For Global HR & Finance

Japan GAAP vs IFRS: Key Differences in Defined Benefit Liabilities and Costs

Understanding Japan’s Unique P&L and Balance Sheet Treatment in the Context of Global Standards

Japan GAAP Still Differs from IFRS

Japan revised its retirement benefit accounting standard in 2012, but several Japan-specific rules remain.

These differences affect how companies measure and recognize defined benefit liabilities and costs.



Five Japan GAAP Features That Differ from IFRS

This document highlights five key differences in how Japan GAAP treats defined benefit liabilities and costs:

1. Interest Cost
2. Expected Return on Assets
3. Actuarial Gains and Losses
4. Past Service Cost
5. Asset Ceiling Rule

1. Interest Cost

Under Japan GAAP, interest cost is simply the discount rate applied to the opening obligation, without reflecting benefit payments during the year.

Under IFRS, interest cost reflects the liability throughout the year, including cashflows.

2. Expected Return on Assets

Under Japan GAAP, the expected return is based on a long-term expected rate.

It also does not reflect contributions or benefit payments during the year.

Under IFRS, the expected return is effectively the discount rate applied to plan assets, with no separate assumption.

3. Actuarial Gains and Losses

Timing & Where They Go

	Consolidated	Non-consolidated
Balance sheet	Immediate	Deferred recognition permitted
P&L (net income)	Deferred recognition permitted	Deferred recognition permitted
OCI	Recycled to P&L	-

Under IFRS, they are recognized immediately in OCI and never recycled to P&L.

4. Past Service Cost

Timing & Where They Go

	Consolidated	Non-consolidated
Balance sheet	Immediate	Deferred recognition permitted
P&L (net income)	Deferred recognition permitted	Deferred recognition permitted
OCI	Recycled to P&L	-

Under IFRS, past service cost is recognized immediately in P&L, with no OCI recycling.

5. Asset Ceiling Rule

Japan GAAP has no asset ceiling requirement, so surplus plan assets, adjusted for unrecognized actuarial gains and losses and past service cost if any, can be recognized in full.

Under IFRS, the recognized asset is limited by the asset ceiling, which restricts the net defined benefit asset to the recoverable amount.

Summary of Key Differences

Topic	Japan GAAP	IFRS (IAS19)
Interest Cost	Uses only the opening DBO	Includes expected cashflows
Expected Return	- Long-term expected rate - Uses only the opening balance	- Discount rate - Includes expected cashflows
Actuarial Gains/Losses	- **Consolidated:** BS immediate / P&L deferred - **Non-consolidated:** BS and P&L deferred	OCI immediate, no recycling
Past Service Cost	Same as Actuarial G/L	Immediate in P&L
Asset Ceiling	None	Applied

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