed annual securities reports over the most recent year on “Kaiji Net,” an investigation of the status of hedge accounting application suggests that, among approximately 1,700 companies listed on the First Section of the Tokyo Stock Exchange (Japanese GAAP-apppliers, excluding banking and similar industries), about 500 companies make use of hedge accounting. Including financial institutions, the scope of impact is expected to be enormous. In particular, some financial institutions may need to renew thousands to tens of thousands of contracts, and the required response is expected to take considerable time.

#### **<International developments>**

The IASB has separated its work into Phase 1, focusing on issues affecting financial reporting before IBOR reform is implemented, and Phase 2, focusing on situations affecting financial reporting at the time of transition from IBOR to alternative risk-free rates (RFRs). For Phase 1, international deliberations are progressing, including plans to publish an exposure draft in the second quarter of 2019 (April or May) and to finalize it in November or December 2019.

#### **<Request>**

In light of the fact that many market participants in Japan have expressed concerns about accounting issues arising from benchmark reform, and that international deliberations are progressing, we respectfully request that the ASBJ also undertake

early consideration so that these issues do not cause market disruption or undermine the financial stability of companies and financial institutions.

**[Regarding the agenda recommendation]**

Accounting standard level [Japanese Bankers Association]

**Accounting issues arising from benchmark interest rate reform**

It is proposed that this be recommended as a new agenda topic in a comprehensive manner and that the ASBJ consider, on a timely basis, whether standard-setting is necessary (see Agenda Paper (1)–4).

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## [Deliberations at the ASBJ Board]

### **406th ASBJ Board Meeting (April 11, 2019)**

#### **(Agenda item)**

#### **(4) Response to agenda recommendations from the ASAC**

Chair Kogasaka and Technical Staff Member Hougaku explained the response to the ASAC's recommendations to the Board made at the 405th ASBJ Board meeting (held March 22, 2019) regarding: (i) "Development of criteria for assessing whether it is appropriate to prepare financial statements on a going concern basis," and (ii) "Accounting issues arising from benchmark interest rate reform." Deliberations were held, and it was approved that both items be taken up as new ASBJ agenda topics.

### **407th ASBJ Board Meeting (April 25, 2019)**

*(Agenda item) (Up to the 410th meeting, discussions mainly focused on comment letter responses to the IASB.)*

#### **(2) Overview of IASB deliberations on benchmark interest rate reform**

Chair Kogasaka and Technical Staff Member Endo explained an overview of the IASB's discussions on issues arising from IBOR reform, taking into account the status of deliberations at the 142nd Financial Instruments Expert Committee meeting (held April 19, 2019). Deliberations were held.

### **409th ASBJ Board Meeting (May 28, 2019)**

#### **(Agenda item)**

#### **(1) Consideration of comments on the IASB Exposure Draft "Interest Rate Benchmark Reform" (Amendments to IFRS 9 and IAS 39)**

Chair Kogasaka and Technical Staff Member Endo explained a proposed response to comments on the IASB Exposure Draft "Interest Rate Benchmark Reform (Amendments to IFRS 9 and IAS 39)" published on May 3, 2019. Deliberations were held.

### **410th ASBJ Board Meeting (June 13, 2019)**

#### **(Agenda item)**

#### **(2) Consideration of comments on the IASB Exposure Draft "Interest Rate**

Benchmark Reform (Amendments to IFRS 9 and IAS 39)”

Chair Kogasaka and Technical Staff Member Endo explained the consideration of comments on the IASB Exposure Draft. As a result of deliberations, submission of a comment letter to the IASB was approved.

#### **420th ASBJ Board Meeting (November 8, 2019)**

**(Agenda item)**

(4) Consideration of accounting issues arising from benchmark interest rate reform  
Chair Kogasaka and Technical Staff Member Endo explained the consideration of accounting issues arising from benchmark reform, taking into account the status of deliberations at the 147th Financial Instruments Expert Committee meeting (held October 23, 2019). As a result of deliberations, it was approved to commence the development of accounting guidance related to benchmark reform, focusing primarily on hedge accounting.

#### **421st ASBJ Board Meeting (November 29, 2019)**

**(Agenda item)**

(3) Consideration of accounting issues arising from benchmark interest rate reform  
Chair Kogasaka and Technical Staff Member Endo explained the basic approach to the development of accounting guidance related to benchmark reform and the direction of consideration for each issue, taking into account the status of deliberations at the 148th Financial Instruments Expert Committee meeting (held November 21, 2019). Deliberations were held.

#### **422nd ASBJ Board Meeting (December 13, 2019)**

**(Agenda item)**

(2) Consideration of accounting issues arising from benchmark interest rate reform  
Chair Kogasaka and Technical Staff Member Endo explained the consideration of each issue related to the development of accounting guidance on benchmark reform, taking into account the status of deliberations at the 149th Financial Instruments Expert Committee meeting (held December 4, 2019). Deliberations were held.

#### **423rd ASBJ Board Meeting (December 26, 2019)**

**(Agenda item)**

(2) Consideration of accounting issues arising from benchmark interest rate reform  
Chair Kogasaka and Technical Staff Member Endo explained the consideration of each issue related to the development of accounting guidance on benchmark reform, taking into account the status of deliberations at the 150th Financial Instruments Expert Committee meeting (held December 25, 2019). Deliberations were held.

**424th ASBJ Board Meeting (January 31, 2020)**

**(Agenda item)**

(3) Consideration of accounting issues arising from benchmark interest rate reform  
Chair Kogasaka and Technical Staff Member Endo explained the consideration of each issue related to the development of accounting guidance on benchmark reform, taking into account the status of deliberations at the 151st Financial Instruments Expert Committee meeting (held January 30, 2020). Deliberations were held.

**426th ASBJ Board Meeting (February 25, 2020)**

**(Agenda item)**

(1) Consideration of accounting issues arising from benchmark interest rate reform  
Chair Kogasaka and Technical Staff Member Endo explained the response for financial statements for the fiscal year ending March 2020, etc. Deliberations were held. As a result of deliberations, in order to disseminate the content of the discussions regarding the judgment of hedge accounting qualification requirements among the accounting issues arising from benchmark reform, it was decided to record the content in an appendix (please refer to the linked PDF file for the contents of the “Appendix”).

**(Note)** The appendix link is currently broken. It likely corresponds to the published material “20200225\_02 Deliberation (1)–2 Draft Minutes Summary (Interest Rate Benchmark Reform).”

**428th ASBJ Board Meeting (March 27, 2020)**

**(Agenda item)**

(5) Consideration of accounting issues arising from benchmark interest rate reform  
Chair Kogasaka and Technical Staff Member Endo explained the consideration of issues before replacement of benchmark rates, at the time of replacement, and the

response to issues after replacement, taking into account the status of deliberations at the 152nd Financial Instruments Expert Committee meeting (held March 23, 2020). Deliberations were held.

#### **430th ASBJ Board Meeting (April 17, 2020)**

##### **(Agenda item)**

(1) Consideration of accounting issues arising from benchmark interest rate reform  
Chair Kogasaka and Technical Staff Member Endo explained proposed disclosure items and the draft text of the Practical Issues Task Force Report Exposure Draft “Hedge Accounting Treatment Related to Replacement of Benchmark Interest Rates Arising from Benchmark Reform (Draft),” taking into account the status of deliberations at the 153rd Financial Instruments Expert Committee meeting (held April 14, 2020). Deliberations were held.

#### **431st ASBJ Board Meeting (April 30, 2020)**

##### **(Agenda item)**

(1) Consideration of accounting issues arising from benchmark interest rate reform  
Chair Kogasaka and Technical Staff Member Endo explained the draft text of the Practical Issues Task Force Report Exposure Draft “Hedge Accounting Treatment for Financial Instruments Referencing LIBOR (Draft)” and the “Request for Comments and Outline of the Exposure Draft,” taking into account the status of deliberations at the 154th Financial Instruments Expert Committee meeting (held April 28, 2020). As a result of deliberations, it was explained that, if possible, the ASBJ would like to deliberate at the next and subsequent Board meetings on approval of publication of the exposure draft, on the premise that the exposure draft would be published in June 2020.

#### **433rd ASBJ Board Meeting (May 14, 2020)**

##### **(Agenda item)**

(1) Consideration of accounting issues arising from benchmark interest rate reform  
Chair Kogasaka and Technical Staff Member Endo explained the draft text of the Practical Issues Task Force Report Exposure Draft “Hedge Accounting Treatment for Financial Instruments Referencing LIBOR (Draft)” and the “Request for Comments and Outline of the Exposure Draft,” and deliberations were held. As a

result of deliberations, it was explained that, if possible, the ASBJ would like to deliberate at the next Board meeting on approval of publication of the exposure draft.

#### **434th ASBJ Board Meeting (May 28, 2020)**

##### **(Agenda item)**

(1) Practical Issues Task Force Report Exposure Draft “Hedge Accounting Treatment for Financial Instruments Referencing LIBOR (Draft)” [Resolution to Publish]

Chair Kogasaka and Technical Staff Member Endo explained the Practical Issues Task Force Report Exposure Draft “Hedge Accounting Treatment for Financial Instruments Referencing LIBOR (Draft),” and deliberations and a vote were conducted. As a result of the vote, on the premise that wording and similar revisions would be entrusted to the Chair, publication was approved unanimously by all Board members in attendance.



- **ASBJ Exposure Draft No. 60:** *“Proposed Partial Amendments to the Accounting Standard for Tax Effect Accounting”*
  - **ASBJ Implementation Guidance Exposure Draft No. 58:** *“Proposed Implementation Guidance for the Accounting Standard for Tax Effect Accounting”*
  - **ASBJ Implementation Guidance Exposure Draft No. 59** (proposed amendments to **ASBJ Implementation Guidance No. 26**): *“Proposed Implementation Guidance on the Recoverability of Deferred Tax Assets”*
  - **ASBJ Implementation Guidance Exposure Draft No. 60:** *“Proposed Implementation Guidance on Tax Effect Accounting in Interim Financial Statements, etc.”* (June 6, 2017)
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## [Reference information regarding the background leading to the development of the standards]

(From the explanation by a professional staff member, “II. Background to Publication”)

At the 277th ASBJ Board meeting held in December 2013 (Heisei 25), the Accounting Standards Advisory Council recommended that the ASBJ deliberate the practical guidance on tax effect accounting issued by the Japanese Institute of Certified Public Accountants (JICPA). In response to this recommendation, the ASBJ established the Tax Effect Accounting Expert Committee and began deliberations in February 2014 (Heisei 26).

During the deliberation process, particularly strong concerns were expressed regarding JICPA Audit Committee Report No. 66, *“Audit Treatment Relating to Judgments on the Recoverability of Deferred Tax Assets.”* Accordingly, in December 2015 (Heisei 27), the ASBJ issued, in advance of other materials, ASBJ Implementation Guidance No. 26, *“Implementation Guidance on the Recoverability of Deferred Tax Assets”* (hereinafter, the “Recoverability Implementation Guidance”).

In the course of deliberations prior to issuing the exposure draft of the Recoverability Implementation Guidance, it was noted that the Business Accounting Council's *"Accounting Standard for Tax Effect Accounting"* (hereinafter, the "Tax Effect Accounting Standard") and its commentary prescribe, as note disclosures, principal breakdowns of deferred tax assets by cause, etc. However, financial statement users expressed views that it was difficult to adequately understand the content of recognized deferred tax assets and valuation allowances. In response, the exposure draft of the Recoverability Implementation Guidance (published in May 2015 (Heisei 27)) included questions relating to note disclosures and invited comments. Taking those comments into account, the ASBJ examined revisions to presentation and note disclosure requirements for tax effect accounting and decided to issue a proposal for partial amendments to the Tax Effect Accounting Standard.

In addition, with respect to provisions on tax effect accounting other than the recoverability of deferred tax assets, the ASBJ decided to publish a draft of implementation guidance on tax effect accounting that, in principle, carries forward the content of JICPA Accounting System Committee Report No. 6, *"Practical Guidance on Tax Effect Accounting in Consolidated Financial Statements"* (hereinafter, the "Consolidated Tax Effect Practical Guidance"), and Accounting System Committee Report No. 10, *"Practical Guidance on Tax Effect Accounting in Non-consolidated Financial Statements"* (hereinafter, the "Non-consolidated Tax Effect Practical Guidance"), while revising certain accounting treatments deemed necessary. At the same time, the ASBJ decided to publish a draft of revisions to the Recoverability Implementation Guidance reflecting certain changes to part of the accounting treatment related to the recoverability of deferred tax assets.

Furthermore, the ASBJ decided to publish a draft of implementation guidance on tax effect accounting in interim financial statements, etc., which largely carries forward the content of Accounting System Committee Report No. 11, *"Practical Guidance on Tax Effect Accounting in Interim Financial Statements, etc."* (hereinafter, the "Interim Tax Effect Practical Guidance").

The relationship between the JICPA's practical guidance on tax effect accounting and the principal accounting standards, etc. issued by the ASBJ after the amendments (excluding those related to consolidated tax filing) is as shown in [Figure 1].

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## **[Deliberations at the Accounting Standards Advisory Council]**

### **19th Accounting Standards Advisory Council Meeting (November 20, 2013) – Document (1)–1**

**[Original proposal]** 16th Accounting Standards Advisory Council Meeting  
**[Item]** Recoverability of deferred tax assets (related to JICPA Audit Committee Report No. 66)

**[Proposed response]**

At the previous meeting of the Accounting Standards Advisory Council, it was decided to request the ASBJ to conduct an investigation, and at this meeting the Council has received a report from the ASBJ on the results of that investigation. The ASBJ's investigation report states that it would be appropriate to deliberate, with a view to transfer to the ASBJ, in an integrated manner, the practical guidance relating to deferred tax assets currently being developed by the JICPA.

In light of the content of this investigation report, would it be appropriate to recommend this matter as a new agenda topic of the ASBJ?

**(Note)**

The most comprehensive materials regarding the discussions at the 19th Accounting Standards Advisory Council meeting (November 20, 2013) are included in Agenda Paper (1)–1 for the 277th ASBJ Board meeting (December 12, 2013).

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## **Recommendation by the Accounting Standards Advisory Council on New Agenda Topics**

Following deliberations at the 19th Accounting Standards Advisory Council meeting held on November 20, 2013, the Council compiled recommendations regarding

agenda topics for deliberation by the ASBJ Board as set out below, and respectfully requests your consideration.

## **1. Guidance on tax effect accounting**

With respect to the accounting-related portions of the JICPA's *"Audit Treatment Relating to Judgments on the Recoverability of Deferred Tax Assets"* (Audit Committee Report No. 66), we recommend that deliberations be undertaken as a new agenda topic with a view to transferring those matters to the ASBJ. In conducting such deliberations, we also recommend that the ASBJ deliberate, with a view to transfer, the JICPA's practical accounting guidance on tax effect accounting and the accounting-related portions of other audit-related practical guidance.

### **(Background to the recommendation)**

At the 16th Accounting Standards Advisory Council meeting held in November 2012 (Heisei 24), a proposal for a new agenda topic was received regarding "Recoverability of deferred tax assets (related to JICPA Audit Committee Report No. 66)." Thereafter, consideration was undertaken at the 17th Accounting Standards Advisory Council meeting (March 2013) and the 18th Accounting Standards Advisory Council meeting (July 2013). As a result, it was decided to request the ASBJ to conduct an investigation on this matter.

At the 19th Accounting Standards Advisory Council meeting held in November 2013, the Council received a report from the ASBJ regarding the investigation (Reference Material 1), and that report included the following statement:

"Regarding the accounting treatment-related portions of Audit Committee Report No. 66, based on the discussions at this Council meeting and this investigation report, it is considered appropriate to deliberate with a view to transferring those matters to the ASBJ. In doing so, it is considered appropriate to deliberate both the Accounting System Committee's practical guidance related to tax effect accounting and the Audit and Assurance Practice Committee's practical guidance."

## [Status of deliberations at the ASBJ]

### 277th ASBJ Board Meeting (December 12, 2013)

(Agenda item)

#### Summary of Minutes (1) Recommendations from the Accounting Standards Advisory Council

Suzuki, Vice Chair of the Accounting Standards Advisory Council, explained—based on the explanatory materials [Agenda Papers (1)-1 and (1)-2]—that at the 19th Accounting Standards Advisory Council meeting held on November 20, it had been approved that the following three matters be recommended as new agenda topics for deliberation by the ASBJ:

- “Guidance on tax effect accounting,”
- “Accounting treatment for an investment support scheme for advanced equipment, etc. utilizing lease schemes,” and
- “Treatment of contingent consideration relating to the Accounting Standard for Business Combinations.”

She also provided an explanation of the status of deliberations at the Accounting Standards Advisory Council regarding new topics at the accounting standard level and new topics at the practical solutions level.

After the explanation, there were no comments or remarks from the members.

Finally, the Chair, Nishikawa, stated that he had received the recommendations from the Accounting Standards Advisory Council, and that the ASBJ would discuss the commencement of deliberations on the three recommended topics at future Board meetings.

#### (Note)

Because priority was given to developing the “Recoverability Implementation Guidance,” a considerable period of time elapsed between the recommendation of the topic and the commencement of work on this matter.

## **329th ASBJ Board Meeting (February 10, 2016)**

### **Summary of Minutes (2) Consideration of revisions to guidance related to tax effect accounting**

At the outset, Vice Chair Kogasaka explained that deliberations would be conducted regarding the transfer to the ASBJ of practical guidance on tax effect accounting. This was followed by a detailed explanation—based on the agenda papers—of the overall approach going forward. Next, Director Maeda gave a detailed explanation, based on the agenda papers, of (i) how the ASBJ would proceed with examining disclosures related to tax effect accounting and (ii) the examination of disclosure of the breakdown of the valuation allowance. *(Omitted thereafter.)*

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### **From the agenda papers for the 329th ASBJ Board Meeting — Agenda Paper (2)–1**

#### **Matters deliberated to date**

1. The ASBJ Board and the Tax Effect Accounting Expert Committee (the “Expert Committee”) have been deliberating, with a view to transferring to the ASBJ, the accounting-related practical guidance and the audit-related practical guidance (limited to the portions related to accounting treatment) on tax effect accounting that have been issued by the Japanese Institute of Certified Public Accountants (“JICPA”) (collectively, the “Practical Guidance”).
2. Among the Practical Guidance, matters relating to the recoverability of deferred tax assets were developed prior to the other Practical Guidance, and on December 28, 2015, the ASBJ issued ASBJ Implementation Guidance No. 26, “Implementation Guidance on the Recoverability of Deferred Tax Assets” (the “Recoverability Implementation Guidance”). Note that, with respect to note disclosures related to the recoverability of deferred tax assets, the ASBJ decided to review note disclosure requirements for tax effect accounting in general as part of the transfer of the Practical Guidance other than those matters addressed in the Recoverability Implementation Guidance, and to include such review in that work.

3. In addition, regarding matters related to the tax rate applied in tax effect accounting, the ASBJ published on December 10, 2015 ASBJ Implementation Guidance Exposure Draft No. 55, “Proposed Implementation Guidance on Tax Rates Applicable to Tax Effect Accounting” (the “Tax Rate Implementation Guidance Exposure Draft”). The comment deadline was February 10, 2016, and publication was planned for March.
4. Five items of Practical Guidance—excluding Audit Committee Report No. 66 and Audit Committee Report No. 70, which were transferred into the Recoverability Implementation Guidance—remain as items to be addressed going forward.

#### **Matters to be deliberated today**

5. Based on comments received at the 30th Expert Committee meeting (held on February 4, 2016), the ASBJ will deliberate the following:
  - (1) The overall approach going forward regarding the transfer of the Practical Guidance other than matters relating to the recoverability of deferred tax assets (Agenda item (2)–2);
  - (2) How the ASBJ will proceed with examining disclosures related to tax effect accounting (Agenda item (2)–3); and
  - (3) Examination of disclosures (breakdown of the valuation allowance) (Agenda item (2)–4).

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### **330th ASBJ Board Meeting (February 24, 2016)**

#### **Summary of Minutes (2) Consideration of revisions to guidance related to tax effect accounting**

At the outset, Vice Chair Kogasaka explained that deliberations would be conducted regarding the transfer to the ASBJ of practical guidance on tax effect accounting. This was followed by a detailed explanation by Professional Staff Member Ougo and Director Maeda, based on the agenda papers, of the comments received on ASBJ Implementation Guidance Exposure Draft No. 55, “Proposed Implementation Guidance on Tax Rates Applicable to Tax Effect Accounting” (the “Tax Rate Implementation Guidance Exposure Draft”), the proposed responses to those

comments, and the revised draft text of the exposure draft; consideration of disclosures regarding tax loss carryforwards; and comparative information in the subsequent quarter when the Recoverability Implementation Guidance (ASBJ Implementation Guidance No. 26) is early adopted. *(Omitted thereafter.)*

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### **331st ASBJ Board Meeting (March 9, 2016)**

#### **Summary of Minutes (9) Consideration of revisions to guidance related to tax effect accounting**

At the outset, Vice Chair Kogasaka explained that the ASBJ would deliberate an exposure draft of amendments to ASBJ Implementation Guidance No. 26, “Implementation Guidance on the Recoverability of Deferred Tax Assets” (the “Recoverability Implementation Guidance”) in order to clarify how comparative information should be handled by entities that early adopted the Recoverability Implementation Guidance. This was followed by a detailed explanation by Director Maeda, based on the agenda papers.

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### **332nd ASBJ Board Meeting (March 23, 2016)**

#### **Summary of Minutes (6) Consideration of revisions to guidance related to tax effect accounting**

At the outset, Vice Chair Kogasaka explained that, in connection with the transfer to the ASBJ of practical guidance on tax effect accounting, the ASBJ would deliberate matters relating to (i) disclosure of the classification of entities and (ii) disclosures related to a reasonable explanation. This was followed by a detailed explanation by Professional Staff Member Ougo, based on the agenda papers.

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### **335th ASBJ Board Meeting (April 21, 2016)**

#### **Summary of Minutes (4) Consideration of revisions to guidance related to tax effect accounting**

At the outset, Vice Chair Kogasaka explained that, regarding the transfer to the ASBJ of practical guidance on tax effect accounting, deliberations would be conducted on note disclosure requirements that are required under international accounting standards and those that are not required under international accounting standards, among the comments received on the exposure draft. This was followed by a detailed explanation by Professional Staff Member Ougo, based on the agenda papers.

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## **Excerpts from agenda papers for the 335th ASBJ Board Meeting – Agenda Paper (4)–1**

### **Matters to be deliberated today**

5. At the 33rd Expert Committee meeting, as disclosure-related issues, the Expert Committee deliberated (i) disclosures required under international accounting standards among the comments received on the exposure draft (Agenda item (4)–2), and (ii) disclosures not required under international accounting standards among the comments received on the exposure draft, as well as items that are required under international accounting standards but on which no comments were received (Agenda item (4)–3).
6. Today, the ASBJ will focus mainly on the following highlighted issues among those disclosure-related issues described in the preceding paragraph, for which views were divided in the Expert Committee:
  - (1) Disclosures required under international accounting standards among the comments received on the exposure draft (Agenda item (4)–2)
    - ① Disclosures related to tax rates
      - a. Reconciliation table of tax rate differences in the case of a net loss
      - b. Information on the basis for calculating the statutory effective tax rate
    - ② Presentation of deferred tax assets (change to classification as non-current)
  - (2) Disclosures not required under international accounting standards among the comments received on the exposure draft (Agenda item (4)–3)
    - ① Disclosures disaggregated into segments, etc.
    - ② Disclosure of significant reconciling items between ordinary income and taxable

income before temporary differences and other adjustments

③ Disclosure of qualitative information regarding estimates of the recoverability of deferred tax assets

④ Disclosure regarding changes in estimates

(3) Items required as note disclosures under international accounting standards on which no comments were received (Agenda item (4)-3)

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### **337th ASBJ Board Meeting (May 31, 2016)**

#### **Summary of Minutes (5) Consideration of revisions to guidance related to tax effect accounting**

At the outset, Vice Chair Kogasaka explained that, in transferring practical guidance on tax effect accounting to the ASBJ, the ASBJ would deliberate issues that should be addressed on a priority basis, and that today's deliberations would cover issues relating to deferred tax liabilities. This was followed by a detailed explanation by Director Maeda, based on the agenda papers. *(Omitted thereafter.)*

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### **338th ASBJ Board Meeting (June 16, 2016)**

#### **Summary of Minutes (5) Consideration of revisions to guidance related to tax effect accounting**

At the outset, Vice Chair Kogasaka explained that, in transferring practical guidance on tax effect accounting to the ASBJ, the ASBJ would deliberate issues that should be addressed on a priority basis. He further explained that, as issues relating to the elimination of unrealized gains and losses and items for which consistency with international accounting standards should be examined, the ASBJ would deliberate the presentation of deferred tax assets and liabilities, which had been identified as a disclosure-related issue. This was followed by a detailed explanation by Professional Staff Member Ougo, based on the agenda papers. *(Omitted thereafter.)*

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## **340th ASBJ Board Meeting (July 13, 2016)**

At the outset, Vice Chair Kogasaka explained that the ASBJ would deliberate matters relating to the consideration of revisions to guidance related to tax effect accounting. This was followed by a detailed explanation by Professional Staff Member Ougo, based on the agenda papers.

The major comments from members on the explanation, and the Secretariat's responses to those comments, were as follows. *(Omitted thereafter.)*

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### **Excerpts from agenda papers for the 340th ASBJ Board Meeting – Agenda Paper (4)–1**

4. Since the 329th ASBJ Board Meeting and the 30th Expert Committee meeting, deliberations have been progressing on the transfer of five items of Practical Guidance, excluding Audit Committee Report No. 66 and Audit Committee Report No. 70.

Among these, at the 35th and 36th Expert Committee meetings (held on June 10, 2016 and June 28, 2016), the Expert Committee deliberated issues relating to Audit and Assurance Practice Committee Practical Guidance No. 63, *“Audit Treatment Relating to the Accounting Treatment and Presentation of Taxes”* (hereinafter, *“Audit & Assurance Practical Guidance No. 63”*), in the event it were to be transferred as a proposed *“Accounting Standard for Corporate Taxes, Inhabitants Taxes and Enterprise Taxes, etc.”* (hereinafter, the *“Corporate Taxes, etc. Accounting Standard (Draft)”*). *(Omitted thereafter.)*

5. Today, the ASBJ will deliberate, with respect to Audit & Assurance Practical Guidance No. 63, the issues to be examined in the event it were to be transferred as the Corporate Taxes, etc. Accounting Standard (Draft) (Agenda items (4)–2 and (4)–3, and reference material to Agenda item (4)–3). *(Omitted thereafter.)*
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## **341st ASBJ Board Meeting (July 25, 2016)**

**Summary of Minutes (5) Consideration of revisions to guidance related to tax effect accounting**

At the outset, Vice Chair Kogasaka explained that deliberations would be conducted regarding the consideration of revisions to guidance related to tax effect accounting. This was followed by a detailed explanation by Professional Staff Member Ougo, based on the agenda papers.

The major questions and comments from members on the explanation, and the Secretariat's responses to those questions and comments, were as follows.  
*(Omitted thereafter.)*

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**344th ASBJ Board Meeting (September 9, 2016)**

**Summary of Minutes (7) Consideration of revisions to guidance related to tax effect accounting**

At the outset, Vice Chair Kogasaka explained that, among the matters being examined as part of the consideration of revisions to guidance related to tax effect accounting, the ASBJ would deliberate issues relating to the transfer of *“Audit Treatment Relating to the Accounting Treatment and Presentation of Taxes”* (hereinafter, “Audit & Assurance Practical Guidance No. 63”). This was followed by a detailed explanation by Professional Staff Member Ougo, based on the agenda papers.

The major questions and comments from members on the explanation, and the Secretariat's responses to those questions and comments, were as follows.  
*(Omitted thereafter.)*

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**346th ASBJ Board Meeting (October 6, 2016)**

**Summary of Minutes (3) Consideration of revisions to guidance related to tax effect accounting**

At the outset, Vice Chair Kogasaka explained that, among the matters being examined as part of the consideration of revisions to guidance related to tax effect accounting, the ASBJ would deliberate issues relating to the transfer of “*Audit Treatment Relating to the Accounting Treatment and Presentation of Taxes*” (hereinafter, “Audit & Assurance Practical Guidance No. 63”). This was followed by a detailed explanation by Professional Staff Member Ougo, based on the agenda papers.

The major questions and comments from members on the explanation, and the Secretariat’s responses to those questions and comments, were as follows.  
(Omitted thereafter.)

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### **352nd ASBJ Board Meeting (January 10, 2017)**

#### **(4) Consideration of revisions to guidance related to tax effect accounting**

Vice Chair Kogasaka and Professional Staff Member Ougo explained, in relation to the consideration of revisions to guidance related to tax effect accounting, the progress of deliberations on disclosures, taking into account the deliberations at the 44th Tax Effect Accounting Expert Committee meeting (held on December 19, 2016). The ASBJ then deliberated the matter.

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### **353rd ASBJ Board Meeting (January 26, 2017)**

#### **(3) Consideration of revisions to guidance related to tax effect accounting**

Vice Chair Kogasaka and Professional Staff Member Ougo explained, in relation to the consideration of revisions to guidance related to tax effect accounting, the examination of tax effects related to the elimination of unrealized gains and losses, taking into account the deliberations at the 45th Tax Effect Accounting Expert Committee meeting (held on January 13, 2017). The ASBJ then deliberated the matter.

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## **354th ASBJ Board Meeting (February 8, 2017)**

### **(2) Consideration of revisions to guidance related to tax effect accounting**

Vice Chair Kogasaka and Professional Staff Member Ougo explained, taking into account the deliberations at the 46th Tax Effect Accounting Expert Committee meeting (held on February 1, 2017), (i) how the ASBJ would respond to comments received on ASBJ Exposure Draft No. 59, “Proposed Accounting Standard for Corporate Taxes, Inhabitants Taxes and Enterprise Taxes, etc.” published on November 9, 2016, and (ii) consideration of disclosures related to tax effect accounting. The ASBJ then deliberated the matter.

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## **355th ASBJ Board Meeting (February 22, 2017)**

### **(3) Consideration of revisions to guidance related to tax effect accounting**

Vice Chair Kogasaka, Director Maeda, and Professional Staff Member Ougo explained—taking into account the deliberations at the 47th Tax Effect Accounting Expert Committee meeting (held on February 21, 2017)—(i) how the ASBJ would respond to comments received on ASBJ Exposure Draft No. 59, “Proposed Accounting Standard for Corporate Taxes, Inhabitants Taxes and Enterprise Taxes, etc.”, (ii) consideration of tax effects related to the elimination of unrealized gains and losses, and (iii) consideration of disclosures related to tax effect accounting. The ASBJ then deliberated the matter. It was explained that, if possible, the ASBJ intended to deliberate the approval for publication of the “Accounting Standard for Corporate Taxes, Inhabitants Taxes and Enterprise Taxes, etc.” at the next Board meeting.

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## **356th ASBJ Board Meeting (March 13, 2017)**

### **(7) Consideration of revisions to guidance related to tax effect accounting**

Vice Chair Kogasaka and Professional Staff Member Ougo explained the progress of deliberations on disclosures related to tax effect accounting, taking into account the

deliberations at the 48th Tax Effect Accounting Expert Committee meeting (held on March 9, 2017). The ASBJ then deliberated the matter.

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### **357th ASBJ Board Meeting (March 28, 2017)**

#### **(7) Consideration of revisions to guidance related to tax effect accounting**

Vice Chair Kogasaka and Professional Staff Member Ougo explained the progress of deliberations on disclosures related to tax effect accounting, taking into account the deliberations at the 49th Tax Effect Accounting Expert Committee meeting (held on March 22, 2017). The ASBJ then deliberated the matter.

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### **358th ASBJ Board Meeting (April 10, 2017)**

#### **(4) Consideration of revisions to guidance related to tax effect accounting**

Vice Chair Kogasaka and Professional Staff Member Ougo explained, taking into account the deliberations at the 50th Tax Effect Accounting Expert Committee meeting (held on April 6, 2017), (i) consideration of disclosures related to tax effect accounting and (ii) the draft text of the proposed amendments to the *“Accounting Standard for Tax Effect Accounting.”* They also explained the draft text of the implementation guidance for the Accounting Standard for Tax Effect Accounting, the draft amendments to ASBJ Implementation Guidance No. 26, “Implementation Guidance on the Recoverability of Deferred Tax Assets,” and consideration of the effective date and transitional provisions. The ASBJ then deliberated these matters.

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### **359th ASBJ Board Meeting (April 28, 2017)**

#### **(5) Consideration of revisions to guidance related to tax effect accounting**

Vice Chair Kogasaka and Professional Staff Member Ougo explained—taking into account the deliberations at the 51st Tax Effect Accounting Expert Committee meeting (held on April 21, 2017)—the draft text of the proposed amendments to the

Accounting Standard for Tax Effect Accounting, the draft text of the implementation guidance for the Accounting Standard for Tax Effect Accounting, the draft text of the implementation guidance on tax effect accounting in interim financial statements, etc., and matters relating to the comment letter process. The ASBJ then deliberated these matters.

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### **360th ASBJ Board Meeting (May 12, 2017)**

#### **(4) Consideration of revisions to guidance related to tax effect accounting**

Vice Chair Kogasaka and Professional Staff Member Ougo explained—taking into account the deliberations at the 52nd Tax Effect Accounting Expert Committee meeting (held on May 8, 2017)—the draft text of the proposed amendments to the Accounting Standard for Tax Effect Accounting, the draft text of the implementation guidance for the Accounting Standard for Tax Effect Accounting, the draft text of the implementation guidance on tax effect accounting in interim financial statements, etc., and matters relating to the invitation to comment. The ASBJ then deliberated these matters. As a result of the deliberations, it was explained that, if possible, the ASBJ intended to deliberate the approval for publication of the exposure draft at a future Board meeting.

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### **361st ASBJ Board Meeting (May 30, 2017)**

#### **(4) ASBJ Exposure Draft “Proposed Partial Amendments to the Accounting Standard for Tax Effect Accounting,” etc. [Approval for Publication]**

Vice Chair Kogasaka and Professional Staff Member Ougo explained the ASBJ exposure draft “*Proposed Partial Amendments to the Accounting Standard for Tax Effect Accounting,*” etc. The ASBJ then deliberated and voted on the matter. As a result of the vote, it was approved—by unanimous consent of all members present—to publish the exposure drafts, on the premise that any revisions to wording and similar matters would be entrusted to the Chair.

At the 19th Accounting Standards Advisory Council meeting, many members expressed agreement with these statements, and it was therefore decided to make the above recommendation as a new agenda topic.

## ASBJ Exposure Draft No. 61, “Proposed Accounting Standard on Revenue Recognition” (July 20, 2017)

### [Reference information on the background to standard-setting]

*(From “Explanation by Professional Staff – II. Background to the issuance”)*

In Japan, the *Business Accounting Principles* provide that “net sales shall be recognized only when realized through the sale of goods, etc. or the provision of services, in accordance with the realization principle.” However, a comprehensive accounting standard on revenue recognition had not been developed. Meanwhile, the International Accounting Standards Board and the Financial Accounting Standards Board jointly developed a comprehensive accounting standard on revenue recognition, and in May 2014 issued “Revenue from Contracts with Customers” (IFRS 15 at the IASB and Topic 606 at the FASB).

In light of these circumstances, the ASBJ decided at the 308th ASBJ Board Meeting held in March 2015 to commence deliberations toward developing a comprehensive accounting standard on revenue recognition in Japan, and began its work. Thereafter, in February 2016, in order to obtain a broad range of views on application issues and other matters, the ASBJ published “Request for Comments on the Development of a Comprehensive Accounting Standard on Revenue Recognition” (the “Request for Comments document”). After considering the views received on that document, the ASBJ published this Exposure Draft.

In addition, the ASBJ published its *Medium-term Operating Policy* in August 2016. In that policy, the ASBJ set out an objective of maintaining and enhancing Japanese GAAP as high-quality standards aligned with international standards in order to improve the quality of accounting standards used by listed companies and other entities in Japan. The content of this Exposure Draft is consistent with that Medium-term Operating Policy and is considered to contribute to enhancing the comparability of financial statements among entities in Japan and overseas, and to maintaining and enhancing Japanese GAAP as high-quality standards aligned with international standards.

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### [Background to standard-setting]

With respect to this matter, no direct recommendation of the topic to the Accounting Standards Advisory Council is observed. Because the response was in line with already published Medium-term Operating Policies and similar documents, it is considered that the ASBJ judged that consultation with the (Business Accounting) Accounting Standards Advisory Council and similar procedures were not necessary.

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## [Deliberations at the ASBJ]

### 308th ASBJ Board Meeting (March 20, 2015)

#### Summary of Minutes (3) Development of a revenue recognition standard

At the outset, Vice Chair Kogasaka provided an explanation—based on the explanatory materials [Agenda Paper (3)]—regarding the development of a revenue recognition standard in Japan. (*Omitted.*)

Finally, Chair Ono stated that the ASBJ would resume the Revenue Recognition Expert Committee and begin deliberations toward developing a revenue recognition standard in Japan taking into account IFRS 15, and that, for matters other than revenue recognition, the ASBJ would continue its deliberations in accordance with the content of paragraphs 14 through 17 of the agenda papers.

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### From the agenda papers for the 308th ASBJ Board Meeting — Agenda Paper (3)–1

#### I. Purpose of this paper

1. To maintain confidence in Japan's financial capital markets, efforts have been made to develop Japanese GAAP into high-quality standards aligned with international standards (convergence with international accounting standards). Convergence with international accounting standards enhances comparability across accounting standards and can provide financial

information that is more useful for investors' decision-making, which is considered to bring benefits to capital markets around the world.

2. In August 2007, the ASBJ issued the "Tokyo Agreement" with the IASB and advanced deliberations toward convergence, with target dates of the end of 2008 and the end of June 2011. The topics covered in those deliberations were largely completed with the publication in 2013 of "Business Combinations (Step 2)," and there are currently no topics being deliberated from the perspective of further convergence.
3. Among major standards issued by the IASB after the issuance of the standards that were to be issued by June 2011 in accordance with the Tokyo Agreement are the following:
  - IFRS 9 "Financial Instruments" (Classification and Measurement, Impairment, General Hedge Accounting)
  - IFRS 10 "Consolidated Financial Statements" (Scope of consolidation) (including IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities")
  - IFRS 13 "Fair Value Measurement"
  - IFRS 15 "Revenue from Contracts with Customers"

With respect to these standards, as described on page 10, the ASBJ has previously issued discussion papers and, more recently, has provided input to the IASB's standard-setting activities.

