

November 17, 2023

About the Practical Solution on the Tentative Treatment of Accounting for and Disclosures of Certain Electronic Means of Payments under the Payment Services Act

Introduction

1. On November 17, 2023, the Accounting Standards Board of Japan (ASBJ) issued the *Practical Solution on the Tentative Treatment of Accounting for and Disclosures of Certain Electronic Means of Payments under the Payment Services Act* (hereinafter referred to as “the Standard”) as part of Japanese GAAP. The Standard is effective immediately upon the issuance of the Standard.
2. This paper explains the background of the Standard and summarizes its main requirements. It should be noted that this paper was prepared by the ASBJ secretariat for the convenience of English speakers for information purposes only and has not been officially approved for issuance by the ASBJ.

Background

3. In June 2022, the Payment Services Act was amended to define the term *electronic means of payment* (EMOP) and a registration system was introduced to enable registered banks, fund transfer service providers and trusts to issue EMOPs.
4. The objective of amending the Payment Services Act was: (a) to protect owners of EMOPs by imposing regulations to issuers and dealers (intermediaries) of EMOPs; and (b) to facilitate the use of EMOPs as a means of payment or exchange.
5. In July 2022, the Accounting Standards Advisory Council (ASAC), the body that discusses and recommends new agenda items to the ASBJ, recommended that the ASBJ develop an accounting standard relating to EMOPs in response to the amended Payment Services Act.
6. Following the recommendation of the ASAC, the ASBJ started its deliberations in



August 2022. The ASBJ decided to address only limited issues, considering that the expectation was that the accounting standard would be issued before or immediately after the effective date of the amended Payment Services Act. The ASBJ will consider whether to address other issues that are not addressed in this Standard separately, based on: (a) the development of business practices as well as accounting practices related to EMOPs; and (b) the requests of constituents.

7. On May 31, 2023, the ASBJ issued for public comment an Exposure Draft *Practical Solution on the Tentative Treatment of Accounting for and Disclosures of Certain Electronic Means of Payments under the Payment Services Act* (hereinafter referred to as “the Exposure Draft”). The comment period for the Exposure Draft ended on August 4, 2023. The ASBJ discussed the comment letters received and incorporated some of the suggestions provided in those comment letters when finalizing the Standard.

Characteristics of Electronic Means of Payments

EMOPs as defined in the Payment Services Act

8. Under the amended Payment Services Act, electronic tokens fall within the definition of EMOPs when all of the following criteria are met:
 - (a) they are transferred using a distributed ledger based on block-chain technology;
 - (b) they are used as a means of payments or exchange;
 - (c) they are issued at a price linked to the value of legal tender (for example, Japanese yen); and
 - (d) the issuer promises to redeem the electronic tokens at par, whenever the owner requests the issuer to do so.

Certain types of electronic tokens which are designated by the Commissioner of the Financial Services Agency to be equivalent to those that meet all of the above criteria may also qualify as EMOPs (see paragraphs 9 and 10 of this paper).



Types of EMOPs

9. The Payment Services Act classifies EMOPs into four types:
 - Type 1: EMOPs in the form of intangible currency-denominated assets that can be used as a means of payments on their own
 - Types 2: EMOPs in the form of intangible currency-denominated assets that can be used as a means of payments in exchange for Type 1 EMOPs
 - Type 3: EMOPs in the form of beneficial interests in a trust
 - Type 4: EMOPs which are designated by the Commissioner of the Financial Services Agency as equivalent to Type 1, Type 2 or Type 3 EMOPs
10. Type 4 EMOPs may include those that are not redeemable (for example, certain types of electronic tokens whose stability of their value is ensured algorithmically). As explained later in this paper, such types of electronic tokens are not in the scope of the Standard.

Requirements Applied to Issuers of Type 1, 2 or 3 EMOPs

11. Under the amended Payment Services Act, only banks and fund transfer service providers can issue Type 1 and Type 2 EMOPs. Each type of entity is subject to specific requirements to guarantee the redemption amount, as follows:
 - (a) banks are not subject to specific regulations to guarantee the redemption amount of the EMOPs but are generally subject to the regulations to ensure the soundness of their operations; and
 - (b) fund transfer service providers are required to guarantee the redemption amount of the EMOPs through: (a) official depositaries by entrusting cash or safe assets such as government bonds; or (b) guarantee contracts for security deposits.
12. Under the amended Payment Services Act, only trusts can issue Type 3 EMOPs. Trusts are subject to the Trust Act which requires the isolation of a certain amount of demand deposits which have value equal to the trusted assets. In the case of insolvency of the trust, the right of segregation is granted to its beneficiaries.



