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Ms. Stephenie Fox

Technical Director

International Public Sector Accounting Standards Board

International Federation of Accountants

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Comments on Consultation Paper “IPSASB Strategy Consultation”

Dear Ms. Fox,

The Japanese Institute of Certified Public Accountants (JICPA) is pleased to comment on Consultation Paper “IPSASB Strategy Consultation” (“CP”) as follows.

I. Comments on specific matters

Questions for Respondents 1:

Do you agree with the IPSASB’s tentative view on its strategic objective for the period from 2015 forward? If not, how should it be revised?

We agree with the IPSASB’s tentative view on its strategic objective for the period from 2015 forward.

Questions for Respondents 2:

Do you think that the two outcomes identified are appropriate for achieving the strategic objective? If not, what outcomes do you think are more appropriate?

With respect to Outcome (b), we suggest that the IPSASB concretely shows the “public finance management benefits” by splitting them into the benefits provided by public sector entities inwardly and outwardly. As examples of the internal benefits of adopting the IPSASs, we believe that public sector entities may minimize the cost for achieving their administrative objectives or improving organizational operation.

Questions for Respondents 3:

Do you think that the outputs identified will assist in achieving the outcomes? If not, what outputs do you think the IPSASB should focus on?

Examples of outputs include “undertaking presentations, speeches, and other outreach activities in order to engage with stakeholders.” We suggest that the IPSASB should explain the practical benefits of adopting the IPSASs in its outreach activities.

CP identified “high-quality financial reporting standards” in Output (a). We think that quality needs to be shown in the context of the benefits provided by implementation of the IPSASs.

Questions for Respondents 4:

What changes to feedback mechanisms should the IPSASB make to ensure it is fully informed about the views of its stakeholders?

We suggest that the IPSASB should develop a standard policy for outreach activities undertaken to engage with stakeholders, rather than having the IPSASB board members individually implement such activities through their own methods.

Questions for Respondents 5:

Do you agree with the five key factors the IPSASB considers in deciding to initiate a project and assessing its priority? Are there other factors you think should be considered?

We agree with the five key factors.

Questions for Respondents 6:

Do you think the Cash Basis IPSAS is a valuable resource in strengthening public finance management and knowledge globally by increasing the adoption of accrual-based IPSASs?

We do not think the Cash Basis IPSAS is a valuable resource because we feel that the very limited adoption of the Cash Basis IPSAS limits its contribution to improving public finance management.

Questions for Respondents 7:

Of the three options identified in relation to the Cash Basis IPSAS, which would you recommend the IPSASB select? Please provide the rationale for your recommendation.

We would select Option (c). The IPSASB does not need to address the Cash Basis IPSAS by allocating limited time and human resources to it. If there is a need for the Cash Basis IPSAS, other international organizations should address it.

Questions for Respondents 8:

Considering the various factors and constraints, which projects should the IPSASB prioritize and why? Where possible please explain your views on the description and scope of the project.

We recommend that the following projects should be given priority.

1. Projects to Address Public Sector Specific Issues

(1) Heritage assets

The Japanese central government and many local governments own heritage assets, including museums and historically valuable structures. This is also the case for not-for-profit entities such as public interest corporations. There are no authoritative rules in private sector accounting standards for these heritage assets. We therefore

believe that the development of recognition and measurement standards for heritage assets should be given priority. If recognition and measurement requirements for heritage assets are discussed in detail, awareness of the IPSASs as benchmark standards is certain to be enhanced.

(2) Infrastructure assets

Public sector entities hold many infrastructure assets, and compared to other assets they hold, many of these assets have more qualitative and quantitative materiality. Measuring the service potential of numerous infrastructure assets that do not directly generate revenue (e.g.: roads, river and sea banks, harbor facilities, bridges, and tunnels) is a critical challenge.

Going forward, many issues related to aging and obsolete infrastructure built up during earlier decades of development are certain to emerge as conspicuous problems in many jurisdictions around the world. To address these problems, estimates for the renewal and reconstruction of this infrastructure will be essential. The recognition, measurement, and depreciation of these infrastructure assets may have significant effects on the accuracy of government estimates for renewal and reconstruction.

We believe that there are a lot of other issues to be addressed, including the evaluation of gratis transfer and the adoption of the replacement approach for network assets such as railroads.

As we stated in our comments on “Consultation on IPSASB Work Program 2013-2014,” the current status of accounting for infrastructure assets should be investigated and the needs of the users of financial information should be analyzed in order to assess whether an accounting treatment different from that for ordinary fixed assets will be required.

(3) Measurement – public sector specific

Several relatively detailed measurement approaches have now been developed and defined in the measurement section of the Conceptual Framework, and a measurement approach to be applied to the IPSASs is expected to finally be developed. If the details

of the measurement approach are defined separately in the respective standards (or are left undefined), practical application of the measurement approaches may vary on a standard basis, even though the name of the approach is the same (e.g.: fair value). We think disclosures of the measurement approach should be described in a comprehensive standard rather than being described and defined separately in different standards. One description in a comprehensive standard would be certain to improve consistency and contribute to the enhanced understanding of users. We believe that a measurement project specific to the public sector should be prioritized.

Since the fair value measurement is a representative measurement approach for the International Financial Reporting Standards (IFRSs), the respective standards apply the fair value measurement approach. However, measurement approaches specific to financial instruments, such as the amortized cost method, are only within the scope of International Accounting Standard (IAS) 39, *Financial Instruments: Recognition and Measurement*. For measurement approaches specific to the public sector, approaches applied by several standards should be adopted.

(4) Natural resources

Natural resources are issues specific to the public sector. The development of an aligned standard for assessing the value of natural resources whose assessments differ across jurisdictions would be useful, as it would enhance the comparison among jurisdictions.

(5) Non-exchange expenses

The financial results of public sector entities may differ depending on whether they defer the recognition of non-exchange transaction expenses under government grants as their effect arises. Since each public sector entity is expected to carry out non-exchange transactions, the effect of accounting for non-exchange transaction expenses would be significant.

As the Conceptual Framework allows the recognition of some debit-side items such as those similar to deferred assets, discussions of government grant disbursement, etc. (e.g.: investments, deferred assets, and expenses) should be prioritized and finalized.

2. Projects to Maintain Existing IPSASs

(1) Construction Contracts (IPSAS 11) and Revenue (IPSAS 9)

In May 2014, the International Accounting Standards Board (IASB) issued IFRS 15, *Revenue from Contracts with Customers*. The interpretation of construction contracts is therefore expected to change significantly. The IPSASB should undertake the deliberations and discussions necessary to ensure consistency with the IFRS.

In our view, these two projects can be considered “Projects to converge with IFRS” rather than “Projects to Maintain Existing IPSASs.”

If they are treated as “Projects to converge with IFRS,” they should ideally be projects to develop standards containing IPSASs 9 and 11.

IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, which is a standard for revenue recognition by public sector entities, should be developed independently for the following reasons

- 1) The revenue recognition flow significantly differs from that under IPSASs 9 and 11.
- 2) We think it is appropriate that IPSAS 23 provides an accounting treatment for deferred items now under consideration in the context of “Elements and Recognition in Financial Statements” as Phase 2 of the Conceptual Framework.

Yours sincerely,

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