5. Accordingly, this paper examines the necessity of proceeding with deliberations toward developing a revenue recognition standard in Japan, mainly taking IFRS 15 as a reference.

*(Omitted.)*

4. Under these circumstances, IFRS 15 "Revenue from Contracts with Customers" (hereinafter, "IFRS 15") has been noted as potentially having a significant impact on companies' financial information, given that it applies to a wide range of transactions. In addition, while Japan does not have a comprehensive accounting standard on revenue recognition, the IASB and the FASB have issued revenue recognition standards with the same content. Furthermore, at the Accounting Subcommittee of the Business Accounting

Council held in December 2014, views were expressed calling for enhancing the quality of revenue recognition standards in Japan.

### **Secretariat proposal**

13. In light of the above, proceeding with deliberations toward developing a revenue recognition standard in Japan based on IFRS 15 is considered important from the perspective of developing Japan's accounting standards into high-quality standards aligned with international standards, providing financial information that is more useful for investors' decision-making, and improving the overall structure of accounting standards. Therefore, the Secretariat proposes that the ASBJ resume the Revenue Recognition Expert Committee and commence deliberations toward developing a revenue recognition standard in Japan.

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### **311th ASBJ Board Meeting (May 15, 2015)**

#### **Summary of Minutes (6) Future approach of the Revenue Recognition Expert Committee and comment-letter responses to an FASB exposure draft**

At the outset, Vice Chair Kogasaka explained, based on [Agenda Paper (6)-1], a 整理 (outline/summary) of issues related to the approach going forward, and the appointment and resignation of expert committee members and the expert committee chair; these matters were approved. Thereafter, based on [Agenda Papers (6)-2] and (6)-3], Researcher Hara explained the current deliberations at the IASB and the FASB (including the TRG), the outline of the FASB exposure draft "Deferral of the Effective Date—Revenue from Contracts with Customers (Topic 606)," and the intended direction for the ASBJ's comments. (*Omitted thereafter.*)

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### **312th ASBJ Board Meeting (May 28, 2015)**

#### **Summary of Minutes (1) Comment-letter responses to exposure drafts on revenue recognition standards issued by the FASB and the IASB, etc.**

Vice Chair Kogasaka and Researcher Hara explained, based on the agenda papers, the ASBJ's comment-letter responses and related matters concerning exposure drafts on revenue recognition standards issued by the FASB and the IASB. *(Omitted thereafter.)*

*(Note)*

These deliberations relate to comment-letter responses and have little connection with the development of new standards.

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### **313th ASBJ Board Meeting (June 12, 2015)**

#### **Summary of Minutes (2) Comment-letter responses to exposure drafts on revenue recognition standards issued by the FASB and the IASB**

Vice Chair Kogasaka and Researcher Hara explained, based on the agenda papers, the ASBJ's comment-letter responses to exposure drafts on revenue recognition standards issued by the FASB and the IASB. *(Omitted thereafter.)*

*(Note)*

These deliberations relate to comment-letter responses and have little connection with the development of new standards.

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### **314th ASBJ Board Meeting (June 29, 2015)**

#### **Summary of Minutes (3) Overview and consideration of major issues of IFRS 15 "Revenue from Contracts with Customers," and comment-letter responses to exposure drafts issued by the FASB and the IASB**

Vice Chair Kogasaka and Researcher Hara explained, based on the agenda papers, (i) an overview of IFRS 15 "Revenue from Contracts with Customers" and consideration of major issues, and (ii) comment-letter responses to exposure drafts issued by the FASB and the IASB. *(Omitted thereafter.)*

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## **From the agenda papers for the 314th ASBJ Board Meeting – Agenda Paper (3)–1**

1. The purpose of this paper is to explain the overview of IFRS 15 “Revenue from Contracts with Customers” (hereinafter, “IFRS 15”), issued by the IASB on May 28, 2014, and to provide examples of major issues that may arise if the content of that standard were introduced as a revenue recognition standard in Japan.
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## **315th ASBJ Board Meeting (July 10, 2015)**

### **Summary of Minutes (5) Overview and consideration of major issues of IFRS 15 “Revenue from Contracts with Customers”**

Vice Chair Kogasaka and Researcher Hara explained, based on the agenda papers, an overview of IFRS 15 “Revenue from Contracts with Customers” and consideration of major issues. (*Omitted thereafter.*)

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## **From the agenda papers for the 315th ASBJ Board Meeting – Agenda Paper (5)–1**

1. The purpose of this paper is to explain the overview of IFRS 15 “Revenue from Contracts with Customers” (hereinafter, “IFRS 15”), issued by the IASB on May 28, 2014, and to provide examples of major issues that may arise if the content of that standard were introduced as a revenue recognition standard in Japan.
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## **317th ASBJ Board Meeting (August 5, 2015)**

### **Summary of Minutes (2) Overview and consideration of major issues of IFRS 15 “Revenue from Contracts with Customers,” and outline of an IASB exposure draft**

Vice Chair Kogasaka and Researcher Hara explained, based on the agenda papers, an overview of IFRS 15 “Revenue from Contracts with Customers,” consideration of major issues, and an outline of an IASB exposure draft. *(Omitted thereafter.)*

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### **318th ASBJ Board Meeting (August 26, 2015)**

#### **Summary of Minutes (3) Consideration of major issues of IFRS 15 “Revenue from Contracts with Customers,” and comment–letter responses to the IASB exposure draft “Clarifications to IFRS 15”**

Vice Chair Kogasaka and Researcher Hara explained, based on the agenda papers, consideration of major issues of IFRS 15 “Revenue from Contracts with Customers” and the ASBJ’s comment–letter responses to the IASB exposure draft “Clarifications to IFRS 15” (the “ED”). *(Omitted thereafter.)*

*(Note)*

These deliberations relate to comment–letter responses and have little connection with the development of new standards.

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### **319th ASBJ Board Meeting (September 11, 2015)**

#### **Summary of Minutes (4) Consideration of major issues of IFRS 15 “Revenue from Contracts with Customers,” and comment–letter responses to the IASB exposure draft “Clarifications to IFRS 15”**

Vice Chair Kogasaka and Researcher Hara explained, based on the agenda papers, consideration of major issues of IFRS 15 “Revenue from Contracts with Customers” and the ASBJ’s comment–letter responses to the IASB exposure draft “Clarifications to IFRS 15.” *(Omitted thereafter.)*

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### **320th ASBJ Board Meeting (September 25, 2015)**

## **Summary of Minutes (4) Consideration of major issues of IFRS 15 “Revenue from Contracts with Customers,” and comment–letter responses to exposure drafts issued by the IASB and the FASB**

Vice Chair Kogasaka, Director Itabashi, and Researcher Kakemizu explained, based on the agenda papers, consideration of major issues of IFRS 15 “Revenue from Contracts with Customers,” and comment–letter responses to exposure drafts issued by the IASB and the FASB. *(Omitted thereafter.)*

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## **From the agenda papers for the 320th ASBJ Board Meeting – Agenda Paper (4)–1**

### **Overview of today’ s deliberations (Development of Japanese GAAP)**

1. Based on the conclusions of deliberations at the 311th ASBJ Board Meeting (held on May 15, 2015), the ASBJ decided to proceed, for the time being, with discussions toward developing a revenue recognition standard in Japan taking IFRS 15 “Revenue from Contracts with Customers” (hereinafter, “IFRS 15”) as a reference, using the following steps:
  - (1) Understand the overview of IFRS 15;
  - (2) Identify application issues related to the accounting treatment under IFRS 15; and
  - (3) Publish a document to obtain a better understanding of those application issues.
2. To date, the ASBJ has deliberated items (1) and (2) above, namely, the overview of IFRS 15 and major issues that may arise. In addition, the materials used in deliberations have been updated and supplemented to reflect the additional views expressed in the parent committee and the expert committee.
3. Beginning with the 55th meeting of the Revenue Recognition Expert Committee held on August 24, 2015, in order to deepen understanding of the anticipated application issues, the ASBJ has received reports from the JICPA on application issues in applying IFRS 15 based on examples, and has

deliberated those matters. Today as well, the ASBJ will continue its deliberations. (Agenda item (4)-2-1)

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### **321st ASBJ Board Meeting (October 9, 2015)**

**Summary of Minutes (3) Consideration of major issues of IFRS 15 “Revenue from Contracts with Customers,” and comment-letter responses to exposure drafts issued by the IASB and the FASB**

Vice Chair Kogasaka, Full-time Board Member Sekiguchi, and Researcher Hara explained, based on the agenda papers, comment-letter responses to exposure drafts issued by the IASB and the FASB. *(Omitted thereafter.)*

*(Note)*

These deliberations relate to comment-letter responses and have little connection with the development of new standards.

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### **322nd ASBJ Board Meeting (October 22, 2015)**

**Summary of Minutes (3) Consideration of major issues of IFRS 15 “Revenue from Contracts with Customers,” and comment-letter responses to exposure drafts issued by the IASB and the FASB**

Vice Chair Kogasaka, Full-time Board Member Sekiguchi, Researcher Hara, and Researcher Kakemizu explained, based on the agenda papers, consideration of major issues of IFRS 15 “Revenue from Contracts with Customers,” and comment-letter responses to exposure drafts issued by the IASB and the FASB. *(Omitted thereafter.)*

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**From the agenda papers for the 322nd ASBJ Board Meeting — Agenda Paper (3)-1**

**(Development of Japanese GAAP)**

8. Based on the conclusions of deliberations at the 311th ASBJ Board Meeting (held on May 15, 2015), the ASBJ decided to proceed, for the time being, with discussions toward developing a revenue recognition standard in Japan taking IFRS 15 “Revenue from Contracts with Customers” (hereinafter, “IFRS 15”) as a reference, using the following steps:
    - (1) Understand the overview of IFRS 15;
    - (2) Identify application issues related to the accounting treatment under IFRS 15; and
    - (3) Publish a document to obtain a better understanding of those application issues.
  9. To date, the ASBJ has deliberated items (1) and (2) above, namely, the overview of IFRS 15 and major issues that may arise, except for issues related to presentation and disclosures.
  10. In addition, in order to deepen understanding of anticipated application issues, the ASBJ received reports from the JICPA on application issues in applying IFRS 15 based on examples, and deliberated those matters.
  11. Today, the ASBJ is asked to deliberate, regarding items (1) and (2) in paragraph 8 above, the overview of IFRS 15 and issues that may arise, focusing on issues related to presentation and disclosures (Agenda item (3)–7).
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### **323rd ASBJ Board Meeting (November 6, 2015)**

#### **Summary of Minutes (4) Examination of a request for comments on the development of a revenue recognition standard**

Vice Chair Kogasaka explained, based on the agenda papers, examination of a request for comments on the development of a revenue recognition standard.  
*(Omitted thereafter.)*

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### **324th ASBJ Board Meeting (November 20, 2015)**

**Summary of Minutes (7) Examination of a request for comments on the development of a revenue recognition standard**

Vice Chair Kogasaka and Director Itabashi explained, based on the agenda papers, examination of a request for comments on the development of a revenue recognition standard. *(Omitted thereafter.)*

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**325th ASBJ Board Meeting (December 4, 2015)**

**Summary of Minutes (6) Examination of a request for comments on the development of a revenue recognition standard**

Vice Chair Kogasaka explained, based on the agenda papers, examination of a request for comments on the development of a revenue recognition standard. *(Omitted thereafter.)*

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**326th ASBJ Board Meeting (December 25, 2015)**

**Summary of Minutes (5) Examination of a request for comments on the development of a revenue recognition standard**

Vice Chair Kogasaka and Director Itabashi explained, based on the agenda papers, examination of a request for comments on the development of a revenue recognition standard. *(Omitted thereafter.)*

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**327th ASBJ Board Meeting (January 12, 2016)**

**Summary of Minutes (3) Examination of a request for comments on the development of a revenue recognition standard**

Vice Chair Kogasaka and Director Itabashi explained, based on the agenda papers, examination of a request for comments on the development of a revenue recognition standard. *(Omitted thereafter.)*

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### **328th ASBJ Board Meeting (January 27, 2016)**

#### **Summary of Minutes (3) “Draft Request for Comments on the Development of a Comprehensive Accounting Standard on Revenue Recognition” [Approval for Publication]**

Vice Chair Kogasaka and Director Itabashi explained, based on the agenda papers, the examination of the request for comments on the development of a revenue recognition standard. *(Omitted.)*

After deliberation, a vote was taken, and it was approved—by the unanimous consent of all 12 members present—to **publish** the “Draft Request for Comments on the Development of a Comprehensive Accounting Standard on Revenue Recognition,” on the premise that any revisions to wording and similar matters would be entrusted to the Chair.

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### **339th ASBJ Board Meeting (June 29, 2016)**

#### **Summary of Minutes (3) Consideration of a comprehensive accounting standard on revenue recognition**

At the outset, Vice Chair Kogasaka explained that the ASBJ would deliberate matters relating to the consideration of a comprehensive accounting standard on revenue recognition. Thereafter, Director Kawanishi gave a detailed explanation, based on the agenda papers. *(Omitted thereafter.)*

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### **Excerpt from agenda papers for the 339th ASBJ Board Meeting — Agenda Paper (3)–3**

#### **Comments received on the Request for Comments document**

2. In Question 2 of the Request for Comments document, the ASBJ sought views on the direction of using the content of IFRS 15 as the starting point

for developing a comprehensive accounting standard on revenue recognition in Japan. Many respondents supported that direction.

3. However, even if IFRS 15 is used as the starting point, the following views were expressed regarding general matters on how to proceed:

(1) The significance (benefits) of developing a revenue recognition standard should be thoroughly discussed, and the meaning of enhancing the quality of Japanese GAAP should be clearly communicated.

(2) While some expressed the view that the same accounting standard should be applied to consolidated and separate financial statements, others expressed concerns about applying a new revenue recognition standard to separate financial statements.

(3) Some stated that the wording should be identical to IFRS 15 without changes, and that if provisions are included in the standard to address practical considerations, it should be indicated that such provisions are based on the framework of Japanese GAAP. On the other hand, others argued that Japanese accounting practices should be taken into account, that terms and expressions should be made easier to understand as Japanese GAAP, that existing practices should be permitted, and that provisions on materiality should be included.

(4) Because the needs of companies that voluntarily apply IFRS in consolidated financial statements differ from those of companies that apply Japanese GAAP in both consolidated and separate financial statements, standard-setting should reflect those differing needs.

*(Note)*

This section identifies potential points of conflict and controversy in developing the standard.

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## **341st ASBJ Board Meeting (July 25, 2016)**

### **Summary of Minutes (4) Consideration of a comprehensive accounting standard on revenue recognition**

At the outset, Vice Chair Kogasaka explained that the ASBJ would deliberate matters relating to the consideration of a comprehensive accounting standard on revenue recognition. Thereafter, Director Kawanishi gave a detailed explanation, based on the agenda papers. *(Omitted thereafter.)*

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### **342nd ASBJ Board Meeting (August 10, 2016)**

#### **Summary of Minutes (4) Consideration of a comprehensive accounting standard on revenue recognition**

At the outset, Vice Chair Kogasaka explained that the ASBJ would deliberate matters relating to the consideration of a comprehensive accounting standard on revenue recognition. Thereafter, Director Kawanishi gave a detailed explanation, based on the agenda papers. *(Omitted thereafter.)*

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### **343rd ASBJ Board Meeting (August 30, 2016)**

#### **Summary of Minutes (5) Consideration of a comprehensive accounting standard on revenue recognition**

At the outset, Vice Chair Kogasaka explained that the ASBJ would deliberate matters relating to the consideration of a comprehensive accounting standard on revenue recognition. Thereafter, Director Kawanishi gave a detailed explanation, based on the agenda papers. *(Omitted thereafter.)*

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### **345th ASBJ Board Meeting (September 23, 2016)**

#### **Summary of Minutes (3) Consideration of a comprehensive accounting standard on revenue recognition**

At the outset, Vice Chair Kogasaka explained that the ASBJ would deliberate matters relating to the consideration of a comprehensive accounting standard on

revenue recognition. Thereafter, Director Kawanishi gave a detailed explanation, based on the agenda papers. *(Omitted thereafter.)*

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## **346th ASBJ Board Meeting (October 6, 2016)**

### **Summary of Minutes (4) Consideration of a comprehensive accounting standard on revenue recognition**

At the outset, Vice Chair Kogasaka explained that the ASBJ would deliberate matters relating to the consideration of a comprehensive accounting standard on revenue recognition. Thereafter, Director Kawanishi gave a detailed explanation, based on the agenda papers. *(Omitted thereafter.)*

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## **Excerpt from agenda papers for the 346th ASBJ Board Meeting — Agenda Paper (4)–1**

### **General approach**

3. Based on the foregoing discussions, at the 70th Expert Committee meeting (held on September 15, 2016) and the 345th ASBJ Board Meeting (held on September 23, 2016), the Secretariat proposed the following general approach. Based on these discussions, the ASBJ will proceed, for the time being, in accordance with the following:

(1) The standard will be developed in a manner that, to the extent possible, satisfies both the needs of companies that voluntarily apply IFRS in consolidated financial statements and the needs of companies that apply Japanese GAAP in both consolidated and separate financial statements.

(2) From the perspective of comparability of financial statements—one of the benefits of aligning with IFRS 15—the ASBJ will use the basic principles of IFRS 15 as the starting point and will incorporate them without distinguishing between consolidated and separate financial statements, and will establish the relevant requirements accordingly.

In addition, where it is necessary to consider practices that have been followed in Japan, the ASBJ will add alternative accounting treatments to the extent that comparability of financial statements is not impaired. This includes provisions regarding materiality for individual items, and in some cases the ASBJ will also consider adding alternative accounting treatments only for separate financial statements.

(3) Notwithstanding (2), where theoretical issues have been raised with respect to IFRS 15, careful consideration is needed of both (i) the benefits of aligning with IFRS 15 and (ii) the effects of prescribing treatments that differ from IFRS 15. Therefore, at this stage the ASBJ will not set a direction, but will consider such issues after discussing all issues identified in the Request for Comments document.

(4) With respect to the drafting of Japanese GAAP, the ASBJ will revise the wording of IFRS 15 in accordance with the following policy:

- ① As with existing Japanese GAAP, only the minimum necessary requirements will be included in the main text of the Accounting Standard, and other requirements will be included in the main text of the Implementation Guidance. Explanatory descriptions will be provided in the Basis for Conclusions for both. The ASBJ will not be bound by the distinction between the main text and guidance in IFRS 15.
- ② To the extent possible without changing the meaning, terminology used in Japanese GAAP to date will be used so that the requirements are easier to understand.

(5) Additional guidance will be considered by weighing its benefits and concerns, and will be limited to transactions and other matters specific to Japan. In that case, the ASBJ will proceed carefully so that the results will not differ significantly from those obtained under IFRS 15.

(6) The addition of illustrative examples will be considered in accordance with the following policy:

- ① Only those examples in IFRS 15 that are effective in facilitating understanding among stakeholders in Japanese practice will be included.
- ② For transactions specific to Japan, additional illustrative examples will be

included—based on clearly stated assumptions—as examples, in order to facilitate application in practice.

(7) The standard-setting schedule going forward will be as follows:

- ① As an interim goal, deliberations will proceed so that voluntary early application will be possible by the mandatory effective dates of IFRS 15 and Topic 606 (for IFRS 15, fiscal years beginning on or after January 1, 2018; for Topic 606, fiscal years beginning after December 15, 2017).
- ② The ASBJ will aim to publish an exposure draft by June of next year.
- ③ The mandatory effective date will be considered once the content of the standard becomes largely clear.

(8) The specific approach going forward will be as follows:

- ① Examine the scope of the accounting standard and definitions of key terminology.
- ② Determine the direction for the items that have been examined to date as model cases, in accordance with (1) through (6) above.
- ③ Thereafter, examine the remaining issues identified in the Request for Comments, and disclosures (note disclosures).

*(Note)*

The above can be positioned as a proposed solution to the potential points of conflict and controversy identified in the materials for the 339th ASBJ Board Meeting.

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## **348th ASBJ Board Meeting (November 4, 2016)**

### **Summary of Minutes (3) Consideration of a comprehensive accounting standard on revenue recognition**

At the outset, Vice Chair Kogasaka explained that the ASBJ would deliberate matters relating to the consideration of a comprehensive accounting standard on revenue recognition. Thereafter, Director Kawanishi gave a detailed explanation, based on the agenda papers. *(Omitted thereafter.)*

## **349th ASBJ Board Meeting (November 18, 2016)**

### **Summary of Minutes (4) Consideration of a comprehensive accounting standard on revenue recognition**

At the outset, Vice Chair Kogasaka explained that the ASBJ would deliberate matters relating to the consideration of a comprehensive accounting standard on revenue recognition. Thereafter, Director Kawanishi gave a detailed explanation, based on the agenda papers. *(Omitted thereafter.)*

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## **351st ASBJ Board Meeting (December 20, 2016)**

### **(6) Consideration of a comprehensive accounting standard on revenue recognition**

Vice Chair Kogasaka and Director Kawanishi explained, in relation to the general approach, the issues to be examined going forward that had been identified under specific issues (such as allocation based on stand-alone selling prices), taking into account the status of deliberations at the 74th Revenue Recognition Expert Committee meeting (held on December 6, 2016). The ASBJ then deliberated the matter. *(Omitted thereafter.)*

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## **352nd ASBJ Board Meeting (January 10, 2017)**

### **(2) Consideration of a comprehensive accounting standard on revenue recognition**

Vice Chair Kogasaka and Director Kawanishi explained the proposed overall structure of the draft Accounting Standard and Implementation Guidance, and the proposed directions for issues to be examined going forward that had been identified from specific issues, taking into account the status of deliberations at the 75th Revenue Recognition Expert Committee meeting (held on December 26, 2016). The ASBJ then deliberated the matter. *(Omitted thereafter.)*

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## **353rd ASBJ Board Meeting (January 26, 2017)**

## **(2) Consideration of a comprehensive accounting standard on revenue recognition**

Vice Chair Kogasaka and Director Kawanishi explained, taking into account the status of deliberations at the 76th Revenue Recognition Expert Committee meeting (held on January 17, 2017), the scope of the accounting standard, treatment in cases where losses are expected from contracts with customers, the handling of illustrative examples, and the name of the accounting standard. The ASBJ then deliberated the matter.

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## **355th ASBJ Board Meeting (February 22, 2017)**

### **(2) Consideration of a comprehensive accounting standard on revenue recognition**

Vice Chair Kogasaka and Director Kawanishi explained the responses to issues identified in connection with consolidated financial statements, and the matters identified as issues to be examined going forward (the concept of transfer of control and matters related to materiality), taking into account the status of deliberations at the 77th Revenue Recognition Expert Committee meeting (held on February 10, 2017). The ASBJ then deliberated the matter.

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## **356th ASBJ Board Meeting (March 13, 2017)**

### **(8) Consideration of a comprehensive accounting standard on revenue recognition**

Vice Chair Kogasaka and Director Kawanishi explained matters related to materiality, the unit of revenue recognition and allocation of the transaction price, and the draft text of the accounting standard, taking into account the status of deliberations at the 78th Revenue Recognition Expert Committee meeting (held on February 28, 2017). The ASBJ then deliberated the matter.

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## **357th ASBJ Board Meeting (March 28, 2017)**

### **(5) Consideration of a comprehensive accounting standard on revenue recognition**

Vice Chair Kogasaka and Director Kawanishi explained matters related to materiality, the unit of revenue recognition and allocation of the transaction price, and the proposed direction for examining disclosures (note disclosures), taking into account the status of deliberations at the 79th Revenue Recognition Expert Committee meeting (held on March 17, 2017). The ASBJ then deliberated the matter.

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### **358th ASBJ Board Meeting (April 10, 2017)**

#### **(5) Consideration of a comprehensive accounting standard on revenue recognition**

Vice Chair Kogasaka and Director Kawanishi explained the responses to issues identified in connection with separate financial statements, taking into account the status of deliberations at the 80th Revenue Recognition Expert Committee meeting (held on April 6, 2017). The ASBJ then deliberated the matter.

They also explained matters related to materiality, the unit of revenue recognition and allocation of the transaction price, and the proposed direction for examining disclosures (note disclosures), and the ASBJ deliberated these matters.

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### **359th ASBJ Board Meeting (April 28, 2017)**

#### **(4) Consideration of a comprehensive accounting standard on revenue recognition**

Vice Chair Kogasaka and Director Kawanishi explained matters related to materiality, the unit of revenue recognition and allocation of the transaction price, illustrative examples, disclosures, and the effective date, taking into account the status of deliberations at the 81st Revenue Recognition Expert Committee meeting (held on April 26, 2017). The ASBJ then deliberated the matter.

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### **361st ASBJ Board Meeting (May 30, 2017)**

#### **(5) Consideration of a comprehensive accounting standard on revenue recognition**

Vice Chair Kogasaka and Director Kawanishi explained disclosures (note disclosures), issues related to performance obligations satisfied over a period of time, the effective date and transitional provisions, and the draft Accounting Standard and draft Implementation Guidance, taking into account the status of deliberations at the 82nd Revenue Recognition Expert Committee meeting (held on May 16, 2017). The ASBJ then deliberated the matter.

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### **362nd ASBJ Board Meeting (June 16, 2017)**

#### **(5) Consideration of a comprehensive accounting standard on revenue recognition**

Vice Chair Kogasaka and Director Kawanishi explained, with respect to the exposure drafts, the effective date, the draft text of the Accounting Standard and the draft text of the Implementation Guidance, and the invitation to comment, taking into account the status of deliberations at the 83rd Revenue Recognition Expert Committee meeting (held on June 7, 2017). The ASBJ then deliberated the matter. It was also explained that, depending on the status of deliberations at the next Revenue Recognition Expert Committee meeting, the ASBJ intended to deliberate approval for publication of the exposure drafts at a future Board meeting.

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### **363rd ASBJ Board Meeting (June 30, 2017)**

#### **(2) Consideration of a comprehensive accounting standard on revenue recognition**

Vice Chair Kogasaka and Director Kawanishi explained, with respect to the exposure drafts, the draft text of the Accounting Standard and the draft text of the Implementation Guidance, and the invitation to comment, taking into account the status of deliberations at the 84th Revenue Recognition Expert Committee meeting (held on June 21, 2017). The ASBJ then deliberated the matter. As a result of the deliberations, it was explained that, if possible, the ASBJ intended to deliberate approval for publication of the exposure drafts at the next Board meeting.

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## **364th ASBJ Board Meeting (July 14, 2017)**

### **(2) ASBJ Exposure Draft “Proposed Accounting Standard on Revenue Recognition” and ASBJ Implementation Guidance Exposure Draft “Proposed Implementation Guidance on the Accounting Standard on Revenue Recognition” [Approval for Publication]**

Vice Chair Kogasaka and Director Kawanishi explained ASBJ Exposure Draft No. 61, “Proposed Accounting Standard on Revenue Recognition,” and ASBJ Implementation Guidance Exposure Draft No. 61, “Proposed Implementation Guidance on the Accounting Standard on Revenue Recognition.” The ASBJ then deliberated and voted on the matter. As a result of the vote, it was approved—by unanimous consent of all attendees—to publish the exposure drafts, on the premise that any revisions to wording and similar matters would be entrusted to the Chair.

## **Exposure Draft of PITF Tentative Practical Solution No. 54 “Tentative Practical Solution Regarding the Effective Periods of PITF No. 34 (Draft)” (December 7, 2017)**

### **[Reference information on background to standard setting, etc.]**

*(From the call for comments)*

In relation to the situation in which negative yields have been observed for Japanese government bonds and other instruments, the Accounting Standards Board of Japan (ASBJ) issued, on March 29, 2017, PITF No. 34, “Practical Solution on the Tentative Solution Regarding the Discount Rate Used to Measure Post-employment Benefit Obligations When the Bond Yield is Negative” (hereinafter “PITF No. 34”). In PITF No. 34, regarding the discount rate used to measure post-employment benefit obligations when the yield during the expected payment period of high-quality bonds is negative, the ASBJ prescribed, as a tentative solution, that either (i) a method that uses zero as a floor for the yield, or (ii) a method that uses the negative yield as it is, may be applied (paragraph 2 of PITF No. 34).

This tentative solution was to be applied only for fiscal years ending from March 31, 2017 through March 30, 2018, and it was stated that further consideration would continue. Accordingly, the ASBJ has proceeded with deliberations, including the organization of issues identified in PITF No. 34.

At the 374th meeting of the ASBJ held on December 5, 2017, publication of the above-mentioned “Tentative Practical Solution Regarding the Effective Periods of PITF No. 34 (Draft)” (hereinafter “this Exposure Draft”) was approved, and therefore it is being published today.

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### **[Background to the development of the standard]**

It is presumed that, because this matter constituted a previously scheduled review of an already-issued PITF Practical Solution, the ASBJ did not newly refer the matter to the Accounting Standards Advisory Council (ASAC) or seek a fresh agenda recommendation.



## [Deliberations at the ASBJ]

### 361st ASBJ meeting (May 30, 2017)

#### **(6) Consideration of the discount rate in retirement benefit accounting under negative interest rates**

Vice Chair Kogasaka and Director Maeda explained the identification and analysis of issues relating to the discount rate in retirement benefit accounting under negative interest rates. Deliberations were conducted, taking into account the status of discussions at the 88th Retirement Benefits Expert Committee (held May 23, 2017).

#### **Excerpt from the 361st ASBJ meeting materials (6)–1**

##### **Background**

1. On March 29, 2017, the ASBJ issued PITF No. 34, “Practical Solution on the Tentative Solution Regarding the Discount Rate Used to Measure Post-employment Benefit Obligations When the Bond Yield is Negative” (hereinafter “PITF No. 34”).
2. PITF No. 34 prescribed, as a tentative solution, that when the yield at period-end during the expected payment period of high-quality bonds used as the basis for the discount rate in measuring post-employment benefit obligations, etc. is negative, either a method that uses zero as a floor for the yield or a method that uses the negative yield as it is may be applied. It also limited the effective period to one year and stated that “with respect to the treatment for fiscal years ending on or after March 31, 2018, the ASBJ will continue to consider, with a view to publishing guidance that prescribes either a method that uses zero as a floor for the yield or a method that uses the negative yield as it is” (see the attached sheet for recent developments in JGB yields).
3. In response, consideration has commenced from the 88th Retirement Benefits Expert Committee (held May 23, 2017).

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### 363rd ASBJ meeting (June 30, 2017)

**(3) Consideration of the discount rate in retirement benefit accounting under negative interest rates**

Vice Chair Kogasaka and Director Maeda explained the consideration of the discount rate in retirement benefit accounting under negative interest rates. Deliberations were conducted, taking into account the status of discussions at the 89th Retirement Benefits Expert Committee (held June 21, 2017).

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**366th ASBJ meeting (August 9, 2017)**

**(3) Consideration of the discount rate in retirement benefit accounting under negative interest rates**

Vice Chair Kogasaka and Director Maeda explained the consideration of the discount rate in retirement benefit accounting under negative interest rates. Deliberations were conducted, taking into account the status of discussions at the 90th Retirement Benefits Expert Committee (held August 7, 2017).

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**371st ASBJ meeting (October 26, 2017)**

**(3) Consideration of the discount rate in retirement benefit accounting under negative interest rates**

Vice Chair Kogasaka and Director Maeda explained the organization of the basic approach to measuring post-employment benefit obligations and the Exposure Draft of the PITF Tentative Practical Solution. Deliberations were conducted.

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**373rd ASBJ meeting (November 22, 2017)**

**(4) Consideration of the discount rate in retirement benefit accounting under negative interest rates**

Vice Chair Kogasaka and Director Nishida explained the draft wording of the PITF Practical Solution regarding the discount rate in retirement benefit accounting under negative interest rates, and the call for comments. Deliberations were conducted. As

a result of the deliberations, it was explained that, if possible, the ASBJ would like to deliberate on approval for publication of the Exposure Draft at the next meeting.

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### **374th ASBJ meeting (December 5, 2017)**

#### **(3) Exposure Draft of PITF Tentative Practical Solution: “Tentative Practical Solution Regarding the Effective Periods of PITF Practical Solution (Draft)” [Vote to Publish]**

Vice Chair Kogasaka and Director Nishida explained the Exposure Draft of PITF Tentative Practical Solution, “Tentative Practical Solution Regarding the Effective Periods of the PITF Practical Solution (Draft).” Deliberation and voting were conducted. As a result of the vote, on the premise that revisions to wording, etc. would be entrusted to the Chair, publication was approved by **13 votes in favor and 1 vote against.**

**Exposure Draft of PITF Practical Solution No. 55 (Draft Amendments to PITF No. 18) “Tentative Treatment for Accounting by Foreign Subsidiaries, etc. in Preparing Consolidated Financial Statements (Draft)” (May 28, 2018)**

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**[Reference information on background to standard setting, etc.]**

*(From the explanation by a professional staff member in “Quarterly Accounting Standards,” II. Background to the amendments)*

In amending PITF No. 18, “Tentative Treatment for Accounting by Foreign Subsidiaries, etc. in Preparing Consolidated Financial Statements,” published in 2017 (hereinafter “PITF No. 18”), it was stated that the ASBJ would consider, as shown in Table 1, whether to add as adjustment items the “non-recycling” treatment, etc. for changes in the fair value of investments in equity instruments measured at fair value through other comprehensive income under IFRS 9, “Financial Instruments” (hereinafter “IFRS 9, ‘Financial Instruments’”).

After conducting outreach to market participants, the ASBJ examined, for IFRSs and U.S. GAAP newly issued or amended during the period from the issuance of PITF No. 18 in 2006 to the time of deliberation of this Exposure Draft, whether there were any items to be added as adjustment items, and published the results as this Exposure Draft in May 2018.

*(III. Overview of this Exposure Draft)*

**1. Overview of the draft amendments to PITF No. 18**

The draft amendments to PITF No. 18 propose that, where a foreign subsidiary, etc. applies IFRS 9, “Financial Instruments,” and elects to present subsequent changes in the fair value of an equity instrument in other comprehensive income, the amount corresponding to the gain or loss on disposal of such equity instrument and the

amount corresponding to any impairment loss be adjusted to profit or loss for the current period in the consolidation procedures.

In examining adjustment items under PITF No. 18, the ASBJ considered not only whether a particular treatment diverges from concepts common to Japanese accounting standards and whether it is practically feasible, but also factors such as the likelihood that the relevant transactions would occur at subsidiaries and the significance of such transactions for the consolidated financial statements as a whole.

In Japan, after conducting an endorsement procedure for accounting standards and interpretations issued by the International Accounting Standards Board (IASB), “Japan’s Modified International Standards” (accounting standards composed of IFRSs and accounting standards modified by the ASBJ) (hereinafter “JMIS”) have been issued. While the endorsement procedure for IFRSs and the examination of adjustment items under PITF No. 18 differ in dimension in terms of materiality—namely, the viewpoint of the consolidated financial statements as a whole versus the viewpoint of subsidiaries within the consolidated group—both share certain similar aspects in that they evaluate IFRSs from the perspective of fundamental concepts underlying Japanese accounting standards. Accordingly, in examining adjustment items under PITF No. 18, the ASBJ referred to the results of the IFRS endorsement procedure.

Specifically, the ASBJ mainly examined the accounting standards listed in Table 2, and as a result, proposed to treat as an adjustment item the reclassification adjustment (recycling) in cases where an election is made under IFRS 9, “Financial Instruments,” to present subsequent changes in fair value of equity instruments in other comprehensive income.

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## Excerpt from the “Call for Comments”

**Treatment relating to reclassification adjustments when an election is made to present subsequent changes in fair value of equity instruments in other comprehensive income**

The draft amendments to PITF No. 18 propose that, where a foreign subsidiary, etc. applies IFRS 9, “Financial Instruments” (hereinafter “IFRS 9, ‘Financial Instruments’”), and elects to present subsequent changes in the fair value of an equity instrument in other comprehensive income, the amount corresponding to the gain or loss on disposal of such equity instrument and the amount corresponding to any impairment loss be adjusted to profit or loss for the current period in the consolidation procedures.

In addition, where an equity-method affiliate accounts in accordance with PITF No. 18, the above adjustment would also be made.

*(Reference) Review of adjustment items*

The ASBJ examined, for IFRSs and U.S. GAAP newly issued or amended during the period from the issuance of PITF No. 18 in 2006 to the time of deliberation of this Exposure Draft, whether there were any items to be added as adjustment items. In doing so, the ASBJ considered not only whether the treatment diverges from concepts common to Japanese accounting standards and whether it is practically feasible, but also the likelihood that the relevant transactions would occur at subsidiaries and the significance of such transactions for the consolidated financial statements as a whole. In conducting this examination, the ASBJ referred to the results of the IFRS endorsement procedure.

Specifically, the ASBJ mainly examined the following accounting standards, and as a result, as stated above, proposed as an adjustment item the reclassification adjustment (recycling) in cases where an election is made under IFRS 9, “Financial Instruments,” to present subsequent changes in fair value of equity instruments in other comprehensive income.

**(IFRS)**

- (1) IFRS 9, “Financial Instruments”
- (2) IFRS 15, “Revenue from Contracts with Customers”

**(U.S. GAAP)**

- (3) Accounting Standards Update (ASU) No. 2016-01, “Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities”
- (4) ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)”

(5) ASU No. 2016-13, “Financial Instruments—Credit Losses (Topic 326):  
Measurement of Credit Losses on Financial Instruments”

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## **[Background to the development of the standard]**

No direct agenda recommendation on this matter is observed. Since this is an attempt to amend an existing accounting standard in response to changes in the environment (such as the issuance or amendment of accounting standards in other jurisdictions), it is presumed that the ASBJ commenced standard-setting without receiving a new agenda recommendation.

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## [Deliberations at the ASBJ]

### 375th ASBJ meeting (December 20, 2017)

#### (4) Consideration of the review of PITF No. 18

Vice Chair **Kogasaka** and Professional Research Fellow **Sannomiya** explained the review of adjustment items in PITF No. 18, “Tentative Treatment for Accounting by Foreign Subsidiaries, etc. in Preparing Consolidated Financial Statements,” and the results of outreach to financial statement preparers. Deliberations were conducted, taking into account the status of discussions at the 112th Practical Solutions Standing Committee (held December 13, 2017).

