

# IFRS APPLICATION AROUND THE WORLD

## JURISDICTIONAL PROFILE: **Japan**



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This Profile provides information about the application of IFRS Standards in Japan. IFRS Standards are developed and issued in the public interest by the International Accounting Standards Board (the Board). The Board is the standard-setting body of the IFRS® Foundation, an independent, private sector, not-for-profit organisation.

This Profile has been prepared by the IFRS Foundation based on information from various sources. The starting point was the answers provided by standard-setting and other relevant bodies in response to surveys that the IFRS Foundation conducted on the application of IFRS Standards around the world. The IFRS Foundation drafted the Profile and invited the respondents to the survey and others (including regulators and international audit firms) to review the drafts, and their comments are reflected.

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### RELEVANT JURISDICTIONAL AUTHORITY

Organisation	Accounting Standards Board of Japan (ASBJ)
Role of the organisation	<p>The ASBJ is the private-sector Japanese accounting standard-setting body. All accounting standards set by the ASBJ are subject to endorsement by the Financial Services Agency (FSA), a Japanese government agency.</p> <p>The ASBJ, a core organisation within the Financial Accounting Standards Foundation (FASF) in Japan, is directly responsible for the development and deliberation of accounting standards and the contributions to the development and improvement of international accounting standards.</p> <p>The FASF was established in 2001 to contribute to the sound development of financial practices in Japan and sound capital markets by making recommendations and contributions to the international accounting system by studying, researching, and developing generally accepted accounting standards, and by studying and researching disclosure systems and various other practices pertinent to business finance systems.</p> <p>The International Accounting Standards Board (Board) and the ASBJ have been working together to achieve convergence of IFRS Standards and Japanese Generally Accepted Accounting Principles (Japanese GAAP) since 2005. That work was formalised in 2007 with the Tokyo Agreement.</p>

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## COMMITMENT TO GLOBAL FINANCIAL REPORTING STANDARDS

Has the jurisdiction made a public commitment in support of moving towards a single set of high quality global accounting standards?

Yes.

Has the jurisdiction made a public commitment towards IFRS Standards as that single set of high quality global accounting standards?

Yes.

What is the jurisdiction's status of adoption?

Voluntary application of IFRS Standards for consolidated financial statements by companies that meet certain criteria has been permitted since March 2010.

Additional comments provided on the adoption status?

In October 2013, the FSA revised its Cabinet Office Ordinances to encourage further application of IFRS Standards in Japan. This revision eliminated two requirements that stipulated which companies are eligible to use IFRS Standards. As a result, the number of companies eligible to apply IFRS Standards was increased from 621 to 4,061 at that time, covering virtually all listed companies and unlisted companies preparing consolidated financial statements for listing purposes.

Under the current regulation, a company may voluntarily use IFRS Standards if it meets the following criteria:

- The company discloses, in its Annual Securities Report, information regarding specific efforts to ensure that the consolidated financial statements will be prepared in accordance with Designated IFRS [defined below]; and
- The company allocates executives or employees with ample knowledge about Designated IFRS, and puts in place a structure to ensure that the consolidated financial statements will be prepared properly in accordance with Designated IFRS.

(Source: Revised Cabinet Office Ordinances issued by the FSA on 28 October 2013.)

'Designated IFRS' is a set of IFRS Standards that have been designated by the Commissioner of the FSA. To date, all IFRS Standards have been so designated prior to their effective dates.

Reconciliation between the consolidated financial statements prepared in accordance with Designated IFRS and those prepared in accordance with Japanese GAAP is not required. At the transition to Designated IFRS, however, a company is required to disclose Japanese GAAP financial information for the current and immediately preceding year. In addition, supplemental disclosure is required relating to the major differences between IFRS Standards and Japanese GAAP for the current and immediately preceding years.

### 2007 Memorandum of Understanding ('Tokyo Agreement')

The Board and the ASBJ have been working together to achieve convergence of IFRS Standards and Japanese Generally Accepted Accounting Principles (GAAP) since 2005. This work was formalised in 2007 with the '[Tokyo Agreement](#)'. The MoU between the Board and the ASBJ has been superseded by Japan's membership of the Accounting Standards Advisory Forum (ASAF).

If the jurisdiction has NOT made a public statement supporting the move towards a single set of accounting standards and/or towards IFRS Standards as that set of standards, explain the jurisdiction's general position towards the adoption of IFRS Standards in the jurisdiction.

Not applicable.

## EXTENT OF IFRS APPLICATION

*For DOMESTIC companies whose debt or equity securities trade in a public market in the jurisdiction:*

Are all or some domestic companies whose securities trade in a public market either required or permitted to use IFRS Standards in their consolidated financial statements?

Yes.

If YES, are IFRS Standards REQUIRED or PERMITTED?

Permitted for companies that meet certain criteria as described [above](#).

Does that apply to ALL domestic companies whose securities trade in a public market, or only SOME? If some, which ones?

Some – those companies that meet certain criteria as described [above](#).

On 30 June 2015, Japan inaugurated a new set of accounting standards to be known as Japan's Modified International Standards, bringing to four the number different accounting frameworks that listed companies in Japan may use. The four frameworks are:

- **IFRS Standards.** Virtually all listed companies and unlisted companies preparing consolidated financial statements for listing purposes are permitted to use IFRS Standards. (This means IFRS as designated by the Commissioner of the FSA.)
- **Japanese GAAP as issued by the ASBJ.** Historically, most listed companies have used Japanese GAAP.
- **Japan's Modified International Standards (JMIS): Accounting Standards Comprising IFRSs and the ASBJ Modifications.** JMIS was developed based on IFRS Standards with deletions and modifications determined by the ASBJ. Concurrent with issuance of JMIS on 30 June 2015, the ASBJ published modifications relating to amortisation of goodwill and recycling of other comprehensive income.
- **US GAAP.** With the permission of the Commissioner of the FSA.

