

International Comparison of Accounting Standards - Overview of Major Japanese GAAP, IAS/IFRS, and US GAAP <Supplemental Information>

Accounting Standards	Items	Supplemental Information
Financial Instruments	Measurement of securities	<p>[Consistent Treatment] (JPN)(IAS)(US) Classification of securities and measurement : 1. Trading securities···Measured at fair value with gains/losses included in net profit or loss 2. Held-to-maturity securities···Measured at amortised cost 3. Available-for-sale securities···Measured at fair value with gains/losses recognised in equity</p> <p>[Other] (IAS) An entity is permitted to designate any financial asset or financial liability on initial recognition as one to be measured at fair value, with changes in fair value recognised in profit or loss. (Fair value option)</p>
	Estimating potential credit losses/impairment	<p>[Consistent Treatment] (JPN)(IAS)(US) Estimated cash flows discounted at loan's original effective interest rate are used in measurement of impairment.</p> <p>[Other] (JPN) Receivables are classified into three categories for estimating potential credit losses. For "Normal receivables,"reasonable criteria such as historical ratio of credit losses are used; For "Doubtful receivables," either recoverable amount from collateral/guarantee or estimated cash flows are used; For "Bankruptcy receivables," recoverable amount from collateral/guarantee is used. (IAS) Financial asset is first assessed whether objective evidence of impairment exists individually. Asset that has been individually assessed for impairment and found not to be individually impaired is included in collective assessment of impairment. (US) For individually impaired loans, impairment is measured based on expected future cash flows, except as practical expedient impairment may be based on loan's market price or fair value of collateral. For loans that are not impaired individually, probable loss in a group of loans is accrued.</p>
	Derecognition of financial assets	<p>[Consistent Treatment] (JPN)(US) "Financial-components approach" in which financial component that comprises financial asset is derecognised when control is transferred to another party, and the retained financial component is continued to be recognised.</p> <p>[Other] (IAS) "Risks and rewards approach" in which financial asset is derecognised when substantially all risks and rewards are transferred to another party, precedes evaluation of transfer of control. No legal isolation requirement in IAS.</p>
	Measurement of derivatives	<p>[Consistent Treatment] (JPN)(IAS)(US) Derivatives are measured at fair value.</p>
	Hedge accounting	<p>[Consistent Treatment] (JPN)(IAS)(US) As part of hedge accounting requirement, documentation of risk management policy etc. and assessment of hedge effectiveness are required.</p> <p>[Other] (IAS)(US) "Fair value hedge" which hedges risk in change in fair value and "Cash flow hedge" which hedges risk in change in future cash flows are accounted for differently. (JPN) In principle, both risks in change in fair value and change in cash flows are accounted for by deferring gains/losses on hedging instrument. However, as hedge accounting requirement is consistent with IAS and US GAAP, difference in net profit or loss is considered to be minor. In certain cases, gains/losses on both hedged item and hedging instrument may be recognised in net profit or loss in the same accounting period.</p>
Business Combinations	Basic method	<p>[Consistent Treatment] (JPN)(IAS)(US) "Purchase method" is the basic method in all three. IAS(IFRS3) and US GAAP prohibit "Pooling of interests method" and "Purchase method" is applied to all business combinations. Under Japanese GAAP, "Pooling of interests method" is applied only to exceptionally limited circumstances when strict criteria are met.</p>
	Pooling of interests method	<p>[Other] (JPN) "Uniting of interests" is distinguished from "Acquisition" which differs in economic substance. However, "Pooling of interests method" is applied only to exceptionally limited circumstances when all of the following strict criteria and other requirements are met. 1. Consideration for combination is stock with voting rights. 2. Ratio of voting rights after business combination is within 50:50 plus or minus approximately 5 percentage points. 3. There are no certain facts that indicate existence of control. (Ex. Number of board members.) According to our survey on the actual cases over 10-year period, approximately only 7% of the cases would have met the above criteria.</p>
	Goodwill	<p>[Consistent Treatment] (IAS)(US) Goodwill is not amortised but tested for impairment.</p> <p>[Other] (JPN) Goodwill is strictly amortised within 20 years using a systematic method, with impairment test in addition.</p>