ASBJ Statement No.26

Accounting Standard for Retirement Benefits

and

ASBJ Guidance No.25

Guidance on Accounting Standard for Retirement Benefits

May 17th, 2012

The Accounting Standards Board of Japan

Remarks on the Release

The Accounting Standards Board of Japan (ASBJ) has been deliberating establishment of a revised accounting standard for retirement benefits from the viewpoint of improvements to financial reporting and international convergence, mainly focusing on (a) how actuarial gains and losses and past service costs should be accounted for, (b) how retirement benefit obligations and current service costs should be determined and (c) enhancement of disclosures.

On May 10, 2012, at the 243rd meeting, the ASBJ approved ASBJ Statement No.26 (hereinafter, the “Accounting Standard”) and ASBJ Guidance No.25 (hereinafter, the “Guidance”) for public release.

Prior to the publication of the Accounting Standard and the Guidance, the ASBJ published exposure drafts of each on March 18, 2010 to invite public comments widely, and then revised some parts of the drafts based on the review of the comments received.

Outline of the Accounting Standard and the Guidance

Pronouncements to be replaced by the Accounting Standard and the Guidance

The Accounting Standard and the Guidance replaces the following pronouncements (hereinafter, the "Previous Requirements").

	Pronouncements to be replaced (the "Previous Requirements")
The Accounting Standard	● *Accounting Standard for Retirement Benefits* (Business Accounting Council) ● *Statement on Establishing Accounting Standard for Retirement Benefits* (Business Accounting Council) ● ASBJ Statement No.3 *Amendments to Accounting Standard for Retirement Benefits* ● ASBJ Statement No.19 *Amendments to Accounting Standard for Retirement Benefits (Part 3)*
The Guidance	● *Practical Guidance on Accounting for Retirement Benefits* (JICPA Accounting Practice Committee Report No.13) ● ASBJ Statement No.14 *Amendments to Accounting Standard for Retirement Benefits (Part 2)* ● *Questions and Answers on Accounting for Retirement Benefits* (JICPA)

Major changes from the Previous Requirements

1. Treatment of actuarial gains and losses and past service costs

(a) Treatment in the balance sheet

Under the Previous Requirements, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are not recognized in the balance sheet, and the difference between retirement benefit obligations and plan assets (hereinafter, "deficit or surplus"), adjusted by such unrecognized amounts, are recognized as a liability or asset.

Under the Accounting Standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss would be recognized within the net asset section (accumulated other comprehensive income (AOCI)), after adjusting for tax effects, and the deficit or surplus would be recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits) without any adjustments.

(b) Treatment in the statement of income and the statement of comprehensive income (or the statement of income and comprehensive income)

The Accounting Standard would not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts would be recognized in profit or loss over a certain period not longer than the expected average remaining working lives of the employees, as before.

However, actuarial gains and losses and past service costs that arose in the current period and yet to be recognized in profit or loss would be included in other comprehensive income (see 1.-(a) above) and actuarial gains and losses and past service costs that were recognized in AOCI in prior periods and then recognized in profit or loss in the current period would be treated as reclassification adjustments.

(c) Treatment in non-consolidated financial statements for the time being

In non-consolidated financial statements, the new requirements as described in (a) and (b) above would not be applied for the time being, with the Previous Requirements remaining applicable.

The exposure draft proposed that the new requirements as described in (a) and (b) above should be also applied in non-consolidated financial statements, but the treatment has been modified as above in finalizing the Accounting Standard.

2. Determination of retirement benefit obligations and current service costs

(a) Amendment relating to the method of attributing expected benefit to periods

The Previous Requirements allowed the choice of the method of attributing expected benefit to periods among the following ones (the straight-line basis is required in principle, with other methods permitted in certain circumstances):

- Straight-line basis (the expected benefit divided by the total service years would be deemed as arising in each period)
- Salary amount basis
- Benefit multiplier basis
- Point basis

The Accounting Standard allows the choice of the method of attributing expected benefit to periods between the following ones:

- Straight-line basis
- Benefit formula basis (the expected benefit attributed to periods of service under the plan's benefit formula would be deemed as arising in each period)

When an entity elects the benefit formula basis, if the benefit that would be attributed to later years under the benefit formula will be materially higher than that to earlier years, attribution should be based on the benefit formula adjusted by deeming the benefit in those years will arise evenly.

