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# Japan GAAP vs IFRS: Key Differences in Defined Benefit Obligations

Understanding Japan GAAP in the Context of Global Standards

# Japan's 2012 Alignment with IFRS

In 2012, Japan overhauled its retirement benefit accounting standard to align more closely with IFRS (IAS 19).

Most major gaps were closed, but several Japan-specific requirements remained and still apply today.

Modern Japan GAAP is built on this 2012 reform.



# IFRS Use Is Limited to Consolidated Statements

In Japan, IFRS is available only for consolidated financial statements.

Statutory non-consolidated financial statements must follow Japan GAAP.

As of December 2025, 292 listed companies in Japan use IFRS; dual reporting mainly arises at such listed groups.

# Simplified Method

Japan GAAP allows a simplified method for entities with fewer than 300 employees.

Under this approach, simplified figures—such as benefits payable at voluntary resignation—are used directly as the DBO, avoiding a full actuarial valuation.

IFRS has no formal simplified method, but IAS 19 permits reliable approximations.

# Attribution Method

Japan GAAP permits two methods for attributing benefits to service:

- Straight-line method
- Benefit-formula method

The straight-line method predates the 2012 reform, and the selected method must be used consistently after adoption.

IFRS requires attribution based on the plan’s benefit formula.

# Discount Rate
# – Basis Bonds –

Discount rate may be based on government bonds, government-agency bonds, or high-quality corporate bonds.

In practice, companies select either government bonds or high-quality corporate bonds and use that basis consistently.

IFRS requires using high-quality corporate bonds; government bonds only if no deep market exists.

# Discount Rate
# – Materiality Threshold –

Under Japan GAAP, companies may keep the previous discount rate if the change from the prior period is less than 10% of DBO. This “materiality rule” reduces year-to-year volatility in measurement.

IFRS requires updating the discount rate every year-end.

# Discount Rate
# – Setting Method –

The discount rate must reflect the timing of each expected benefit payment.

Multiple discount rates:
- Yield-curve direct approach

Single weighted-average discount rate:
- Yield-curve equivalent approach
- Duration approach
- Weighted-average period approach

Under IFRS, the discount rate reflects payment timing and is often applied as a single weighted-average rate.

# Mortality Assumption

Japan GAAP does not require explicit allowance for future mortality improvements.

Entities may reflect improvements only when reasonable and material; in practice, base mortality tables are commonly used without explicit improvement scales.

IFRS requires mortality assumptions to reflect expected future changes.

# Key Differences in Defined Benefit Obligations

| Topic | Japan GAAP | IFRS (IAS19) |
|---|---|---|
| Simplified Method | Permitted | No simplified method |
| Attribution Method | - Straight-line<br>- Benefit-formula | Benefit-formula-based |
| Discount Rate -Basis Bonds- | - Government bonds<br>- High-quality corporate bonds | High-quality corporate bonds |
| Discount Rate -Materiality Threshold- | 10% rule exists | No materiality threshold |
| Discount Rate -Setting Method- | Four approaches allowed | Reflects the timing of benefit payments |
| Mortality Assumption | Future improvements not required | Future improvements required |

# Practical Takeaways for Foreign Companies in Japan

Differences in assumptions and methods—especially discount-rate setting, mortality improvements, and the attribution method—often create non-trivial gaps.

Under Japan GAAP, entities with fewer than ~300 employees commonly use a simplified method, meaning the local numbers may not be based on a full actuarial DBO calculation.

# Get Expert Help for Cross-Border Reporting

If your HQ requires IFRS reporting while your Japanese subsidiary uses local GAAP, we can help bridge the gap.

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