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Ms. Stephenie Fox

Technical Director

International Public Sector Accounting Standards Board

International Federation of Accountants

277 Wellington Street West

Toronto, Ontario, Canada M5V 3H2

***Comments on the Conceptual Framework Exposure Draft 2  
“Conceptual Framework for General Purpose Financial Reporting by  
Public Sector Entities:  
Elements and Recognition in Financial Statements”***

Dear Ms. Fox,

The Japanese Institute of Certified Public Accountants (JICPA) is pleased to comment on the Conceptual Framework Exposure Draft 2 (CF-ED2), “Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements,” as follows.

**I. Comments on Specific Matters**

**Specific Matter for Comment 1:**

Do you agree with the definition of an asset? If not, how would you modify it?

We agree with the proposed definition of an asset.

Paragraph BC 20 of the CF-ED2 states that, in view of the support expressed by many

respondents to CF-CP2, the IPSASB agrees with the view that, as an example of a past event that gives rise to an asset, the power of a government to levy taxes and fees must be converted into a right by legal means. Yet, we request the IPSASB to further strengthen its line of reasoning by including a theoretical support for this view.

**Specific Matter for Comment 2:**

- (a) Do you agree with the definition of a liability?
- (b) Do you agree with the description of non-legal binding obligations? If not, how would you modify it?

We agree with the proposed definition of a liability.

Paragraph 3.11 of the CF-ED2 provides four examples of early points in implementing a program or service at which a liability may arise. In addition to the early points exemplified in paragraph 3.11, we suggest that potential points at which a liability may arise, similar to those provided in paragraph 2.8 for a case of assets, should also be provided as follows:

- Claimants meet the eligibility criteria for the service to be provided; and
- Claimants demand that service be delivered.

**Specific Matter for Comment 3:**

Do you agree with the definition of revenue? If not, how would you modify it?

We agree with the proposed definition of revenue.

**Specific Matter for Comment 4:**

Do you agree with the definition of expenses? If not, how would you modify it?

We agree with the proposed definition of expenses.

**Specific Matter for Comment 5:**

- (a) Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not?

- (b) If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the:
- (i) Decision to restrict those definitions to non-exchange transactions? If not, why not?
  - (ii) Definitions of deferred inflows and deferred outflows? If not, how would you modify them?

We generally agree with all of the proposals put forward for deferred inflows and outflows in CF-ED2.

However, we believe that deferred inflows and outflows should not be provided as symmetric elements, since they differ in some aspects, particularly regarding control by an entity over its resources.

That is, since a deferred inflow is “an inflow of service potential or economic benefits provided to the entity for use in a specified future reporting period” as stated in paragraph 5.1 of the CF-ED2, an inflow of service potential or economic benefits is controlled by an entity. On the other hand, in view of the definition in paragraph 5.2 that a deferred outflow is “an outflow of service potential or economic benefits provided to another entity or party for use,” we cannot really say that, in a case of a deferred outflow, an entity controls a service potential or economic benefits.

Therefore, with respect to a use of a deferred outflow, the IPSASB should clarify that a transferor would be able to require a transferee to use the transferred resources in the specified future reporting periods.

**Specific Matter for Comment 6:**

- (a) Do you agree with the terms net assets and net financial position and the definitions? If not, how would you modify the terms and/or definitions?
- (b) Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?
- (c) If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, how would you modify them?
- (d) Ownership interests have not been defined in this Conceptual Framework. Do you

think they should be?
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- (a) We support the IPSASB's efforts to define the term 'net financial position.' However, the term could be misleading in that it reflects deferred items in the calculation of difference between assets and liabilities. That is, deferred items are recorded in the statement of financial position to be recognized in revenue or expenses in the future reporting periods. Accordingly, they do not present the 'financial position' of an entity, and thus IPSASB should reconsider the definition of the term itself.

As an alternative way to define the term, we propose that net assets and net deferred flows be defined as items comprising net financial position, and the definition of ownership interest and minority interests be given in relation to net assets.

- (b) and (c)

We agree with the proposals.

- (d) We believe that the Framework should define ownership interests.

As a premise for setting the definition of ownership interests, we also suggest that the IPSASB considers the scope of ownership for public sector entities.

For example, in public sector accounting, some believe that those who are forced to provide resources, such as taxpayers, should also be considered as the owners of public sector entities. By considering the scope of ownership of public sector entities, together with the definition of ownership interests, we believe that the IPSASB would be able to establish consistent accounting treatments.

#### Comments on paragraph BC47

The statement on net financial position in the latter part of paragraph BC47 seems to be an explanation for net assets.

We are of the view that a positive net financial position resulting from deferred outflows will not represent "the net resources available for providing goods or services in future periods," since an entity does not have control over those resources. Rather, deferred outflows will result in costs in future reporting periods.

On the other hand, deferred inflows mean that an entity has resources that can be used

in specified future reporting periods. Therefore, even if the entity is currently in a negative net financial position as a result of recognizing deferred inflows, the entity has resources that will be recognized as revenue in future periods.

**Specific Matter for Comment 7:**

Do you agree with the discussion on recognition? If not, how would you modify it?

We agree with the discussion on recognition.

We believe that derecognition can also be applied to deferred inflows and deferred outflows. We recommend for the IPSASB to clarify that the case “[W]hen the specified future reporting period occurs,” stated in paragraph 5.5, will not be within the meaning of the derecognition of deferred inflows and deferred outflows.

## II. Other Comments

We believe that the statement on deferred inflows and outflows should come immediately after the explanation about assets and liabilities in the CF-ED2. Then, details on revenue and expenses should be provided, as revenue and expenses contain deferred inflows and outflows in their definitions.

Yours sincerely,

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