



EUROPEAN BUSINESS COUNCIL IN JAPAN  
THE EUROPEAN (EU) CHAMBER OF COMMERCE IN JAPAN

# FINANCIAL REPORTING

ISSUES AND RECOMMENDATIONS



# Revenue Recognition

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## YEARLY STATUS REPORT: Some Progress

- ❑ In August 2017, the ASBJ issued an Exposure Draft on Revenue Recognition under J-GAAP, which in general closely follows the 5-step approach in IFRS 15.
- ❑ However, critically, the Exposure Draft includes a number of permissible alternatives that allow companies, for example, to adopt the currently wide-spread practice of recognising revenue at shipment date, for shipments within Japan.

# Revenue Recognition

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## YEARLY STATUS REPORT: Some Progress

- ❑ The EBC acknowledges the effort by the ASBJ to present a new and consistent revenue recognition model through release of this Exposure Draft and we understand that, by including the permissible alternatives mentioned above, the ASBJ's intention is to minimise any perceived negative impact on users in Japan resulting from introduction of the new Accounting Standard.
- ❑ However, there is a risk that, by allowing significant deviations from the IFRS 15 model, any practical application of the new standard in Japan will provide little benefit with respect to comparability and consistency, which are essential qualities of improved financial reporting.

# Revenue Recognition

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## RECOMMENDATION

- ❑ The ASBJ should carefully evaluate the effects of the new revenue standard. If possible, all deviations from IFRS 15 should be eliminated to ensure consistent applicability and comparability in the EU and Japan. This should be possible given the delayed implementation date (proposed for annual reporting periods beginning from April 1, 2021) under J-GAAP, allowing time for Japanese companies to apply a standard that is aligned to IFRS 15 (scheduled to apply for annual reporting periods beginning on or after January 1, 2018).



# **FINANCIAL INSTRUMENTS**

# Financial Instruments

## YEARLY STATUS REPORT: No Progress

- ❑ While the EBC notes many similarities between the accounting standards of financial instruments under IFRS and J-GAAP, there is one key area where further alignment is recommended.
- ❑ Under J-GAAP, certain securities such as unlisted equity securities are generally recognised at historical cost.
- ❑ The EBC recommends that all investments in equity securities be measured at fair value, as is the case with IFRS.
- ❑ Changes in fair value would be recognised in Other Comprehensive Income for investments not held for trading, similar to the treatment of debt securities under J-GAAP and the available-for-sale category under IFRS.

# Financial Instruments

## YEARLY STATUS REPORT: No Progress

- ❑ A comprehensive analysis should also consider new accounting guidance under IFRS 9.
- ❑ The EBC believes that the valuation of all securities at fair value improves the relevance and transparency of financial statements, providing stakeholders with a useful assessment that facilitates decision making with respect to deployment of balance sheet items.
- ❑ The EBC expects that aligning the accounting treatment under J-GAAP with IFRS will yield efficiency gains for issuers who need to prepare financial statements under both regimes.
- ❑ The EBC notes that JMIS does not include an exemption for the measurement of unlisted investments in equity instruments.



# Financial Instruments

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## RECOMMENDATION

- Japan should align J-GAAP with IFRS to require all equity investments to be accounted for at fair value.





# PROPERTY, PLANT & EQUIPMENT (PPE)

# Property, Plant & Equipment (PPE)

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## YEARLY STATUS REPORT: No Progress

- ❑ Many companies use tax regulation to determine residual value and useful life of PPE for J-GAAP reporting.
- ❑ Depreciation methods must be reasonable and applied systematically every year.
- ❑ In practice, a significant number of J-GAAP filers use the double-declining method, which avoids reconciling differences between financial and tax reporting and generally achieves greater tax deductions in earlier years.

# Property, Plant & Equipment (PPE)

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## YEARLY STATUS REPORT: No Progress

- ❑ However, it creates differences with IFRS, which generally prohibits using this method as default and uses residual life and useful life assumptions that reflect usage patterns, rather than tax tables.
- ❑ The EBC recommends the IFRS approach, to provide readers of financial statements with a more accurate reflection of usage patterns and related costs, and to enable companies to maintain existing tax advantages, even if this results in a new reconciling item with tax reporting.

# Property, Plant & Equipment (PPE)

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## RECOMMENDATION

- ❑ Japan should align accounting for PPE under J-GAAP with IFRS, while considering implications for taxation.