#### Excerpt from the 375th ASBJ meeting materials (4)–4 (Summary of discussions at the 112th Practical Solutions Standing Committee)

##### Policy for the future review of PITF No. 18

##### (Relationship with the endorsement procedure)

###### *Views supporting the secretariat’s proposal*

2. Agree with the policy of taking into account the results of the endorsement procedure. It is considered unnecessary to re-examine in PITF No. 18 issues such as functional currency that have already been considered in the endorsement procedure.
3. While the policy of taking into account the results of the endorsement procedure as the review process for adjustment items under PITF No. 18 is understandable, it is considered preferable not to overemphasize reliance on the endorsement procedure in the drafting of PITF No. 18, but rather to organize and describe basically what concepts are used to determine adjustment items.
4. The endorsement procedure considers, based on IFRSs, whether IFRSs can be accepted as Japanese accounting standards, whereas adjustment items under PITF No. 18 consider, based on Japanese GAAP, whether IFRS and U.S. GAAP accounting treatments can be accepted within the framework of Japanese GAAP. Therefore, the two have different starting points. Accordingly, it does not necessarily follow that the results of the endorsement procedure can be used in PITF No. 18 as well, and additional consideration may be necessary.
5. PITF No. 18 is an adjustment from IFRSs adopted by subsidiaries to Japanese

GAAP, whereas the endorsement procedure is an adjustment for Japanese companies applying IFRSs. In light of this, it is possible that the practical burden arises from a different perspective than in the endorsement procedure. Therefore, it should be clearly indicated that practical feasibility and materiality are considered in examining adjustment items under PITF No. 18.

*Views that support the secretariat's proposal but note that it does not necessarily increase predictability*

6. Agree with the secretariat's proposal to take into account the results of the endorsement procedure; however, it is expected that evaluating materiality and practical feasibility will be difficult, and adjustment items under PITF No. 18 will not necessarily align with the results of the endorsement procedure. Thus, even if the basic policy regarding adjustment items is communicated, it is not considered that this would increase practical predictability regarding adjustment items under PITF No. 18.

7. The policy of taking into account the results of the endorsement procedure as the basic policy for reviewing PITF No. 18 is considered good; however, because assessments of materiality and practical feasibility may vary among companies, explicitly stating this as a policy might instead confuse practice.

*Other views*

8. Previously, PITF No. 18 examined adjustment items after practical treatments had been established to some extent; however, under the review policy shown in the secretariat's proposal, adjustment items would be examined before practical treatments are established, and therefore there may be limitations in assessing practical feasibility.

9. It is considered that, when the endorsement procedure was examined, it was not assumed that the results would be used in PITF No. 18; therefore, consideration should be given to that point.

10. It is understood that IFRS 13, "Fair Value Measurement," and IFRS 16, "Leases," will, after the endorsement procedure, be examined as Japanese standards; however, whether they were treated as adjustment items under PITF No. 18 may be used as a reference in future standard setting.

### **(3) Consideration of the review of PITF No. 18**

Vice Chair **Kogasaka** and Professional Research Fellow **Sannomiya** explained the review of adjustment items in PITF No. 18, “Tentative Treatment for Accounting by Foreign Subsidiaries, etc. in Preparing Consolidated Financial Statements,” and the examination of the non-recycling treatment for changes in fair value relating to equity instruments. Deliberations were conducted, taking into account the status of discussions at the 113th Practical Solutions Standing Committee (held January 23, 2018).

### **(Reference) From the 377th ASBJ meeting materials (3)-2: Responses to the secretariat’s proposal**

#### **Purpose of these materials**

1. The purpose of these materials is to examine adjustment items relating to IFRS and U.S. GAAP under PITF No. 18, “Tentative Treatment for Accounting by Foreign Subsidiaries in Preparing Consolidated Financial Statements” (hereinafter “PITF No. 18”).

#### **Proposals made at the 112th Practical Solutions Standing Committee and the 375th ASBJ meeting**

2. At the 112th Practical Solutions Standing Committee (held December 13, 2017) and the 375th ASBJ meeting (held December 20, 2017), the following was proposed as the review of adjustment items relating to IFRSs under PITF No. 18.

#### **(Policy for reviewing adjustment items relating to IFRSs)**

The examination of adjustment items under PITF No. 18 is, in principle, to take into account the results of the IFRS endorsement procedure, and to target those items that were “deleted or modified” in JMIS from the perspective of fundamental concepts underlying Japanese accounting standards (or items that did not go so far as to be deleted or modified, but for which important concerns were identified in the course of the endorsement procedure).

Then, for the items examined, the following are to be considered in deciding whether to treat them as adjustment items:

- The materiality of transactions or balances at subsidiaries to the consolidated financial statements

- Practical feasibility

**(Adjustment items relating to IFRSs and U.S. GAAP)**

*Reconsideration of the review of adjustment items relating to IFRSs*

For the non-recycling treatment relating to the OCI option for equity instruments, more detailed consideration (including responses regarding practical feasibility) is to be performed.

- Do not treat fair value measurement for investments in equity instruments without quoted market prices (unlisted shares) as an adjustment item.
- Do not treat IFRS 9 “Financial Instruments” (2014) and IFRS 15 “Revenue from Contracts with Customers” as adjustment items.
- For IFRS 16 “Leases” and IFRS 17 “Insurance Contracts,” determine adjustment items in light of the results of the future endorsement procedure.

*Reconsideration of adjustment items relating to U.S. GAAP*

- Do not treat as adjustment items: (i) the treatment under ASU 2016-01 of recording differences from fair value measurement of equity securities in net income, (ii) ASU 2014-09 “Revenue from Contracts with Customers,” and (iii) ASU 2016-13 “Measurement of Credit Losses on Financial Instruments.”
- For ASU 2016-02 “Leases,” consider it after the IFRS endorsement procedure is completed.

**Views expressed and proposed responses**

3. At the 112th Practical Solutions Standing Committee and the 375th ASBJ meeting, the following views were mainly expressed in response to the above proposal.

- (1) Support the proposed policy because it narrows adjustment items under PITF No. 18 and reflects past discussions (375th ASBJ meeting).
- (2) The policy of taking into account the results of the endorsement procedure is understandable as the process for examining adjustment items; however, in drafting PITF No. 18, it is preferable not to emphasize reliance on the endorsement procedure, but rather to organize and describe basically what concepts are used to determine adjustment items (112th Practical Solutions Standing Committee).
- (3) PITF No. 18 is an adjustment from IFRSs adopted by subsidiaries to Japanese GAAP, whereas the endorsement procedure is an adjustment for Japanese

companies applying IFRSs. Considering this, practical burdens may arise from different perspectives, and therefore it should be clearly indicated that practical feasibility and materiality are considered in examining adjustment items under PITF No. 18 (112th Practical Solutions Standing Committee).

(4) Agree with the policy of taking into account the results of the endorsement procedure; however, given that there will be many companies applying PITF No. 18, compared with the examination of JMIS, the deliberations should pay greater attention to practical feasibility (375th ASBJ meeting).

(5) If practical feasibility is emphasized in examining adjustment items, there is a concern that it will become difficult to explain the basic concepts of PITF No. 18 theoretically. While consideration of practical feasibility is necessary, it is preferable that the starting point for examining adjustment items be whether the treatment is acceptable as a concept under Japanese accounting standards (375th ASBJ meeting).

(6) The endorsement procedure is conducted to perform a highly conceptual analysis of differences in fundamental concepts between Japanese GAAP and IFRSs and to communicate views internationally, whereas PITF No. 18 prescribes simplified methods as a tentative practical solution; therefore, their nature differs significantly. In light of the purpose of PITF No. 18 as a simplified method, it is problematic to link it with the endorsement procedure and adjust even items that impose excessive practical burdens (375th ASBJ meeting).

(7) Since the secretariat's proposal appears to be a policy not to examine U.S. GAAP, a policy for U.S. GAAP should also be presented (112th Practical Solutions Standing Committee).

(8) If adjustment items under PITF No. 18 are linked with the endorsement procedure, adjustment items would be examined before the standards are applied, and therefore it may not be possible to respond appropriately to issues that actually arise. It may be more practical to examine the review of PITF No. 18 after application begins and specific issues become clear (375th ASBJ meeting).

(9) Agree with the secretariat's proposal to take into account the results of the endorsement procedure; however, evaluating materiality and practical feasibility is expected to be difficult, and adjustment items under PITF No. 18 will not necessarily align with the endorsement results. Therefore, even if the basic policy is communicated, it would not increase practical predictability regarding adjustment items under PITF No. 18 (112th Practical Solutions Standing Committee).

### **(Analysis)**

4. The views in the preceding paragraph may be summarized as follows:

(1) In determining adjustment items, the endorsement results should not be used as-is; rather, adjustment items should be determined based on the basic concepts of PITF No. 18.

(2) PITF No. 18 and the endorsement procedure differ in their thinking about adjustment items in the following respects:

- PITF No. 18 prescribes simplified methods as a tentative practical solution, whereas the endorsement procedure is determined from a perspective that includes communicating views internationally.
- The perspectives differ as to whether IFRSs adopted by subsidiaries are adjusted to Japanese GAAP or whether IFRSs are adjusted for Japanese companies applying IFRSs.
- Because PITF No. 18 will be applied by many companies, greater attention to practical feasibility is required.

(3) In examining adjustment items under PITF No. 18, the starting point should be whether the treatment is acceptable as a concept under Japanese accounting standards, also in order to provide a theoretical rationale.

(4) The review of adjustment items under PITF No. 18 should be examined after application begins and specific issues become clear.

(5) Even if a basic policy of taking into account the endorsement procedure is established, it will not increase predictability.

### **Procedure for reviewing adjustment items relating to IFRSs**

5. As described above, views have been expressed that raise concerns about using the results of the endorsement procedure as-is in judging adjustment items under PITF No. 18. On the other hand, it is considered that the basic concepts for adjustment items under PITF No. 18 (concepts common to Japanese accounting standards) and the basic concepts in the IFRS endorsement procedure (fundamental concepts underlying Japanese accounting standards) are basically shared.

6. Accordingly, as a procedure for reviewing adjustment items relating to IFRSs under PITF No. 18, taking into account the views received in paragraph 3, it may be considered not to use the endorsement results as-is for judging adjustment items under PITF No. 18, but to use the endorsement results as inputs for examining adjustment items under PITF No. 18 (concepts common to Japanese accounting

standards, materiality of transactions or balances at subsidiaries to the consolidated financial statements, and practical feasibility).

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### **378th ASBJ meeting (February 9, 2018)**

#### **(2) Consideration of the review of PITF No. 18**

Vice Chair Kogasaka and Professional Research Fellow Sannomiya explained, in relation to the review of PITF No. 18, the non-recycling treatment, etc. for changes in fair value relating to equity instruments. Deliberations were conducted, taking into account the status of discussions at the 114th Practical Solutions Standing Committee (held February 7, 2018).

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### **379th ASBJ meeting (February 22, 2018)**

#### **(4) Consideration of the review of PITF No. 18**

Vice Chair Kogasaka and Professional Research Fellow Sannomiya explained the draft wording of the PITF Practical Solution relating to the review of PITF No. 18, “Tentative Treatment for Accounting by Foreign Subsidiaries, etc. in Preparing Consolidated Financial Statements,” etc. Deliberations were conducted, taking into account the status of discussions at the 115th Practical Solutions Standing Committee (held February 21, 2018).

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### **380th ASBJ meeting (March 26, 2018)**

#### **(5) Consideration of the review of PITF No. 18**

Vice Chair Kogasaka and Professional Research Fellow Sannomiya explained the draft wording reflecting the review of adjustment items in PITF No. 18, “Tentative Treatment for Accounting by Foreign Subsidiaries, etc. in Preparing Consolidated Financial Statements,” etc. Deliberations were conducted, taking into account the status of discussions at the 116th Practical Solutions Standing Committee (held March 7, 2018).

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### **383rd ASBJ meeting (April 26, 2018)**

#### **(4) Consideration of the review of PITF No. 18**

Chair Ono and Professional Research Fellow Sannomiya explained the draft wording reflecting the review of adjustment items in PITF No. 18, “Tentative Treatment for Accounting by Foreign Subsidiaries, etc. in Preparing Consolidated Financial Statements,” etc., and the call for comments. Deliberations were conducted, taking into account the status of discussions at the 117th Practical Solutions Standing Committee (held April 25, 2018). As a result of the deliberations, it was explained that, if possible, the ASBJ would like to deliberate on approval for publication of the Exposure Draft at a subsequent meeting.

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### **385th ASBJ meeting (May 24, 2018)**

#### **(2) Exposure Draft of PITF Practical Solution: “Tentative Treatment for Accounting by Foreign Subsidiaries, etc. in Preparing Consolidated Financial Statements (Draft)” [Vote to Publish]**

Vice Chair **Kogasaka** and Professional Research Fellow **Sannomiya** explained the Exposure Draft of PITF Practical Solution, “Tentative Treatment for Accounting by Foreign Subsidiaries, etc. in Preparing Consolidated Financial Statements (Draft),” etc. Deliberation and voting were conducted. As a result of the vote, on the premise that revisions to wording, etc. would be entrusted to the Chair, publication was approved with the support of **all attending members**.

**Exposure Draft No. 62 of Accounting Standard (Draft Amendments to ASBJ Statement No. 21) “Accounting Standard for Business Combinations (Draft)” and Exposure Draft No. 62 of Implementation Guidance (Draft Amendments to ASBJ Implementation Guidance No. 10) “Implementation Guidance on Accounting Standards for Business Combinations and Business Divestitures, etc. (Draft)” (August 21, 2018)**

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## **[Reference information on background to standard setting, etc.]**

*(Excerpt from the “Call for Comments”)*

At the 277th meeting of the Accounting Standards Board of Japan (ASBJ) in December 2013, the Accounting Standards Advisory Council (ASAC) recommended that the ASBJ consider the accounting treatment for cases in which a portion of the consideration is returned in connection with contingent consideration related to ASBJ Statement No. 21, “Accounting Standard for Business Combinations.”

In addition, at the 357th meeting of the ASBJ in March 2017, the ASAC requested that, regarding differences in the descriptions between ASBJ Statement No. 7, “Accounting Standard for Business Divestitures, etc.” (hereinafter the “Business Divestitures Standard”) and ASBJ Implementation Guidance No. 10, “Implementation Guidance on Accounting Standards for Business Combinations and Business Divestitures, etc.” (hereinafter the “Business Combinations/Divestitures Implementation Guidance”), the ASBJ address such differences when the Implementation Guidance is revised.

In light of these matters, the ASBJ has conducted deliberations. At the 390th ASBJ meeting held on August 13, 2018, publication of the following exposure drafts of the accounting standard and related implementation guidance (collectively, “this Exposure Draft”) was approved, and therefore they are published today:

- Exposure Draft No. 62 of Accounting Standard (Draft Amendments to ASBJ Statement No. 21), “Accounting Standard for Business Combinations (Draft)” (hereinafter the “Draft Amendments to the Accounting Standard”); and
  - Exposure Draft No. 62 of Implementation Guidance (Draft Amendments to ASBJ Implementation Guidance No. 10), “Implementation Guidance on Accounting Standards for Business Combinations and Business Divestitures, etc. (Draft)” (hereinafter the “Draft Amendments to the Implementation Guidance”).
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## **[Deliberations at the Accounting Standards Advisory Council]**

### **18th ASAC meeting (July 16, 2013)**

*(Note)*

Deliberations on contingent consideration in business combinations began with this ASAC meeting.

#### **Excerpt from deliberation materials (3)–1**

##### **Proposal at the 18th ASAC meeting (this meeting)**

4. With respect to the following items, as a result of the secretariat’s consideration, the secretariat proposes the following responses. In conducting its consideration, the secretariat received advice from the board member in charge of the topic.

(omitted)

##### **(Practical–solution level)**

Item: Treatment of contingent consideration under the “Accounting Standard for Business Combinations”

Response: Would it be appropriate to request the Practical Issues Committee to evaluate the item as a new topic?

#### **Excerpt from Summary of Minutes 3: agenda recommendations**

(omitted) In response to these views, the Chair made the following remarks:

- For agenda items at the accounting–standard level, the ASBJ will report on subsequent events at the next ASAC meeting.
- For agenda items at the accounting–standard level concerning accounting treatment when a wholly owned parent company transfers a business to its wholly owned subsidiary through a no–consideration company split, and for agenda items at the practical–solution level, the ASAC will request the Practical Issues Committee to evaluate the items as new topics; however, priority should be determined taking into account the ASBJ’s resources.

### **From deliberation materials (3)–8**

**Agenda:** Proposal of new topics

Item: <Practical–solution level>

Proposer: Auditor

(Topic)

Treatment of contingent consideration under the “Accounting Standard for Business Combinations”

(Reasons for proposal)

In practice, diversity in judgment has arisen regarding accounting treatment for contingent consideration prescribed in ASBJ Statement No. 21, “Accounting Standard for Business Combinations.”

In relation to paragraph 27 of the current Business Combinations Standard and paragraph 47 of the Business Combinations/Divestitures Implementation Guidance, it is considered necessary to clarify whether cases in which a portion of the consideration paid at the acquisition date is returned (a negative payment or delivery) are included within the scope of contingent consideration.

(Specific details)

In practice, various conditions are increasingly attached to acquisition terms and conditions, and there are cases where it is difficult to judge whether such conditions fall within the “conditions” contemplated as contingent consideration under paragraph 27 of the current Business Combinations Standard.

In particular, the proviso to paragraph 47(1) of the current Business Combinations/Divestitures Implementation Guidance states that “contingent consideration is understood to be limited to consideration additionally delivered or transferred after the business combination date.” Accordingly, it would be appropriate to clarify the interpretation as to whether cases in which a portion of the consideration paid at the acquisition date is returned (a negative payment or delivery) are also subject to the accounting treatment for contingent consideration.

If such cases are not included within contingent consideration, goodwill would continue to be recognized based on the consideration paid at initial acquisition, while the amount returned (a negative payment or delivery) would be recognized as profit, which is considered to result in an unsound accounting treatment.

(Secretariat’s proposed response)

1. Regarding accounting treatment for “cases in which a portion of the consideration paid at the acquisition date is returned” as described in the reasons for proposal, would it be appropriate to request the Practical Issues Committee to evaluate the item as a new topic, including confirmation of current practice?

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## **19th ASAC meeting (November 20, 2013)**

### **(Summary of Minutes 1) Agenda recommendations**

As items related to agenda recommendations, first, Watabe, Planning Office Manager of the Financial Accounting Standards Foundation, explained an overview of the evaluation of topics and the secretariat’s draft proposal regarding topics at the accounting–standard level and the practical–solution level that had been submitted to the ASAC up to the previous meeting(s).

Subsequently, Vice Chair Kogasaka of the ASBJ explained, among practical–solution level topics, a report concerning the survey regarding recoverability of deferred tax assets, and also explained the Practical Issues Committee’s evaluation regarding the treatment of contingent consideration under the “Accounting Standard for Business Combinations.” (omitted)

**[Treatment of contingent consideration under the “Accounting Standard for Business Combinations”]**

- Agree with the secretariat’s draft proposal. Although the priority is not high at the level of IFRS Annual Improvements, it is important that the Practical Issues Committee examines the substance and that a process exists whereby matters are clarified as a result.

In response to these views, the Chair stated that the ASAC would recommend to the ASBJ, as a new agenda item, guidance on recoverability of deferred tax assets, and also stated that, although the priority is not high, the ASAC would recommend to the ASBJ, as a new agenda item, the treatment of contingent consideration under the “Accounting Standard for Business Combinations.”

**From the 19th ASAC meeting materials (1)–1 (November 20, 2013)**

**(Practical–solution level)**

Proposal at the previous (18th) ASAC meeting:

Treatment of contingent consideration under the “Accounting Standard for Business Combinations”

Based on the Practical Issues Committee’s evaluation, would it be appropriate to recommend it as a new ASBJ agenda item with a low level of priority?

**I. Content of the proposal to the ASAC**

Treatment of contingent consideration under the “Accounting Standard for Business Combinations”

(Reasons for proposal)

In practice, diversity in judgment has arisen regarding accounting treatment for contingent consideration prescribed in ASBJ Statement No. 21, “Accounting Standard for Business Combinations.”

In relation to paragraph 27 of the current Business Combinations Standard and paragraph 47 of the Business Combinations/Divestitures Implementation Guidance, it is considered necessary to clarify whether cases in which a portion of the consideration paid at the acquisition date is returned (a negative payment or delivery) are included within the scope of contingent consideration.

(Specific details)

In practice, various conditions are increasingly attached to acquisition terms and conditions, and there are cases where it is difficult to judge whether such conditions fall within the “conditions” contemplated as contingent consideration under paragraph 27 of the current Business Combinations Standard.

In particular, the proviso to paragraph 47(1) of the current Business Combinations/Divestitures Implementation Guidance states that “contingent consideration is understood to be limited to consideration additionally delivered or transferred after the business combination date.” Accordingly, it would be appropriate to clarify the interpretation as to whether cases in which a portion of the consideration paid at the acquisition date is returned (a negative payment or delivery) are also subject to the accounting treatment for contingent consideration.

If such cases are not included within contingent consideration, goodwill would continue to be recognized based on the consideration paid at initial acquisition, while the amount returned (a negative payment or delivery) would be recognized as profit, which is considered to result in an unsound accounting treatment.

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## 29th ASAC meeting (March 14, 2017)

### From deliberation materials (1)–4

**Agenda:** Agenda recommendations

Item: Proposal of new agenda items at this ASAC meeting

Proposer: ASAC member

(Topic)

Differences in the descriptions between the “Accounting Standard for Business Divestitures, etc.” and the “Implementation Guidance on Accounting Standards for Business Combinations and Business Divestitures, etc.” (Practical–solution level)

(Reasons for proposal)

Because the wording of the “Implementation Guidance on Accounting Standards for Business Combinations and Business Divestitures, etc.” (hereinafter the “Implementation Guidance”) and the wording of the “Accounting Standard for Business Divestitures, etc.” (hereinafter the “Business Divestitures Standard”),

which is referenced by the same provision, appear on their face to differ, it is considered preferable to revise the wording of the Implementation Guidance from the perspective of clarity.

(Specific details)

If Company B, an equity-method affiliate of Company A, merges with external Company C and becomes Company BC, and Company BC continues to be an equity-method affiliate of Company A (a reverse acquisition case in which the acquirer is Company C and the surviving company is Company B), Company A's accounting is required to follow paragraph 289 of the Implementation Guidance.

The treatment in consolidated financial statements in paragraph 289 states that “(2) In the consolidated financial statements, the difference arising because a portion of the equity interests of the shareholders of the combining entity is transferred to the equity interests of other shareholders shall be treated as a difference arising from changes in equity.” On its face, this wording could be read as recognizing gains or losses from changes in equity interests.

However, the provision refers to paragraph 48(1) ① of the Business Divestitures Standard, which requires reverse acquisitions to be accounted for in the same manner as forward acquisitions. Forward acquisitions are described in paragraph 40 of the Business Divestitures Standard, which states that, in the consolidated financial statements, both goodwill and differences arising from changes in equity are recognized.

Accordingly, because the wording on its face appears to differ between the Implementation Guidance and the Business Divestitures Standard it references, it is considered preferable to revise the wording of the Implementation Guidance from the perspective of clarity. The same is understood to apply similarly to subsidiaries under paragraph 287 of the Implementation Guidance.

(Secretariat's proposed response)

Because this topic proposal relates to the manner of drafting the accounting standards, would it be appropriate to request the ASBJ to address it when the “Implementation Guidance on Accounting Standards for Business Combinations and Business Divestitures, etc.” is revised in the future?

## [Deliberations at the ASBJ]

### 353rd ASBJ meeting (January 26, 2017)

#### (4) Resumption of the Business Combinations Expert Committee

Full-time board member Yasui explained the resumption of the Business Combinations Expert Committee and the appointment of expert members. Deliberations were conducted. As a result, appointment of the expert members was approved as proposed, and procedures such as commissioning were to be carried out.

#### Excerpt from the 353rd ASBJ meeting materials (4)

##### Purpose of resuming the Expert Committee

1. The ASBJ has established the Business Combinations Expert Committee for the purpose of examining Japanese accounting standards for business combinations and also examining how to communicate views internationally regarding accounting standards for business combinations.
2. After deliberations on so-called “Business Combinations (Step 2),” whose main revisions included treatment of minority interests (non-controlling interests), accounting treatment for acquisition-related costs, and treatment for finalizing provisional accounting, the Expert Committee has not been convened since August 2013.
3. Currently, the ASAC has made the following recommendations to the ASBJ, and the ASBJ has decided to take them up as new agenda items. In response, it is considered that the Business Combinations Expert Committee may conduct deliberations:
  - (1) Treatment of contingent consideration under the “Accounting Standard for Business Combinations”  
At the 277th ASBJ meeting (held December 12, 2013), the ASAC recommended this matter to the ASBJ, and it was agreed that detailed deliberations would be conducted at the Practical Issues Committee or the Business Combinations Expert Committee.
  - (2) Relationship between impairment of investments in subsidiaries/affiliates and impairment of goodwill

At the 341st ASBJ meeting (held July 25, 2016), the ASAC recommended this matter to the ASBJ, and it was agreed that detailed deliberations would be conducted at the Practical Issues Committee.

4. In addition, the ASAC has requested the Practical Issues Committee to evaluate the following new topics, and it is considered that the Business Combinations Expert Committee may support the Practical Issues Committee:
  - (1) Accounting treatment for share exchanges with no consideration
  - (2) Absorption-type mergers of subsidiaries by a parent company
5. In light of the above, the Business Combinations Expert Committee will be resumed.

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### **357th ASBJ meeting (March 28, 2017)**

#### **(6) Agenda recommendations from the ASAC**

ASAC Vice Chair Takahama reported that, as a result of deliberations at the 29th ASAC meeting (held March 14, 2017), the ASAC would recommend “Accounting treatment for virtual currencies” as a new ASBJ agenda item.

He also reported that, regarding the topic proposed at the ASAC, “Differences in the descriptions between the ‘Accounting Standard for Business Divestitures, etc.’ and the ‘Implementation Guidance on Accounting Standards for Business Combinations and Business Divestitures, etc.’,” the ASAC would request the ASBJ to address it when the Implementation Guidance is revised in the future.

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### **358th ASBJ meeting (April 10, 2017)**

#### **(6) Response to agenda recommendations from the ASAC**

Vice Chair Kogasaka explained the ASBJ’s response to the agenda recommendation from the ASAC made at the 357th ASBJ meeting (held March 28, 2017) regarding “Accounting treatment for virtual currencies.” Deliberations were conducted, and as a result, it was approved that the ASBJ would take up the matter as a new agenda item. (No description relating to business combinations accounting appears in the meeting summary.)

## **Excerpt from the 358th ASBJ meeting materials (6)**

(Consistent with the content reproduced below from the 389th ASBJ meeting materials (2)-1)

### **Differences in the descriptions between the “Accounting Standard for Business Divestitures, etc.” and the “Implementation Guidance on Accounting Standards for Business Combinations and Business Divestitures, etc.”**

(Content of the request from the ASAC)

4. This is a request regarding “Differences in the descriptions between the ‘Accounting Standard for Business Divestitures, etc.’ and the ‘Implementation Guidance on Accounting Standards for Business Combinations and Business Divestitures, etc.’” stated in the attached “ASAC recommendations, etc. regarding new agenda items.” The content of the request is as follows:

“Regarding differences in the descriptions between the ‘Accounting Standard for Business Divestitures, etc.’ and the ‘Implementation Guidance on Accounting Standards for Business Combinations and Business Divestitures, etc.’, we request that the ASBJ address such differences when the ‘Implementation Guidance on Accounting Standards for Business Combinations and Business Divestitures, etc.’ is revised in the future.”

(ASBJ’s proposed response policy)

5. Based on the ASAC’s request, would it be appropriate to address the matter when the “Implementation Guidance on Accounting Standards for Business Combinations and Business Divestitures, etc.” is revised in the future?

In addition, because it relates to business combinations, would it be appropriate for the Business Combinations Expert Committee to handle this matter?

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## **371st ASBJ meeting (October 26, 2017)**

### **(4) Status of deliberations at the Business Combinations Expert Committee**

Full-time board member Yasui and Professional Research Fellow Hori explained the treatment of contingent consideration under the “Accounting Standard for Business Combinations” (treatment when consideration is returned), taking into account the status of discussions at the 96th Business Combinations Expert Committee (held October 13, 2017). Deliberations were conducted.

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### **384th ASBJ meeting (May 11, 2018)**

#### **(3) Status of deliberations at the Business Combinations Expert Committee**

Full-time board member Yasui and Professional Research Fellow Hori explained (i) the treatment of contingent consideration under the “Accounting Standard for Business Combinations,” and (ii) the relationship between impairment of investments in subsidiaries/affiliates and impairment of goodwill, taking into account the status of discussions at the 98th Business Combinations Expert Committee (held May 7, 2018). Deliberations were conducted. As a result, in relation to the relationship between impairment of investments in subsidiaries/affiliates and impairment of goodwill, it was agreed to request the Japanese Institute of Certified Public Accountants to delete paragraph 32 of Audit and Assurance Practice Committee Report No. 7, “Practical Guidance on Capital Consolidation Procedures in Consolidated Financial Statements.”

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### **389th ASBJ meeting (July 24, 2018)**

#### **(2) Status of deliberations at the Business Combinations Expert Committee**

Full-time board member Yasui and Professional Research Fellow Hougaku explained the status of deliberations at the Business Combinations Expert Committee. They also explained the draft amendments to ASBJ Statement No. 21, “Accounting Standard for Business Combinations,” etc. and the call for comments, taking into account the status of discussions at the 99th Business Combinations Expert Committee (held June 15, 2018). Deliberations were conducted. As a result, it was explained that, if possible, the ASBJ would like to deliberate on approval for publication of the exposure drafts at the next ASBJ meeting.

#### **Excerpt from the 389th ASBJ meeting materials (2)–1**

##### **Matters considered to date**

1. With respect to ASBJ Statement No. 21, “Accounting Standard for Business Combinations” (hereinafter the “Business Combinations Standard”) and ASBJ Implementation Guidance No. 10, “Implementation Guidance on

Accounting Standards for Business Combinations and Business Divestitures, etc.” (hereinafter the “Business Combinations/Divestitures Implementation Guidance,” and collectively with the Business Combinations Standard, the “Business Combinations Standards, etc.”), the ASAC has made the following recommendations or requests:

(1) Regarding the treatment of contingent consideration under the “Accounting Standard for Business Combinations,” the ASAC made a recommendation to the ASBJ at the 277th ASBJ meeting held on December 12, 2013, and at the 353rd ASBJ meeting held on January 26, 2017, it was decided to deliberate the matter as a new agenda item at this Expert Committee.

Regarding this matter, deliberations have been conducted at the 96th Expert Committee (held October 13, 2017), the 98th Expert Committee (held May 7, 2018) and the 99th Expert Committee (held June 15, 2018), as well as at the 371st ASBJ meeting (held October 26, 2017) and the 384th ASBJ meeting (held May 11, 2018).

(2) Regarding differences in the descriptions between the “Accounting Standard for Business Divestitures, etc.” and the “Implementation Guidance on Accounting Standards for Business Combinations and Business Divestitures, etc.,” the ASAC made the following request at the 358th ASBJ meeting held on April 10, 2017:

“We request that you address differences in the descriptions between the ‘Accounting Standard for Business Divestitures, etc.’ and the ‘Implementation Guidance on Accounting Standards for Business Combinations and Business Divestitures, etc.’ when the ‘Implementation Guidance on Accounting Standards for Business Combinations and Business Divestitures, etc.’ is revised in the future.”

Regarding this matter, deliberations have been conducted at the 98th Expert Committee (held May 7, 2018) and the 99th Expert Committee (held June 15, 2018), as well as at the 384th ASBJ meeting (held May 11, 2018).

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### **390th ASBJ meeting (August 13, 2018)**

**(2) Exposure Draft of Accounting Standard: “Accounting Standard for Business Combinations (Draft)” and Exposure Draft of Implementation Guidance:**

**“Implementation Guidance on Accounting Standards for Business Combinations and Business Divestitures, etc. (Draft)” [Vote to Publish]**

Full-time board member Yasui and Professional Research Fellow Hougaku explained the exposure draft of the accounting standard, “Accounting Standard for Business Combinations (Draft),” and the exposure draft of the implementation guidance, “Implementation Guidance on Accounting Standards for Business Combinations and Business Divestitures, etc. (Draft).” Deliberation and voting were conducted. As a result of the vote, on the premise that revisions to wording, etc. would be entrusted to the Chair, publication was approved with the support of all attending members.

Exposure Draft No. 63 “Accounting Standard for Fair Value Measurement (Draft)”;  
Exposure Draft No. 64 (Draft Amendments to ASBJ Statement No. 9) “Accounting Standard for Valuation of Inventories (Draft)”;  
Exposure Draft No. 65 (Draft Amendments to ASBJ Statement No. 10) “Accounting Standard for Financial Instruments (Draft)”;  
Exposure Draft No. 63 of Implementation Guidance “Implementation Guidance on Accounting Standard for Fair Value Measurement (Draft)”;  
Exposure Draft No. 64 of Implementation Guidance (Draft Amendments to ASBJ Implementation Guidance No. 14) “Implementation Guidance on Accounting Standard for Quarterly Financial Statements (Draft)”;  
and  
Exposure Draft No. 65 of Implementation Guidance (Draft Amendments to ASBJ Implementation Guidance No. 19) “Implementation Guidance on Disclosures about Fair Value of Financial Instruments, etc. (Draft)” (January 18, 2019)

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## [Reference information on background to standard setting, etc.]

*(Excerpt from the “Call for Comments”)*

In Japan, while the calculation of fair value (fair value) has been required under ASBJ Statement No. 10, “Accounting Standard for Financial Instruments,” etc., detailed guidance on measurement methods had not been prescribed to date. Meanwhile, the International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB) have established detailed guidance on fair value measurement with substantially the same content (IFRS 13, “Fair Value Measurement,” in IFRSs (hereinafter “IFRS 13”), and Topic 820, “Fair Value Measurement,” in the Accounting Standards Codification (the FASB’s codification system of accounting standards) in U.S. GAAP). In order to enhance comparability with these international accounting standards, the ASBJ’s Mid-term Operating Strategy published in August 2016 identified guidance and disclosures on fair value as one of the issues to be considered as part of efforts to make Japanese GAAP internationally consistent.

In light of these circumstances, at the 381st meeting of the ASBJ held in March 2018, the ASBJ decided to commence efforts—primarily regarding guidance and disclosures on fair value of financial instruments—to achieve consistency with international accounting standards, and has continued its deliberations.

At the 400th meeting of the ASBJ held on January 11, 2019, the ASBJ approved the publication of the following exposure drafts of accounting standards and implementation guidance (collectively, “this Exposure Draft”), and therefore publishes them today:

- Exposure Draft No. 63 “Accounting Standard for Fair Value Measurement (Draft)” (hereinafter the “Draft Fair Value Measurement Standard”);
- Exposure Draft No. 64 (Draft Amendments to ASBJ Statement No. 9) “Accounting Standard for Valuation of Inventories (Draft)” (hereinafter the “Draft Inventories Standard”);
- Exposure Draft No. 65 (Draft Amendments to ASBJ Statement No. 10) “Accounting Standard for Financial Instruments (Draft)” (hereinafter the “Draft Financial Instruments Standard”);
- Exposure Draft No. 63 of Implementation Guidance “Implementation Guidance on Accounting Standard for Fair Value Measurement (Draft)” (hereinafter the “Draft Fair Value Measurement Implementation Guidance”);
- Exposure Draft No. 64 of Implementation Guidance (Draft Amendments to ASBJ Implementation Guidance No. 14) “Implementation Guidance on Accounting Standard for Quarterly Financial Statements (Draft)” (hereinafter the “Draft Quarterly Implementation Guidance”); and
- Exposure Draft No. 65 of Implementation Guidance (Draft Amendments to ASBJ Implementation Guidance No. 19) “Implementation Guidance on Disclosures about Fair Value of Financial Instruments, etc. (Draft)” (hereinafter the “Draft Implementation Guidance on Disclosures about Fair Value of Financial Instruments”).

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**[Background to the development of the standards]**

No direct agenda recommendation on this matter is observed. Because this project is positioned as part of efforts—described in the Mid-term Operating Strategy, etc.—to make Japanese GAAP internationally consistent, it is presumed that no request was made to the (Corporate Accounting) Accounting Standards Advisory Council (ASAC) to examine the topic, etc.

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## [Deliberations at the ASBJ]

### 365th ASBJ meeting (July 28, 2017)

#### (4) Items to be examined by the Financial Instruments Expert Committee

Chair Ono, Vice Chair Kogasaka, and Director Kawanishi explained that items to be examined by the Financial Instruments Expert Committee would include consideration of IFRS 9, “Financial Instruments,” and consideration relating to IFRS 13, “Fair Value Measurement.” Deliberations were conducted.

#### Excerpt from materials for the 365th ASBJ meeting (4)

##### Consideration relating to IFRS 9, “Financial Instruments”

###### *Development of Japanese GAAP*

(Background to date)

2. The ASBJ published “Summary of the Status of Deliberations” in 2010 and 2011 regarding classification and measurement in IFRS 9, “Financial Instruments,” but subsequently suspended its deliberations. Development of IFRS 9 was completed through the amendments in July 2014, and it was scheduled to become effective on January 1, 2018.

3. The Mid-term Operating Strategy published in August 2016 includes, as shown in the appendix, efforts relating to IFRS 9 among “future issues to be considered regarding efforts to make Japanese GAAP internationally consistent.”

(Next steps)

4. The Mid-term Operating Strategy states, in substance, as follows:

“Based on the above, for the time being, the Financial Instruments Expert Committee will consider, among other matters, grasping practical concerns regarding application of IFRS 9 and whether, if the ASBJ were to commence work, it should address the three areas simultaneously; thereafter, the ASBJ will consider whether to commence deliberations toward revisions to Japanese GAAP.”

5. Based on the above, after implementation of the IFRS endorsement procedure described below, the Financial Instruments Expert Committee will conduct deliberations. A specific approach will be proposed in the future.

### *IFRS endorsement procedure*

6. In the working group on IFRS endorsement, the endorsement procedure for IFRS 9 as amended in July 2014 began in May 2017. In that working group, with respect to impairment under IFRS 9, the Financial Instruments Expert Committee—having relevant expertise—was asked to examine practical difficulties regarding, for example, the so-called relative approach and the application of forward-looking information, and based on the results, the working group would determine whether to “delete or modify” IFRS 9. In light of this, the Financial Instruments Expert Committee will examine the above matters.