Characteristics of Type 1, Type 2 or Type 3 EMOPs from the Owners' Perspective

13. From the owners' perspective, EMOPs have the following characteristics:
- (a) they are means of payments or settlements whose stability of their value is ensured by regulations;
 - (b) they are similar to demand deposits in the sense that they can be withdrawn at any time without prior notice or penalty to redeem; and
 - (c) they are assets that can be traded at a market.

Main Requirements

Scope of the Standard

14. The Standard applies to the holding and issuance of EMOPs within the scope of the Standard.

EMOPs within the Scope of the Standard

15. Only Type 1, Type 2 and Type 3 EMOPs are included in the scope of the Standard. In addition, certain foreign EMOPs are excluded from the scope of the Standard (see paragraphs 16 and 17 of this paper).

Foreign EMOPs

16. Certain types of electronic tokens issued by foreign enterprises according to laws or regulations in foreign countries may qualify as one of the four types of EMOPs as defined by the Payment Services Act. Such EMOPs are defined as "foreign EMOPs".
17. Foreign EMOPs that meet the definition of Type 1, Type 2 or Type 3 EMOPs are included in the scope of the Standard if, and only if, they are deposited to the registered dealers by the owners. Foreign EMOPs that are not deposited with the registered dealers but are held by the owners themselves are outside the scope of the Standard.



Issuer's Accounting for Type 3 EMOPs

18. The Standard does not apply to the issuer's accounting and disclosures for Type 3 EMOPs, because the existing requirements under PITF No. 23, *Practical Solution on Accounting for Trusts* apply.

Accounting Requirements for Owners

On Acquisition

Recognition

19. The owner should recognize the EMOPs within the scope of the Standard as assets on the date that the EMOPs are delivered to the owner.

Initial Measurement

20. The owner should initially measure the EMOPs within the scope of the Standard at an amount determined based on its par value. Any difference between the cost to acquire the EMOPs within the scope of the Standard and the amount determined based on its par value should be included in profit or loss.

On Transfer or Redemption

Derecognition

21. If the owner transfers the EMOPs within the scope of the Standard to a third party or receives cash from the issuer of the EMOPs within the scope of the Standard, the owner should derecognize the EMOPs within the scope of the Standard on the date that the EMOPs are delivered by the owner.
22. Any difference between the amount of cash received from the third party as the consideration for the transfer of the EMOPs and the carrying amount of the EMOPs should be included in profit or loss.

Subsequent Measurement

23. The owner should subsequently measure the EMOPs within the scope of the Standard at an amount determined based on its par value at the balance sheet date.



Accounting Requirements for Issuers

On Issuance

Recognition

24. The issuer should recognize its obligation for the redemption of the EMOPs within the scope of the Standard as a liability on the date that the EMOPs are delivered by the issuer.

Initial Measurement

25. The issuer should initially measure the obligation for the redemption of the EMOPs within the scope of the Standard at the amount due to the owners (that is, at the amount determined based on the par value). Any difference between the total amount received for the issuance of the EMOPs within the scope of the Standard and the amount due to the owners should be included in profit or loss.

On Redemption

26. If the issuer redeems the EMOPs within the scope of the Standard to the owner, the issuer should derecognize the liability for the redemption of the EMOPs within the scope of the Standard on the redemption date.

Subsequent Measurement

27. The issuer should subsequently measure the liability for the redemption of the EMOPs within the scope of the Standard at the amount due to the owners at the balance sheet date.

Accounting Requirements for Electronic Means of Payments within the Scope of the Standard that are Denominated in Foreign Currencies

Translation at the balance sheet date

28. The EMOPs within the scope of the Standard and the liability for the redemption of EMOPs within the scope of the Standard that are denominated in foreign currencies



should be translated to the functional currency using the closing rate which is the spot exchange rate at the balance sheet date. Any exchange difference arising from the translation should be included in profit or loss.

Accounting Requirements for the Electronic Means of Payments within the Scope of the Standard Held by the Registered Dealers on Behalf of Owners

29. When EMOPs within the scope of the Standard are held by the registered dealer (the intermediary) on behalf of the owners, the registered dealer should not recognize the EMOPs deposited by the owners as its assets. The registered dealer should not recognize the obligation for the redemption of the EMOPs as its liabilities.

