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The Technical Director

International Public Sector Accounting Standards Board

545 Fifth Avenue, 14th Floor

New York, NY 10017 USA

**Comments on the Proposed International Public Sector Accounting Standard,
“Disclosure Requirements for Recipients of External Assistance”**

Dear Sir:

The Japanese Institute of Certified Public Accountants (JICPA) is pleased to comment on the Proposed International Public Sector Accounting Standard, “Disclosure Requirements for Recipients of External Assistance,” (the “Proposed Standard”) as follows:

Overall Opinion

We are supportive of this proposed standard. Clear disclosure requirements about external assistance will contribute to the improvement of financial management for recipient countries. Donor agencies are expected to accept disclosures prescribed in an IPSAS to be developed based on this Exposure Draft, and to provide necessary information to recipient countries.

“Specific Matters for Comments”

1. Whether the proposed definition of “external assistance” in paragraph 5 is sufficiently broad to encompass all official resources received.

We believe the definition of “external assistance” is sufficient to encompass all official resources.

2. Whether other sources of assistance, such as assistance provided by non-governmental organizations (NGOs), should also be included in the definition of “external assistance.” Currently, the Exposure Draft requires that entities disclose all official resources received. Official resources as defined in paragraph 5 would exclude certain assistance received from NGOs.

We believe that assistance from other resources such as NGOs or private companies should not be included in the definition of “external assistance” in this proposed standard. We understand that an objective of disclosure of external assistance is to clarify the resources of a public-sector entity by its disclosure of assistance received from foreign countries based on agreements between governments. In light of this objective, there is less of a need to enforce a public-sector entity to disclose assistance from other than official resources.

However, when an official agency provides assistance through an engagement with an NGO to implement a project, the resource is of an official origin; therefore, the assistance falls into the scope of this proposed standard. We believe that such assistance is usually required to be disclosed in notes as an “in-kind service.” This standard needs to include guidance to clarify this situation. We include our proposed wording in, “Other Comments 2.”

3. Whether the Exposure Draft should specify the categories of external assistance as required in paragraphs 13-15 or only require the disclosure of external assistance by “major classes” without further specification.

We oppose the portion of this Exposure Draft that specifies the categories of external assistance. The standard should require disclosure of external assistance by “major classes,” with illustrative examples of categories that are included in the Exposure Draft. Some external assistance is hard to distinguish, for example, between Development Assistance and Balance of Payment Assistance, and between Development Assistance and Emergency Assistance. In addition, the continuous changes in nature and type of assistance make it difficult to specify categories of disclosure. Our proposed wording for paragraph 13 is as follows:

(a similar amendment is necessary in paragraph 14)

13. The entity shall disclose separately, either on the face of the Statement of Cash Receipts and Payments, or in the notes to the financial statements, the total external assistance

received in cash during the period, by major categories, showing separately. Examples of major categories are:

- (a) **Development Assistance;**
- (b) **Trade Finance;**
- (c) **Emergency Assistance;**
- (d) **Military Assistance;**
- (e) **Balance of Payments Assistance; and**
- (f) **Other Assistance.**

4. The proposal to disclose the balance of, and changes in, undrawn external assistance during the period (paragraph 22).

We believe that the disclosure requirement of change in undrawn external assistance is excessive. We propose that the standard require the disclosure of the balance of undrawn external assistance only, and to encourage disclosure of the change. In addition, we believe that the proposal in paragraph 25 that requires an entity to apply the exchange rate of each applicable “transaction” is inappropriate and that the translation of the disclosed amount is to be determined by applying the exchange rate of the balance-sheet date which would provide more useful information. IPSASB needs to consider that “transactions” such as an approval or cancellation of assistance are not accompanied by any actual cash flow. Further, we think that the disclosure of such comparative figures is less necessary and that the disclosure of the latest year-end information is enough, although note 2 of Appendix 1 of this Exposure Draft illustrates two period disclosures. Our proposed wording is as follows:

The order of paragraphs 22 and 23 is to be replaced. The wording could be amended as follows:

23. **The entity shall disclose separately in the notes to the financial statements the total undrawn external assistance as of the latest balance sheet date, by major source(s), by loan or grant and the currency or currencies in which the external assistance is denominated.**

22. **The entity ~~shall~~ is encouraged to disclose separately in the notes to the financial statements, in addition to disclosure required in paragraph xx, the opening balance of undrawn external assistance, changes during the period and the closing balance available to fund future operations, by major source(s), by loan or grant, showing separately:**

- ~~(a) Total external assistance loans and for each of development assistance, trade finance, emergency assistance, military assistance, and balance of payments assistance:~~
- ~~(i) the opening balance of undrawn loans, including partially undrawn loans;~~
 - ~~(ii) the amount of new loans approved or otherwise made available during the period;~~
 - ~~(iii) the total amount drawn or utilized during the period;~~
 - ~~(iv) the total amount cancelled during the period;~~
 - ~~(v) total foreign exchange adjustments; and~~
 - ~~(vi) the closing balance of undrawn loans.~~
- ~~(b) Total external assistance grants and for each of development assistance, trade finance, emergency assistance, military assistance, and balance of payments assistance:~~
- ~~(i) the opening balance of undrawn grants, including partially undrawn grants;~~
 - ~~(ii) the amount of new grants approved or otherwise made available during the period;~~
 - ~~(iii) the total amount drawn or utilized during the period;~~
 - ~~(iv) the total amount cancelled during the period;~~
 - ~~(v) total foreign exchange adjustments; and~~
 - ~~(vi) the closing balance of undrawn grants.~~

In preparing the above disclosed information, external assistance denominated in foreign currencies are to be translated into the reporting currency of the entity by applying exchange rate of the balance-sheet date to all items including any changes during the period.