### **Consideration relating to IFRS 13, “Fair Value Measurement”**

#### *Development of Japanese GAAP*

(Background to date)

7. The ASBJ published an exposure draft in 2010 entitled “Accounting Standard for Fair Value Measurement and Disclosures Thereof (Draft),” but subsequently suspended deliberations. IFRS 13 was issued in May 2011 and became effective on January 1, 2013.

8. Efforts relating to IFRS 13 are also included, as shown in the appendix, among “future issues to be considered regarding efforts to make Japanese GAAP internationally consistent.”

(Next steps)

9. The Mid-term Operating Strategy states, in substance, as follows:

“Based on the above, the Financial Instruments Expert Committee will consider the necessity of achieving consistency with international accounting standards; thereafter, the ASBJ will consider whether to commence deliberations toward standard setting.”

10. Based on the above, after responding to the IASB’s post-implementation review, the Financial Instruments Expert Committee will conduct deliberations. A specific approach will be proposed in the future.

(International activities)

11. In May 2017, as part of the post-implementation review, the IASB issued a request for information (IASB Request for Information “Post-implementation Review of IFRS 13 ‘Fair Value Measurement’” (May 2017)). With respect to comments on the financial instruments’ aspects of that request, the Financial Instruments Expert Committee will conduct deliberations.

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## **374th ASBJ meeting (December 5, 2017)**

### **(6) Consideration of guidance and disclosures on fair value measurement**

Chair Ono and Director Kawanishi explained: (i) the need to achieve consistency with international accounting standards regarding guidance and disclosures on fair value measurement of financial instruments; and (ii) the post-implementation review of IFRS 13, “Fair Value Measurement,” among agenda items for the Accounting Standards Advisory Forum (ASAF) meeting to be held in December 2017.

Deliberations were conducted, taking into account the status of discussions at the 122nd Financial Instruments Expert Committee meeting (held November 21, 2017).

### **Excerpt from materials for the 374th ASBJ meeting (6)–1**

#### **Deliberations to date**

1. In May 2017, as part of the post-implementation review, the IASB issued a request for information (IASB Request for Information “Post-implementation Review of IFRS 13 ‘Fair Value Measurement’ ”). The Expert Committee examined comments to be submitted in response to that request, and the ASBJ submitted a comment letter to the IASB on September 22, 2017.
2. At the 365th ASBJ meeting (held July 28, 2017), based on the Mid-term Operating Strategy, it was approved that, after responding to the IASB’s post-implementation review, the Financial Instruments Expert Committee would begin efforts to make Japanese GAAP internationally consistent regarding guidance and disclosures on fair value measurement. Starting from the 122nd Financial Instruments Expert Committee meeting (held November 21, 2017), the Expert Committee began examining the need to achieve international consistency regarding guidance and disclosures on fair value measurement of financial instruments.

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## **377th ASBJ meeting (January 25, 2018)**

### **(5) Items to be examined by the Financial Instruments Expert Committee**

Chair Ono, Vice Chair Kogasaka, and Director Kawanishi explained the approach

going forward for efforts to make Japanese GAAP internationally consistent with respect to accounting for financial instruments. Deliberations were conducted. *(Note: At this ASBJ meeting, it was proposed to solicit views on which of the four main areas— “classification and measurement,” “impairment,” “hedge accounting,” and “derecognition”—should be within the scope of consideration. Details are described in materials (5).)*

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### **378th ASBJ meeting (February 9, 2018)**

#### **(5) Consideration of accounting for financial instruments**

Chair Ono and Director Kawanishi explained the approach going forward for efforts to make Japanese GAAP internationally consistent regarding accounting for financial instruments, taking into account the status of discussions at the 123rd Financial Instruments Expert Committee meeting (held February 2, 2018). Deliberations were conducted.

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### **380th ASBJ meeting (March 9, 2018)**

#### **(6) Consideration of guidance and disclosures on fair value measurement (financial instruments)**

Chair Ono and Director Kawanishi explained the approach going forward for achieving consistency with international accounting standards regarding guidance and disclosures on fair value measurement (financial instruments), taking into account additional work such as outreach to financial statement preparers and users, and the status of discussions at the 123rd and 124th Financial Instruments Expert Committee meetings (held February 2 and February 26, 2018). Deliberations were conducted.

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### **381st ASBJ meeting (March 26, 2018)**

#### **(5) Consideration of guidance and disclosures on fair value measurement (non-financial items)**

Chair Ono and Director Kawanishi explained the need to achieve consistency with international accounting standards regarding guidance and disclosures on fair value measurement for items other than financial instruments. Deliberations were conducted.

As a result of the deliberations, it was confirmed that (i) the ASBJ would commence efforts to achieve consistency with international accounting standards regarding guidance and disclosures on fair value measurement for financial instruments; and (ii) the ASBJ would not commence such efforts for items other than financial instruments (however, consideration of inventories held for trading purposes, etc. would be conducted separately).

*(Note: The reasons for reaching the above conclusion are described in detail in materials (5)-2 for the 381st ASBJ meeting.)*

### **383rd ASBJ Meeting (April 26, 2018)**

#### **(5) Consideration of guidance and disclosures on fair value measurement**

Chair Ono and Director Kawanishi explained matters concerning guidance and disclosures on fair value measurement, focusing mainly on the structure of the accounting standards, etc., and the approach to proceeding with the standard-setting project. Deliberations were conducted in light of the status of discussions at the 126th Financial Instruments Expert Committee meeting (held on April 23, 2018).

### **385th ASBJ Meeting (May 24, 2018)**

#### **(3) Consideration of guidance and disclosures on fair value measurement**

Chair Ono and Director Kawanishi explained the consideration of guidance and disclosures on fair value measurement, focusing mainly on the format, structure, and issues of the Exposure Draft regarding the definition of fair value and related guidance. Deliberations were conducted in light of the status of discussions at the 127th Financial Instruments Expert Committee meeting (held on May 15, 2018).

### **386th ASBJ Meeting (June 7, 2018)**

#### **(3) Consideration of guidance and disclosures on fair value measurement**

Chair Ono and Director Kawanishi explained the consideration of guidance and disclosures on fair value measurement, focusing mainly on (i) entities to which the disclosure requirements would apply, (ii) general disclosure items, and (iii) disclosure

items applicable to Level 3. Deliberations were conducted in light of the status of discussions at the 128th Financial Instruments Expert Committee meeting (held on June 1, 2018).

### **387th ASBJ Meeting (June 21, 2018)**

#### **(2) Consideration of guidance and disclosures on fair value measurement**

Chair Ono and Director Kawanishi explained the draft wording and issues of the Exposure Draft regarding the definition of fair value and related guidance, as well as the entities to which disclosures on the fair value of financial instruments would apply. Deliberations were conducted in light of the status of discussions at the 129th Financial Instruments Expert Committee meeting (held on June 20, 2018).

### **388th ASBJ Meeting (July 6, 2018)**

#### **(3) Consideration of guidance and disclosures on fair value measurement**

Chair Ono and Director Kawanishi explained (i) the draft wording of the accounting standard and the implementation guidance regarding the definition of fair value and related guidance, and (ii) illustrative examples regarding the definition of fair value and related guidance. Deliberations were conducted in light of the status of discussions at the 130th Financial Instruments Expert Committee meeting (held on July 3, 2018).

#### **(4) Consideration of accounting for financial instruments**

Chair Ono and Director Kawanishi explained the draft wording for the request for comments and the solicitation of comments on amendments to the accounting standard for financial instruments. Deliberations were conducted in light of the status of discussions at the 130th Financial Instruments Expert Committee meeting (held on July 3, 2018).

### **389th ASBJ Meeting (July 24, 2018)**

#### **(4) Consideration of guidance and disclosures on fair value measurement**

Chair Ono and Director Kawanishi explained (i) the scope to be addressed by the accounting standards, etc., relating to fair value, and (ii) items for which it would be appropriate to give due consideration to practice regarding the definition of fair value and related guidance. Deliberations were conducted.

### **390th ASBJ Meeting (August 13, 2018)**

#### **(4) Consideration of guidance and disclosures on fair value measurement**

Chair Ono and Director Kawanishi explained (i) the scope to be addressed by the accounting standards, etc., relating to fair value, (ii) the draft wording of the accounting standard and the implementation guidance regarding the definition of fair value and related guidance, (iii) illustrative examples regarding the definition of fair value and related guidance, and (iv) disclosure items relating to the fair value of financial instruments. Deliberations were conducted.

### **391st ASBJ Meeting (August 27, 2018)**

#### **(3) Consideration of guidance and disclosures on fair value measurement**

Chair Ono and Director Kawanishi explained the description of fair value hierarchy levels and the disclosure items relating to the fair value of financial instruments. Deliberations were conducted in light of the status of discussions at the 132nd Financial Instruments Expert Committee meeting (held on August 24, 2018).

### **392nd ASBJ Meeting (September 12, 2018)**

#### **(3) Consideration of guidance and disclosures on fair value measurement**

Chair Ono and Assistant Director Kumagai explained (i) consideration of items for which it would be appropriate to give due consideration to practice regarding the definition of fair value and related guidance, (ii) the entities to which disclosures on the fair value of financial instruments would apply, (iii) disclosure items relating to the fair value of financial instruments, and (iv) explanatory materials regarding fair value hierarchy levels. Deliberations were conducted in light of the status of discussions at the 133rd Financial Instruments Expert Committee meeting (held on September 11, 2018).

### **393rd ASBJ Meeting (September 27, 2018)**

#### **(2) Consideration of guidance and disclosures on fair value measurement**

Chair Ono and Assistant Director Kumagai explained (i) consideration of items for which it would be appropriate to give due consideration to practice regarding the definition of fair value and related guidance, (ii) the entities to which disclosures on the fair value of financial instruments would apply, (iii) the draft wording of the accounting standard and the implementation guidance regarding the definition of fair

value and related guidance, and (iv) explanatory materials regarding fair value hierarchy levels. Deliberations were conducted.

### **394th ASBJ Meeting (October 11, 2018)**

#### **(2) Consideration of guidance and disclosures on fair value measurement**

Chair Ono and Assistant Director Kumagai explained, regarding the definition of fair value and related guidance, (i) consideration of items for which it would be appropriate to give due consideration to practice, and (ii) the draft wording of the accounting standard and the implementation guidance. Deliberations were conducted in light of the status of discussions at the 134th Financial Instruments Expert Committee meeting (held on September 28, 2018).

### **395th ASBJ Meeting (October 25, 2018)**

#### **(3) Consideration of guidance and disclosures on fair value measurement**

Chair Ono and Assistant Director Kumagai explained, regarding the definition of fair value and related guidance, (i) consideration of items for which it would be appropriate to give due consideration to practice, (ii) the draft wording of the accounting standard and the implementation guidance, and (iii) amendments or revisions, etc., to other standards. Deliberations were conducted in light of the status of discussions at the 135th Financial Instruments Expert Committee meeting (held on October 15, 2018).

### **396th ASBJ Meeting (November 9, 2018)**

#### **(2) Consideration of guidance and disclosures on fair value measurement**

Chair Ono and Assistant Director Kumagai explained, regarding the definition of fair value and related guidance, (i) consideration of items for which it would be appropriate to give due consideration to practice, (ii) entities to which the disclosure requirements would apply and disclosure items, and (iii) amendments or revisions, etc., to other standards. Deliberations were conducted in light of the status of discussions at the 136th Financial Instruments Expert Committee meeting (held on October 30, 2018).

### **397th ASBJ Meeting (November 29, 2018)**

#### **(4) Consideration of guidance and disclosures on fair value measurement**

Chair Ono and Assistant Director Kumagai explained, regarding the definition of fair value and related guidance: (i) disclosure items relating to the fair value of financial instruments, (ii) consideration of quarterly disclosure, (iii) consideration of the effective date and transitional measures, (iv) the draft wording of the accounting standard and the implementation guidance, (v) the draft amendments to the Practical Guidelines for Financial Instruments, and (vi) the request for comments and the outline of the Exposure Draft, etc. Deliberations were conducted in light of the status of discussions at the 137th Financial Instruments Expert Committee meeting (held on November 16, 2018).

#### **398th ASBJ Meeting (December 13, 2018)**

#### **(3) Consideration of guidance and disclosures on fair value measurement**

Chair Ono and Assistant Director Kumagai explained, regarding the definition of fair value and related guidance: (i) fair value measurement for investment trusts, (ii) consideration of quarterly disclosure, (iii) consideration of the effective date and transitional measures, (iv) the draft wording of the accounting standard and the implementation guidance, (v) the draft amendments to the Implementation Guidance on Disclosures about Fair Value of Financial Instruments, (vi) the draft amendments to the Accounting Standard for Financial Instruments, (vii) the draft amendments to the Practical Guidelines for Financial Instruments, (viii) revisions to the Q&A on accounting for financial instruments, (ix) draft amendments to other standards, and (x) the request for comments and the outline of the Exposure Draft, etc.

Deliberations were conducted in light of the status of discussions at the 138th Financial Instruments Expert Committee meeting (held on December 3, 2018).

#### **399th ASBJ Meeting (December 26, 2018)**

#### **(4) Consideration of guidance and disclosures on fair value measurement**

Chair Ono and Assistant Director Kumagai explained, regarding the definition of fair value and related guidance: (i) consideration of the effective date and transitional measures, (ii) the draft wording of the accounting standard and the implementation guidance, (iii) the draft amendments to the Implementation Guidance on Disclosures about Fair Value of Financial Instruments, (iv) the draft amendments to the Accounting Standard for Financial Instruments, (v) the draft amendments to the Practical Guidelines for Financial Instruments, (vi) the draft amendments to the Q&A

on accounting for financial instruments, (vii) draft amendments to other standards, and (viii) the request for comments and the outline of the Exposure Draft, etc. Deliberations were conducted in light of the status of discussions at the 139th Financial Instruments Expert Committee meeting (held on December 25, 2018). As a result of deliberations, it was explained that, if possible, deliberations on approval to issue the Exposure Draft would be conducted at a subsequent meeting.

#### **400th ASBJ meeting (January 11, 2019)**

##### **(1) Exposure Drafts: “Accounting Standard for Fair Value Measurement (Draft),” etc. [Vote to Publish]**

Chair Ono and Assistant Director Kumagai explained the exposure drafts including the Exposure Draft “Accounting Standard for Fair Value Measurement (Draft),” etc. Deliberation and voting were conducted. As a result of the vote, on the premise that revisions to wording, etc. would be entrusted to the Chair, publication of the exposure drafts was approved with the support of all attending members. In addition, it was approved that the ASBJ would request the Japanese Institute of Certified Public Accountants to amend its practical guidance, etc. related to the exposure drafts.

**Exposure Draft No. 57 of Practical Issues Task Force (PITF) Issues (Draft Amendments to PITF Issue No. 18) “Practical Solution on Accounting for Foreign Subsidiaries, etc. in Preparing Consolidated Financial Statements (Draft)” (March 25, 2019)**

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**[Reference information on background to the development of the standard, etc.]**

*(From the “Call for Comments”)*

The ASBJ has been examining the accounting treatment under PITF Issue No. 18, “Practical Solution on Accounting for Foreign Subsidiaries, etc. in Preparing Consolidated Financial Statements” (hereinafter “PITF Issue No. 18”), for IFRS 16, “Leases” (hereinafter “IFRS 16, ‘Leases’”) and Accounting Standards Update (ASU) No. 2016-02, “Leases (Topic 842)” (hereinafter “ASU 2016-02, ‘Leases’”).

At the 405th meeting of the Accounting Standards Board of Japan held on March 22, 2019, publication of the above “Practical Solution on Accounting for Foreign Subsidiaries, etc. in Preparing Consolidated Financial Statements (Draft)” (hereinafter “this Exposure Draft”) was approved, and therefore it is published today.

**· Treatment of IFRS 16, “Leases,” and ASU 2016-02, “Leases”**

This Exposure Draft examined whether there are any items that should be added as adjustment items, focusing on IFRS 16, “Leases,” and ASU 2016-02, “Leases.”

In the deliberations, based on “the approach of this Practical Solution,” the ASBJ considered whether the fundamental principles of these accounting standards diverge from principles common to Japanese accounting standards. As a result, it proposes that no new adjustment items be added.

(Reference)

With respect to IFRS 16, “Leases,” as a result of the IFRS endorsement process, it

was concluded that no “deletion or modification” would be made, and the revised “Modified International Standards (accounting standards consisting of IFRSs and accounting standards modified by the ASBJ)” were published on December 27, 2018.

In considering the review of adjustment items in PITF Issue No. 18 under this Exposure Draft, the ASBJ referred to the above results of the endorsement process for IFRS 16, “Leases,” and, based on “the approach of this Practical Solution,” examined whether IFRS 16, “Leases,” and ASU 2016-02, “Leases,” diverge from principles common to Japanese accounting standards.

In addition, deliberations on lease accounting initiatives in Japanese accounting standards are being conducted separately.

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## **[Background to the development of the standard]**

It is presumed that, since publication of the “2018 revised Practical Issues Task Force Issue,” it had already been an established policy to reflect the conclusions of the deliberations on leases in that Practical Solution. Therefore, it is inferred that the ASBJ began deliberations without receiving a new agenda recommendation from the Accounting Standards Advisory Council.

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## [Deliberations at the ASBJ]

### 403rd ASBJ meeting (February 22, 2019)

#### (2) Consideration of a review of PITF Issue No. 18

Vice Chair Kogasaka and Professional Research Fellow Hougaku explained: the consideration of treatment of IFRS 16 and Topic 842 under PITF Issue No. 18, “Practical Solution on Accounting for Foreign Subsidiaries, etc. in Preparing Consolidated Financial Statements”; the draft wording of the exposure draft of a PITF Issue; the call for comments; and an overview of the exposure draft, taking into account the status of discussions at the 121st Practical Issues Committee meeting (held February 5, 2019). Deliberations were conducted. As a result, it was explained that, if possible, the ASBJ would like to deliberate on approval for publication of the exposure draft at a subsequent ASBJ meeting.

#### Excerpt from materials for the 403rd meeting (2)–2

##### Amendments to PITF Issue No. 18

10. In the “Background to the issuance and amendments of this Practical Solution” of the 2018 revised PITF Issue, footnote 7 to the “2018 revision” states that, in the 2018 revised PITF Issue, IFRS 16 and Topic 842 were excluded from the scope of items considered (Note 1). Therefore, it is considered necessary to amend PITF Issue No. 18 in order to clarify the treatment of IFRS 16 and Topic 842 under PITF Issue No. 18, and to disseminate such content.

(Note 1)

2018 revision

“In the period from issuance of this Practical Solution in 2006 through the time when the 2018 revised Practical Solution (hereinafter the ‘2018 revised Practical Solution’) was examined, the ASBJ examined whether there are any items that should be added as adjustment items, focusing on newly issued or amended IFRSs and U.S. GAAP (Note 1).”

Footnote 7

“Excluding IFRS 16, ‘Leases,’ IFRS 17, ‘Insurance Contracts,’ and ASU 2016–02, ‘Leases.’ ”

11. If the ASBJ were to amend PITF Issue No. 18, it is conceivable to add draft wording such as the following to “the approach of this Practical Solution.”

### **2019 revision**

The ASBJ examined whether there are any items that should be added as adjustment items, focusing on IFRS 16, “Leases,” and ASU 2016–02, “Leases,” which were excluded from the scope of items considered in the 2018 revised Practical Solution. In the deliberations, based on “the approach of this Practical Solution,” the ASBJ considered whether the fundamental principles of these accounting standards diverge from principles common to Japanese accounting standards. As a result, no new adjustment items were added.

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### **405th ASBJ meeting (March 22, 2019)**

#### **(6) Exposure Draft of PITF Issue “Practical Solution on Accounting for Foreign Subsidiaries, etc. in Preparing Consolidated Financial Statements (Draft)” [Vote to Publish]**

Vice Chair Kogasaka and Professional Research Fellow Hougaku explained the Exposure Draft of PITF Issue “Practical Solution on Accounting for Foreign Subsidiaries, etc. in Preparing Consolidated Financial Statements (Draft).” Deliberation and voting were conducted. As a result of the vote, on the premise that revisions to wording, etc. would be entrusted to the Chair, publication was approved with the support of all attending members.

#### **Excerpt from materials for the 405th meeting (6)–1**

##### **Background to date**

1. In the revised PITF Issue No. 18 published on September 14, 2018 (hereinafter the “2018 revised Practical Solution”), among IFRSs and U.S. GAAP that were newly issued or amended during the period from issuance of PITF Issue No. 18 in 2006 through the time when the 2018 revised Practical Solution was examined, the ASBJ examined whether there are any items that should be added as adjustment items, focusing on accounting standards excluding IFRS 16, IFRS 17, and Topic 842.

2. Thereafter, with respect to IFRS 16, the IFRS endorsement process was carried out, and it was concluded that no “deletion or modification” would be made, and the Modified International Standards were amended on December 27, 2018.
3. IFRS 16 is applied from the beginning of annual periods starting on or after January 1, 2019 (Topic 842 is applied for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years). For companies with a March fiscal year-end, foreign subsidiaries, etc. will begin applying IFRS 16 from the first quarter in June 2019. Accordingly, views have been expressed calling for clarification of the treatment of IFRS 16 and Topic 842 under PITF Issue No. 18.
4. In light of these circumstances, the ASBJ decided to examine the treatment of IFRS 16 and Topic 842 under PITF Issue No. 18, and deliberations were conducted at the 121st Practical Issues Committee meeting (held February 5, 2019) and the 403rd ASBJ meeting (held February 22, 2019).

ASBJ Exposure Draft No. 66 (Proposed amendments to ASBJ Statement No. 29), “Accounting Standard on Revenue Recognition (Draft),” ASBJ Exposure Draft of Implementation Guidance No. 66 (Proposed amendments to ASBJ Implementation Guidance No. 30), “Implementation Guidance on Accounting Standard on Revenue Recognition (Draft),” ASBJ Exposure Draft No. 67 (Proposed amendments to ASBJ Statement No. 12), “Accounting Standard for Quarterly Financial Statements (Draft),” ASBJ Exposure Draft of Implementation Guidance No. 67 (Proposed amendments to ASBJ Implementation Guidance No. 14), “Implementation Guidance on Accounting Standard for Quarterly Financial Statements (Draft),” and ASBJ Exposure Draft of Implementation Guidance No. 68 (Proposed amendments to ASBJ Implementation Guidance No. 19), “Implementation Guidance on Disclosures about Fair Value of Financial Instruments (Draft)” (October 30, 2019)

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## Reference information on the background to the development of the standards

### “Call for Comments”

On March 30, 2018, the Board issued the following Accounting Standard and related Implementation Guidance as comprehensive accounting standards on revenue recognition in Japan:

- ASBJ Statement No. 29, “Accounting Standard on Revenue Recognition” (hereinafter, the “2018 Accounting Standard”)
- ASBJ Implementation Guidance No. 30, “Implementation Guidance on Accounting Standard on Revenue Recognition”

In the 2018 Accounting Standard, with respect to disclosures, only the minimum necessary disclosures required in the case of early adoption of the 2018 Accounting Standard (i.e., the nature of significant performance obligations in the entity’s principal businesses and the timing at which the entity typically satisfies those performance obligations (the timing at which revenue is typically recognized)) were specified, and it was stated that the Board would consider the disclosure

requirements by the time the 2018 Accounting Standard becomes effective (the beginning of the fiscal year and the consolidated fiscal year beginning on or after April 1, 2021).

In addition, it was similarly stated that the Board would consider the following presentation matters related to revenue recognition by the time the 2018 Accounting Standard becomes effective:

- (1) Line items for presenting revenue
- (2) Whether revenue and the effects of a financing component (interest income or interest expense) should be presented separately
- (3) Whether contract assets and receivables should be presented separately

In light of the above, the Board has conducted deliberations, and at the 419th meeting of the Accounting Standards Board of Japan held on October 25, 2019, the Board approved the issuance of the following exposure drafts of Accounting Standards and related Implementation Guidance (collectively, the “Exposure Drafts”), which are hereby issued today:

- ASBJ Exposure Draft No. 66 (Proposed amendments to ASBJ Statement No. 29), “Accounting Standard on Revenue Recognition (Draft)” (hereinafter, the “Proposed Amendments to the Accounting Standard”)
- ASBJ Exposure Draft of Implementation Guidance No. 66 (Proposed amendments to ASBJ Implementation Guidance No. 30), “Implementation Guidance on Accounting Standard on Revenue Recognition (Draft)” (hereinafter, the “Proposed Amendments to the Implementation Guidance”)
- ASBJ Exposure Draft No. 67 (Proposed amendments to ASBJ Statement No. 12), “Accounting Standard for Quarterly Financial Statements (Draft)” (hereinafter, the “Draft Quarterly Accounting Standard”)
- ASBJ Exposure Draft of Implementation Guidance No. 67 (Proposed amendments to ASBJ Implementation Guidance No. 14), “Implementation Guidance on Accounting Standard for Quarterly Financial Statements (Draft)”
- ASBJ Exposure Draft of Implementation Guidance No. 68 (Proposed amendments to ASBJ Implementation Guidance No. 19), “Implementation Guidance on Disclosures about Fair Value of Financial Instruments (Draft)”

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## Background to the development of the standards

For certain matters, including disclosures, it had been the established policy, after the issuance of the “2018 Accounting Standard,” etc., to consider them by the time the Standard becomes effective. In light of this, it may be inferred that deliberations were commenced without receiving a new agenda proposal.

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### [Deliberations at the ASBJ]

**407th meeting of the Accounting Standards Board of Japan (April 25, 2019)**

**(3) Consideration of matters related to disclosures under the revenue recognition accounting standard**

Vice Chair Kawanishi explained the consideration of matters related to disclosures under the revenue recognition accounting standard, and deliberations were held, taking into account the status of discussions at the 95th meeting of the Revenue Recognition Special Committee (held on April 17, 2019).

**Excerpt from Agenda Paper (3)-1 for the 407th meeting**

**Background to date**

1. Paragraphs 80 and 156 of ASBJ Statement No. 29, “Accounting Standard on Revenue Recognition,” issued on March 30, 2018 (hereinafter, the “Revenue Recognition Accounting Standard”), state that matters related to disclosures and presentation will be considered by the time the Revenue Recognition Accounting Standard becomes effective (the beginning of the fiscal year and the consolidated fiscal year beginning on or after April 1, 2021) (including the preparation period).

### **Matters to be considered today**

2. Today, you are scheduled to deliberate on the following issues:

- (1) Basic approach to advancing consideration of disclosure requirements (Agenda Paper (3)–2–1)
- (2) Consideration of disclosure requirements—disclosure objective and materiality (Agenda Paper (3)–2–2)

3. In addition, opinions expressed at the 95th meeting of the Revenue Recognition Special Committee in relation to the materials in the preceding paragraph are set out in Agenda Paper (3)–3.

### **Appendix: Matters to be considered by the time the Revenue Recognition Accounting Standard becomes effective**

1. The matters to be considered by the time the Revenue Recognition Accounting Standard becomes effective (the beginning of the fiscal year and the consolidated fiscal year beginning on or after April 1, 2021) (including the preparation period) are as follows:
  - (1) Matters related to disclosures and presentation
    - ① Disclosure requirements
    - ② Presentation
      - Line items for presenting revenue
      - Separate presentation of revenue and the effects of a financing component (interest income or interest expense)
      - Separate presentation of contract assets and receivables
    - ③ Location of disclosures
    - ④ Disclosure requirements related to construction contracts
    - ⑤ Treatment of disclosures in separate financial statements and quarterly financial statements
2. In addition, Paragraph 96 of the Revenue Recognition Accounting Standard states that “In the process of considering application of this Accounting Standard in practice, if market participants identify circumstances in which the requirements in this Accounting Standard are clear but applying such requirements is extremely difficult in practice, and such circumstances are

raised with the Board, the Board will determine, through public deliberations, whether a separate response is necessary.”

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#### **410th meeting of the Accounting Standards Board of Japan (June 13, 2019)**

##### **(5) Consideration of matters related to disclosures and presentation under the revenue recognition accounting standard**

Vice Chair Kawanishi explained the consideration of the disclosure objective, disaggregated revenue information, and information that serves as the basis for understanding revenue, among other matters, and deliberations were held, taking into account the status of discussions at the 96th meeting of the Revenue Recognition Special Committee (held on May 30, 2019).

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#### **411th meeting of the Accounting Standards Board of Japan (June 27, 2019)**

##### **(4) Consideration of matters related to disclosures and presentation under the revenue recognition accounting standard**

Vice Chair Kawanishi explained matters related to separate presentation of contract assets and receivables arising from contracts with customers; contract balances (including balances of contract assets and contract liabilities); the transaction price allocated to remaining performance obligations; and disclosure requirements related to construction contracts, among other matters, and deliberations were held, taking into account the status of discussions at the 97th meeting of the Revenue Recognition Special Committee (held on June 20, 2019).

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#### **413th meeting of the Accounting Standards Board of Japan (July 29, 2019)**

##### **(4) Consideration of matters related to disclosures and presentation under the revenue recognition accounting standard**

Vice Chair Kawanishi explained: (i) clarification of the relationship with disclosures of significant accounting policies; (ii) revenue line items recognized from contracts with customers; (iii) disclosures on contract balances (including balances of contract assets and contract liabilities); (iv) impairment losses on receivables or contract assets arising from contracts with customers; (v) whether revenue and the effects of a financing component (interest income or interest expense) should be presented separately; and (vi) illustrative examples for disclosures related to the revenue recognition accounting standard, among other matters, and deliberations were held, taking into account the status of discussions at the 98th meeting of the Revenue Recognition Special Committee (held on July 18, 2019).

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#### **414th meeting of the Accounting Standards Board of Japan (August 9, 2019)**

##### **(4) Consideration of matters related to disclosures and presentation under the revenue recognition accounting standard**

Vice Chair Kawanishi explained: (i) clarification of the relationship with disclosures of significant accounting policies; (ii) treatment in separate financial statements; (iii) disclosures on contract balances (including balances of contract assets and contract liabilities); (iv) impairment losses on receivables or contract assets arising from contracts with customers; and (v) revenue line items recognized from contracts with customers, among other matters, and deliberations were held, taking into account the status of discussions at the 99th meeting of the Revenue Recognition Special Committee (held on August 6, 2019).

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#### **415th meeting of the Accounting Standards Board of Japan (August 26, 2019)**

##### **(2) Consideration of matters related to disclosures and presentation under the revenue recognition accounting standard**

Vice Chair Kawanishi explained: (i) clarification of the relationship with disclosures of significant accounting policies; (ii) requirements for disclosures on contract costs; (iii) disclosure requirements in quarterly financial statements; and (iv) effective date

and transition provisions, among other matters, and deliberations were held, taking into account the status of discussions at the 100th meeting of the Revenue Recognition Special Committee (held on August 23, 2019).

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#### **417th meeting of the Accounting Standards Board of Japan (September 25, 2019)**

##### **(4) Consideration of matters related to disclosures and presentation under the revenue recognition accounting standard**

Vice Chair Kawanishi explained: (i) treatment of disclosure requirements in separate financial statements; (ii) the call for comments and an overview of the exposure drafts; and (iii) revisions to the draft wording of the revenue recognition accounting standard, among other matters, and deliberations were held, taking into account the status of discussions at the 101st meeting of the Revenue Recognition Special Committee (held on September 19, 2019).

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#### **418th meeting of the Accounting Standards Board of Japan (October 10, 2019)**

##### **(5) Consideration of matters related to disclosures and presentation under the revenue recognition accounting standard**

Vice Chair Kawanishi, Shimada (Assistant Director), and Kuwata (Professional Staff Member) explained: (i) treatment of disclosure requirements in separate financial statements; (ii) treatment of disclosure requirements in quarterly financial statements; (iii) the call for comments and an overview of the exposure drafts; and (iv) revisions to the draft wording of the revenue recognition accounting standard, among other matters, and deliberations were held, taking into account the status of discussions at the 102nd meeting of the Revenue Recognition Special Committee (held on October 7, 2019).

As a result of the deliberations, it was explained that, if possible, the Board would like to deliberate on approving the issuance of the exposure drafts at the next meeting or thereafter.

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**419th meeting of the Accounting Standards Board of Japan (October 25, 2019)**

**(2) Exposure Draft of an amended Accounting Standard, “Accounting Standard on Revenue Recognition (Draft),” etc. [Resolution to Issue]**

Vice Chair Kawanishi explained the exposure draft of the amended Accounting Standard, “Accounting Standard on Revenue Recognition (Draft),” etc., and deliberations and a vote were conducted. As a result of the vote, it was approved to issue the exposure drafts unanimously by all attending Board members, on the premise that the Chair would be entrusted with making any wording and other editorial revisions.

**Exposure Draft of Practical Issues Task Force Report No. 58, “Accounting Treatment for the Application of Tax Effect Accounting Related to the Transition from the Consolidated Taxation System to the Group Tax Sharing System (Draft)” (February 13, 2020)**

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## **Reference information on the background to the development of the draft**

### **Excerpt from “Call for Comments”**

In the FY2020 tax reform, the existing consolidated taxation system is to be reviewed and replaced by the group tax sharing system. A bill for tax reform (the “Act for Partial Revision of the Income Tax Act, etc.”) (hereinafter, the “Amended Corporate Tax Act”) has been submitted to the 201st ordinary session of the National Diet. If the Amended Corporate Tax Act is enacted, companies that will become subject to the group tax sharing system will need to assess the recoverability of deferred tax assets on the premise that the group tax sharing system will apply, in financial statements (including quarterly financial statements) for fiscal years ending on or after the enactment date of the Amended Corporate Tax Act. However, we heard opinions that it would be difficult in practice to respond to this requirement. Accordingly, the Board has examined the treatments considered necessary.

As a result, at the 425th meeting of the Accounting Standards Board of Japan held on February 12, 2020, the issuance of the above draft, “Accounting Treatment for the Application of Tax Effect Accounting Related to the Transition from the Consolidated Taxation System to the Group Tax Sharing System (Draft)” (hereinafter, this “Exposure Draft”), was approved, and therefore it is hereby issued today.

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**Treatment regarding the application of tax effect accounting to financial statements (including quarterly financial statements) for fiscal years**

## **ending on or after the enactment date of the Amended Corporate Tax Act (Paragraph 3 of this Exposure Draft)**

This Exposure Draft proposes that, for fiscal years ending on or after the enactment date of the Amended Corporate Tax Act (including quarterly financial statements), with respect to the amounts of deferred tax assets and deferred tax liabilities under tax effect accounting on the premise that the group tax sharing system will apply, until the Board makes the necessary amendments to, or withdrawals of, Practical Issues Task Force Report No. 5, “Tentative Treatment for Tax Effect Accounting When Applying the Consolidated Taxation System (Part 1)” (hereinafter, “PITF Report No. 5”), and Practical Issues Task Force Report No. 7, “Tentative Treatment for Tax Effect Accounting When Applying the Consolidated Taxation System (Part 2)” (collectively with PITF Report No. 5, hereinafter “PITF Reports No. 5, etc.”), companies may, with respect to (i) the transition to the group tax sharing system and (ii) items for which the separate entity taxation system was revised in connection with that transition, apply the provisions of the pre-amendment tax laws without applying the requirements of Paragraph 44 of ASBJ Guidance No. 28, “Guidance on Accounting Standard for Tax Effect Accounting” (hereinafter, the “Tax Effect Guidance”).

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## **Deliberations at the Accounting Standards Advisory Council**

### **Excerpt from Agenda Paper (1)–4 for the 37th meeting of the Advisory Council (November 22, 2019)**

#### **I. Overview of the revision to the consolidated taxation system**

1. In September 2019, the Cabinet Office Tax Commission published “The desirable tax system in the Reiwa era in light of structural changes in the economy and society,” which includes the following statement (underlining added by the Secretariat):

#### **(4) Review of the consolidated taxation system in light of actual corporate management**

Since its introduction in FY2002 based on the view that it would promote corporate reorganizations and contribute to maintaining and strengthening the international competitiveness of Japanese companies as well as to structural reform of the economy, more than 15 years have passed. During that period, the system has been used effectively as corporate groups advanced integrated management and strengthened competitiveness. Meanwhile, there have been indications that (i) the degree to which information, etc. is centralized at the parent company varies, (ii) tax calculations under the system are complex, and (iii) it takes too long to process corrections and reassessments after tax audits. As a result, many corporate groups have not elected this system despite the benefits of loss offsets.

Therefore, based on the actual use of the system and the realities of diverse group management, it is necessary to establish an environment in which companies can manage their groups more efficiently and fully demonstrate their competitiveness, by reviewing the system and reducing administrative burdens through simplification—thereby minimizing, as much as possible, the extent to which differences in groups’ administrative processing capabilities affect the decision to elect the system—and ensuring tax neutrality and fairness. Specifically, while maintaining the basic framework that enables loss offsets within a wholly owned corporate group, it is appropriate to replace the current system (in which the corporate group as a whole is treated as a single taxpaying unit) with a system in which each corporation within the group is a taxpaying unit: each corporation would calculate and file its own corporate tax amount, while adjustments such as loss offsets would be made. Consistency with the tax regime for corporate reorganizations and considerations to prevent tax avoidance are also important.

Going forward, the detailed institutional design should be developed while taking into account, among other things, the contents of the compilation prepared by the expert panel under the Commission, including the above.

2. While details such as the specific content of the reform and the timing of application are expected to become clear through the process of amending

the Corporate Tax Act, it is considered likely that a review of the basic framework of the existing consolidated taxation system will be carried out.

## II. Impact on accounting standards

3. Currently, accounting treatments related to the consolidated taxation system are provided in the following accounting guidance, etc.:
  - Practical Issues Task Force Report No. 5, “Tentative Treatment for Tax Effect Accounting When Applying the Consolidated Taxation System (Part 1)”
  - Practical Issues Task Force Report No. 7, “Tentative Treatment for Tax Effect Accounting When Applying the Consolidated Taxation System (Part 2)”
4. If the consolidated taxation system is revised as described in paragraph 1 above, it is considered that these two Practical Issues Task Force Reports will need to be amended or withdrawn.
5. In addition, if amendments to the Corporate Tax Act related to the review of the consolidated taxation system are passed and enacted by the Diet by March 31, 2020, then under the current accounting requirements, companies whose fiscal year-end falls in March 2020 or later would need to apply tax effect accounting in their financial statements on the premise of the revised system. Even if the effective date of the revised system were to be later, it may be necessary to provide some accounting-standard response for companies with fiscal year-ends in March 2020 or later, depending on whether such a response is required. If a reform is implemented, such a response would be considered urgent.
6. In light of the above, the Accounting Standards Board of Japan is considering, once it becomes clear that the tax reform will be implemented, handling the matter as a new agenda item at the ASBJ, in accordance with Article 22, paragraph 3 of the “Rules on Due Process for Developing Accounting Standards and Modified International Standards.”
7. At today’s meeting of the Advisory Council, the Secretariat would like to ask for your views on this proposed ASBJ course of action.