The Tokyo Stock Exchange (TSE) has announced that as of 30 June 2019, 225 companies (accounting for 36% of the TSE market capitalisation) have adopted or plan to adopt IFRS Standards. The 225 companies include 214 companies that have already adopted or are in the process of adopting IFRS Standards, and another 11 companies that have publicly stated that they plan to adopt IFRS Standards. The TSE has also announced that an additional 189 companies (18% of the TSE market capitalisation) have stated in their most recent financial statements that they are considering whether to move to IFRS Standards.

The above data is taken from an announcement by the Tokyo Stock Exchange, which may be [accessed here](#). The announcement includes a link to a more detailed analysis of the use of IFRS Standards by TSE listed companies. By comparison, in December 2012 only 10 Japanese companies were using IFRS Standards.

Are IFRS Standards also required or permitted for more than the consolidated financial statements of companies whose securities trade in a public market?

Yes.

For instance, are IFRS Standards required or permitted in separate company financial statements of companies whose securities trade in a public market?	Yes. IFRS Standards are not prohibited in separate company financial statements of companies whose securities trade in a public market, when such financial statements are presented on a voluntary basis.
For instance, are IFRS Standards required or permitted for companies whose securities do not trade in a public market?	No, with one exception: IFRS Standards are permitted for unlisted companies preparing consolidated financial statements for listing purposes.
If the jurisdiction currently does NOT require or permit the use of IFRS Standards for domestic companies whose securities trade in a public market, are there any plans to permit or require IFRS Standards for such companies in the future?	Not applicable.

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**For FOREIGN companies whose debt or equity securities trade in a public market in the jurisdiction:**

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Are all or some foreign companies whose securities trade in a public market either REQUIRED or PERMITTED to use IFRS Standards in their consolidated financial statements?	Yes.
If YES, are IFRS Standards REQUIRED or PERMITTED in such cases?	Permitted.
Does that apply to ALL foreign companies whose securities trade in a public market, or only SOME? If some, which ones?	It applies only to foreign companies whose securities are traded as secondary listings in Japan.

## IFRS ENDORSEMENT

Which IFRS Standards are required or permitted for domestic companies?	<a href="#">‘Designated IFRS’</a> may be used by most domestic companies whose securities are publicly traded.
The auditor's report and/or the basis of presentation footnotes states that financial statements have been prepared in conformity with:	IFRS.
Does the auditor's report and/or the basis of preparation footnote allow for ‘dual reporting’ (conformity with both IFRS Standards and the jurisdiction’s GAAP)?	No.
Are IFRS Standards incorporated into law or regulations?	Yes.
If yes, how does that process work?	‘Designated IFRS’ is made effective through the formal process of endorsement prescribed by <i>the Ordinance on Terminology, Forms and Preparations Methods of Consolidated Financial Statements</i> .
If no, how do IFRS Standards become a requirement in the jurisdiction?	Not applicable.
Does the jurisdiction have a formal process for the ‘endorsement’ or ‘adoption’ of new or amended IFRS Standards (including Interpretations) in place	Yes.

If yes, what is the process?	Each IFRS Standard is designated by the Commissioner of the FSA. The formal process of endorsement is prescribed in the <i>Ordinance on Terminology, Forms and Preparations Methods of Consolidated Financial Statements</i> .
If no, how do new or amended IFRS Standards become a requirement in the jurisdiction?	Not applicable.
Has the jurisdiction eliminated any accounting policy options permitted by IFRS Standards and/or made any modifications to any IFRS Standard?	No.
If yes, what are the changes?	Not applicable.
Other comments regarding the use of IFRS Standards in the jurisdiction?	None.

## TRANSLATION OF IFRS STANDARDS

Are IFRS Standards translated into the local language?	Yes, they are translated and the translation is provided/coordinated by the IFRS Foundation.
If they are translated, what is the translation process? In particular, does this process ensure an ongoing translation of the latest updates to IFRS Standards?	<p>A review committee appointed by the IFRS Foundation approves the Japanese translation of the IFRS Standards and related material contained in the Japanese version of the Red Book.</p> <p>The Japanese translation is published by the FASF with the permission of the IFRS Foundation. The Japanese translation is the copyright of the IFRS Foundation. The above process ensures an ongoing translation of the continuous updates to the standards.</p>

## APPLICATION OF THE IFRS FOR SMEs STANDARD

Has the jurisdiction adopted the <i>IFRS for SMEs</i> Standard for at least some SMEs?	No.
If no, is the adoption of the <i>IFRS for SMEs</i> Standard under consideration?	Deliberations on whether to allow unlisted companies to use the <i>IFRS for SMEs</i> Standard in their financial reporting have not been carried out in Japan.
Did the jurisdiction make any modifications to the <i>IFRS for SMEs</i> Standard?	Not applicable.
If the jurisdiction has made any modifications, what are those modifications?	Not applicable.
Which SMEs use the <i>IFRS for SMEs</i> Standard in the jurisdiction, and are they required or permitted to do so?	Not applicable.
For those SMEs that are not required to use the <i>IFRS for SMEs</i> Standard, what other accounting framework do they use?	Japanese GAAP.
Other comments regarding use of the <i>IFRS for SMEs</i> Standard?	The <i>IFRS for SMEs</i> Standard has been translated into Japanese.