(b) Amendment relating to the discount rate

The Previous Requirements provided that, in principle, the discount rate should be determined based on the average period up to the estimated timing of benefit payment, but allowed the use of the period approximate to the expected average remaining working lives of employees in practice.

The Accounting Standard requires that the discount rate should reflect the estimated timing of each benefit payment. Acceptable methods include the use of a single weighted average discount rate reflecting the estimated timing and amount of benefit payment and the use of different discount rates according to the estimated timing of benefit payment.

(c) Amendment relating to expected future salary increases

The Previous Requirements provided that variable factors that can reasonably be considered in projecting retirement benefit should include future salary increases that are 'expected to be certain'.

The Accounting Standard indicates that variable factors that can reasonably be considered in projecting retirement benefit should include future salary increases that are 'expected' (Note 5 to the Accounting Standard).

3. Enhanced disclosures

The Accounting Standard requires the enhanced disclosures, including the analysis of changes in retirement benefit obligations and plan assets, which are required in global accounting standards. The Guidance provides illustrative example of disclosures.

Some of the proposed disclosure requirements in the exposure draft have been modified in finalizing the Accounting Standard.

4. Amendment to the treatment of multi-employer plans

If an entity participates in a multi-employer plan and the amount of plan assets attributable to its own contribution cannot be reasonably determined, it may deem the amount of the required contribution to the plan as that of retirement benefit costs under the plan. The Previous Requirements indicated that this relief is not applicable in the cases where employers that participate in the plan have similar retirement benefit plans. The Accounting Standard states that whether the relief mentioned above can be applied in such cases should be determined based on the nature of the plan, rather than uniformly prohibiting.

5. Clarification of the concept of long-term expected rate of return

The Accounting Standard carries forward from the Previous Requirements the factors to be taken into consideration in determining the long-term rate of return, but clarifies that the long-term expected rate of return should reflect the estimated timing of benefit payment.

This amendment would not be regarded as a change in accounting policies, because it is just clarification of the existing treatment rather than a change to the existing concept.

6. Changes in the terms

The Previous Requirements	The Accounting Standard
Provision for retirement benefit	Liability for retirement benefit *
Prepaid pension expenses	Asset for retirement benefit *
Past service liabilities	Past service costs
Expected rate of return	Long-term expected rate of return

*In non-consolidated financial statements, these changes will not be applied for the time being, with the terms in Previous Requirements being applicable.

Effective dates

Amendments	Effective dates	How to apply
(a) All amendments except for the items (b) below	The end of annual periods beginning on or after April 1, 2013. Earlier application is permitted from the beginning of annual periods beginning on or after April 1, 2013.	No retrospective application to financial statements in prior periods. Effects of the changes in accounting policies arising from initial application shall be recognized in accumulated adjustments for retirement benefit within the net asset section ('AOCI ').
(b) Amendments relating to determination of retirement benefit obligations and current service costs and treatment of	The beginning of annual periods beginning on or after April 1, 2014. If an entity has practical difficulties in applying the	No retrospective application to financial statements in prior periods. Effects of the changes in accounting policies arising

multi-employer plans (Items 2 and 4 in 'Major changes from the Previous Requirements')	amendments from that date, it may apply them from the beginning of annual periods beginning on or after April 1, 2015, provided that certain information is disclosed. Earlier application is permitted from the beginning of annual periods beginning on or after April 1, 2013.	from initial application shall be recognized as an adjustment to the opening balance of retained earnings.

In applying (b) above, an entity may elect the benefit formula basis from the beginning of the year of initial application, even when it had used the straight-line basis before that.