## [Deliberations at the ASBJ]

### 423rd meeting of the Accounting Standards Board of Japan (2020/12/26)

#### (4) Agenda items of the Accounting Standards Board of Japan

Chair Kogasaka and Yanou (full-time Board Member) explained that, pursuant to Article 22, paragraph 3 of the “Rules on Due Process for Developing Accounting Standards and Modified International Standards,” the Board would make the response to the review of the consolidated taxation system a new agenda item for the ASBJ, and deliberations were held. As a result of the deliberations, it was approved to take up the response to the review of the consolidated taxation system as a new ASBJ agenda item.

#### Excerpt from Agenda Paper (4) for the 423rd meeting

2. Going forward, it is expected that a bill to amend the Corporate Tax Act will be submitted based on the Tax Reform Outline. Compared with the previous consolidated taxation system, the basic mechanism has been revised, including changes to the taxpaying unit, and the name has been changed to the group tax sharing system.

#### II. Impact on accounting standards

3. Currently, accounting treatments related to the consolidated taxation system are provided in the following accounting guidance, etc.:
  - Practical Issues Task Force Report No. 5, “Tentative Treatment for Tax Effect Accounting When Applying the Consolidated Taxation System (Part 1)”
  - Practical Issues Task Force Report No. 7, “Tentative Treatment for Tax Effect Accounting When Applying the Consolidated Taxation System (Part 2)”
4. If amendments to the Corporate Tax Act related to the review of the consolidated taxation system are made, it is considered that these two Practical Issues Task Force Reports will need to be amended or withdrawn.

5. In addition, if amendments to the Corporate Tax Act related to the review of the consolidated taxation system are passed and enacted by the Diet by March 31, 2020, then under the current accounting requirements, in financial statements for companies with fiscal year-ends on or after March 31, 2020, tax effect accounting would need to be applied based on the revised system. Although the group tax sharing system is to apply for fiscal years beginning on or after April 1, 2022, it is considered necessary to examine whether any accounting-standard response is required for companies with fiscal year-ends on or after March 31, 2020.

6. In light of the above, should the response to the review of the consolidated taxation system be treated as a new agenda item of the Accounting Standards Board of Japan?

In addition, since the main matters to be examined are corporate tax, inhabitants tax, enterprise tax, etc., and tax effect accounting, should the Tax Effect Accounting Special Committee, which has expertise in these matters, handle the response?

7. The agenda item proposed in the preceding paragraph is made pursuant to Article 22, paragraph 3-2 of the “Rules on Due Process for Developing Accounting Standards and Modified International Standards.” With respect to using Article 22, paragraph 3 in connection with the response to the review of the consolidated taxation system, it was approved at the 37th meeting of the Advisory Council held on November 22, 2019.

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## **424th meeting of the Accounting Standards Board of Japan (2020/01/31)**

### **(2) Response to the reform of the consolidated taxation system**

Yanou (full-time Board Member) and Wada (Professional Staff Member) explained (i) whether any response is necessary regarding accounting treatments for companies whose fiscal year-end falls on or after March 31, 2020, and (ii) if a response is to be provided, the draft wording of the Exposure Draft of a Practical Issues Task Force Report, “Accounting Treatment for the Application of Tax Effect Accounting Related to the Transition from the Consolidated Taxation System to the Group Tax Sharing System (Draft).” Deliberations were held, taking into account the status of discussions at the 63rd meeting of the Tax Effect Accounting Special Committee (held on January 24, 2020). As a result, it was explained that, if possible, the Board

would like to deliberate on approving the issuance of the Exposure Draft at the next meeting or thereafter.

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#### **425th meeting of the Accounting Standards Board of Japan (2020/02/12)**

##### **(1) Exposure Draft of a Practical Issues Task Force Report, “Accounting Treatment for the Application of Tax Effect Accounting Related to the Transition from the Consolidated Taxation System to the Group Tax Sharing System (Draft)”**

###### **[Resolution to Issue]**

Yanou explained the Exposure Draft of the Practical Issues Task Force Report, “Accounting Treatment for the Application of Tax Effect Accounting Related to the Transition from the Consolidated Taxation System to the Group Tax Sharing System (Draft),” and deliberations and a vote were conducted. As a result of the vote, it was approved to issue the Exposure Draft unanimously by all attending Board members, on the premise that the Chair would be entrusted with making any wording and other editorial revisions.

## Reference information on the background to the development of the draft

*(Explanatory notes by a Professional Staff Member – II. Background to the issuance of this Exposure Draft)*

### 1. Amendment to the Companies Act

When a company intends to issue new shares or dispose of treasury shares through an offering under Article 199, paragraph 1 of the Companies Act, it is required each time to determine the amount to be paid in for the offered shares or the method for calculating such amount.

Therefore, in practice, a stock company that intends to grant shares as compensation, etc. to directors or executive officers (hereinafter, “directors, etc.”) has used a so-called contribution in kind structure: after treating cash as compensation, etc. for directors, etc., the company grants shares by having the directors, etc. provide, as property contributed in kind, their claim for payment of compensation against the company (hereinafter, this is simply referred to as a “transaction using a contribution in kind structure”). However, it has been pointed out that such a method is artificial, and that the treatment of stated capital, etc. in cases where shares are granted in this manner is unclear.

Accordingly, under the “Act for Partial Revision of the Companies Act” (Act No. 70 of 2019; hereinafter, the “Amended Act”) enacted in December 2019, in order to enable listed companies to grant shares more smoothly to directors, etc. as compensation, etc., listed companies are no longer required to make cash payments, etc. when issuing new shares or disposing of treasury shares as compensation, etc. for directors, etc. (Article 202-2, paragraph 1, etc. of the Companies Act as amended).

Under the conventional issuance of new shares that is not based on the provisions of the Amended Act, the amount of stated capital or capital surplus to be recognized is, in principle, calculated based on the amount of property paid in or contributed to the company by the person who becomes a shareholder upon the issuance of the new shares (Article 445, paragraphs 1 through 3 of the Companies Act). However, it is considered that, where shares are issued as compensation, etc. for directors, etc. without requiring cash payments, etc., a rule that reflects generally accepted accounting practices should be applied, rather than applying the above rule. Therefore, under the Amended Act, when shares are issued as compensation, etc. for directors, etc. without requiring cash payments, etc., the amount to be recorded as stated capital or reserves as a result of such share issuance is to be specified by an ordinance of the Ministry of Justice (Article 445, paragraph 6 of the Companies Act).

## **2. Proposal to the ASBJ**

The content of the Ministry of Justice ordinance described above is required to be specified with reference to generally accepted accounting practices. However, since there are currently no clear accounting standards for cases in which shares are issued or otherwise granted as compensation, etc. for directors, etc. without requiring cash payments, etc., a proposal for a new agenda item was submitted in December 2019 to the Accounting Standards Advisory Council established within the Financial Accounting Standards Foundation.

In response, at the 424th meeting of the Accounting Standards Board of Japan held in January 2020, the Advisory Council made a recommendation requesting consideration of the accounting treatment for cases in which shares are issued, etc. as compensation, etc. for directors, etc. without requiring cash payments, etc. (hereinafter, “transactions in which shares are granted free of charge as directors’ compensation, etc.”), and at the 425th meeting of the Accounting Standards Board of Japan held in February 2020, it was decided to take this up as a new agenda item. This Exposure Draft has been issued as a result of deliberations on this agenda item.

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# [Deliberations at the Accounting Standards Advisory Council]

*(37th Extraordinary Advisory Council Meeting: written deliberations)*

## **Excerpt from Agenda Paper (1): Proposal of a new agenda item at the Extraordinary Advisory Council Meeting (Accounting Standard level)**

### **(Agenda item)**

Development of accounting standards for cases in which shares are issued, etc. as compensation, etc. for directors, etc. without requiring cash payments, etc.

### **(Reason for the proposal)**

Under the Act for Partial Revision of the Companies Act (Act No. 70 of 2019; hereinafter, the “Companies Act Amendment Act”) promulgated on December 11, 2019, in order to enable stock companies to grant performance-linked compensation, etc. more appropriately and smoothly to directors or executive officers (hereinafter, “directors, etc.”), listed companies are not required to make cash payments, etc. when issuing shares or disposing of treasury shares as directors’ compensation, etc. (hereinafter, “share issuance, etc.”) (Article 202-2, paragraph 1, etc. of the Companies Act).

The amount of stated capital or capital surplus to be recognized as a result of the issuance of shares is, in principle, calculated based on the amount of property paid in or contributed to the company by the person who becomes a shareholder upon the issuance of the shares (Article 445, paragraphs 1 through 3 of the Companies Act). However, it has been pointed out that, where shares are issued as compensation, etc. for directors, etc. without requiring cash payments, etc., a rule that reflects generally accepted accounting practices should be applied, rather than applying the above rule. Therefore, under the Companies Act Amendment Act, when shares are issued as compensation, etc. for directors, etc. without requiring cash payments, etc., the amount to be recorded as stated capital or reserves as a result of such share issuance is to be specified by an ordinance of the Ministry of Justice (Article 445, paragraph 6 of the Companies Act).

The content of the Ministry of Justice ordinance described above needs to be specified with reference to generally accepted accounting practices. However, since there are currently no clear accounting standards for cases in which shares are issued, etc. as compensation, etc. for directors, etc. without requiring cash payments, etc., we would like to request the development of accounting standards for such cases, and therefore propose this agenda item.

**(Specific content)**

1. Overview of the Companies Act Amendment Act
  - (1) For listed companies, when issuing offered shares or disposing of treasury shares as compensation, etc. for directors, etc., cash payments, etc. are not required (Article 202-2, paragraphs 1 and 3).
  - (2) For listed companies, when issuing stock acquisition rights as compensation, etc. for directors, etc., cash payments, etc. are not required upon exercise of such stock acquisition rights (Article 236, paragraphs 3 and 4).
  - (3) The amount to be recorded as stated capital or reserves due to the issuance of shares as compensation, etc. for directors, etc. is to be specified by an ordinance of the Ministry of Justice (Article 445, paragraph 6).
2. Typical forms of equity compensation expected
  - (1) Upfront grant type

Shares subject to transfer restrictions are granted in advance, and the transfer restrictions are lifted upon satisfaction of conditions such as a specified service period or the achievement of certain performance targets. Shares for which the transfer restrictions are not lifted are acquired by the company free of charge.
  - (2) After-the-fact grant type

Shares are granted after the fact, such as when certain performance targets are achieved.

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**II. Secretariat's proposed response**

2. As described in (1) and (2) above, it is considered that the compensation arrangements in question may come to be widely used by listed companies as a means of paying compensation, etc. to directors, etc., and therefore may have a broad impact. Accordingly, it is considered that there is a need to develop accounting standards. For this reason, it is considered appropriate to examine the proposed transactions in ASBJ Accounting Standards.

Therefore, it is considered appropriate to make a recommendation that the proposed agenda item— “Development of accounting standards for cases in which shares are issued, etc. as compensation, etc. for directors, etc. without requiring cash payments, etc.”—be taken up as a new agenda item of the Accounting Standards Board of Japan.

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## [Deliberations at the ASBJ]

### **424th meeting of the Accounting Standards Board of Japan (January 31, 2020)**

#### **(1) Agenda proposal from the Advisory Council**

Yuasa, Chair of the Advisory Council, reported that, as a result of the Advisory Council's deliberations, it would recommend that "Development of accounting standards for cases in which shares are issued, etc. as compensation, etc. for directors, etc. without requiring cash payments, etc." be taken up as a new agenda item of the Board.

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### **425th meeting of the Accounting Standards Board of Japan (February 12, 2020)**

#### **(5) Response to the agenda proposal from the Advisory Council**

Chair Kogasaka explained the proposed response to the Advisory Council's recommendation to the Board regarding "Development of accounting standards for cases in which shares are issued, etc. as compensation, etc. for directors, etc. without requiring cash payments, etc.," and deliberations were held. As a result of the deliberations, it was approved to take this up as a new agenda item of the Board.

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### **433rd meeting of the Accounting Standards Board of Japan (May 14, 2020)**

#### **(2) Consideration of accounting treatment for cases in which shares are issued, etc. as compensation, etc. for directors, etc. without requiring cash payments, etc.**

Yanou (Full-time Board Member) and Munenobu (Professional Staff Member) explained an overview of the transactions that form the premise of the development, and the Secretariat's analysis of accounting treatment, and deliberations were held, taking into account the status of discussions at the 128th meeting of the Practical Issues Task Force (held on May 12, 2020).

## **Excerpt from Agenda Paper (2)-2 (Secretariat proposal)**

15. In summary, for stock options and the after-the-fact grant type of “issuing shares free of charge as directors’ compensation, etc.,” it is considered that they have similar economic effects, in that they are granted with an expectation of an incentive effect and the grantees do not have shareholders’ rights until vesting.
16. On the other hand, the upfront grant type of “issuing shares free of charge as directors’ compensation, etc.” is similar to stock options in that it is granted with an expectation of an incentive effect and the grantees cannot enjoy economic benefits through transfer until vesting; however, it differs from stock options in that the grantees become shareholders on the grant date and have rights such as dividend rights and voting rights during the period until vesting.
17. In this way, stock options and the after-the-fact grant type of “issuing shares free of charge as directors’ compensation, etc.” differ from the upfront grant type in terms of the timing of becoming shareholders. While this difference is reflected in the accounting treatment on the credit side (i.e., whether it is recognized as shareholders’ equity or net assets other than shareholders’ equity), they are similar in that an entity’s own shares or share options are granted with an expectation of an incentive effect. Therefore, would it be appropriate to apply, by analogy, the stock option accounting standard for the recognition and measurement of expenses?

### **Discussion point**

In considering the accounting treatment for “issuing shares free of charge as directors’ compensation, etc.,” we would like to ask for your views on applying, by analogy, the stock option accounting standard for the recognition and measurement of expenses.

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## **436th meeting of the Accounting Standards Board of Japan (June 26, 2020)**

**(4) Consideration of accounting treatment for cases in which shares are issued, etc. as compensation, etc. for directors, etc. without requiring cash payments, etc.**

Yanou (Full-time Board Member) and Munenobu (Professional Staff Member) explained additional issues identified based on opinions heard in the deliberations to date, including the credit account to be used when recognizing compensation expense, the treatment when rights vest in stages, and the accounting treatment for the upfront grant type (disposal of treasury shares). Deliberations were held, taking into account the status of discussions at the 130th meeting of the Practical Issues Task Force (held on June 17, 2020).

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### **437th meeting of the Accounting Standards Board of Japan (July 13, 2020)**

#### **(2) Consideration of accounting treatment for cases in which shares are issued, etc. as compensation, etc. for directors, etc. without requiring cash payments, etc.**

Yanou (Full-time Board Member) and Munenobu (Professional Staff Member) explained additional issues identified based on opinions heard in the deliberations to date, including the timing for determining the fair value per unit used to measure compensation expense, and an image of the main text structure for the Exposure Draft of the Practical Issues Task Force Report. Deliberations were held.

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### **438th meeting of the Accounting Standards Board of Japan (July 29, 2020)**

#### **(3) Consideration of accounting treatment for cases in which shares are issued, etc. as compensation, etc. for directors, etc. without requiring cash payments, etc.**

Yanou (Full-time Board Member), Katayama (Assistant Director), and Munenobu (Professional Staff Member) explained additional issues identified based on opinions heard in the deliberations to date, including the treatment when rights vest in stages, consideration of disclosures, and the draft wording of the Exposure Draft of the Practical Issues Task Force Report. Deliberations were held, taking into account the status of discussions at the 132nd meeting of the Practical Issues Task Force (held on July 28, 2020).

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### **439th meeting of the Accounting Standards Board of Japan (August 13, 2020)**

**(3) Consideration of accounting treatment for cases in which shares are issued, etc. as compensation, etc. for directors, etc. without requiring cash payments, etc.**

Yanou (Full-time Board Member) and Munenobu (Professional Staff Member) explained the draft wording of the Exposure Draft of the Practical Issues Task Force Report, including disclosures and illustrative examples, as well as the call for comments and an overview of the exposure draft, and issues for which no proposed response had been presented up to the previous meeting. Deliberations were held, taking into account the status of discussions at the 133rd meeting of the Practical Issues Task Force (held on August 11, 2020).

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### **440th meeting of the Accounting Standards Board of Japan (August 28, 2020)**

**(2) Consideration of accounting treatment for cases in which shares are issued, etc. as compensation, etc. for directors, etc. without requiring cash payments, etc.**

Yanou (Full-time Board Member) and Munenobu (Professional Staff Member) explained the draft wording of the Exposure Draft of the Practical Issues Task Force Report, proposed amendments to the “Accounting Standard on Presentation of Net Assets in the Balance Sheet,” proposed amendments to the related Implementation Guidance, and the call for comments and an overview of the exposure draft. Deliberations were held, taking into account the status of discussions at the 134th meeting of the Practical Issues Task Force (held on August 24, 2020). As a result of the deliberations, it was explained that, if possible, the Board would like to deliberate on approving the issuance of the exposure draft at the next meeting or thereafter.

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### **441st meeting of the Accounting Standards Board of Japan (September 10, 2020)**

**(1) Exposure Draft of Practical Issues Task Force Report, “Accounting Treatment for Transactions in Which Shares Are Granted Free of Charge as Directors’ Compensation, etc. (Draft),” etc. [Resolution to Issue]**

Yanou (Full-time Board Member) and Munenobu (Professional Staff Member) explained the draft wording of the Exposure Draft of the Practical Issues Task Force Report, proposed amendments to the “Accounting Standard on Presentation of Net Assets in the Balance Sheet,” proposed amendments to the related Implementation Guidance, and the call for comments and an overview of the exposure drafts, and deliberations and a vote were conducted. As a result of the vote, it was approved to issue the exposure drafts unanimously by all attending Board members, on the premise that the Chair would be entrusted with making any wording and other editorial revisions.

## Reference information on the background to the development of the standards

### Excerpt from “Basis for Conclusions” of the Exposure Draft

#### Background

**29–2.** Under the treatment in paragraph 62 of the Practical Guidelines for Financial Instruments of the Japanese Institute of Certified Public Accountants immediately prior to the amendment on July 4, 2019, the fair value of investment trusts was determined as follows: if there was an exchange closing price or a quoted price, or a standard price published by an industry association, such price was used; if such price did not exist, a standard price published by the investment trust management company, a valuation price obtained from a broker, or a valuation price obtained from an information vendor could be used. In the 2019 Implementation Guidance, it was decided that, because a certain period would be required for discussions with relevant parties, the determination of fair value measurement for investment trusts would be examined over approximately one year after issuance of the Accounting Standard.

In the 20XX amended Implementation Guidance, deliberations on the fair value measurement of investment trusts were conducted after classifying investment trusts into (i) investment trusts whose investment trust assets are financial instruments that fall within the scope of the Accounting Standard and (ii) investment trusts whose investment trust assets are real estate that does not fall within the scope of the Accounting Standard, and it was decided to publish the results as an Exposure Draft at this time.

In addition, in considering the fair value measurement of investment trusts, deliberations have also been conducted on whether to unify the balance sheet

carrying amounts of investment trusts whose investment trust assets are real estate with no market prices—an area in which diverse practices currently exist—to fair value (see paragraphs 49–8 and 49–9).

**29–3.** In addition, for investments in partnerships, etc. for which the interests–equivalent amounts are presented on a net basis in the balance sheet, there have been cases where no disclosure of fair value has been provided on the grounds that it is deemed extremely difficult to obtain fair value. In the 2019 Implementation Guidance, it was stated that, because further consideration was required, the treatment would be clarified when revising the treatment for investment trusts described in the preceding paragraph. In the 20XX amended Implementation Guidance, deliberations were conducted on the treatment of disclosures of fair value for investments in partnerships, etc. for which the interests–equivalent amounts are presented on a net basis in the balance sheet, and it was decided to publish the results as an Exposure Draft.

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## **Background to the development of the standards**

Because this Exposure Draft compiles the results of deliberations on matters that the Board had committed to consider when issuing the existing Implementation Guidance, it is inferred that it was determined that a new agenda proposal from the Accounting Standards Advisory Council was not necessary.

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### **[Deliberations at the ASBJ]**

**433rd meeting of the Accounting Standards Board of Japan (May 14, 2020)**

#### **(3) Consideration of the treatment related to fair value measurement of investment trusts**

Chair Kogasaka and Director Kumagai explained the main issues related to fair value

measurement of investment trusts and the Secretariat's analysis of those issues, and deliberations were held.

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#### **438th meeting of the Accounting Standards Board of Japan (July 29, 2020)**

##### **(4) Consideration of the treatment related to fair value measurement of investment trusts**

Chair Kogasaka and Director Kumagai explained the Secretariat's proposal regarding fair value measurement of investment trusts, updated in light of opinions heard in the deliberations to date, and deliberations were held, taking into account the status of discussions at the 155th Financial Instruments Special Committee (held on June 18, 2020).

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#### **444th meeting of the Accounting Standards Board of Japan (October 22, 2020)**

##### **(3) Consideration of the treatment related to fair value measurement of investment trusts**

Chair Kogasaka and Director Kumagai explained proposals and draft wording reflecting opinions heard in the deliberations to date regarding fair value measurement of investment trusts that invest in financial assets, as well as fair value measurement of investment trusts that invest in real estate and the treatment of disclosures of fair value for investments in partnerships, etc., taking into account the status of discussions at the 160th Financial Instruments Special Committee (held on October 12, 2020), and deliberations were held.

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#### **445th meeting of the Accounting Standards Board of Japan (November 5, 2020)**

##### **(2) Consideration of the treatment related to fair value measurement of investment trusts**

Chair Kogasaka and Director Kumagai explained proposals and draft wording reflecting opinions heard in the deliberations to date regarding fair value measurement of investment trusts that invest in financial assets. In addition, they explained proposals reflecting opinions heard in the deliberations to date regarding fair value measurement of investment trusts that invest in real estate and the treatment of disclosures of fair value for investments in partnerships, etc. Deliberations were held, taking into account the status of discussions at the 161st Financial Instruments Special Committee (held on October 30, 2020), which discussed similar matters.

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#### **446th meeting of the Accounting Standards Board of Japan (November 19, 2020)**

##### **(3) Consideration of the treatment related to fair value measurement of investment trusts**

Chair Kogasaka and Director Kumagai explained, based on an analysis reflecting opinions heard in the deliberations to date, the treatment related to fair value measurement of investment trusts whose investment trust assets are financial instruments; fair value measurement of investment trusts whose investment trust assets are real estate; the treatment of disclosures of fair value for investments in partnerships, etc.; and the effective date, etc. In addition, they explained draft wording for amendments to ASBJ Implementation Guidance No. 31, “Implementation Guidance on Accounting Standard for Fair Value Measurement,” and the “Call for Comments and Overview of the Exposure Draft.” Deliberations were held, taking into account the status of discussions at the 162nd Financial Instruments Special Committee (held on November 17, 2020), which discussed similar matters.

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#### **447th meeting of the Accounting Standards Board of Japan (December 3, 2020)**

##### **(2) Consideration of the treatment related to fair value measurement of investment trusts**

Chair Kogasaka and Director Kumagai explained draft wording, reflecting opinions

heard in the deliberations to date, for amendments to ASBJ Implementation Guidance No. 31, “Implementation Guidance on Accounting Standard for Fair Value Measurement,” and for the “Call for Comments and Overview of the Exposure Draft,” and deliberations were held, taking into account the status of discussions at the 163rd Financial Instruments Special Committee (held on December 1, 2020). As a result of the deliberations, it was explained that the Board would like to deliberate on approving the issuance of the Exposure Draft at the next meeting or the meeting thereafter.

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#### **448th meeting of the Accounting Standards Board of Japan (December 24, 2020)**

##### **(4) Consideration of the treatment related to fair value measurement of investment trusts**

Chair Kogasaka and Director Kumagai explained draft wording, reflecting opinions heard in the deliberations to date, for amendments to ASBJ Implementation Guidance No. 31, “Implementation Guidance on Accounting Standard for Fair Value Measurement,” and for the “Call for Comments and Overview of the Exposure Draft,” and deliberations were held, taking into account the status of discussions at the 164th Financial Instruments Special Committee (held on December 18, 2020). As a result of the deliberations, it was explained that, if possible, the Board would like to deliberate on approving the issuance of the Exposure Draft at the next meeting.

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#### **449th meeting of the Accounting Standards Board of Japan (January 15, 2021)**

##### **(1) Revised Exposure Draft of an ASBJ Implementation Guidance, “Implementation Guidance on Accounting Standard for Fair Value Measurement (Draft)” [Resolution to Issue]**

Chair Kogasaka and Director Kumagai explained the revised Exposure Draft of the ASBJ Implementation Guidance, “Implementation Guidance on Accounting Standard for Fair Value Measurement (Draft),” as well as draft wording of the “Call for Comments and Overview of the Exposure Draft,” and deliberations and a vote were

conducted. As a result of the vote, it was approved to issue the Exposure Draft unanimously by all attending Board members, on the premise that the Chair would be entrusted with making any wording and other editorial revisions.

**Exposure Draft of Practical Issues Task Force Report No. 61, “Accounting and Disclosure Treatment When Applying the Group Tax Sharing System (Draft)”  
(March 30, 2021)**

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## **Reference information on the background to the development of the draft**

### **Excerpt from “Call for Comments”**

The “Act for Partial Revision of the Income Tax Act, etc.” (Act No. 8 of 2020), enacted on March 27, 2020, revised the existing consolidated taxation system and provided for a transition to the group tax sharing system.

With respect to accounting and disclosures when applying the consolidated taxation system, Practical Issues Task Force Report No. 5, “Tentative Treatment for Tax Effect Accounting When Applying the Consolidated Taxation System (Part 1)” (hereinafter, “PITF Report No. 5”), and Practical Issues Task Force Report No. 7, “Tentative Treatment for Tax Effect Accounting When Applying the Consolidated Taxation System (Part 2)” (hereinafter, “PITF Report No. 7,” and together with PITF Report No. 5, “PITF Reports No. 5, etc.”) have been issued. However, in connection with the transition to the group tax sharing system, it became necessary to specify the accounting and disclosure treatment for corporate tax and local corporate tax, as well as tax effect accounting, when applying the group tax sharing system. Accordingly, the Board has conducted deliberations.

At the 454th meeting of the Accounting Standards Board of Japan held on March 25, 2021, the Board approved the issuance of the above Exposure Draft of Practical Issues Task Force Report No. 61, “Accounting and Disclosure Treatment When Applying the Group Tax Sharing System (Draft)” (hereinafter, this “Exposure Draft”), and therefore it is hereby issued today.

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# Reference information on the background to the issuance of this Exposure Draft

## Excerpt from the “Explanatory Notes by a Professional Staff Member”

### II. Background to the issuance of this Exposure Draft

The “Act for Partial Revision of the Income Tax Act, etc.” (Act No. 8 of 2020), enacted on March 27, 2020 (hereinafter, the “Amended Corporate Tax Act”), revised the existing consolidated taxation system and provided for a transition to the group tax sharing system. With respect to accounting and disclosures when applying the consolidated taxation system, PITF Report No. 5, “Tentative Treatment for Tax Effect Accounting When Applying the Consolidated Taxation System (Part 1)” (hereinafter, “PITF Report No. 5”), and PITF Report No. 7, “Tentative Treatment for Tax Effect Accounting When Applying the Consolidated Taxation System (Part 2)” (hereinafter, “PITF Report No. 7,” and together with PITF Report No. 5, “PITF Reports No. 5, etc.”) have been issued. However, in connection with the transition to the group tax sharing system, it became necessary to specify the accounting and disclosure treatment for corporate tax and local corporate tax, as well as tax effect accounting, when applying the group tax sharing system. Accordingly, the ASBJ conducted deliberations. This Exposure Draft has been issued as a result of deliberations on this agenda item.

In applying tax effect accounting, it is necessary, in accordance with paragraph 44 of ASBJ Implementation Guidance No. 28, “Implementation Guidance on Accounting Standard for Tax Effect Accounting” (hereinafter, the “Tax Effect Guidance”), to calculate tax effects based on the methods prescribed in tax laws enacted by the Diet as of the balance sheet date. However, when the Amended Corporate Tax Act was first published, opinions were heard that it would be difficult to assess matters such as the recoverability of deferred tax assets under the group tax sharing system. Accordingly, Practical Issues Task Force Report No. 39, “Accounting Treatment for the Application of Tax Effect Accounting Related to the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (hereinafter, “PITF Report No. 39”), provided exceptional treatment permitting the application of the provisions of the pre-amendment tax laws.

With respect to PITF Report No. 39 and PITF Reports No. 5, etc., this Exposure Draft proposes that they be abolished when, as a result of the application of this Exposure Draft, there are no longer any entities to which those Practical Issues Task Force Reports apply (paragraph 34 of this Exposure Draft).

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## [Deliberations at the Accounting Standards Advisory Council]

### Excerpt from Agenda Paper (1)–4 for the 37th meeting of the Advisory Council (November 22, 2019)

#### I. Overview of the revision to the consolidated taxation system

1. In September 2019, the Cabinet Office Tax Commission published “The desirable tax system in the Reiwa era in light of structural changes in the economy and society,” which includes the following statement (underlining added by the Secretariat):

#### **(4) Review of the consolidated taxation system in light of actual corporate management**

Since its introduction in FY2002 based on the view that it would promote corporate reorganizations and contribute to maintaining and strengthening the international competitiveness of Japanese companies as well as to structural reform of the economy, more than 15 years have passed. During that period, the system has been used effectively as corporate groups advanced integrated management and strengthened competitiveness. Meanwhile, there have been indications that (i) the degree to which information, etc. is centralized at the parent company varies, (ii) tax calculations under the system are complex, and (iii) it takes too long to process corrections and reassessments after tax audits. As a result, many corporate groups have not elected this system despite the benefits of loss offsets.

Therefore, based on the actual use of the system and the realities of diverse group management, it is necessary to establish an environment in which companies can manage their groups more efficiently and fully demonstrate their competitiveness, by reviewing the system and reducing administrative burdens through simplification—thereby minimizing, as much as possible, the extent to which differences in groups’ administrative processing capabilities affect the decision to elect the system—and ensuring tax neutrality and fairness. Specifically, while maintaining the basic framework that enables loss offsets within a wholly owned corporate group, it is appropriate to replace the current system (in which the corporate group as a whole is treated as a single taxpaying unit) with a system in which each corporation within the group is a taxpaying unit: each corporation would calculate and file its own corporate tax amount, while adjustments such as loss offsets would be made. Consistency with the tax regime for corporate reorganizations and considerations to prevent tax avoidance are also important.

Going forward, the detailed institutional design should be developed while taking into account, among other things, the contents of the compilation prepared by the expert panel under the Commission, including the above.

2. While details such as the specific content of the reform and the timing of application are expected to become clear through the process of amending the Corporate Tax Act, it is considered likely that a review of the basic framework of the existing consolidated taxation system will be carried out.

## **II. Impact on accounting standards**

3. Currently, accounting treatments related to the consolidated taxation system are provided in the following accounting guidance, etc.:
  - Practical Issues Task Force Report No. 5, “Tentative Treatment for Tax Effect Accounting When Applying the Consolidated Taxation System (Part 1)”
  - Practical Issues Task Force Report No. 7, “Tentative Treatment for Tax Effect Accounting When Applying the Consolidated Taxation System (Part 2)”

4. If the consolidated taxation system is revised as described in paragraph 1 above, it is considered that these two Practical Issues Task Force Reports will need to be amended or withdrawn.
  5. In addition, if amendments to the Corporate Tax Act related to the review of the consolidated taxation system are passed and enacted by the Diet by March 31, 2020, then under the current accounting requirements, companies whose fiscal year-end falls in March 2020 or later would need to apply tax effect accounting in their financial statements on the premise of the revised system. Even if the effective date of the revised system were to be later, it may be necessary to provide some accounting-standard response for companies with fiscal year-ends in March 2020 or later, depending on whether such a response is required. If a reform is implemented, such a response would be considered urgent.
  6. In light of the above, the Accounting Standards Board of Japan is considering, once it becomes clear that the tax reform will be implemented, handling the matter as a new agenda item at the ASBJ, in accordance with Article 22, paragraph 3 of the “Rules on Due Process for Developing Accounting Standards and Modified International Standards.”
  7. At today’s meeting of the Advisory Council, the Secretariat would like to ask for your views on this proposed ASBJ course of action.
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## [Deliberations at the ASBJ]

### **Excerpt from the minutes of the 423rd meeting of the Accounting Standards Board of Japan (December 26, 2019)**

#### **(4) Agenda items of the Accounting Standards Board of Japan**

Chair Kogasaka and Yanou (Full-time Board Member) explained that, pursuant to Article 22, paragraph 3 of the “Rules on Due Process for Developing Accounting Standards and Modified International Standards,” the Board would make the response to the review of the consolidated taxation system a new agenda item of the Accounting Standards Board of Japan, and deliberations were held. As a result of the deliberations, it was approved to take up the response to the review of the consolidated taxation system as a new ASBJ agenda item.

## Excerpt from Agenda Paper (4) for the 423rd meeting

2. Going forward, it is expected that a bill to amend the Corporate Tax Act will be submitted based on the Tax Reform Outline. Compared with the previous consolidated taxation system, the basic mechanism has been revised, including changes to the taxpaying unit, and the name has been changed to the group tax sharing system.

## II. Impact on accounting standards

3. Currently, accounting treatments related to the consolidated taxation system are provided in the following accounting guidance, etc.:

- Practical Issues Task Force Report No. 5, “Tentative Treatment for Tax Effect Accounting When Applying the Consolidated Taxation System (Part 1)”
  - Practical Issues Task Force Report No. 7, “Tentative Treatment for Tax Effect Accounting When Applying the Consolidated Taxation System (Part 2)”
4. If amendments to the Corporate Tax Act related to the review of the consolidated taxation system are made, it is considered that these two Practical Issues Task Force Reports will need to be amended or withdrawn.
  5. In addition, if amendments to the Corporate Tax Act related to the review of the consolidated taxation system are passed and enacted by the Diet by March 31, 2020, then under the current accounting requirements, in financial statements for companies with fiscal year-ends on or after March 31, 2020, tax effect accounting would need to be applied based on the revised system. Although the group tax sharing system is to apply for fiscal years beginning on or after April 1, 2022, it is considered necessary to examine whether any accounting-standard response is required for companies with fiscal year-ends on or after March 31, 2020.
  6. In light of the above, should the response to the review of the consolidated taxation system be treated as a new agenda item of the Accounting Standards Board of Japan?

In addition, since the main matters to be examined are corporate tax, inhabitants tax, enterprise tax, etc., and tax effect accounting, should the Tax

Effect Accounting Special Committee, which has expertise in these matters, handle the response?

7. The agenda item proposed in the preceding paragraph is made pursuant to Article 22, paragraph 3-2 of the “Rules on Due Process for Developing Accounting Standards and Modified International Standards.” With respect to using Article 22, paragraph 3 in connection with the response to the review of the consolidated taxation system, it was approved at the 37th meeting of the Advisory Council held on November 22, 2019.

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### **442nd meeting of the Accounting Standards Board of Japan (September 24, 2020)**

#### **(4) Response to the review of the consolidated taxation system**

Yanou (Full-time Board Member) and Katayama (Assistant Director) explained issues to be considered in applying tax effect accounting under the group tax sharing system and the treatment of the tax effect amount under the tax sharing system in separate financial statements, and deliberations were held, taking into account the status of discussions at the 64th meeting of the Tax Effect Accounting Special Committee (held on September 15, 2020).

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### **443rd meeting of the Accounting Standards Board of Japan (October 8, 2020)**

#### **(2) Response to the review of the consolidated taxation system**

Yanou explained the unit of account for assessing the recoverability of deferred tax assets in consolidated financial statements and the treatment of entity classification in assessing the recoverability of deferred tax assets, and deliberations were held, taking into account the status of discussions at the 65th meeting of the Tax Effect Accounting Special Committee (held on October 6, 2020).

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### **448th meeting of the Accounting Standards Board of Japan (December 24, 2020)**

### **(6) Response to the review of the consolidated taxation system**

Yanou (Full-time Board Member) and Munenobu (Professional Staff Member) explained the basic policy for developing accounting treatments related to corporate tax and local corporate tax and tax effect accounting under the group tax sharing system, as well as the treatment of assessing the recoverability of deferred tax assets under the group tax sharing system, and deliberations were held, taking into account the status of discussions at the 66th meeting (held on December 1, 2020) and the 67th meeting (held on December 16, 2020) of the Tax Effect Accounting Special Committee.

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### **449th meeting of the Accounting Standards Board of Japan (January 15, 2021)**

#### **(2) Response to the review of the consolidated taxation system**

Yanou (Full-time Board Member) and Munenobu (Professional Staff Member) explained the basic policy for developing accounting standards related to the group tax sharing system, the treatment of assessing the recoverability of deferred tax assets under the group tax sharing system, and issues other than the assessment of recoverability of deferred tax assets under the group tax sharing system, and deliberations were held, taking into account the status of discussions at the 68th meeting of the Tax Effect Accounting Special Committee (held on January 7, 2021).

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### **450th meeting of the Accounting Standards Board of Japan (January 27, 2021)**

#### **(3) Response to the review of the consolidated taxation system**

Yanou (Full-time Board Member) and Munenobu (Professional Staff Member) explained an image of the draft structure of the main text of the Exposure Draft of a Practical Issues Task Force Report, “Accounting and Disclosure Treatment When Applying the Group Tax Sharing System (Draft),” and deliberations were held, taking into account the status of discussions at the 69th meeting of the Tax Effect Accounting Special Committee (held on January 21, 2021).

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## **451st meeting of the Accounting Standards Board of Japan (February 9, 2021)**

### **(2) Response to the review of the consolidated taxation system**

Yanou (Full-time Board Member) and Munenobu (Professional Staff Member) explained draft wording including the Basis for Conclusions of the Exposure Draft of a Practical Issues Task Force Report, “Accounting and Disclosure Treatment When Applying the Group Tax Sharing System (Draft),” and deliberations were held, taking into account the status of discussions at the 70th meeting of the Tax Effect Accounting Special Committee (held on February 4, 2021).