Presentation in the Statement of Cash Flows

Change in the Definition of “Cash”

30. As the consequential amendment arising from the Standard, the definition of “cash” is amended as follows:

“Cash” comprises cash on hand, demand deposits and EMOPs within the scope of the Standard.

Disclosures

31. Disclosure requirements for financial assets and liabilities under ASBJ Statement No. 10, *Accounting Standard for Financial Instruments* apply to EMOPs within the scope of the Standard and the liability for the redemption of EMOPs within the scope of the Standard.



Effective Date

32. An entity should apply the requirements in the Standard immediately upon the issuance of the Standard.

Basis for Conclusions

Characteristics of Electronic Means of Payments within the Scope of the Standard

33. The ASBJ noted that, although EMOPs within the scope of the Standard were not purely currencies nor demand deposits, they had the characteristics of both.

Similarity to Currencies

34. In general, currencies have three functions, namely “medium of exchange”, “unit of account”, and “store of value”. The ASBJ noted that EMOPs within the scope of the Standard would perform all of these functions directly or indirectly in that:
 - (a) they would perform the function of “medium of exchange” because EMOPs within the scope of the Standard would be used to pay for goods and services.
 - (b) they would perform the functions of “unit of account” and “store of value” because they would be issued and redeemed at a price linked to the value of legal tender.
35. At the same time, the ASBJ noted that EMOPs within the scope of the Standard were not purely currencies, because they bore the risk of not being able to be converted to currencies (“conversion risk”).

Similarity to Demand Deposits

36. The ASBJ noted that EMOPs within the scope of the Standard were similar to demand deposits in the sense that users might withdraw funds at any time without prior notice or penalty to redeem:
 - (a) owners of EMOPs within the scope of the Standard can immediately receive a redemption in legal tender at par value whenever they demanded



redemption; and

- (b) EMOPs within the scope of the Standard bore conversion risk. The ASBJ noted that the conversion risk would be similar to the risk associated with the withdrawal of demand deposits, and that such risk was usually considered to be low.

Relationships with the Definitions of Financial Assets and Financial Liabilities

- 37. The ASBJ noted that EMOPs within the scope of the Standard would meet the definition of financial assets because both currencies and demand deposits met the definition of financial assets.
- 38. The ASBJ also noted that the liabilities for the redemption of EMOPs within the scope of the Standard would meet the definition of financial liabilities because such liabilities would represent the issuers' contractual obligations to deliver cash to the owners on redemption.

Scope of the Standard

Type 4 EMOPs

- 39. The ASBJ decided not to include Type 4 EMOPs (See paragraph 9 of this paper) in the scope of the Standard.
- 40. The ASBJ noted that certain types of electronic tokens that had characteristics that were similar to crypto-assets may qualify as Type 4 EMOPs and, therefore, it was necessary to analyse the characteristics of crypto-assets when developing the accounting requirements for Type 4 EMOPs. At the same time, the ASBJ was not aware of any potential issuance of Type 4 EMOPs when it was developing the Standard.
- 41. Accordingly, the ASBJ concluded that the ASBJ should proceed with the development of the accounting requirements for Type 1, Type 2 and Type 3 EMOPs only.



Foreign EMOPs

Regulations Regarding EMOPs Issued by Foreign Enterprises

42. As there are certain limitations to imposing regulations under the amended Payment Services Act on foreign enterprises, regulations are imposed on the registered dealers (intermediaries) to provide stability to the financial system.
43. Such regulations include the following:
 - (a) In order for electronic tokens issued by foreign enterprises to qualify as EMOPs under the amended Payment Services Act, foreign issuers should be subject to similar regulations as domestic issuers of EMOPs in the jurisdiction they are located.
 - (b) When foreign EMOPs are deposited to the registered dealers by the owners, the registered dealers handling the foreign EMOPs are subject to the Cabinet Office Ordinance relating to the amended Payment Services Act. Under the Cabinet Office Ordinance, the registered dealers are obliged to redeem the foreign EMOPs on behalf of the foreign issuers to the owners in the following cases:
 - (i) the foreign issuers can no longer redeem the foreign EMOPs at par; or
 - (ii) the value of foreign EMOPs decreased significantly.
 - (c) In order to fulfil the obligation referred to in (b) above, the registered dealers handling foreign EMOPs are required to secure assets by depositing with external financial institutions cash, government bonds or other assets in the amount equivalent to the foreign EMOPs issued by foreign enterprises.

