The Japanese Institute of

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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 Exposure Draft 49 "Consolidated Financial Statements"

Dear Ms. Fox,

The Japanese Institute of Certified Public Accountants (JICPA) is pleased to comment on Exposure Draft 49 (ED 49) "Consolidated Financial Statements" as follows.

I. Comments on specific matters

Specific Matter for Comment 1: Do you agree with the proposed definition of control? If not, how would you change the definition?

We agree with the proposed definition of control.

In the definition of control in ED 49, "benefits" includes non-financial benefits, and so this may require certain considerations specific to the public sector. If illustrative examples based on actual practices were provided for the purpose of the requirements in paragraph 29, we believe that preparers would more easily understand the non-financial benefits arising from involvement with public sector entities. These examples could be given in the Basis for Conclusions. Similarly, we think that it would be useful if paragraph 28 contained practical examples of what situations would involve "financially control an entity." For example, such practical examples could facilitate discussion as to whether or not to consolidate central banks or local governments in the consolidated financial statements of the national governments.

We think that it would be difficult to determine consolidating accounting treatment based on the proportion of voting rights because ownership interests could not exist in public sector entities. It would be necessary in practice to assume the share of equity by using a certain ratio such as the share of funding or the share from the controlling entity to the total revenue of the controlled entity.

Specific Matter for Comment 2:

Do you agree that a controlling entity should consolidate all controlled entities (except in the circumstances proposed in this Exposure Draft)? If you consider that certain categories of entities should not be consolidated, please justify your proposal having regard to user needs and indicate your preferred accounting treatment for any such controlled entities. If you have any comments about temporarily controlled entities, please respond to Specific Matter for Comment 3.

We agree with the proposals included in ED 49.

Japan has several independent administrative agencies that own majority voting rights in subsidiaries without participating in the decision-making for the subsidiaries in order to develop and foster new industries. In some cases, such agencies have consolidated their subsidiaries based on their legal form. In such cases, the agencies may not have power (or control) over the subsidiaries in accordance with the requirements of ED 49, and so they can not consolidate their subsidiaries as they did in the past. This may give rise to certain implications for our practices.

Specific Matter for Comment 3:

Do you agree with the proposal to withdraw the exemption in IPSAS 6, *Consolidated and Separate Financial Statements* (December 2006) for temporarily controlled entities? If you agree with the withdrawal of the exemption please give reasons. If you disagree with the withdrawal of the exemption please indicate any modifications that you would propose to the exemption in IPSAS 6 (December 2006).

We agree with the proposals included in ED 49. IFRS 10, *Consolidated Financial Statements,* also requires controlled entities to be consolidated, irrespective of whether the control is temporary or not. At the same time, any assets held for sale must be recognized separately in the statement of financial position in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*.

IPSASs do not have any standards equivalent to IFRS 5. Therefore, relevant information on the assets and liabilities of a temporarily controlled entity would not become available from the consolidated financial statements of the controlling entity just by consolidating a controlled entity which the controlling entity temporarily controls. We therefore believe, given the needs of users, that either a standard equivalent to IFRS 5 should be developed or separate disclosure requirements to make this type of information available should be established (such as Exposure Draft 52, *Disclosure of Interests in Other Entities*).

Specific Matter for Comment 4:

Do you agree that a controlling entity that meets the definition of an investment entity should be required to account for its investments at fair value through surplus or deficit?

We basically agree with the proposals included in ED 49. We suggest that the IPSASB consider the more public sector oriented definition (especially in its purpose) of an investment entity as follows.

We suppose that some investment entities in the public sector may define their purpose as fostering entities in specific industrial or regional areas. Therefore, we think the objectives of their investments should be expanded from the currently proposed scope mentioned in paragraph 10 of ED 49: “the purpose of investing funds solely to gain returns from capital appreciation, solely to gain investment revenue, or both.”

Specific Matter for Comment 5:

Do you agree that a controlling entity, that is not itself an investment entity, but which controls an investment entity should be required to present consolidated financial statements in which it (i) measures the investments of the controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 29, *Financial Instruments: Recognition and Measurement*, and (ii) consolidates the other assets and liabilities and revenue and expenses of the controlled investment entity in accordance with this Standard?

Do you agree that the proposed approach is appropriate and practicable? If not, what approach do you consider would be more appropriate and practicable?

We agree with the proposal included in ED 49. As the treatment of the ED in this respect differs from that of the IFRSs, we believe that reasons specific to the public sector should be explained in detail in the Basis for Conclusions (BC). We suggest that the BC should explain why the IFRS approach is impractical for the public sector entities. We think that it would be impractical for the public sector ultimate controlling entity to consolidate the significantly large number of controlled investment entities (which were evaluated at fair value by the controlling investment entities). ED 49 (BC24 through BC26) should explain practical difficulties in preparing both consolidation basis and fair value basis information for large numbers of entities

Specific Matter for Comment 6:

The IPSASB has aligned the principles in this Standard with the Government Finance Statistics Manual 2013 (GFSM 2013) where feasible. Can you identify any further opportunities for alignment?

We believe that the proposals in ED 49 would be sufficient.

Yours sincerely,

Naohide Endo	Azuma Inoue
Executive Board Member	Executive Board Member
Public Sector Accounting and	Public Sector Accounting and
Audit Practice	Audit Practice
JICPA	JICPA