Paragraph 25 needs to be deleted. Prior-year disclosure of note 2 of Appendix 1 needs to be deleted.

5. The proposal to disclose the terms and conditions of external assistance agreements as required by paragraphs 26-28 and any non-compliance thereof (paragraph 36).

We support the proposal in the Exposure Draft, in principle. We suggest that the standard clarifies that it does not require the disclosure of military and/or diplomatic secrets as terms and conditions associated with external assistance. Our proposed wording is as follows:

Proposed addition of a paragraph immediately to follow paragraph 32:

“Terms and conditions associated with external assistance may include diplomatic and military

secrets. Thus, IPSAS does not require the disclosure of diplomatic and military secrets. In this case, a recipient discloses the fact that a term or a condition is associated with external assistance and that the recipient cannot disclose the details because such details are a diplomatic or military secret included in the note to the financial statement.”

6. Whether the proposals in paragraph 44 as noted below are appropriate:

- (a) To disclose the fair value of non-cash goods-in-kind; and
- (b) That fair value should be based on the prices of equivalent goods or services in the recipient country.

We support disclosure requirements of “in-kind” assistance. We also support, in principle that such disclosures are based on fair value, and that fair value is primarily determined by worth in the recipient’s economy. However, the requirement of use of fair value in the world market or in the donor’s economy when fair value in the economy of the recipient is not determinable would impose an excessive burden on the recipient, as a preparer of financial statements. The proposed standard should allow a preparer of financial statements to use prices that the preparer believes to be appropriate when fair value in the economy of the recipient is not determinable. In addition, the basis of the calculation should be disclosed. Our proposed wording is as follows:

Amendments for paragraph 44: (In addition, paragraph 49 would be amended as such.)

44. The entity shall disclose separately in the notes to the financial statements the fair value of goods or services received in-kind measured in the economy of the recipient as of the date of receipt. Where fair value in the economy of the recipient is not determinable, appropriate price such as prices of similar goods or services in the recipient country, or fair value in the world market or shall be used. Where goods are not traded internationally, fair value in the donor’s economy shall be used. Then the entity discloses what kind of prices is used to determine the disclosed amounts.

7. Whether the disclosures proposed are appropriate. If the disclosures are considered excessive, the IPSASB would welcome input on which disclosures should not be required. The IPSASB would also welcome input on any key disclosures that have not been dealt with and should be required.

We think that the disclosure requirements in the Exposure Draft are unnecessarily excessive, in general. Our specific proposals are described from 4 to 6 above. The IPSASB needs to consider the further simplification of disclosure requirements based on comments from preparers and external assistance agencies.

8. Whether the proposal in paragraph 54:

- (a) For a transition period of two years is sufficient to apply this Standard. Is a longer transitional period necessary to ensure that the appropriate authorities in each recipient country are able to access the data necessary to properly account for external assistance?
- (b) To exempt the requirement to disclose comparative figures during the first year of application of this Standard is appropriate.

We think that the proposals in the Exposure Draft are appropriate. However, we would not oppose further IPSASB amendments of the proposals based on comments from preparers of financial statements of recipient countries who comply with this proposed standard.

Other Comments

1. When an entity who received in-kind goods sells the received goods, revenue from the sale is included in the Statement of Cash Receipt and Payments. On the other hand, received in-kind goods are disclosed separately in the note to the financial statements. As a result, both in-kind assistance and cash receipt from the sale are disclosed. In order to avoid misleading the readers of the financial statements, we think that the disclosure of received in-kind goods also includes a statement reading “A cash receipt of the sale of goods amounting to xxx is included in the Statement of Cash and Payments.” Our proposed wording is as follows:

Addition of a paragraph following paragraph 49.

“When an entity who received in-kind goods sells the received goods, revenue from the sale is included in the Statement of Cash Receipt and Payments. On the other hand, received in-kind goods are disclosed separately in the note to the financial statements. As a result, both in-kind assistance and the cash receipt from the sale are disclosed. In order to avoid misleading the readers of the financial statements, when the situation above exists, disclosure of the received in-kind goods also includes a statement reading, “A cash receipt of the sale of goods amounting to xxx is included in the Statement of Cash and Payments.”

2. We propose that paragraph 10 indicate the fact that in-kind goods or services are one of the major forms of external assistance. Our proposed wording is as follows:

Add (d) after (c) of paragraph 10. Amend the sentence thereafter as follows:

(d) Supply with goods or services in-kind that the external assistance agency directly procures.

Payments to a third party may include payments to an NGO settling in cash an obligation of the entity for goods or services provided to or to be provided by the NGO. ~~External assistance agreements may also include provision of goods or services in-kind.~~ When an external-assistance agency provides an NGO with funds to supply an entity with goods or services, such assistance is included as in-kind assistance provided, as in the case that the external-assistance agency engages with a private enterprise.

3. A definition of Non-Government Organizations is not necessary because this proposed standard excludes their assistance from the scope of the standards. We think that this definition is not necessary.

Sincerely,

Yoshihiro Wada
Executive Board Member
Chair of the Public Sector Committee
The Japanese Institute of Certified Public Accountants