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## **452nd meeting of the Accounting Standards Board of Japan (February 25, 2021)**

### **(2) Response to the review of the consolidated taxation system**

Yanou (Full-time Board Member) and Munenobu (Professional Staff Member) explained draft wording of the Exposure Draft of a Practical Issues Task Force Report, “Accounting and Disclosure Treatment When Applying the Group Tax Sharing System (Draft),” and the “Call for Comments and Overview of the Exposure Draft,” and deliberations were held, taking into account the status of discussions at the 71st meeting of the Tax Effect Accounting Special Committee (held on February 18, 2021).

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## **453rd meeting of the Accounting Standards Board of Japan (March 11, 2021)**

### **(3) Response to the review of the consolidated taxation system**

Yanou (Full-time Board Member) and Munenobu (Professional Staff Member) explained consideration of issues related to investment book-value adjustments, additional analysis regarding disclosure requirements, disclosures regarding joint and several payment obligations, and the effective date and transition provisions. In addition, they explained draft wording of the Exposure Draft of a Practical Issues Task Force Report, “Accounting and Disclosure Treatment When Applying the Group Tax Sharing System (Draft),” and the “Call for Comments and Overview of the

Exposure Draft,” as well as the Secretariat’s responses to major comments received in deliberations to date on those draft documents. Deliberations were held, taking into account the status of discussions at the 72nd meeting of the Tax Effect Accounting Special Committee (held on March 4, 2021), which discussed similar matters. As a result of the deliberations, it was explained that, if possible, the Board would like to deliberate on approving the issuance of the Exposure Draft at the next meeting.

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### **454th meeting of the Accounting Standards Board of Japan (March 25, 2021)**

#### **(3) Exposure Draft of Practical Issues Task Force Report, “Accounting and Disclosure Treatment When Applying the Group Tax Sharing System (Draft)” [Resolution to Issue]**

Yanou (Full-time Board Member) and Munenobu (Professional Staff Member) explained disclosures regarding joint and several payment obligations, and the effective date and transition provisions, and then explained draft wording of the Exposure Draft of a Practical Issues Task Force Report, “Accounting and Disclosure Treatment When Applying the Group Tax Sharing System (Draft),” and draft wording of the “Call for Comments.” Deliberations and a vote were conducted. As a result of the vote, it was approved to issue the Exposure Draft unanimously by all attending Board members, on the premise that the Chair would be entrusted with making any wording and other editorial revisions.

**Exposure Draft of Practical Issues Task Force Report No. 62 (Proposed amendments to Practical Issues Task Force Report No. 40), “Accounting Treatment for Hedge Accounting for Financial Instruments Referencing LIBOR (Draft)” (December 24, 2021)**

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## **Reference information on the background to the development of the draft**

### **From “Call for Comments”**

On September 29, 2020, the Board issued Practical Issues Task Force Report No. 40, “Accounting Treatment for Hedge Accounting for Financial Instruments Referencing LIBOR” (hereinafter, the “2020 PITF Report”).

The 2020 PITF Report aims to clarify accounting and disclosure treatments for hedge accounting considered necessary for financial instruments referencing LIBOR, in response to the increasing likelihood that contracts referencing the London Interbank Offered Rate (hereinafter, “LIBOR”) will undergo replacement of the referenced interest rate benchmark, given that the publication of LIBOR is to be permanently discontinued at the end of December 2021 amid the ongoing interest rate benchmark reform based on the July 2014 recommendations of the Financial Stability Board (FSB) (hereinafter, “interest rate benchmark reform”).

In the 2020 PITF Report, it was stated that, because there were many uncertainties at the time of issuance regarding practices for selecting interest rate benchmarks and entities’ hedging activities, the Board planned to reconfirm the treatment after the benchmark replacement approximately one year after issuance.

In light of the above, the Board has conducted deliberations, and at the 470th meeting of the Accounting Standards Board of Japan held on December 20, 2021, the Board approved the issuance of the above “Accounting Treatment for Hedge Accounting for Financial Instruments Referencing LIBOR (Draft)” (hereinafter, this “Exposure Draft”), and therefore it is hereby issued today.

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## Background to the development of the standards

From the time of issuance of the “2020 PITF Report,” it had been the established policy to review it. It is inferred that this is why no procedure was taken to obtain a new agenda proposal from the Accounting Standards Advisory Council (Corporate Accounting).

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### [Deliberations at the ASBJ]

#### **468th meeting of the Accounting Standards Board of Japan (October 25, 2021)**

##### **(1) Practical Issues Task Force Report No. 40, “Accounting Treatment for Hedge Accounting for Financial Instruments Referencing LIBOR”**

With respect to Practical Issues Task Force Report No. 40, “Accounting Treatment for Hedge Accounting for Financial Instruments Referencing LIBOR,” it had been stated that the treatment after the benchmark replacement would be reconfirmed approximately one year after issuance, and deliberations on this matter were commenced. Chair Kogasaka and Miyaji (Assistant Director) explained the issues organized by the Secretariat, and deliberations were held, taking into account the status of discussions at the 171st Financial Instruments Special Committee (held on October 20, 2021).

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#### **469th meeting of the Accounting Standards Board of Japan (December 3, 2021)**

##### **(3) Practical Issues Task Force Report No. 40, “Accounting Treatment for Hedge Accounting for Financial Instruments Referencing LIBOR”**

Vice Chair Kawanishi and Miyaji (Assistant Director) explained the reconfirmation of the treatment after the benchmark replacement under Practical Issues Task Force

Report No. 40, including: the issues re-organized by the Secretariat and proposed responses; the direction of draft wording in the event that Practical Issues Task Force Report No. 40 is amended; and draft wording of the proposed amendments to Practical Issues Task Force Report No. 40 and the “Call for Comments and Overview of the Exposure Draft.” Deliberations were held, taking into account the status of discussions at the 172nd Financial Instruments Special Committee (held on November 30, 2021). As a result of the deliberations, it was explained that, if possible, the Board would like to deliberate on approving the issuance of the Exposure Draft at the next meeting.

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#### **470th meeting of the Accounting Standards Board of Japan (December 20, 2021)**

##### **(1) Revised Exposure Draft of a Practical Issues Task Force Report, “Accounting Treatment for Hedge Accounting for Financial Instruments Referencing LIBOR (Draft)” [Resolution to Issue]**

Vice Chair Kawanishi and Miyaji (Assistant Director) explained draft wording of the revised Exposure Draft of the Practical Issues Task Force Report, “Accounting Treatment for Hedge Accounting for Financial Instruments Referencing LIBOR (Draft),” and draft wording of the “Call for Comments and Overview of the Exposure Draft.” Deliberations and a vote were conducted, taking into account the status of discussions at the 173rd Financial Instruments Special Committee (held on December 15, 2021). As a result of the vote, it was approved to issue the Exposure Draft unanimously by all attending Board members, on the premise that Vice Chair would be entrusted with making any wording and other editorial revisions.

ASBJ Exposure Draft No. 71 (Proposed amendments to ASBJ Statement No. 27), “Accounting Standard for Corporate Taxes, Inhabitants Taxes and Enterprise Taxes, etc. (Draft),” ASBJ Exposure Draft No. 72 (Proposed amendments to ASBJ Statement No. 25), “Accounting Standard for Presentation of Comprehensive Income (Draft),” and ASBJ Exposure Draft of Implementation Guidance No. 72 (Proposed amendments to ASBJ Implementation Guidance No. 28), “Implementation Guidance on Accounting Standard for Tax Effect Accounting (Draft)” (March 30, 2022)

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## Reference information on the background to the development of the standards

### Excerpt from “Call for Comments”

In February 2018, the Board issued ASBJ Statement No. 28, “Partial Amendments to ‘Accounting Standard for Tax Effect Accounting,’ ” etc. (hereinafter, “ASBJ Statement No. 28, etc.”), thereby completing the transfer to the Board of the Japanese Institute of Certified Public Accountants’ practical guidance on tax effect accounting. In the course of those deliberations, the Board decided to reconsider the following two issues after issuing ASBJ Statement No. 28, etc.:

- (1) Classification of income taxes (taxation related to other comprehensive income)
- (2) Tax effects related to the sale of shares of subsidiaries, etc. (shares of subsidiaries or shares of associates) when the group corporate tax system is applied

After completing the transfer, the Board first began deliberations on the classification of income taxes (taxation related to other comprehensive income). However, because the group tax sharing system was established as part of the FY2020 tax reform, the Board prioritized consideration of the treatment when applying the group tax sharing system, and suspended deliberations. Thereafter, following the issuance in August 2021 of Practical Issues Task Force Report No. 42, “Accounting and Disclosure Treatment When Applying the Group Tax Sharing System,” the Board resumed consideration of the classification of income taxes

(taxation related to other comprehensive income), and also began deliberations on the treatment of tax effects related to the sale of shares of subsidiaries, etc. when the group corporate tax system is applied.

At the 476th meeting of the Accounting Standards Board of Japan held on March 25, 2022, the Board approved the issuance of the following exposure drafts of Accounting Standards and Implementation Guidance (collectively, the “Exposure Drafts”), and therefore they are hereby issued today:

- ASBJ Exposure Draft No. 71 (Proposed amendments to ASBJ Statement No. 27), “Accounting Standard for Corporate Taxes, Inhabitants Taxes and Enterprise Taxes, etc. (Draft)” (hereinafter, the “Proposed Amendments to the Corporate Taxes, etc. Standard”)
- ASBJ Exposure Draft No. 72 (Proposed amendments to ASBJ Statement No. 25), “Accounting Standard for Presentation of Comprehensive Income (Draft)” (hereinafter, the “Proposed Amendments to the Comprehensive Income Standard”)
- ASBJ Exposure Draft of Implementation Guidance No. 72 (Proposed amendments to ASBJ Implementation Guidance No. 28), “Implementation Guidance on Accounting Standard for Tax Effect Accounting (Draft)” (hereinafter, the “Proposed Amendments to the Tax Effect Guidance”)

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## **[Deliberations at the Accounting Standards Advisory Council]**

It is stated in the agenda papers for the 423rd meeting of the Accounting Standards Board of Japan that, pursuant to Article 22, paragraph 3 of the “Rules on Due Process for Developing Accounting Standards and Modified International Standards,” the Accounting Standards Board of Japan itself proposed making this matter a new agenda item.

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## [Deliberations at the ASBJ]

### **393rd meeting of the Accounting Standards Board of Japan (September 27, 2018)**

#### **(3) Consideration of tax effect accounting**

Vice Chair Kogasaka and Murase (Professional Staff Member) explained the issues that had been stated to be considered after the transfer of the Japanese Institute of Certified Public Accountants' practical guidance, and deliberations were held on whether to proceed with further consideration, taking into account the status of discussions at the 58th meeting of the Tax Effect Accounting Special Committee (held on July 19, 2018). As a result of the deliberations, it was confirmed that the Board would proceed with consideration of two issues: taxation related to other comprehensive income (Issue 4) and tax effects related to the purchase and sale of shares of subsidiaries, etc. between wholly owned subsidiaries (Issue 12).

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### **412th meeting of the Accounting Standards Board of Japan (July 17, 2019)**

#### **(3) Consideration of the classification of income taxes**

Yanou (Full-time Board Member) and Murase (Professional Staff Member) explained the Secretariat's proposal regarding the classification of income taxes—namely, into which category income taxes should be recognized—and, if corporate taxes, etc. are recognized in other comprehensive income, the treatment of recycling, and deliberations were held.

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### **416th meeting of the Accounting Standards Board of Japan (September 11, 2019)**

#### **(2) Consideration of the classification of income taxes**

Yanou (Full-time Board Member) and Wada (Professional Staff Member) explained: (i) the Secretariat's proposed accounting treatment regarding the classification of income taxes, as proposed at the 412th meeting of the Accounting Standards Board

of Japan (held on July 17, 2019); and (ii) proposed amendments to ASBJ Statement No. 27, “Accounting Standard for Corporate Taxes, Inhabitants Taxes and Enterprise Taxes, etc.” Deliberations were held, taking into account the status of discussions at the 62nd meeting of the Tax Effect Accounting Special Committee (held on August 22, 2019).

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#### **423rd meeting of the Accounting Standards Board of Japan (December 26, 2019)**

##### **(4) Agenda items of the Accounting Standards Board of Japan**

Chair Kogasaka and Yanou (Full-time Board Member) explained that, pursuant to Article 22, paragraph 3 of the “Rules on Due Process for Developing Accounting Standards and Modified International Standards,” the Board would make the response to the review of the consolidated taxation system a new agenda item of the Accounting Standards Board of Japan, and deliberations were held. As a result of the deliberations, it was approved to take up the response to the review of the consolidated taxation system as a new agenda item of the Board.

*(Note) Thereafter, the Accounting Standards Board of Japan suspended deliberations for an extended period.*

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#### **472nd meeting of the Accounting Standards Board of Japan (January 25, 2022)**

##### **(4) Consideration of the classification of income taxes**

Yanou (Full-time Board Member) and Munenobu (Professional Staff Member) explained the future direction for the classification of income taxes (taxation related to other comprehensive income) and the relationship with the requirements of existing accounting standards, and deliberations were held, taking into account the status of discussions at the 77th meeting of the Tax Effect Accounting Special Committee (held on January 25, 2022).

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## **474th meeting of the Accounting Standards Board of Japan (February 21, 2022)**

### **(5) Tax effects related to the sale of shares of subsidiaries, etc. when the group corporate tax system is applied**

Yanou (Full-time Board Member) and Katayama (Assistant Director) explained an overview of the issues and proposed revisions to the existing treatment, the effective date and transition provisions, and draft amendments to the Tax Effect Guidance and to the Accounting System Committee Report No. 9, “Practical Guidance on the Equity Method of Accounting.” Deliberations were held, taking into account the status of discussions at the 76th meeting of the Tax Effect Accounting Special Committee (held on December 22, 2021) and the 78th meeting of the Tax Effect Accounting Special Committee (held on February 16, 2022). As a result of the deliberations, it was explained that, if possible, the Board would like to deliberate on approving the issuance of the Exposure Drafts at the next meeting or the meeting thereafter.

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## **475th meeting of the Accounting Standards Board of Japan (March 11, 2022)**

### **(5) Amendments to the corporate taxes, etc. accounting standard, etc.**

Yanou (Full-time Board Member), Katayama (Assistant Director), and Munenobu (Professional Staff Member) explained: the treatment of the simplified method in interim financial statements, etc. regarding the classification of income taxes (taxation related to other comprehensive income); the effective date for tax effects related to the sale of shares of subsidiaries, etc. when the group corporate tax system is applied; draft amendments to ASBJ Statement No. 27, “Accounting Standard for Corporate Taxes, Inhabitants Taxes and Enterprise Taxes, etc.”; draft amendments to ASBJ Statement No. 25, “Accounting Standard for Presentation of Comprehensive Income”; draft amendments to ASBJ Implementation Guidance No. 28, “Implementation Guidance on Accounting Standard for Tax Effect Accounting”; draft wording to propose to the Japanese Institute of Certified Public Accountants revisions to its practical guidance, etc.; and draft wording of the “Call for Comments and Overview of the Exposure Drafts.” Deliberations were held, taking into account the status of discussions at the 79th meeting of the Tax Effect Accounting Special

Committee (held on March 4, 2022). As a result of the deliberations, it was explained that, if possible, the Board would like to deliberate on approving the issuance of the Exposure Drafts at the next meeting.

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#### **476th meeting of the Accounting Standards Board of Japan (March 25, 2022)**

(1) **Revised ASBJ Exposure Draft, “Accounting Standard for Corporate Taxes, Inhabitants Taxes and Enterprise Taxes, etc. (Draft),” etc. [Resolution to Issue]** Yanou (Full-time Board Member), Katayama (Assistant Director), and Munenobu (Professional Staff Member) explained the revised ASBJ Exposure Draft, “Accounting Standard for Corporate Taxes, Inhabitants Taxes and Enterprise Taxes, etc. (Draft),” etc., and deliberations and a vote were conducted. As a result of the vote, it was approved to issue the revised ASBJ Exposure Draft, “Accounting Standard for Corporate Taxes, Inhabitants Taxes and Enterprise Taxes, etc. (Draft),” etc. unanimously by all attending Board members, on the premise that Vice Chair would be entrusted with making any wording and other editorial revisions. In addition, it was agreed to request that the Japanese Institute of Certified Public Accountants revise its practical guidance, etc. related to the Exposure Drafts.

Exposure Draft of Practical Issues Task Force Report No. 64, “Tentative Treatment for the Application of Tax Effect Accounting Related to Amendments to the Corporate Tax Act in Response to the Global Minimum Tax (Draft)” (February 8, 2023)

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## Reference information on the background to the development of the draft

### Excerpt from “Basis for Conclusions”

#### Background

5. Under the amended Corporate Tax Act enacted on XX XX, 2023, the global minimum tax regime was introduced. Although the global minimum tax regime is to be applied for fiscal years beginning on or after April 1, 2024, entities for which its application is expected must, in preparing financial statements (including quarterly (consolidated) financial statements) for consolidated fiscal years and fiscal years ending after the enactment date of the amended Corporate Tax Act, consider—based on the requirements of the Tax Effect Guidance—whether to apply tax effect accounting on the premise of the global minimum tax regime. However, because opinions were heard that applying tax effect accounting on the premise of the global minimum tax regime would be difficult in practice, the Board decided that this Practical Issues Task Force Report would provide, for the time being, exceptional treatments considered necessary.

6. In addition, in the IASB Exposure Draft published in January 2023, “International Tax Reform—Pillar Two Model Rules (Proposed amendments to IAS 12),” the International Accounting Standards Board (IASB) proposes, with respect to the accounting treatment for deferred tax assets and deferred tax liabilities arising from the application of the Pillar Two model rules published by the Organization for Economic Co-operation and Development (OECD), establishing a temporary exception from the requirements of IAS 12 “Income Taxes,” and requiring disclosures of certain matters. However, because this Practical Issues Task Force

Report is intended primarily as a short-term response for the financial statements for the year ending March 2023, it does not require disclosures.

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## [Deliberations at the Accounting Standards Advisory Council]

### Excerpt from “Summary of Discussions 1” of the 46th meeting of the Advisory Council (November 29, 2022)

#### (Summary of Discussions 1) Agenda proposals

First, Itabashi, Director of the Administration Office of the Financial Accounting Standards Foundation, explained that there were no newly proposed agenda items at this meeting, and also provided an update on the progress of evaluations of agenda items proposed in the past.

Next, Chair Kawanishi of the Accounting Standards Board of Japan explained the following two matters for which, given their high urgency, the ASBJ might commence development of accounting standards promptly without consulting the Accounting Standards Advisory Council once the content becomes clear, and a Q&A session was held.

- Response to the consideration of abolishing quarterly disclosure requirements (first and third quarters) under the Financial Instruments and Exchange Act
- Response in the event of tax reforms related to the international tax initiative concerning taxation commonly referred to as BEPS 2.0

With respect to the above, the following views were expressed by members of the Accounting Standards Advisory Council:

- Regarding the review of quarterly disclosures, discussions on amendments to the relevant provisions of the Financial Instruments and Exchange Act are progressing. Regarding BEPS 2.0, industry is also advancing discussions on

responding to institutional reforms in coordination with relevant ministries and agencies. Under these circumstances, there is a possibility that the two matters raised may not be able to wait for the next meeting of the Accounting Standards Advisory Council, and therefore the members supported the ASBJ Secretariat's policy of proceeding with accounting standard development when preparations are ready.

- Regarding the review of quarterly disclosures, users are most concerned that quarterly information disclosure could regress if first- and third-quarter reporting is consolidated into quarterly earnings releases. Accordingly, the development of the related accounting standards should be conducted swiftly but with careful deliberation.
- With respect to the standards for interim financial statements preparation, there appears to be an issue of consistency with ASBJ Statement No. 12, "Accounting Standard for Quarterly Financial Statements," and ASBJ Implementation Guidance No. 14, "Implementation Guidance on Accounting Standard for Quarterly Financial Statements," and it would be desirable to revise them as necessary.

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## [Deliberations at the ASBJ]

### **493rd meeting of the Accounting Standards Board of Japan (December 26, 2022)**

#### **(3) Agenda items of the Accounting Standards Board of Japan**

Chujo (Full-time Board Member) and Kato (Professional Staff Member) explained that the ASBJ would take up, as a new agenda item, its response to the amended Corporate Tax Act regarding the global minimum tax, and that the Tax Effect Accounting Special Committee would handle the deliberations on the matters to be examined under this agenda item. Deliberations were held.

As a result of the deliberations, it was approved to take up the matter as a new ASBJ agenda item and to have the Tax Effect Accounting Special Committee handle the deliberations.

**Excerpt from Agenda Paper (3)-1 for the 493rd meeting**

## **II. Expected impact on accounting standards**

3. Currently, accounting treatments related to corporate taxes, etc. and tax effect accounting are mainly provided in the following standards and guidance:

- ASBJ Statement No. 27, “Accounting Standard for Corporate Taxes, Inhabitants Taxes and Enterprise Taxes, etc.”
- ASBJ Implementation Guidance No. 28, “Implementation Guidance on Accounting Standard for Tax Effect Accounting”

4. If the Corporate Tax Act is amended in relation to the global minimum tax, it is considered that amendments to the above standards and guidance may be necessary.

5. In addition, if amendments to the Corporate Tax Act related to the global minimum tax are passed and enacted by the Diet by March 31, 2023, then under the current accounting requirements, entities whose reporting date falls after the enactment date would need to apply tax effect accounting in their financial statements based on the amended tax law (hereinafter, the “Amended Corporate Tax Act”). Although the tax reform outline provides that the Amended Corporate Tax Act is to apply from April 1, 2024, it is considered necessary to examine whether any accounting-standard response is required for entities with reporting dates after the enactment date.

6. In light of the above, should the response to the Amended Corporate Tax Act related to the global minimum tax be taken up as a new agenda item of the Accounting Standards Board of Japan?

In addition, since the main matters to be examined are corporate tax, inhabitants tax, enterprise tax, etc., and tax effect accounting, should the Tax Effect Accounting Special Committee, which has expertise in these matters, handle the deliberations?

7. The agenda proposal in the preceding paragraph is made pursuant to Article 22, paragraph 3 of the “Rules on Due Process for Developing Accounting Standards and Modified International Standards.” With respect to using Article 22, paragraph 3 in connection with the response to the Amended Corporate Tax Act related to the global minimum tax, it was approved at the 46th meeting of the Accounting Standards Advisory Council held on November 29, 2022.

## **494th meeting of the Accounting Standards Board of Japan (January 17, 2023)**

**(2) Response to the Amended Corporate Tax Act related to the global minimum tax** Chujo (Full-time Board Member) and Kato (Professional Staff Member) explained, assuming that amendments to the Corporate Tax Act related to the global minimum tax would be enacted by the Diet by March 31, 2023, whether an accounting-standard response is necessary for entities whose reporting date falls after the enactment date, and deliberations were held.

They also explained draft wording (including draft wording of the “Call for Comments and Overview of this Exposure Draft”) for the Exposure Draft of a Practical Issues Task Force Report to be issued if such a response is to be provided, namely, “Tentative Treatment for the Application of Tax Effect Accounting Related to Amendments to the Corporate Tax Act in Response to the Global Minimum Tax (Draft),” and deliberations were held.

As a result of the deliberations, it was explained that, if possible, the Board would like to deliberate on approving the issuance of the Exposure Draft at the next meeting.

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## **495th meeting of the Accounting Standards Board of Japan (February 7, 2023)**

**(1) Exposure Draft of a Practical Issues Task Force Report, “Tentative Treatment for the Application of Tax Effect Accounting Related to Amendments to the Corporate Tax Act in Response to the Global Minimum Tax (Draft)” [Resolution to Issue]**

Chujo (Full-time Board Member) and Kato (Professional Staff Member) explained the draft wording of the Exposure Draft of a Practical Issues Task Force Report, “Tentative Treatment for the Application of Tax Effect Accounting Related to Amendments to the Corporate Tax Act in Response to the Global Minimum Tax (Draft),” including draft wording of the “Call for Comments and Overview of the Exposure Draft,” and deliberations and a vote were conducted.

As a result of the vote, it was approved (i) to issue the Exposure Draft unanimously by all attending Board members, on the premise that the Chair would be entrusted with making any wording and other editorial revisions, and (ii) given the need to

finalize this Exposure Draft by the end of March 2023, to shorten the comment period in light of its importance and urgency.

## Exposure Drafts approved for publication on Accounting for Leases (April 26, 2023)

- **Exposure Draft of ASBJ Statement No. 73, “Accounting Standard for Leases (Draft)”**
- **Exposure Draft of ASBJ Implementation Guidance No. 73, “Implementation Guidance on Accounting Standard for Leases (Draft)”**
- **Exposure Draft of ASBJ Statement No. 74, “Proposed Partial Amendments to ‘Accounting Standard for Impairment of Fixed Assets’ (Draft)”**
- **Exposure Draft of ASBJ Statement No. 75, “Proposed Partial Amendments to ‘Standards for Preparation of Consolidated Statements of Cash Flows, etc.’ (Draft)”**
- **Exposure Draft of ASBJ Statement No. 76 (proposed amendments to ASBJ Statement No. 18), “Accounting Standard for Asset Retirement Obligations (Draft)”**
- **Exposure Draft of ASBJ Statement No. 77 (proposed amendments to ASBJ Statement No. 20), “Accounting Standard for Disclosure of Fair Values, etc. of Investment and Rental Property (Draft)”**
- **Exposure Draft of ASBJ Statement No. 78 (proposed amendments to ASBJ Statement No. 29), “Accounting Standard for Revenue Recognition (Draft)”**
- **Exposure Draft of ASBJ Implementation Guidance No. 74 (proposed amendments to ASBJ Implementation Guidance No. 6), “Implementation Guidance on Accounting Standard for Impairment of Fixed Assets (Draft)”**
- **Exposure Draft of ASBJ Implementation Guidance No. 75 (proposed amendments to ASBJ Implementation Guidance No. 13), “Implementation Guidance on Accounting Standard for Related Party Disclosures (Draft)”**
- **Exposure Draft of ASBJ Implementation Guidance No. 76 (proposed amendments to ASBJ Implementation Guidance No. 15), “Implementation Guidance on Disclosures about Certain Special Purpose Entities (Draft)”**
- **Exposure Draft of ASBJ Implementation Guidance No. 77 (proposed amendments to ASBJ Implementation Guidance No. 19), “Implementation Guidance on Disclosures about Fair Value of Financial Instruments (Draft)”**
- **Exposure Draft of ASBJ Implementation Guidance No. 78 (proposed amendments to ASBJ Implementation Guidance No. 23), “Implementation**

Guidance on Accounting Standard for Disclosure of Fair Values, etc. of Investment and Rental Property (Draft)”

- **Exposure Draft of ASBJ Implementation Guidance No. 79 (proposed amendments to ASBJ Implementation Guidance No. 30)**, “Implementation Guidance on Accounting Standard for Revenue Recognition (Draft)”
  - **Exposure Draft of Practical Issues Task Force Report No. 65 (proposed amendments to Practical Issues Task Force Report No. 35)**, “Practical Issues on Accounting Treatment, etc. by Operators in Public Infrastructure, etc. Concession Arrangements (Draft)” (**May 2, 2023**)
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## Reference information on the background to the development of the drafts

### Excerpt from “Call for Comments”

In Japan, in March 2007 the ASBJ issued ASBJ Statement No. 13, “Accounting Standard for Lease Transactions” (hereinafter, “ASBJ Statement No. 13”), and ASBJ Implementation Guidance No. 16, “Implementation Guidance on Accounting Standard for Lease Transactions” (hereinafter, “ASBJ Implementation Guidance No. 16”), and Japan’s accounting standards for leases became consistent with international accounting standards at that time.

However, in January 2016 the International Accounting Standards Board (IASB) issued IFRS 16 “Leases” (hereinafter, “IFRS 16”), and in February 2016 the U.S. Financial Accounting Standards Board (FASB) issued Topic 842 “Leases” in the FASB Accounting Standards Codification (hereinafter, “Topic 842”).

Under IFRS 16 and Topic 842, for lessee accounting, while the pattern of expense recognition differs mainly due to differences in the method of expense allocation, both adopt a right-of-use model under which an asset representing the right-of-use portion (a right-of-use asset) and the related liability (a lease liability) are recognized for the right-of-use portion for which control is transferred to the lessee upon delivery of the underlying asset, and assets and liabilities are recognized for all

leases, including operating leases. Following the issuance of IFRS 16 and Topic 842, differences arose between Japan's accounting standards and those international standards, particularly with respect to the recognition of liabilities, and this could become a point of discussion in international comparisons.

In light of these circumstances, after broadly soliciting views from both preparers and users of financial statements, the ASBJ decided at its 405th Board meeting held in March 2019 to commence development of an accounting standard that requires recognition of assets and liabilities for all leases of lessees, and has continued its deliberations.

At the 500th Board meeting held on April 26, 2023, the ASBJ approved the issuance of the above Exposure Drafts of ASBJ Statements, ASBJ Implementation Guidance, and a Practical Issues Task Force Report (collectively, "the Exposure Drafts"), and issued them today.

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## **Background to the development of the drafts**

It is inferred that the ASBJ began developing the standards without receiving a new agenda proposal because this is an initiative to amend existing accounting standards in response to changes in the environment and also constitutes an "initiative to make Japanese standards internationally comparable/consistent" as described in the medium-term operating policy.

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## [Deliberations at the ASBJ]

### 375th ASBJ Board meeting (December 20, 2017)

#### **(5) Items to be addressed by the Lease Accounting Special Committee**

Vice Chair Kogasaka explained that, as items to be addressed going forward by the Lease Accounting Special Committee, the Committee would consider the IFRS endorsement process, future initiatives in developing Japanese standards, and activities related to application issues for IFRS 16, and deliberations were held. As a result, it was agreed that, after the Special Committee completes its consideration of the IFRS endorsement process, it would proceed with initiatives related to the development of Japanese standards.

#### **Excerpt from Agenda Paper (5) for the 375th meeting**

##### **Considerations related to leases**

##### **(Prior activities of the Lease Accounting Special Committee)**

2. The ASBJ has established the Lease Accounting Special Committee with the objectives of examining Japan's accounting standards related to leases and considering how to communicate Japan's views internationally regarding accounting standards for leases.
3. The Lease Accounting Special Committee examined deliberation items discussed at joint IASB/FASB meetings regarding the revised exposure draft "Leases" issued in June 2013 by the IASB and the FASB, and also examined the amended Practical Issues Task Force Report No. 31 issued by the ASBJ in March 2015, "Practical Issues on Accounting Treatment, etc. by Lessees in Advanced Equipment, etc. Support Schemes Using Lease Arrangements." After March 2015, however, the Committee has not met.
4. In January 2016 the IASB issued IFRS 16 "Leases" (hereinafter, "IFRS 16"), and in February 2016 the FASB issued Accounting Standards Update No. 2016-02, "Leases (Topic 842)" (hereinafter, "U.S. GAAP (Topic 842)"). IFRS 16 applies from January 1, 2019, and U.S. GAAP (Topic 842) applies, for public companies, for fiscal years beginning after December 16, 2018.

##### **(IFRS endorsement process)**

5. The Working Group on IFRS endorsement began the endorsement process for

IFRS 16 in October 2017. The Lease Accounting Special Committee is expected to deliberate on IFRS 16 going forward to solicit reference views.

**(Future initiatives for developing Japanese standards)**

6. In response to the issuance of the international standards described in paragraph 4, the medium-term operating policy issued in August 2016 identified “future issues regarding initiatives to make Japanese standards internationally consistent” and stated the following:

“With respect to accounting standards for leases, Japanese GAAP, IFRS, and U.S. GAAP previously contained standards with similar content; however, in January 2016 IFRS and in February 2016 U.S. GAAP revised their lease standards. Under the revised IFRS and U.S. GAAP, while the expense recognition pattern differs for lessees, both generally bring all lease transactions on balance sheet. As a result, differences arise from Japanese GAAP, particularly regarding liability recognition, and if the amounts for lease transactions requiring additional on-balance-sheet recognition are material, this may become an issue in international comparisons. Meanwhile, concerns have been heard internationally regarding the scope of transactions to which the new IFRS and U.S. GAAP standards apply and other application matters. In light of the above, the Lease Accounting Special Committee will examine both the need for, and concerns about, aligning with international standards, and then consider whether to commence work toward revising Japan’s accounting standards.”

7. In line with this policy, after examining matters related to the IFRS endorsement process, the ASBJ plans to examine the matters described in the medium-term operating policy.

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**387th ASBJ Board meeting (June 21, 2018)**

**(4) Considerations related to lease accounting**

Vice Chair Kogasaka and Maruoka (Professional Staff Member) explained a preliminary analysis and an approach to deliberations regarding the development of lease-related accounting standards in Japan, and deliberations were held, taking into

account the status of discussions at the 78th Lease Accounting Special Committee meeting (held on June 8, 2018).

### **388th ASBJ Board meeting (July 6, 2018)**

#### **(5) Considerations related to lease accounting**

Vice Chair Kogasaka and Maruoka explained issues related to the “preliminary analysis regarding the development of lease-related accounting standards in Japan,” and deliberations were held, taking into account the status of discussions at the 79th Lease Accounting Special Committee meeting (held on June 26, 2018).

### **389th ASBJ Board meeting (July 24, 2018)**

#### **(5) Considerations related to lease accounting**

Vice Chair Kogasaka, Maruoka, and Murase (Professional Staff Member) explained issues related to the “preliminary analysis regarding the development of lease-related accounting standards in Japan,” and deliberations were held, taking into account the status of discussions at the 80th Lease Accounting Special Committee meeting (held on July 20, 2018).

### **391st ASBJ Board meeting (August 27, 2018)**

#### **(4) Considerations related to lease accounting**

Vice Chair Kogasaka, Maruoka, and Murase explained (i) an impact analysis of financial statements of early adopters of IFRS 16, and (ii) matters relating to the lease term, differences between leases and services, and the relationship with executory contracts, and deliberations were held, taking into account the status of discussions at the 81st Lease Accounting Special Committee meeting (held on August 23, 2018).

### **392nd ASBJ Board meeting (September 12, 2018)**

#### **(4) Considerations related to lease accounting**

Vice Chair Kogasaka, Maruoka, and Murase explained the status of outreach to financial statement users (sell-side analysts and credit analysts) and Q&A conducted at the 82nd Lease Accounting Special Committee meeting (held on September 6, 2018), as well as adjustments to financial statements related to lease accounting by credit rating agencies, and deliberations were held.

### **396th ASBJ Board meeting (November 9, 2018)**

#### **(3) Considerations related to lease accounting**

Vice Chair Kogasaka and Maruoka explained analyses of matters to be considered in determining whether to commence the development of accounting standards and whether there are other matters that should be examined, and deliberations were held, taking into account the status of discussions at the 83rd Lease Accounting Special Committee meeting (held on October 15, 2018) and the 84th meeting (held on November 6, 2018).

### **399th ASBJ Board meeting (December 26, 2018)**

#### **(5) Considerations related to lease accounting**

Vice Chair Kogasaka and Maruoka explained issues relating to lease liabilities for periods covered by extension or termination options, and the relationship between legal treatment of lease contracts and the recognition of right-of-use assets and lease liabilities, and deliberations were held.

### **401st ASBJ Board meeting (January 24, 2019)**

#### **(1) Considerations related to lease accounting**

Vice Chair Kogasaka and Maruoka explained whether to commence development (revision) of Japan's lease-related accounting standards, and deliberations were held.

### **404th ASBJ Board meeting (March 8, 2019)**

#### **(3) Considerations related to lease accounting**

Vice Chair Kogasaka explained the Secretariat's proposal on whether to commence development of Japan's lease-related accounting standards, and deliberations were held.

### **405th ASBJ Board meeting (March 9, 2019)**

#### **(5) Considerations related to lease accounting**

Vice Chair Kogasaka explained the lease accounting project, and deliberations were held. As a result, it was agreed to commence development of an accounting standard requiring recognition of assets and liabilities for all leases.

## **408th ASBJ Board meeting (May 13, 2019)**

### **(2) Considerations related to lease accounting**

Chair Kogasaka and Maruoka (Assistant Director) explained (i) the approach to lessee expense allocation, (ii) the extent to which alignment with international standards should be pursued, and (iii) the relationship between consolidated and non-consolidated financial statements, and deliberations were held, taking into account the status of discussions at the 85th Lease Accounting Special Committee meeting (held on April 23, 2019).

## **409th ASBJ Board meeting (May 28, 2019)**

### **(4) Considerations related to lease accounting**

Chair Kogasaka and Maruoka explained (i) the report of invited experts conducted at the 86th Lease Accounting Special Committee meeting (held on May 20, 2019) (a report on the “Questionnaire survey regarding Japan’s lease accounting standards” conducted by the Japan Leasing Association) and the related Q&A, and (ii) provisions regarding materiality, and deliberations were held.

## **411th ASBJ Board meeting (June 27, 2019)**

### **(5) Considerations related to lease accounting**

Chair Kogasaka and Maruoka explained (i) the report of invited experts conducted at the 87th Lease Accounting Special Committee meeting (held on June 10, 2019) (Japan Shipping Exchange, Inc.), and (ii) provisions on the definition and identification of leases, and deliberations were held.

## **415th ASBJ Board meeting (August 26, 2019)**

### **(4) Considerations related to lease accounting**

Chair Kogasaka and Maruoka explained (i) the report of invited experts conducted at the 88th Lease Accounting Special Committee meeting (held on August 21, 2019) (Japan Chain Stores Association), and (ii) provisions on the lease term, and deliberations were held.

## **419th ASBJ Board meeting (October 25, 2019)**

#### **(5) Considerations related to lease accounting**

Chair Kogasaka and Maruoka explained (i) the report of invited experts conducted at the 89th Lease Accounting Special Committee meeting (held on October 8, 2019) (Japan Building Owners and Managers Association), and (ii) lease-related provisions for real estate (land and buildings) in IFRS 16, Topic 842, and Japan's lease accounting standard and related implementation guidance, and deliberations were held.

#### **420th ASBJ Board meeting (November 8, 2019)**

#### **(3) Considerations related to lease accounting**

Chair Kogasaka and Maruoka explained (i) the report of invited experts conducted at the 90th Lease Accounting Special Committee meeting (held on October 30, 2019) (Sublease Business Operators Council of the Japan Rental Housing Management Association), and (ii) provisions on sublease transactions and sale-and-leaseback transactions in IFRS 16, Topic 842, and Japan's lease accounting standard and related implementation guidance, and deliberations were held.

#### **425th ASBJ Board meeting (February 12, 2020)**

#### **(4) Development of the Accounting Standard for Leases**

Chair Kogasaka and Maruoka explained the consideration of the basic policy for revising Japan's lease accounting standard to require recognition of assets and liabilities for all leases, and deliberations were held, taking into account the status of discussions at the 91st Lease Accounting Special Committee meeting (held on January 27, 2020).