Foreign EMOPs that are within the Scope of the Standard

44. The ASBJ discussed whether foreign EMOPs should be included in the scope of the Standard when they met the definition of Type 1, Type 2, or Type 3 EMOPs.
45. The ASBJ noted that regulations imposed by the amended Payment Services Act ensured that the characteristics of: (a) the foreign EMOPs deposited by the owners to the registered dealers; and (b) the EMOPs issued by fund transfer service providers in Japan, would be similar. Accordingly, the ASBJ concluded that



foreign EMOPs that were deposited to the registered dealers by the owners should be included in the scope of the Standard and should be accounted for in the same manner as Type 1, Type 2 or Type 3 EMOPs issued in Japan.

46. The ASBJ also concluded that those foreign EMOPs that were not deposited to the registered dealers but were held by owners themselves were outside the scope of the Standard for the following reasons:
- (a) It was uncertain whether such foreign EMOPs had characteristics that were similar to EMOPs issued in Japan.
 - (b) It might be challenging for the ASBJ to develop accounting requirements in a timely manner in response to the amendment of the Payment Services Act, considering that such accounting requirements should be aligned with international accounting standards.

Accounting Requirements for Owners

Measurement of EMOPs within the Scope of the Standard

Alternatives Considered Regarding the Measurement of EMOPs within the Scope of the Standard

47. Because EMOPs within the scope of the Standard were not held for trading purposes, but that they would be used as a means of payment, the ASBJ concluded that it would be inappropriate to measure them at fair value.
48. Based on the analysis that EMOPs within the scope of the Standard have the characteristics of both currencies and demand deposits, the ASBJ considered the following two views:
- (a) Focusing on the characteristics similar to currencies, EMOPs within the scope of the Standard should be measured at par value; and
 - (b) Focusing on the characteristics similar to demand deposits, EMOPs within the scope of the Standard should be measured at historical cost less an allowance for credit losses.



49. Because EMOPs within the scope of the Standard may be traded on the market, the historical cost of the EMOPs within the scope of the Standard may differ from the par value. Accordingly, the difference between the two views would affect both initial and subsequent measurement of EMOPs within the scope of the Standard.

Measurement of the EMOPs within the Scope of the Standard at Par Value

50. The ASBJ concluded that the owner should initially and subsequently measure EMOPs within the scope of the Standard at an amount determined based on its par value for the following reasons:

- (a) Because EMOPs within the scope of the Standard would be exchanged for goods and services at par value, measurement at an amount determined based on the par value would be a more faithful representation of the economic substance as a medium of exchange.
- (b) The difference between the historical cost and the par value of EMOPs within the scope of the Standard would be small, if any, because the stability of the value is ensured by regulations.
- (c) The implementation cost would be lower because the owner of EMOPs within the scope of the Standard would not be required to maintain records related to the historical cost.

Treatment of "Conversion Risk"

51. The ASBJ acknowledged that there may be cases where the issuer faces difficulty in redeeming EMOPs within the scope of the Standard at par value or where the market price declines significantly compared to the par value. Nevertheless, the ASBJ decided not to include requirements regarding the accounting treatment for "conversion risk" in the Standard for the following reasons:

- (a) the conversion risk would be similar to the risk associated with the withdrawal of demand deposits, and such risk is usually considered to be low; and
- (b) the Standard aimed to address only limited issues which would be necessary in response to the amendment of the Payment Services Act.



Accounting Requirements for the Electronic Means of Payments within the Scope of the Standard Held by the Registered Dealers on Behalf of the Owners

52. In Japan, the accounting treatment for assets that have been deposited to and held by dealers on behalf of the owners has been determined by considering whether legal rights over such assets had been transferred to the dealers.
53. The ASBJ concluded that the registered dealers did not obtain legal rights over EMOPs within the scope of the Standard deposited by owners only by taking custody of them, considering the following circumstances:
 - (a) To ensure that the legal rights over EMOPs within the scope of the Standard was clear, related laws require the registered dealers to manage EMOPs utilizing a trust in which the owners are the beneficiaries.
 - (b) By being managed utilizing a trust, EMOPs within the scope of the Standard deposited by the owners are isolated in the case of insolvency, so that the right of segregation is granted to owners.
54. The ASBJ concluded that the registered dealers should not recognize EMOPs within the scope of the Standard deposited by the owners in the registered dealers' balance sheet because the registered dealers did not obtain legal rights over EMOPs within the scope of the Standard deposited by the owners.

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