#### **427th ASBJ Board meeting (March 11, 2020)**

#### **(5) Development of the Accounting Standard for Leases**

Chair Kogasaka explained an image/framework for consideration regarding the extent to which alignment with IFRS 16 should be pursued in Japan's lease-related accounting standards, and deliberations were held, taking into account the status of discussions at the 92nd Lease Accounting Special Committee meeting (held on February 21, 2020).

#### **437th ASBJ Board meeting (July 13, 2020)**

### **(3) Development of the Accounting Standard for Leases**

Chair Kogasaka and Maruoka explained (i) lessor accounting for finance leases and (ii) accounting for installment sales transactions in the leasing industry, and deliberations were held, taking into account the status of discussions at the 93rd Lease Accounting Special Committee meeting (held on June 29, 2020).

### **438th ASBJ Board meeting (July 29, 2020)**

#### **(5) Development of the Accounting Standard for Leases**

Chair Kogasaka and Maruoka explained the definition of a lease and the treatment of finance leases with transfer of ownership, and deliberations were held, taking into account the status of discussions at the 94th Lease Accounting Special Committee meeting (held on July 20, 2020).

### **439th ASBJ Board meeting (August 13, 2020)**

#### **(1) Development of the Accounting Standard for Leases**

Chair Kogasaka and Makino (Professional Staff Member) explained the lease term, and deliberations were held, taking into account the status of discussions at the 94th Lease Accounting Special Committee meeting (held on July 20, 2020).

### **446th ASBJ Board meeting (November 19, 2020)**

#### **(4) Development of the Accounting Standard for Leases**

Chair Kogasaka and Makino explained the Secretariat's analysis of, and proposals regarding, lease identification, and deliberations were held, taking into account the status of discussions at the 95th Lease Accounting Special Committee meeting (held on November 2, 2020).

### **447th ASBJ Board meeting (December 3, 2020)**

#### **(4) Development of the Accounting Standard for Leases**

Chair Kogasaka and Makino explained the Secretariat's analysis of, and proposals regarding, sublease transactions, and deliberations were held, taking into account the status of discussions at the 96th Lease Accounting Special Committee meeting (held on November 26, 2020).

### **449th ASBJ Board meeting (January 15, 2021)**

### **(3) Development of the Accounting Standard for Leases**

Chair Kogasaka and Makino explained the Secretariat's analysis of, and direction regarding, sale-and-leaseback transactions, and deliberations were held, taking into account the status of discussions at the 96th Lease Accounting Special Committee meeting (held on November 26, 2020).

### **452nd ASBJ Board meeting (February 25, 2021)**

#### **(3) Development of the Accounting Standard for Leases**

Chair Kogasaka and Makino explained the treatment in non-consolidated financial statements under the revised lease accounting standard, and deliberations were held, taking into account the status of discussions at the 97th Lease Accounting Special Committee meeting (held on February 2, 2021).

### **454th ASBJ Board meeting (March 25, 2021)**

#### **(4) Development of the Accounting Standard for Leases**

Chair Kogasaka and Makino explained an image of the drafting of amendments to the Accounting Standard for Lease Transactions and related implementation guidance, and deliberations were held, taking into account the status of discussions at the 98th Lease Accounting Special Committee meeting (held on March 17, 2021), including deliberations on the extent to which alignment with IFRS 16 "Leases" should be pursued.

### **455th ASBJ Board meeting (April 13, 2021)**

#### **(3) Development of the Accounting Standard for Leases**

Chair Kogasaka and Makino explained an image of the drafting of lessor accounting and related matters in the event of amendments to the Accounting Standard for Lease Transactions and related implementation guidance, and deliberations were held, taking into account the status of discussions at the 99th Lease Accounting Special Committee meeting (held on April 8, 2021), including deliberations on the extent to which alignment with IFRS 16 "Leases" should be pursued.

### **462nd ASBJ Board meeting (July 28, 2021)**

#### **(3) Development of the Accounting Standard for Leases**

Chair Kogasaka and Makino explained a re-examination of the method of expense

allocation for lessees, and deliberations were held, taking into account the status of discussions at the 102nd Lease Accounting Special Committee meeting (held on July 16, 2021).

#### **463rd ASBJ Board meeting (August 11, 2021)**

##### **(5) Development of the Accounting Standard for Leases**

Chair Kogasaka and Kato (Professional Staff Member) explained provisions regarding materiality in lease accounting, and deliberations were held, taking into account the status of discussions at the 102nd Lease Accounting Special Committee meeting (held on July 16, 2021).

#### **467th ASBJ Board meeting (October 8, 2021)**

##### **(1) Development of the Accounting Standard for Leases**

Chair Kogasaka and Makino explained the status of deliberations at the Lease Accounting Special Committee regarding the extent of alignment with IFRS 16, on which consensus would be required going forward, and deliberations were held, taking into account the status of discussions at the 105th Lease Accounting Special Committee meeting (held on October 4, 2021).

#### **469th ASBJ Board meeting (December 3, 2021)**

##### **(2) Development of the Accounting Standard for Leases**

Vice Chair Kawanishi and Makino explained the extent of alignment with IFRS 16 “Leases,” and deliberations were held.

#### **470th ASBJ Board meeting (December 20, 2021)**

##### **(5) Development of the Accounting Standard for Leases**

Vice Chair Kawanishi and Makino explained provisions on materiality and the separation of lease components and non-lease components, and deliberations were held, taking into account the status of discussions at the 106th Lease Accounting Special Committee meeting (held on December 6, 2021).

#### **471st ASBJ Board meeting (January 12, 2022)**

#### **(1) Development of the Accounting Standard for Leases**

Vice Chair Kawanishi and Akimoto (Professional Staff Member) presented the Secretariat's proposal on whether to provide simplified treatment for accounting for subleases by lessees, and deliberations were held, taking into account the status of discussions at the 107th Lease Accounting Special Committee meeting (held on December 24, 2021).

#### **472nd ASBJ Board meeting (January 26, 2022)**

#### **(1) Development of the Accounting Standard for Leases**

Vice Chair Kawanishi and Yamazaki (Professional Staff Member) explained proposed revisions to illustrative examples in the current implementation guidance for lease transactions, and deliberations were held, taking into account the status of discussions at the 108th Lease Accounting Special Committee meeting (held on January 17, 2022).

#### **474th ASBJ Board meeting (February 21, 2022)**

#### **(2) Development of the Accounting Standard for Leases**

Vice Chair Kawanishi, Akimoto, and Ito (Professional Staff Member) explained the direction of discussions regarding presentation and disclosure requirements under the revised lease accounting standard and revised lease implementation guidance, and the handling of illustrative examples in IFRS 16 "Leases," and deliberations were held, taking into account the status of discussions at the 109th Lease Accounting Special Committee meeting (held on February 10, 2022).

#### **475th ASBJ Board meeting (March 11, 2022)**

#### **(6) Development of the Accounting Standard for Leases**

Vice Chair Kawanishi, Makino (Assistant Director), and Ito explained draft illustrative examples for transactions unique to Japan and certain draft illustrative examples related to IFRS 16 "Leases," and deliberations were held, taking into account the status of discussions at the 110th Lease Accounting Special Committee meeting (held on March 2, 2022).

#### **477th ASBJ Board meeting (April 13, 2022)**

### **(3) Development of the Accounting Standard for Leases**

Chair Kawanishi, Makino (Assistant Director), Akimoto, and Yamazaki explained: (i) the Secretariat's analysis and proposals regarding "sublease transactions"; (ii) the Secretariat's analysis and proposals regarding how to incorporate into the revised lease standards matters relating to "remeasurement of lease liabilities and lease modifications"; (iii) revised draft illustrative examples for transactions unique to Japan; proposed amendments to ASBJ Implementation Guidance No. 13 "Implementation Guidance on Accounting Standard for Related Party Disclosures"; and proposed partial amendments to "Standards for Preparation of Consolidated Statements of Cash Flows, etc." Deliberations were held, taking into account the status of discussions at the 110th Lease Accounting Special Committee meeting (held on March 2, 2022) and the 111th meeting (held on March 23, 2022).

### **478th ASBJ Board meeting (April 26, 2022)**

#### **(1) Development of the Accounting Standard for Leases**

Chair Kawanishi, Makino (Assistant Director), Akimoto, and Ito explained the Secretariat's proposals regarding sublease transactions and regarding identified assets (capacity portions of assets) in lease identification, and also explained proposed amendments to be submitted to the Japanese Institute of Certified Public Accountants (JICPA) concerning Accounting System Committee Report No. 8 "Practical Guidance on Preparing Statements of Cash Flows in Consolidated Financial Statements, etc." Deliberations were held, taking into account the status of discussions at the 112th Lease Accounting Special Committee meeting (held on April 5, 2022).

### **479th ASBJ Board meeting (May 17, 2022)**

#### **(1) Development of the Accounting Standard for Leases**

Vice Chair Kamiya, Makino (Assistant Director), and Ito explained the Secretariat's analysis and proposals regarding variable lease payments, illustrative examples for transactions unique to Japan, and the Secretariat's proposals regarding lessor accounting for operating leases, and deliberations were held, taking into account the status of discussions at the 113th Lease Accounting Special Committee meeting (held on April 18, 2022).

### **480th ASBJ Board meeting (May 31, 2022)**

### **(1) Development of the Accounting Standard for Leases**

Chair Kawanishi, Makino (Assistant Director), Akimoto, and Ito explained sale-and-leaseback transactions, sublease transactions, proposed amendments to ASBJ Statement No. 18 “Accounting Standard for Asset Retirement Obligations,” etc., illustrative examples in IFRS 16 “Leases” regarding leases of low-value assets and portfolio application, and illustrative examples for transactions unique to Japan, and deliberations were held, taking into account the status of discussions at the 114th Lease Accounting Special Committee meeting (held on May 10, 2022).

### **481st ASBJ Board meeting (June 15, 2022)**

#### **(1) Development of the Accounting Standard for Leases**

Chair Kawanishi, Makino (Assistant Director), Akimoto, and Ito explained accounting in non-consolidated financial statements, sale-and-leaseback transactions, remeasurement of lease liabilities and lease modifications, and consideration of Practical Issues Task Force Report No. 31 “Practical Issues on Accounting Treatment, etc. by Lessees in Advanced Equipment, etc. Support Schemes Using Lease Arrangements,” and deliberations were held, taking into account the status of discussions at the 115th Lease Accounting Special Committee meeting (held on May 24, 2022) and the 116th meeting (held on June 6, 2022).

### **482nd ASBJ Board meeting (June 29, 2022)**

#### **(1) Development of the Accounting Standard for Leases**

Chair Kawanishi and Makino (Assistant Director) explained presentation and disclosure requirements, draft illustrative examples regarding lease identification, and the treatment of variable lease payments determined by an index or a rate, and deliberations were held.

### **483rd ASBJ Board meeting (July 19, 2022)**

#### **(2) Development of the Accounting Standard for Leases**

Vice Chair Kamiya and Makino (Assistant Director) explained sale-and-leaseback transactions, the treatment of transitional provisions in the current lease implementation guidance, the treatment under JICPA Accounting System Committee Report No. 5 “Practical Guidance on Accounting for Lease Transactions in Consolidated Financial Statements,” proposed amendments to JICPA Industry-

specific Audit Committee Report No. 19, proposed amendments to ASBJ Statement No. 29 “Accounting Standard for Revenue Recognition,” proposed partial amendments to “Accounting Standard for Impairment of Fixed Assets,” and proposed amendments to ASBJ Implementation Guidance No. 6, and deliberations were held.

#### **484th ASBJ Board meeting (August 1, 2022)**

##### **(3) Development of the Accounting Standard for Leases**

Chair Kawanishi and Makino (Assistant Director) explained proposals and drafting images for lease transactions in general concerning sublease transactions, reflecting the deliberations at the 480th Board meeting (May 31, 2022) and the 116th Lease Accounting Special Committee meeting (June 6, 2022), and deliberations were held. They also explained a proposed amendment to ASBJ Implementation Guidance No. 19 “Implementation Guidance on Disclosures about Fair Value of Financial Instruments,” and deliberations were held.

#### **485th ASBJ Board meeting (August 23, 2022)**

##### **(4) Development of the Accounting Standard for Leases**

Chair Kawanishi and Makino (Assistant Director) explained presentation and disclosure requirements, sale-and-leaseback transactions, sublease transactions, and draft illustrative examples regarding lease identification, and deliberations were held.

#### **486th ASBJ Board meeting (September 6, 2022)**

##### **(1) Development of the Accounting Standard for Leases**

Chair Kawanishi and Makino (Assistant Director) explained presentation and disclosure requirements (lessor disclosures) and proposed amendments to ASBJ Implementation Guidance No. 30 “Implementation Guidance on Accounting Standard for Revenue Recognition,” and deliberations were held.

#### **487th ASBJ Board meeting (September 21, 2022)**

##### **(2) Development of the Accounting Standard for Leases**

Chair Kawanishi and Makino (Assistant Director) explained the following matters, and

deliberations were held, taking into account the status of discussions at the 121st Lease Accounting Special Committee meeting (held on September 15, 2022):

1. Handling of illustrative examples in IFRS 16 (lease identification)
2. Proposed amendments to Accounting System Committee Report No. 15  
“Practical Guidance on Accounting Treatment by Transferors in Real Estate Securitizations Using Special Purpose Entities”
3. Proposed amendments to “Q&A on Practical Guidance on Accounting Treatment by Transferors in Real Estate Securitizations Using Special Purpose Entities”
4. Proposed amendments to ASBJ Implementation Guidance No. 15  
“Implementation Guidance on Disclosures about Certain Special Purpose Entities”
5. Proposed amendments to Accounting System Committee Report No. 8  
“Practical Guidance on Preparing Statements of Cash Flows in Consolidated Financial Statements, etc.”
6. Proposed amendments to Industry-specific Audit Committee Report No. 19
7. Proposed amendments to Accounting System Committee Research Report No. 12 “On Standards for Preparation of Interim Financial Statements, etc.”
8. Proposed amendments to Industry-specific Committee Practical Guideline No. 53
9. Proposed amendments to Industry-specific Committee Practical Guideline No. 65
10. Consideration of transitional provisions

#### **489th ASBJ Board meeting (October 18, 2022)**

##### **(3) Development of the Accounting Standard for Leases**

Chair Kawanishi and Makino (Assistant Director) explained proposed amendments to the following standards, etc. that might require amendment or revision due to revisions to the lease standards, and deliberations were held:

1. Proposed amendments to Practical Issues Task Force Report No. 35
2. Proposed amendments to ASBJ Implementation Guidance No. 30
3. Proposed amendments to ASBJ Implementation Guidance No. 15

#### **490th ASBJ Board meeting (November 7, 2022)**

### **(3) Development of the Accounting Standard for Leases**

Chair Kawanishi, Makino (Assistant Director), and Murase (Assistant Director) explained treatment of leasehold rights, presentation and disclosure requirements (structure of lessee disclosures), handling of IFRS 16 illustrative examples (lease identification), and proposed amendments to certain standards that might require amendment or revision due to revisions to the lease standards, and deliberations were held, taking into account the status of discussions at the 122nd Lease Accounting Special Committee meeting (held on October 24, 2022):

1. Accounting System Committee Report No. 15
2. “Q&A on Practical Guidance on … Real Estate Securitizations …”

### **491st ASBJ Board meeting (November 21, 2022)**

#### **(2) Development of the Accounting Standard for Leases**

Chair Kawanishi and Makino (Assistant Director) explained presentation and disclosure requirements (structure of lessor disclosures) and proposed amendments to the following standards, etc. that might require amendment or revision due to revisions to the lease standards, and deliberations were held, taking into account the status of discussions at the 123rd Lease Accounting Special Committee meeting (held on November 8, 2022):

1. ASBJ Statement No. 20 “Accounting Standard for Disclosure of Fair Values, etc. of Investment and Rental Property”
2. ASBJ Implementation Guidance No. 23 “Implementation Guidance on Accounting Standard for Disclosure of Fair Values, etc. of Investment and Rental Property”

In addition, Audit and Assurance Practice Committee Practical Guideline No. 90, “Q&A on Audit Considerations for Transactions Using Special Purpose Entities,” was referenced.

### **492nd ASBJ Board meeting (December 6, 2022)**

#### **(3) Development of the Accounting Standard for Leases**

Chair Kawanishi and Makino (Assistant Director) explained presentation and disclosure requirements (treatment of disclosures in non-consolidated financial statements and in quarterly financial statements), and proposed amendments to the

following standards, etc. that might require amendment or revision due to revisions to the lease standards, and deliberations were held, taking into account the status of discussions at the 124th Lease Accounting Special Committee meeting (held on November 22, 2022):

1. Accounting System Committee Report No. 14 “Practical Guidance on Accounting for Financial Instruments”
2. ASBJ Implementation Guidance No. 19 “Implementation Guidance on Disclosures about Fair Value of Financial Instruments”

#### **494th ASBJ Board meeting (January 17, 2023)**

##### **(3) Development of the Accounting Standard for Leases**

Chair Kawanishi, Makino (Assistant Director), and Murase (Assistant Director) explained treatment of leasehold rights, draft wording of the Exposure Draft (proposed amendments to ASBJ Statement No. 13) “Accounting Standard for Leases (Draft)” (main text), and proposed amendments to the following standards, etc. that might require amendment or revision due to revisions to the lease standards, and deliberations were held:

1. ASBJ Statement No. 20
2. ASBJ Implementation Guidance No. 23
3. Industry-specific Audit Committee Report No. 19
4. ASBJ Statement No. 18
5. ASBJ Implementation Guidance No. 13
6. ASBJ Implementation Guidance No. 19
7. Practical Issues Task Force Report No. 35

#### **495th ASBJ Board meeting (February 7, 2023)**

##### **(3) Development of the Accounting Standard for Leases**

Chair Kawanishi and Makino (Assistant Director) explained draft wording of: the Exposure Draft (proposed amendments to ASBJ Statement No. 13) “Accounting Standard for Leases (Draft)” (main text); the Exposure Draft (proposed amendments to ASBJ Implementation Guidance No. 16) “Implementation Guidance on Accounting Standard for Leases (Draft)” (main text); and draft wording of illustrative examples (excluding lease identification) and reference materials; and also explained proposed

amendments to the following standards, etc. that might require amendment or revision due to revisions to the lease standards, and deliberations were held:

1. “Accounting Standard for Impairment of Fixed Assets”
2. ASBJ Implementation Guidance No. 6 “Implementation Guidance on Accounting Standard for Impairment of Fixed Assets”

#### **496th ASBJ Board meeting (February 20, 2023)**

##### **(2) Development of the Accounting Standard for Leases**

Chair Kawanishi and Makino (Assistant Director) explained the following matters, and deliberations were held:

1. Draft wording of the Exposure Draft (proposed amendments to ASBJ Statement No. 13) “Accounting Standard for Leases (Draft)” (main text)
2. Draft wording of the Exposure Draft (proposed amendments to ASBJ Implementation Guidance No. 16) “Implementation Guidance on Accounting Standard for Leases (Draft)” (main text), and draft wording of illustrative examples and reference materials
3. Effective date and the method of developing the accounting standards
4. Proposed amendments to the following standards, etc. that might require amendment or revision due to revisions to the lease standards:
  - ASBJ Statement No. 20
  - ASBJ Implementation Guidance No. 23

#### **497th ASBJ Board meeting (March 8, 2023)**

##### **(3) Development of the Accounting Standard for Leases**

Chair Kawanishi and Makino (Assistant Director) explained the following matters, and deliberations were held:

1. Draft wording of the Exposure Draft “Accounting Standard for Leases (Draft)”
2. Draft wording of the Exposure Draft “Implementation Guidance on Accounting Standard for Leases (Draft)” (main text), and draft wording of illustrative examples and reference materials
3. Proposed amendments to the following standards, etc. that might require amendment or revision due to revisions to the lease standards:

- “Accounting Standard for Impairment of Fixed Assets”
- ASBJ Implementation Guidance No. 6

#### **498th ASBJ Board meeting (March 22, 2023)**

##### **(3) Development of the Accounting Standard for Leases**

Chair Kawanishi and Makino (Assistant Director) explained the following matters, and deliberations were held:

1. Consideration of comments received (short-term leases and residual value guarantees)
2. Draft wording of the Exposure Draft “Implementation Guidance on Accounting Standard for Leases (Draft)” (Basis for Conclusions)
3. Draft wording of “Call for Comments and Overview of the Exposure Draft”

#### **499th ASBJ Board meeting (April 11, 2023)**

##### **(2) Development of the Accounting Standard for Leases**

Chair Kawanishi explained the following matters, and deliberations were held. As a result, it was explained that, if possible, the Board would like to deliberate on approving the issuance of the Exposure Draft at the next meeting:

1. The comment period for “Call for Comments and Overview of the Exposure Draft”
2. Draft wording of the Exposure Draft “Accounting Standard for Leases (Draft)”
3. Draft wording of the Exposure Draft “Implementation Guidance on Accounting Standard for Leases (Draft)” (main text and Basis for Conclusions)
4. Draft wording of the Exposure Draft “Implementation Guidance on Accounting Standard for Leases (Draft)” (illustrative examples and reference materials)
5. Draft wording of proposed amendments to other standards, etc. that require amendment due to issuance of the lease standards, including:
  - ASBJ Implementation Guidance No. 6
  - “Accounting Standard for Impairment of Fixed Assets”

- “Standards for Preparation of Consolidated Statements of Cash Flows, etc.”
  - ASBJ Statement No. 18
  - ASBJ Statement No. 20
  - ASBJ Statement No. 29
  - ASBJ Implementation Guidance No. 13
  - ASBJ Implementation Guidance No. 15
  - ASBJ Implementation Guidance No. 19
  - ASBJ Implementation Guidance No. 23
  - ASBJ Implementation Guidance No. 30
  - Practical Issues Task Force Report No. 35
6. Draft wording of “Call for Comments and Overview of the Exposure Draft”
7. Draft wording of requests to the JICPA to revise related practical guidance, including:
- Accounting System Committee Report No. 8
  - Accounting System Committee Report No. 14
  - Accounting System Committee Report No. 15
  - Accounting System Committee “Q&A on … Real Estate Securitizations …”
  - Audit and Assurance Practice Committee Practical Guideline No. 90
  - Industry-specific Audit Committee Report No. 19
  - Industry-specific Committee Practical Guideline No. 53
  - Industry-specific Committee Practical Guideline No. 65
  - Accounting System Committee Research Report No. 12
  - Accounting System Committee Report No. 5

## **500th ASBJ Board meeting (April 26, 2023)**

### **(1) Exposure Drafts “Accounting Standard for Leases (Draft),” etc. [Resolution to Issue]**

Chair Kawanishi explained the following Exposure Drafts, and deliberations and a vote were conducted. As a result of the vote, issuance was approved unanimously by all attending Board members, on the premise that the Chair would be entrusted with making any wording and other editorial revisions.

1. Exposure Draft of ASBJ Statement “Accounting Standard for Leases (Draft)”

2. Exposure Draft of ASBJ Implementation Guidance “Implementation Guidance on Accounting Standard for Leases (Draft)” (main text and Basis for Conclusions)
3. Exposure Draft of ASBJ Implementation Guidance “Implementation Guidance on Accounting Standard for Leases (Draft)” (illustrative examples and reference materials)
4. Proposed amendments to the following accounting standards, etc., which require amendment in connection with issuance of the lease standards (drafts):
  - “Accounting Standard for Impairment of Fixed Assets”
  - “Standards for Preparation of Consolidated Statements of Cash Flows, etc.”
  - ASBJ Statement No. 18 “Accounting Standard for Asset Retirement Obligations”
  - ASBJ Statement No. 20 “Accounting Standard for Disclosure of Fair Values, etc. of Investment and Rental Property”
  - ASBJ Statement No. 29 “Accounting Standard for Revenue Recognition”
  - ASBJ Implementation Guidance No. 6 “Implementation Guidance on Accounting Standard for Impairment of Fixed Assets”
  - ASBJ Implementation Guidance No. 13 “Implementation Guidance on Accounting Standard for Related Party Disclosures”
  - ASBJ Implementation Guidance No. 15 “Implementation Guidance on Disclosures about Certain Special Purpose Entities”
  - ASBJ Implementation Guidance No. 19 “Implementation Guidance on Disclosures about Fair Value of Financial Instruments”
  - ASBJ Implementation Guidance No. 23 “Implementation Guidance on Accounting Standard for Disclosure of Fair Values, etc. of Investment and Rental Property”
  - ASBJ Implementation Guidance No. 30 “Implementation Guidance on Accounting Standard for Revenue Recognition”
  - Practical Issues Task Force Report No. 35 “Practical Issues on Accounting Treatment, etc. by Operators in Public Infrastructure, etc. Concession Arrangements”

It was also agreed to request the JICPA to revise or abolish the following related practical guidance in connection with the Exposure Drafts:

1. Practical guidance to be requested for revision
  - Accounting System Committee Report No. 8
  - Accounting System Committee Report No. 14
  - Accounting System Committee Report No. 15
  - Accounting System Committee “Q&A on … Real Estate Securitizations …”
  - Audit and Assurance Practice Committee Practical Guideline No. 90
  - Industry-specific Audit Committee Report No. 19
  - Industry-specific Committee Practical Guideline No. 53
  - Industry-specific Committee Practical Guideline No. 65
  - Accounting System Committee Research Report No. 12
  
2. Practical guidance to be requested for abolition
  - Accounting System Committee Report No. 5 “Practical Guidance on Accounting for Lease Transactions in Consolidated Financial Statements”

**Exposure Draft of Practical Issues Task Force Report No. 66, “Tentative Accounting Treatment and Disclosure for Certain Electronic Payment Instruments under the Payment Services Act (Draft),” and Exposure Draft of ASBJ Statement No. 79, “Proposed Partial Amendments (Part X) to the ‘Standards for Preparation of Cash Flow Statements in Consolidated Financial Statements.’ (Draft)” (May 31, 2023)**

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## **Reference information on the background to the development of the drafts**

### **Excerpt from “Call for Comments”**

The Act on Partial Revision of the Payment Services Act, etc. to Develop a Stable and Efficient Payment Services Framework (Act No. 61 of 2022), enacted in June 2022, amended the Payment Services Act (Act No. 59 of 2009; hereinafter, the “Payment Services Act”). Under the amended Payment Services Act, among so-called stablecoins, those that are issued at a price linked to the value of fiat currency and that promise redemption at the same amount as the face value, as well as those having similar characteristics, are newly defined as “electronic payment instruments.” In addition, a registration regime was introduced for electronic payment instrument transaction service providers that handle such instruments, and necessary regulatory provisions were established.

Against the backdrop of these regulatory developments, in July 2022 a request was submitted to the Accounting Standards Advisory Council established within the Financial Accounting Standards Foundation to examine the accounting treatment for the issuance, holding, and related activities involving electronic payment instruments under the Payment Services Act. In response, the ASBJ has conducted extensive deliberations on the accounting treatment for the issuance, holding, and related activities involving electronic payment instruments under the Payment Services Act.

At the 502nd ASBJ Board meeting held on May 29, 2023, the ASBJ approved the issuance of the following exposure drafts of a Practical Issues Task Force Report

and an ASBJ Statement (collectively, “the Exposure Drafts”), and issued them today.

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## Reason for issuing the Exposure Drafts

Under the amended Payment Services Act, among so-called stablecoins, those issued at a price linked to the value of fiat currency and that promise redemption at the same amount as the face value, as well as those having similar characteristics, are newly defined as “electronic payment instruments,” and necessary regulatory provisions were established. Against the backdrop of these regulatory developments, in July 2022 a request was submitted to the Accounting Standards Advisory Council within the Financial Accounting Standards Foundation to examine the accounting treatment for the issuance, holding, and related activities involving electronic payment instruments under the Payment Services Act.

In response, at the 484th ASBJ Board meeting held in August 2022, the Accounting Standards Advisory Council recommended that the ASBJ examine the accounting treatment for the issuance, holding, and related activities involving electronic payment instruments under the Payment Services Act.

The request submitted to the Accounting Standards Advisory Council indicated that, among the electronic payment instruments prescribed in Article 2, paragraph 5, items (i) through (iv) of the Payment Services Act, the instruments under items (i), (ii), and (iii) are electronic payment instruments with stable value and are expected to be widely used as remittance and settlement instruments, and therefore there was a need to establish accounting treatment in line with the effective date of the amended Payment Services Act. Accordingly, in the draft Practical Issues Task Force Report, the ASBJ decided to give priority to establishing accounting treatment for these electronic payment instruments and to propose accounting and disclosure treatments considered necessary.

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# [Deliberations at the Accounting Standards Advisory Council]

Excerpt from the 45th Accounting Standards Advisory Council meeting (July 20, 2022), Agenda Paper (1)–2

## II. Theme Proposal

**Proposer:** Financial Services Agency (FSA)

### **Theme:**

Accounting treatment for the issuance, holding, and related activities involving “electronic payment instruments” under the Payment Services Act

### **Reasons for the proposal:**

In recent years, as finance becomes increasingly digitalized, transactions using stablecoins linked in value to fiat currency have increased overseas. While such stablecoins may in the future be used widely as remittance and settlement instruments, issues have also been pointed out internationally regarding user protection and anti-money laundering, among others. Against this background, the Act No. 61 of 2022 introduced necessary rules for businesses engaging in transactions of stablecoins that may be widely used as remittance and settlement instruments.

Among so-called stablecoins, those issued at a price linked to the value of fiat currency and that promise redemption at the same amount as the issue price, as well as those having similar characteristics, are defined as “electronic payment instruments.” A registration regime has been introduced for electronic payment instrument transaction service providers that handle such instruments, and necessary regulatory measures have been established.

Specifically, Article 2, paragraph 5 of the amended Payment Services Act provides that “electronic payment instruments” include:

- Fiat currency-denominated assets that can be used to pay consideration to unspecified persons, etc., and that constitute proprietary value transferable using an electronic data processing system (items (i) and (ii));

- Specified trust beneficiary rights (beneficiary rights arising from money trusts where all trust assets are managed as deposits and savings) (item (iii)); and
- Items equivalent to the above (item (iv)).

Electronic payment instruments are similar to deposits and electronic money in that they are stable-price electronic settlement instruments; however, they are a newly defined type of proprietary value under law. Their use as remittance and settlement instruments is expected to expand. Accordingly, it is necessary to establish accounting treatment by the effective date of the amended Act, and this theme was therefore proposed.

#### **Specific matters to be examined:**

1. For electronic payment instruments under items (i) and (ii), and specified trust beneficiary rights under item (iii), redemption in fiat currency is promised and price fluctuations are not expected. Please examine the accounting treatment in cases such as issuing and holding these electronic payment instruments.
2. In contrast, items falling under item (iv) do not promise redemption in fiat currency. While they currently fall under “crypto-assets” under existing law, it is envisaged that, if they come to be widely used as settlement instruments, they may be designated by Cabinet Office Ordinance and become “electronic payment instruments.” Please examine the accounting treatment in cases such as issuing and holding such electronic payment instruments.
3. From the perspective of responding to the enforcement of the amended Act, please consider issuing a Practical Issues Task Force Report by the effective date of the amended Act for the matters in (1). However, for the matters in (2), if consideration is expected to require time, please continue deliberations separately from (1). (omitted)

#### **V. Direction of the recommendation**

As analyzed above, if transactions in electronic payment instruments expand, there is likely to be a certain need for standard-setting. However, because their accounting nature differs between electronic payment instruments under items (i) through (iii) and those under item (iv), it is proposed that the matters be handled separately as follows when recommending a new ASBJ agenda item:

- (1) First, examine the accounting treatment for the issuance, holding, and related activities involving electronic payment instruments under items (i) through (iii).
  - (2) For electronic payment instruments under item (iv), after the Cabinet Office Ordinance is published, determine—based on that content and an assessment of the accounting nature—whether to include them within the scope of (1) or to examine them separately from (1).
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## [Deliberations at the ASBJ]

### **484th ASBJ Board meeting (August 1, 2022)**

**(2) Response to the Accounting Standards Advisory Council’s recommendation**  
Chujo (Full-time Board Member) and Kato (Professional Staff Member) explained the ASBJ’s response to the Accounting Standards Advisory Council’s recommendation to the ASBJ regarding the theme “Accounting treatment for the issuance, holding, and related activities involving ‘electronic payment instruments’ under the Payment Services Act,” and deliberations were held. As a result, it was approved to take up the theme as a new ASBJ agenda item.

### **490th ASBJ Board meeting (November 7, 2022)**

**(1) Response to comments received on the ‘Summary of Issues on Accounting Treatment for the Issuance and Holding of ICO Tokens that fall under Crypto-assets under the Payment Services Act or Electronically Recorded Transferable Rights under the Financial Instruments and Exchange Act’**  
Chair Kawanishi and Chujo (Full-time Board Member) explained, as a response to comments received on the above “Summary of Issues,” that questions had been submitted regarding how the ASBJ views the accounting treatment of crypto-assets that a crypto-asset issuer allocates to itself at issuance, in connection with requests for the FY2023 tax reform. Deliberations were held. As a result, it was decided to include an appendix in the minutes to disseminate the content of the ASBJ’s discussions.

**Excerpt from the appendix to the meeting summary (Agenda item (1): Accounting treatment of crypto-assets allocated by the issuer to itself at issuance)**

## **Background**

Practical Issues Task Force Report No. 38, “Tentative Accounting Treatment, etc. for Virtual Currency under the Payment Services Act,” issued by the ASBJ in March 2018, applies to crypto-assets under the Payment Services Act but excludes those issued by the entity itself (including its related entities) (paragraph 3). Accordingly, there is no explicit accounting guidance on the accounting treatment of crypto-assets allocated by the issuer to itself at issuance.

On the other hand, for tax purposes, “crypto-assets (where an active market exists) held by a domestic corporation are measured at fair value at period-end for tax purposes, and the resulting valuation gains or losses (unrealized gains or losses without cash flows) are subject to taxation.” It has been pointed out that such treatment requires taxation even when there is no realized profit accompanied by cash flows (i.e., no ability to pay taxes) for crypto-assets that continue to be held, and that it may hinder entrepreneurship and business development using blockchain technology in Japan. Accordingly, as a joint request by the Financial Services Agency and the Ministry of Economy, Trade and Industry in the FY2023 tax reform requests, it was proposed that “among crypto-assets issued by a corporation, those that have not been allocated to persons other than the corporation and that the corporation continues to hold should be excluded from period-end fair value taxation,” from the perspective of removing impediments to entrepreneurship using blockchain technology and developing an environment to promote Web3.

A question was submitted as to how the ASBJ views the accounting treatment for such crypto-assets. The “Summary of Issues” issued by the ASBJ in March 2022 also discusses the accounting treatment of crypto-assets allocated by the issuer to itself at issuance; however, consideration of this issue requires consideration together with the major issue in the “Summary of Issues,” namely, the accounting treatment for the issuance of crypto-assets, and this is expected to require a certain period of time. Therefore, the ASBJ deliberated on this issue today in response to the question.

## **Considerations**

As described in the “Summary of Issues,” when issuing crypto-assets, the issuer is considered to “recognize the consideration received as an asset and recognize the obligation undertaken as a liability” (paragraph 32 of the “Summary of Issues”). With respect to crypto-assets allocated by the issuer to itself at issuance for which no

consideration is received and that are considered to be self-contained, there is a view that, until a transaction with a third party occurs, either no asset should be recognized, or an asset should be recognized at cost.

The ASBJ has not reached a conclusion as to which view should be adopted; however, under either view, the crypto-assets are considered not to be measured at fair value. This view is consistent with the opinions of almost all respondents that commented on this issue in their comment letters on the “Summary of Issues.”

### **Excerpt from Agenda Paper (2)-1 for the 490th meeting: “Background to date”**

1. At the 484th ASBJ Board meeting held on August 1, 2022, the ASBJ decided to take up “Accounting treatment for the issuance, holding, and related activities involving ‘electronic payment instruments’ under the Payment Services Act” as a new agenda item.
2. At the 148th Practical Issues Task Force Committee meeting (held on August 9, 2022), the committee examined the content of the recommendation received from the Accounting Standards Advisory Council, confirmed the scope of the standard-setting project, and reviewed an outline of accounting issues.
3. Thereafter, at the 149th meeting (held on September 7, 2022) and the 150th meeting (held on October 20, 2022), the committee examined accounting treatment for the issuance and holding of item (i) electronic payment instruments.

### **491st ASBJ Board meeting (November 21, 2022)**

#### **(4) Accounting treatment for the issuance, holding, and related activities involving “electronic payment instruments” under the Payment Services Act**

Chujo (Full-time Board Member) and Murase (Assistant Director) explained accounting treatment for the issuance and holding of item (iii) electronic payment instruments, and deliberations were held, taking into account the status of discussions at the 151st Practical Issues Task Force Committee meeting (held on November 2, 2022).

### **497th ASBJ Board meeting (March 8, 2023)**

**(5) Accounting treatment for the issuance, holding, and related activities involving “electronic payment instruments” under the Payment Services Act**

Chujo (Full-time Board Member) and Murase (Assistant Director) explained the scope to be addressed by the Practical Issues Task Force Report, accounting treatment for the issuance and holding of item (ii) electronic payment instruments, measurement and disclosure of electronic payment instruments, and foreign currency translation for foreign currency-denominated electronic payment instruments, and deliberations were held, taking into account the status of discussions from the 152nd Practical Issues Task Force Committee meeting (held on November 22, 2022) through the 155th meeting (held on February 27, 2023).

**498th ASBJ Board meeting (March 22, 2023)**

**(5) Accounting treatment for the issuance, holding, and related activities involving “electronic payment instruments” under the Payment Services Act**

Chujo (Full-time Board Member) and Murase (Assistant Director) explained the following matters, and deliberations were held, taking into account the status of discussions at the 156th Practical Issues Task Force Committee meeting (held on March 14, 2023):

1. Period-end measurement of electronic payment instruments
2. Definition of funds for purposes of the statement of cash flows
3. Effective date
4. Draft wording of the Exposure Draft of Practical Issues Task Force Report “Tentative Accounting Treatment and Disclosure for the Issuance and Holding of Electronic Payment Instruments (Draft)” (main text)

**499th ASBJ Board meeting (April 11, 2023)**

**(4) Accounting treatment for the issuance, holding, and related activities involving “electronic payment instruments” under the Payment Services Act**

Chujo (Full-time Board Member) and Murase (Assistant Director) explained the following matters, and deliberations were held, taking into account the status of discussions at the 157th Practical Issues Task Force Committee meeting (held on April 5, 2023):

1. Accounting treatment for deposits (custody) of electronic payment instruments
2. Review of draft wording of the Exposure Draft of the Practical Issues Task Force Report
3. Review of draft wording of proposed partial amendments to the “Standards for Preparation of Consolidated Statements of Cash Flows, etc.”
4. Review of draft wording of proposed amendments to JICPA Accounting System Committee Report No. 8 “Practical Guidance on Preparing Statements of Cash Flows in Consolidated Financial Statements, etc.”

### **500th ASBJ Board meeting (April 26, 2023)**

#### **(2) Accounting treatment for the issuance, holding, and related activities involving “electronic payment instruments” under the Payment Services Act**

Chujo (Full-time Board Member) and Murase (Assistant Director) explained the following matters, and deliberations were held, taking into account the status of discussions at the 158th Practical Issues Task Force Committee meeting (held on April 24, 2023):

1. Review of draft wording of the Exposure Draft of the Practical Issues Task Force Report
2. Review of draft wording of “Call for Comments and Overview of the Exposure Draft”
3. Review of draft wording of proposed partial amendments to the “Standards for Preparation of Consolidated Statements of Cash Flows, etc.”
4. Review of draft wording of proposed amendments to JICPA Accounting System Committee Report No. 8

### **501st ASBJ Board meeting (May 16, 2023)**

#### **(3) Accounting treatment for the issuance, holding, and related activities involving “electronic payment instruments” under the Payment Services Act**

Chujo (Full-time Board Member) and Murase (Assistant Director) explained the following matters, and deliberations were held, taking into account the status of discussions at the 158th Practical Issues Task Force Committee meeting (held on April 24, 2023). As a result of the deliberations, it was explained that, if possible, the

Board would like to deliberate on approving issuance of the Exposure Draft at the next meeting:

1. Draft wording of the Exposure Draft of the Practical Issues Task Force Report
2. Draft wording of the proposed partial amendments to the “Standards for Preparation of Consolidated Statements of Cash Flows, etc.”
3. Draft wording of “Call for Comments and Overview of the Exposure Draft”
4. Draft wording of proposed amendments to JICPA Accounting System Committee Report No. 8

### **502nd ASBJ Board meeting (May 29, 2023)**

#### **(1) Exposure Draft “Tentative Accounting Treatment and Disclosure for Certain Electronic Payment Instruments under the Payment Services Act (Draft)” [Resolution to Issue]**

Chujo (Full-time Board Member) and Murase (Assistant Director) explained the following Exposure Drafts, and deliberations and a vote were conducted. As a result of the vote, it was resolved to issue the Exposure Drafts unanimously by all attending Board members, on the premise that the Chair would be entrusted with making any wording and other editorial revisions:

- Exposure Draft of Practical Issues Task Force Report “Tentative Accounting Treatment and Disclosure for Certain Electronic Payment Instruments under the Payment Services Act (Draft)”
- Exposure Draft of ASBJ Statement: proposed partial amendments to the “Standards for Preparation of Consolidated Statements of Cash Flows, etc.”

It was also agreed to request the JICPA to revise its practical guidance related to the Exposure Drafts:

- Proposed amendments to Accounting System Committee Report No. 8, “Practical Guidance on Preparing Statements of Cash Flows in Consolidated Financial Statements, etc.”

**Exposure Draft of ASBJ Implementation Guidance No. 80 (proposed amendments to ASBJ Implementation Guidance No. 2), “Implementation Guidance on Accounting Standard for the Reduction of the Amount of Treasury Stock and Reserves, etc. (Draft),” and Exposure Draft of ASBJ Implementation Guidance No. 81 (proposed amendments to ASBJ Implementation Guidance No. 28), “Implementation Guidance on Accounting Standard for Tax Effect Accounting (Draft)” (October 6, 2023)**

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## **Reference information on the background to the development of the drafts**

### **Excerpt from “Call for Comments”**

In the FY2023 tax reform, a new special measure—so-called partial spin-off tax rules—was introduced. Under this measure, in certain share distributions of wholly owned subsidiary shares in which the distributing company retains a portion of the shares, if the retained portion is less than 20% of the total number of issued shares of the wholly owned subsidiary and certain other requirements are met, the distribution is excluded from taxation in the same manner as a distribution of all wholly owned subsidiary shares.

In response, at the 497th ASBJ Board meeting held in March 2023, the Accounting Standards Advisory Council recommended to the ASBJ that it examine the accounting treatment for spin-offs, which are a means of separating and making a business independent, and the ASBJ decided to commence development of accounting guidance for such transactions and has continued its deliberations.

At the **511th ASBJ Board meeting** held on **October 5, 2023**, the ASBJ approved the issuance of the following exposure drafts of ASBJ Implementation Guidance (collectively, the “Exposure Drafts”), and issued them today:

- **Exposure Draft of ASBJ Implementation Guidance No. 80** (proposed amendments to ASBJ Implementation Guidance No. 2), “Implementation Guidance on Accounting Standard for the Reduction of the Amount of

Treasury Stock and Reserves, etc. (Draft)” (hereinafter, the “Draft Implementation Guidance on Treasury Stock, etc.”)

- **Exposure Draft of ASBJ Implementation Guidance No. 81** (proposed amendments to ASBJ Implementation Guidance No. 28), “Implementation Guidance on Accounting Standard for Tax Effect Accounting (Draft)” (hereinafter, the “Draft Implementation Guidance on Tax Effect Accounting”)

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## [Deliberations at the Accounting Standards Advisory Council]

Excerpt from the 47th Accounting Standards Advisory Council meeting (March 1, 2023), Agenda Paper (1)–2

### II. Theme Proposal

**Proposer:** Ministry of Economy, Trade and Industry (METI)

**Theme:** Accounting treatment for partial spin-offs

#### Reasons for the proposal:

There is increasing recognition of the importance of separating and making independent those businesses for which it is difficult to realize growth strategies while remaining within the existing corporate group, thereby enabling companies to unlock the latent potential of their management resources (human resources, technologies, etc.).

Accordingly, institutional infrastructure for spin-offs—one means of separating and making a business independent—has been developed step by step. For example, under tax rules, spin-offs in which the company implementing the spin-off distributes all shares of a wholly owned subsidiary as an in-kind dividend are excluded from taxation on gain or loss on transfer at the time of reorganization and on dividends. Furthermore, in the FY2023 tax reform, it is planned to introduce a new special measure whereby a spin-off in which the spin-off implementing company retains a portion of its interest (less than 20% of the total number of issued shares) (hereinafter, a “partial spin-off”) will also be excluded from taxation under similar

conditions if certain requirements are met. In addition, efforts are under way to improve the environment for spin-offs beyond tax measures, such as special measures under the Companies Act and initiatives to enhance the predictability of listing examinations by the Tokyo Stock Exchange.

Against this backdrop, it is anticipated that the number of companies that consider and implement partial spin-offs will increase. However, under current accounting standards, accounting treatment differs between (i) a spin-off in which the spin-off implementing company distributes all shares of a wholly owned subsidiary as an in-kind dividend and (ii) a partial spin-off, which may become an obstacle for companies in advancing their considerations. Therefore, if it can be clarified that accounting treatment in the case of a partial spin-off is the same as that of conventional spin-offs, it is considered possible to further promote business reorganizations using spin-offs, and this theme is proposed for that purpose.

**Specific matters to be addressed:**

Where dividend property consists of non-cash assets and all subsidiary shares held are distributed proportionately in accordance with the number of shares (a pro rata distribution), paragraph 10(2) of ASBJ Implementation Guidance No. 2,

“Implementation Guidance on Accounting Standard for the Reduction of the Amount of Treasury Stock and Reserves, etc.,” provides that, on the effective date of the dividend, other capital surplus or other retained earnings (retained earnings brought forward) is reduced by the appropriate book value of the dividend property.

On the other hand, where the spin-off implementing company retains less than 20% of the subsidiary shares held and distributes the remaining subsidiary shares proportionately in accordance with the number of shares (a pro rata distribution), this is not a case “where all subsidiary shares held are distributed proportionately in accordance with the number of shares,” and therefore the above provision is considered not to apply. For example, it is requested that consideration be given to revisions such as changing the wording to “where subsidiary shares held are distributed proportionately in accordance with the number of shares,” so that the provision can similarly be applied to partial spin-offs. (omitted)

**V. Direction of the recommendation**

21. As analyzed above, for spin-offs in which the spin-off implementing company retains a portion of its interest, there is considered to be a certain need for

standard-setting, taking into account the possibility that such transactions may expand and have widespread impacts. In addition, if the amended tax law is implemented as scheduled, transactions may occur at an early stage, and therefore there is also considered to be a need for timely standard-setting. In this regard, as described in paragraphs 8 and 10 through 20 of this paper, the primary issues related to this theme are considered to have been identified.

22. Moreover, because the theme is limited in scope—addressing only issues (including derivative issues) related to a spin-off in which the spin-off implementing company retains a portion of its interest—and because it is expected that the accounting treatment will be examined for both consolidated and separate financial statements in light of criteria such as whether the investment is continued or liquidated, the organizing axis for the accounting treatment is also clear. Therefore, if standard development is required, it is considered possible to proceed in a timely manner. Accordingly, it is proposed that this theme be recommended as a new ASBJ agenda item.
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## [Deliberations at the ASBJ]

### **497th ASBJ Board meeting (March 8, 2023)**

#### **(1) Report from the Accounting Standards Advisory Council**

Chair Yuasa of the Accounting Standards Advisory Council reported that, at the 47th Accounting Standards Advisory Council meeting (held on March 1, 2023), the Council recommended that the ASBJ take up, as a new agenda item, the development of accounting treatment for a spin-off in which the spin-off implementing company retains a portion of its interest, in relation to spin-offs as a means of separating and making a business independent. In addition, it was reported that, regarding clarification of accounting treatment for so-called single-investor private placement investment trusts, the Financial Instruments Expert Committee would be asked to evaluate that theme as a new agenda item. It was also explained that, regarding the previously proposed theme concerning accounting treatment for share-based payments, there had been no additional report since the previous Council meeting. Furthermore, it was reported that the Council received explanations from the ASBJ regarding recent developments in Japanese GAAP and international activities, and held a Q&A session.

### **500th ASBJ Board meeting (April 26, 2023)**

#### **(3) Accounting treatment for partial spin-offs**

The Vice Chair, Kamiya, and Professional Staff Member Kimura (Hiroshi) explained the issues related to accounting treatment for partial spin-offs and the scope of standard development, and deliberations were held, taking into account the status of discussions at the 102nd Business Combinations Expert Committee meeting (held on April 13, 2023).

### **501st ASBJ Board meeting (May 16, 2023)**

#### **(4) Accounting treatment for partial spin-offs**

The Vice Chair, Kamiya, and Professional Staff Member Kimura (Hiroshi) explained the direction of accounting treatment in the separate financial statements and consolidated financial statements of the spin-off implementing company when it conducts a share distribution while retaining a portion of its interest, and

deliberations were held, taking into account the status of discussions at the 103rd Business Combinations Expert Committee meeting (held on May 8, 2023).

### **503rd ASBJ Board meeting (June 13, 2023)**

#### **(3) Accounting treatment for partial spin-offs**

The Vice Chair, Kamiya, and Professional Staff Member Kimura (Hiroshi) explained the scope of exceptional treatment for partial spin-off accounting and the scope of standard development, and deliberations were held, taking into account the status of discussions at the 104th Business Combinations Expert Committee meeting (held on June 5, 2023).

### **504th ASBJ Board meeting (June 26, 2023)**

#### **(2) Accounting treatment for partial spin-offs**

The Vice Chair, Kamiya, and Professional Staff Member Kimura (Hiroshi) explained tax effect accounting for the spin-off implementing company when it conducts a share distribution while retaining a portion of its interest, and deliberations were held, taking into account the status of discussions at the 105th Business Combinations Expert Committee meeting (held on June 21, 2023).

### **506th ASBJ Board meeting (July 18, 2023)**

#### **(3) Accounting treatment for partial spin-offs**

The Vice Chair, Kamiya, and Professional Staff Member Tomita explained the following matters, and deliberations were held, taking into account the status of discussions at the 106th Business Combinations Expert Committee meeting (held on July 12, 2023):

1. Response to views expressed at the 105th Business Combinations Expert Committee meeting (held on June 21, 2023) regarding the specific accounting treatment in consolidated financial statements of the spin-off implementing company when it conducts a share distribution while retaining a portion of its interest
2. Proposed amendments to ASBJ Implementation Guidance No. 2, “Implementation Guidance on Accounting Standard for the Reduction of the Amount of Treasury Stock and Reserves, etc.”

3. Proposed amendments to Accounting System Committee Report No. 7, “Practical Guidance on Capital Consolidation Procedures in Consolidated Financial Statements”

### **507th ASBJ Board meeting (August 2, 2023)**

#### **(2) Accounting treatment for partial spin-offs**

The Vice Chair, Kamiya, and Professional Staff Member Tomita explained the following matters, and deliberations were held, taking into account the status of discussions at the 107th Business Combinations Expert Committee meeting (held on July 26, 2023):

1. Tax effect accounting treatment for the spin-off implementing company when it distributes a portion of shares in a wholly owned subsidiary proportionately in accordance with the number of shares held and such shares cease to qualify as either subsidiary shares or affiliate shares
2. Proposed amendments to ASBJ Implementation Guidance No. 2
3. Proposed amendments to Accounting System Committee Report No. 7

### **508th ASBJ Board meeting (August 24, 2023)**

#### **(3) Accounting treatment for partial spin-offs**

The Vice Chair, Kamiya, and Professional Staff Member Tomita explained the effective date and transitional measures in relation to the proposed amendments to ASBJ Implementation Guidance No. 2 and other related guidance for accounting treatment of partial spin-offs, and also explained the following draft amendments, and deliberations were held, taking into account the status of discussions at the 108th Business Combinations Expert Committee meeting (held on August 10, 2023):

1. Draft amendments to ASBJ Implementation Guidance No. 2
2. Draft amendments to Accounting System Committee Report No. 7
3. Draft amendments to ASBJ Implementation Guidance No. 28, “Implementation Guidance on Accounting Standard for Tax Effect Accounting”

### **509th ASBJ Board meeting (September 7, 2023)**

#### **(7) Accounting treatment for partial spin-offs**

The Vice Chair, Kamiya, and Professional Staff Member Tomita explained the following matters, and deliberations were held:

1. Draft revised text of proposed amendments to ASBJ Implementation Guidance No. 2
2. Draft revised text of proposed amendments to Accounting System Committee Report No. 7
3. Draft revised text of proposed amendments to ASBJ Implementation Guidance No. 28
4. Draft text of “Call for Comments and Overview of the Exposure Draft”

#### **510th ASBJ Board meeting (September 21, 2023)**

##### **(4) Accounting treatment for partial spin-offs**

The Vice Chair, Kamiya, and Professional Staff Member Tomita explained the following matters, and deliberations were held, taking into account the status of discussions at the 109th Business Combinations Expert Committee meeting (held on September 6, 2023). As a result of the deliberations, it was explained that, if possible, the Board would like to deliberate on the resolution to issue the Exposure Drafts at the next meeting:

1. Draft revised text of proposed amendments to ASBJ Implementation Guidance No. 2
2. Draft revised text of proposed amendments to ASBJ Implementation Guidance No. 28
3. Draft text of “Call for Comments and Overview of the Exposure Draft”
4. Draft text of “Call for Comments and Overview of the Exposure Draft (Capital Consolidation Practical Guidance)”
5. Draft request to the JICPA to revise its practical guidance (Accounting System Committee Report No. 7, “Practical Guidance on Capital Consolidation Procedures in Consolidated Financial Statements”)

#### **511th ASBJ Board meeting (October 5, 2023)**

**(7) Exposure Draft of ASBJ Implementation Guidance “Implementation Guidance on Accounting Standard for the Reduction of the Amount of Treasury Stock and**

**Reserves, etc. (Draft),” etc. [Resolution to Issue]**

The Vice Chair, Kamiya, and Professional Staff Member Tomita explained the following Exposure Drafts, and deliberations and a vote were conducted. As a result of the vote, it was resolved to issue the Exposure Drafts unanimously by all attending Board members, on the premise that the Chair would be entrusted with making any wording and other editorial revisions:

1. Exposure Draft of ASBJ Implementation Guidance “Implementation Guidance on Accounting Standard for the Reduction of the Amount of Treasury Stock and Reserves, etc. (Draft)”
2. Exposure Draft of ASBJ Implementation Guidance “Implementation Guidance on Accounting Standard for Tax Effect Accounting (Draft)”

It was also agreed to request the JICPA to revise the following practical guidance related to the Exposure Drafts:

1. Accounting System Committee Report No. 7, “Practical Guidance on Capital Consolidation Procedures in Consolidated Financial Statements”

## Reference information on the background to the development of the draft

### Excerpt from “Call for Comments on the Exposure Draft”

In October 2021, the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) reached agreement among participating jurisdictions on the global minimum tax. Following this agreement, in Japan, the treatment relating to the Income Inclusion Rule (IIR)—one of the internationally agreed rules for the global minimum tax—was provided for in the “Act for Partial Revision of the Income Tax Act, etc.” (Act No. 3 of Reiwa 5), which was enacted on March 28, 2023 (hereinafter, the “Revised Corporation Tax Act”), and is to be applied for eligible fiscal years beginning on or after April 1, 2024.

The regime is intended to ensure that certain multinational enterprise groups, etc. bear a minimum 15% level of corporate income tax on profits on a jurisdiction-by-jurisdiction basis, and it is described as a new tax system in which the entity generating the net income (profit) that is the source of taxation may differ from the entity that incurs the tax-paying obligation. With respect to this tax system, views were expressed that, under the existing accounting standards, it is not clear how to account for (i) income taxes (current taxes) related to the regime and (ii) tax effect accounting related to those income taxes. Accordingly, the ASBJ commenced deliberations in January 2023, and, regarding the treatment of tax effect accounting, issued temporary guidance in March 2023 through PITF Report No. 44, “Temporary Treatment for the Application of Tax Effect Accounting to the Amendment to the Corporation Tax Act in Response to the Global Minimum Tax” (hereinafter, “PITF Report No. 44”).

Thereafter, the ASBJ continued to consider the accounting treatment for income taxes (current taxes) related to the global minimum tax regime and the treatment of tax effect accounting after the application of the regime. At the 514th ASBJ Board meeting held on November 14, 2023, the ASBJ approved the issuance of the above “Accounting Treatment and Disclosure for Income Taxes Related to the Global Minimum Tax Regime (Draft)” (hereinafter, the “Exposure Draft”) concerning income taxes (current taxes) related to the global minimum tax regime, and is issuing it today.

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## **[Deliberations at the Accounting Standards Advisory Council]**

### **Excerpt from Summary of Minutes 1 of the 46th Accounting Standards Advisory Council meeting (November 29, 2022)**

#### **(Summary of Minutes 1) Theme recommendations**

First, Itabashi, General Manager of the Administrative Office of the Financial Accounting Standards Foundation, explained that there were no newly proposed themes at the meeting, and also explained the progress in evaluating themes proposed in the past.

Next, Chair Kawanishi of the ASBJ explained the following two matters for which the ASBJ may begin developing accounting standards promptly—without referring them to the Accounting Standards Advisory Council—once the matters become clear, due to their high urgency, and Q&A was conducted:

- Response to the consideration of abolishing quarterly disclosure obligations (for the first and third quarters) under the Financial Instruments and Exchange Act
- Response in the event of tax reforms related to international initiatives on taxation, so-called BEPS 2.0

Regarding the above, the following comments were heard from members of the Accounting Standards Advisory Council:

- With respect to the review of quarterly disclosure, discussions regarding amendments to the relevant Financial Instruments and Exchange Act are progressing. In addition, regarding BEPS 2.0, industry is also advancing discussions on responses to system reforms in coordination with relevant ministries and agencies. Under these circumstances, the two matters raised may not be in time for the next Accounting Standards Advisory Council meeting, and the member agreed with the ASBJ Secretariat's policy of proceeding with standard development when preparations are in place.
- Regarding the review of quarterly disclosure, under the policy of consolidating first- and third-quarter reporting into quarterly earnings reports, users' greatest concern is that quarterly information disclosure may deteriorate. Accordingly, the development of related accounting standards should be conducted quickly but also with careful deliberation.
- Regarding the Standards for Preparation of Interim Financial Statements, the member felt there were consistency issues between those standards and ASBJ Statement No. 12, "Accounting Standard for Quarterly Financial Statements," and ASBJ Implementation Guidance No. 14, "Implementation Guidance on Accounting Standard for Quarterly Financial Statements," and considered that revisions should be made as necessary.

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## [Deliberations at the ASBJ]

### 493rd ASBJ Board meeting (December 26, 2022)

#### (3) ASBJ agenda topics

Chujo, Board Member, and Kato, Professional Staff Member, explained that the ASBJ would take up, as a new agenda item, responses to amendments to the Corporation Tax Act related to the global minimum tax, and that the Tax Effect Accounting Expert Committee would address the matters to be examined under this agenda item. Deliberations were held.

As a result of the deliberations, it was approved that the matter be taken up as a new agenda item of the ASBJ, and that the Tax Effect Accounting Expert Committee would address the matters to be examined.

### **Excerpt from the 493rd Board meeting agenda paper (3)–1**

#### **II. Potential impact on accounting standards**

3. At present, accounting treatments for income taxes and tax effect accounting are mainly provided for in the following accounting standards, etc.:

- ASBJ Statement No. 27, “Accounting Standard for Income Taxes, Inhabitants Taxes and Enterprise Taxes”
  - ASBJ Implementation Guidance No. 28, “Implementation Guidance on Accounting Standard for Tax Effect Accounting”
4. If the Corporation Tax Act is amended in relation to the global minimum tax, it is considered that revisions, etc. to the above accounting standards, etc. may be required.
  5. In addition, if the amendment to the Corporation Tax Act in relation to the global minimum tax is approved and enacted by the Diet by March 31, 2023, under the existing accounting standards, companies with fiscal year–ends occurring after the enactment date would be required to apply tax effect accounting in their financial statements based on the amended tax law (hereinafter, the “Revised Corporation Tax Act”). Although the Tax Reform Outline provides that application of the Revised Corporation Tax Act will be for fiscal years beginning on or after April 1, 2024, it is considered necessary to examine whether some response under accounting standards is required for companies whose fiscal year–ends occur after the enactment date.
  6. In view of the above, it is proposed to take up responses to the Revised Corporation Tax Act related to the global minimum tax as a new agenda item of the ASBJ. In addition, since the main matters to be examined are expected to relate to income taxes, inhabitants taxes and enterprise taxes as well as tax effect accounting, it is proposed that the Tax Effect Accounting Expert Committee, which has expertise in these matters, address the matters to be examined.
  7. The above theme proposal is made pursuant to Article 22, paragraph 3 of the “Rules on Due Process for the Development of Accounting Standards and

Modified International Standards.” However, the use of Article 22, paragraph 3 in connection with responses to the Revised Corporation Tax Act related to the global minimum tax was approved at the 46th Accounting Standards Advisory Council meeting held on November 29, 2022.

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## **508th ASBJ Board meeting (August 24, 2023)**

### **(4) Response to the amendment of the Corporation Tax Act related to the global minimum tax**

Chujo, Board Member, and Otake, Professional Staff Member, explained the following matters, and deliberations were held, taking into account the status of discussions at the 85th Tax Effect Accounting Expert Committee meeting (held on July 31, 2023):

1. The following main issues related to current taxes for which it is necessary to consider whether amendments to accounting standards, etc. are required as part of the response to the Revised Corporation Tax Act related to the global minimum tax:
  - (a) Presentation of the global minimum tax in consolidated and separate financial statements
  - (b) Timing of recognition of income taxes (current taxes) and treatment of estimates
2. Whether to continue the temporary treatment in PITF Report No. 44 for deferred taxes
3. The following main issues related to presentation and disclosure for the global minimum tax:
  - (a) Current/non-current classification of income taxes payable on the balance sheet
  - (b) Separate presentation or disclosure of income taxes on the income statement

### **Excerpt from the 508th Board meeting agenda paper (4)-1**

#### **History to date**

2. At the 493rd ASBJ Board meeting (held on December 26, 2022), the ASBJ

decided to treat, as a new agenda item, responses to amendments to the Corporation Tax Act for the global minimum tax based on the thinking set out in the “FY2023 Tax Reform Outline,” which was approved by the Cabinet on December 23, 2022. The response was to be as follows:

- (1) Consideration of whether revisions are necessary to accounting standards, etc., including ASBJ Statement No. 27 and ASBJ Implementation Guidance No. 28
- (2) Consideration of whether any response is necessary under accounting standards for accounting treatments for companies with fiscal year-ends occurring after the enactment date of the Revised Corporation Tax Act related to the global minimum tax

3. With respect to item (2) above, on March 31, 2023, the ASBJ issued PITF Report No. 44, “Temporary Treatment for the Application of Tax Effect Accounting to the Amendment to the Corporation Tax Act in Response to the Global Minimum Tax” (hereinafter, “PITF Report No. 44”), and, until the ASBJ terminates application of the temporary treatment in PITF Report No. 44, the effect of the global minimum tax regime is not to be reflected in the application of tax effect accounting, notwithstanding the provisions of ASBJ Implementation Guidance No. 28. With respect to item (1) above, the ASBJ had planned to consider it in the future.
4. Thereafter, at the 85th Tax Effect Accounting Expert Committee meeting (held on July 31, 2023), the following matters were discussed:
  - (1) Main issues related to current taxes for which it is necessary to consider whether amendments to accounting standards, etc. are required as part of the response to the Revised Corporation Tax Act related to the global minimum tax
  - (2) Whether to continue the temporary treatment in PITF Report No. 44 for deferred taxes
5. In addition, at the 86th Tax Effect Accounting Expert Committee meeting (held on August 23, 2023), the main issues related to presentation and disclosure for the global minimum tax were discussed.
6. The views heard at the 85th Tax Effect Accounting Expert Committee meeting are described in agenda item (4)–5.

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**511th ASBJ Board meeting (October 5, 2023)**

**(3) Response to the amendment of the Corporation Tax Act related to the global minimum tax**

Chujo, Board Member, and Otake, Professional Staff Member, explained the following matters, and deliberations were held, taking into account the status of discussions at the 86th Tax Effect Accounting Expert Committee meeting (held on August 23, 2023):

1. The following issues regarding timing of recognition of income taxes (current taxes) related to the global minimum tax and the treatment of estimates:
    - (a) Treatment of simplified estimates of the top-up tax amount under the global minimum tax regime in annual consolidated and separate financial statements
    - (b) Treatment of the top-up tax amount under the global minimum tax regime in quarterly consolidated financial statements and quarterly financial statements for each year after the first year of application
  2. Draft text of the exposure draft of the PITF Report
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**512th ASBJ Board meeting (October 19, 2023)**

**(2) Response to the amendment of the Corporation Tax Act related to the global minimum tax**

Chujo, Board Member, and Otake, Professional Staff Member, explained the draft text of the Exposure Draft of PITF Report, “Accounting Treatment and Disclosure for Income Taxes Related to the Global Minimum Tax Regime (Draft),” and deliberations were held, taking into account the status of discussions at the 87th Tax Effect Accounting Expert Committee meeting (held on October 4, 2023).

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**513th ASBJ Board meeting (November 1, 2023)**

**(2) Response to the amendment of the Corporation Tax Act related to the global minimum tax**

Chujo, Board Member, and Otake, Professional Staff Member, explained the following matters, and deliberations were held.

As a result of the deliberations, it was explained that, if possible, the Board would like to deliberate on approval to issue the Exposure Draft at the next Board meeting:

1. Draft text of the Exposure Draft of PITF Report
  2. Draft text of “Call for Comments and Overview of the Exposure Draft”
  3. Draft text of the supplementary document
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### **514th ASBJ Board meeting (November 14, 2023)**

#### **(2) Exposure Draft of PITF Report “Accounting Treatment and Disclosure for Income Taxes Related to the Global Minimum Tax Regime (Draft)” [Resolution to Issue]**

Chujo, Board Member, and Otake, Professional Staff Member, explained the draft text of the Exposure Draft of PITF Report, “Accounting Treatment and Disclosure for Income Taxes Related to the Global Minimum Tax Regime (Draft),” and deliberations and a vote were conducted. As a result of the vote, it was resolved to issue the Exposure Draft unanimously by all attending Board members, on the premise that the Chair would be entrusted with making any wording and other editorial revisions, and, taking into account its importance and urgency, to shorten the comment period.

In addition, subject to amendments to the “Rules on Due Process for the Development of Accounting Standards and Modified International Standards,” including the addition of due process for issuing supplementary documents, it was decided to solicit comments on the draft supplementary document, “(Tentative title) Estimate in the First Year of Application of Income Taxes Related to the Global Minimum Tax Regime (Draft).”

Exposure Draft No. 80 of ASBJ Statements, “Accounting Standard for Interim Financial Statements (Draft),” and Exposure Draft No. 82 of ASBJ Implementation Guidance, “Implementation Guidance on Accounting Standard for Interim Financial Statements (Draft)” (December 15, 2023)

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## [Reference information on the background to the development of the draft]

### Excerpt from “Call for Comments on the Exposure Draft”

In the report of the Disclosure Working Group of the Financial System Council published in December 2022 (hereinafter, the “Disclosure WG Report”), it was indicated, as part of the review of quarterly disclosure, that: (i) for listed companies, the quarterly disclosure obligations under the Financial Instruments and Exchange Act (for the first and third quarters) would be abolished and “consolidated” into quarterly earnings reports required under stock exchange rules; and (ii) the second-quarter report, which would remain subject to a disclosure obligation, would be submitted as a semiannual report.

In line with the Disclosure WG Report, in March 2023, a bill to partially amend the Financial Instruments and Exchange Act, etc. (hereinafter, the “Bill”) was submitted to the Diet, and in November 2023 it was enacted as the “Act for Partial Revision of the Financial Instruments and Exchange Act, etc.” (Act No. 79 of Reiwa 5), thereby amending the Financial Instruments and Exchange Act (Act No. 25 of 1948) (hereinafter, the “Revised Financial Instruments and Exchange Act”). Since the Bill specified April 1, 2024 as the effective date, the ASBJ, on the premise that the Bill would be enacted, has continued its deliberations on how to respond to the review of the quarterly reporting system.

At the 516th ASBJ Board meeting held on December 13, 2023, the ASBJ approved the issuance of the following exposure drafts of an ASBJ Statement and ASBJ Implementation Guidance (collectively, the “Exposure Drafts”), and is issuing them today:

- **Exposure Draft No. 80 of ASBJ Statements**, “Accounting Standard for Interim Financial Statements (Draft)” (hereinafter, the “Draft Accounting Standard”)
- **Exposure Draft No. 82 of ASBJ Implementation Guidance**, “Implementation Guidance on Accounting Standard for Interim Financial Statements (Draft)” (hereinafter, the “Draft Implementation Guidance”)

## **Reason for issuing the Exposure Drafts**

In November 2023, the “Act for Partial Revision of the Financial Instruments and Exchange Act, etc.” (Act No. 79 of Reiwa 5) was enacted. As part of the review of quarterly disclosure, this abolished, for listed companies, the quarterly disclosure obligations under the Financial Instruments and Exchange Act (for the first and third quarters), and required that the second-quarter report, for which a disclosure obligation remains, be submitted as a semiannual report. As a result, under the Revised Financial Instruments and Exchange Act, interim consolidated financial statements or interim separate financial statements (collectively, “interim financial statements”) will be disclosed in the semiannual report. Accordingly, the ASBJ decided to propose accounting and disclosure treatments for such interim financial statements.

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## **[Deliberations at the Accounting Standards Advisory Council]**

### **Excerpt from “Theme recommendations” in Summary of Minutes 1 of the 46th Advisory Council meeting (November 29, 2022)**

First, Itabashi, General Manager of the Administrative Office of the Financial Accounting Standards Foundation, explained that there were no newly proposed themes at the meeting, and also explained the progress in evaluating themes proposed in the past.

Next, Chair Kawanishi of the ASBJ explained the following two matters for which the ASBJ may begin developing accounting standards promptly—without referring them

to the Accounting Standards Advisory Council—once the matters become clear, due to their high urgency, and Q&A was conducted:

- Response to the consideration of abolishing quarterly disclosure obligations (for the first and third quarters) under the Financial Instruments and Exchange Act
- Response in the event of tax reforms related to international initiatives on taxation, so-called BEPS 2.0

Regarding the above, the following comments were heard from members of the Advisory Council:

- With respect to the review of quarterly disclosure, discussions regarding amendments to the relevant Financial Instruments and Exchange Act are progressing. In addition, regarding BEPS 2.0, industry is also advancing discussions on responses to system reforms in coordination with relevant ministries and agencies. Under these circumstances, the two matters raised may not be in time for the next Advisory Council meeting, and the member agreed with the ASBJ Secretariat's policy of proceeding with standard development when preparations are in place.
- Regarding the review of quarterly disclosure, under the policy of consolidating first- and third-quarter reporting into quarterly earnings reports, users' greatest concern is that quarterly information disclosure may deteriorate. Accordingly, the development of related accounting standards should be conducted quickly but also with careful deliberation.
- Regarding the Standards for Preparation of Interim Financial Statements, the member felt there were consistency issues between those standards and ASBJ Statement No. 12, "Accounting Standard for Quarterly Financial Statements," and ASBJ Implementation Guidance No. 14, "Implementation Guidance on Accounting Standard for Quarterly Financial Statements," and considered that revisions should be made as necessary.

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## [Deliberations at the ASBJ]

## **502nd ASBJ Board meeting (May 29, 2023)**

### **(4) Response to the review of the quarterly reporting system**

Chujo, Board Member, explained the response to the review of the quarterly reporting system, and deliberations were held. As a result of the deliberations, it was decided to take this up as a new agenda item of the ASBJ, and that the Board would address the matter directly, rather than through an Expert Committee.

### **Excerpt from the 502nd Board meeting agenda paper (4)**

#### **III. Secretariat's proposal**

5. The effective date of the amendment submitted to the Diet is specified as April 1, 2024 (Article 3, paragraph 1 of the Supplementary Provisions of the amendment).

The amendment has not yet been enacted at this time; however, if revisions or modifications described in paragraph 3 of this paper become necessary, it is considered that such revisions or modifications would need to be completed in time for the effective date of the amendment. In view of this urgency, it is considered that, pursuant to Article 22, paragraph 3 of the “Rules on Due Process for the Development of Accounting Standards and Modified International Standards” (hereinafter, the “Due Process Rules”), the ASBJ could decide, at a Board meeting, to treat this matter as an agenda item for deliberation.

6. The use of Article 22, paragraph 3 of the Due Process Rules for responding to the review of the quarterly reporting system was approved at the 46th Advisory Council meeting held on November 29, 2022.
7. In view of the above, it is proposed that the response to the review of the quarterly reporting system be taken up as a new agenda item of the ASBJ.
8. In addition, it is proposed that this matter be addressed by the ASBJ Board (the parent committee) rather than by establishing a new Expert Committee or using an existing one, since it involves considering revisions or modifications to accounting standards, etc. arising from amendments to laws and regulations.

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## **511th ASBJ Board meeting (October 5, 2023)**

#### **(5) Response to the review of the quarterly reporting system**

Chujo, Board Member, and Yamada, Professional Staff Member, explained an overview of the “Bill for Partial Revision of the Financial Instruments and Exchange Act, etc.” submitted by the Financial Services Agency to the 211th Diet session on March 14, 2023, and the policy for considering accounting standards, etc. that may need to be revised or modified, and deliberations were held.

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#### **512th ASBJ Board meeting (October 19, 2023)**

##### **(4) Response to the review of the quarterly reporting system**

Chujo, Board Member, and Yamada, Professional Staff Member, explained the following matters, and deliberations were held:

1. Identification of issues requiring individual consideration in developing the “(Tentative title) Interim accounting standards, etc.”
  2. Treatment of deferral of cost variances and the deemed acquisition date
  3. Simplified accounting treatments, etc. permitted under the quarterly implementation guidance
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#### **514th ASBJ Board meeting (November 14, 2023)**

##### **(4) Response to the review of the quarterly reporting system**

Chujo, Board Member, and Yamada, Professional Staff Member, explained the following matters, and deliberations were held:

1. Approach to the review of quarterly accounting standards, etc.
2. Draft wording of transition measures in the quarterly implementation guidance
3. Draft wording regarding the deferral of cost variances and the deemed acquisition date
4. Draft wording of the main text of the “(Tentative title) Accounting Standard for Interim Financial Statements (Draft)”

5. Draft wording of the main text of the “(Tentative title) Implementation Guidance on Accounting Standard for Interim Financial Statements (Draft)”
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### **515th ASBJ Board meeting (November 29, 2023)**

#### **(4) Response to the review of the quarterly reporting system**

Chujo, Board Member, and Yamada, Professional Staff Member, explained the following matters, and deliberations were held. In the deliberations, it was also explained that, taking into account the importance and urgency of the Exposure Drafts, the comment period was expected to be approximately one month, and that, for the time being, the ASBJ plans not to terminate application of ASBJ Statement No. 12, “Accounting Standard for Quarterly Financial Statements,” etc. As a result of the deliberations, it was explained that, if possible, the Board would like to deliberate on approval to issue the Exposure Drafts at the next Board meeting:

1. Consideration of the effective date
  2. Draft text of the Exposure Draft of ASBJ Statement “(Tentative title) Accounting Standard for Interim Financial Statements”
  3. Draft text of the Exposure Draft of ASBJ Implementation Guidance “(Tentative title) Implementation Guidance on Accounting Standard for Interim Financial Statements”
  4. Draft text of “Call for Comments and Overview of the Exposure Drafts”
  5. Consideration of other standards, etc. that may need to be amended or modified
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### **516th ASBJ Board meeting (December 13, 2023)**

#### **(1) Exposure Draft of ASBJ Statement “Accounting Standard for Interim Financial Statements (Draft),” etc. [Resolution to Issue]**

Chujo, Board Member, and Yamada, Professional Staff Member, explained the following exposure drafts, and deliberations and a vote were conducted. As a result of the vote, it was resolved to issue the exposure drafts unanimously by all attending Board members, on the premise that the Chair would be entrusted with

**making any wording and other editorial revisions, and, taking into account their importance and urgency, to shorten the comment period:**

1. Exposure Draft of ASBJ Statement “Accounting Standard for Interim Financial Statements (Draft)”
2. Exposure Draft of ASBJ Implementation Guidance “Implementation Guidance on Accounting Standard for Interim Financial Statements (Draft)”