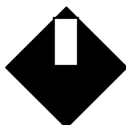

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July 31, 2009

Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto Ontario Canada M5V 3H2

Comments on the Proposed International Public Sector Accounting Standard, "Financial Instruments: Presentation"

Dear Sir:

The Japanese Institute of Certified Public Accountants (JICPA) is pleased to comment on the Proposed International Public Sector Accounting Standard, "Financial Instruments: Presentation" (the "ED"), as follows:

On "Specific Matters for Comment"

1. ED 37 allows entities to treat financial guarantee contracts issued through an exchange transaction as insurance contracts if the issuer elects to recognize and measure them in accordance with the international or national accounting standard dealing with insurance contracts. However, all financial guarantee contracts issued at no or nominal consideration are required to be treated as financial instruments. Do you agree with this approach? Please state your reasons for either agreeing or disagreeing with this approach.

We agree with this approach. The reason is as follows.

Firstly, it is consistent to treat financial guarantee contracts issued through an exchange transaction as insurance contracts if the issuer elects to recognize and

measure them in accordance with the international or national accounting standard dealing with insurance contracts, by electing to apply either IAS39 or IFRS 4 to financial guarantee contracts at paragraph 2 in IAS39 "Financial Instruments: Recognition and Measurement", and it is not necessary to depart from IAS39 because a public sector specific reason does not exist.

At paragraph 15 in IFRS4, an insurer shall assess at the end of each reporting period whether its recognized insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If the national accounting standard dealing with insurance contracts does not require that an insurer apply such a liability adequacy test, an insurer's recognized insurance liabilities may not be adequate. Therefore, when an insurer elects to recognize and measure financial guarantee contracts in accordance with the national accounting standard dealing with insurance contracts, IPSASs require that an insurer shall apply a liability adequacy test.

Secondly, if an insurer elects to recognize and measure financial guarantee contracts issued at no or nominal consideration in accordance with the national accounting standard dealing with insurance contracts, the national accounting standard allows an insurer to treat them differently in different jurisdictions because there is no consensus about the accounting treatment, compared with those of financial guarantee contracts issued through an exchange transaction. This is the reason why it is rational to treat such financial guarantee contracts as financial instruments. Also, the so-called "law of large numbers", which in effect states that as the number of exposure units increases, the actual results are increasingly likely to become close to expected results, is applicable to insurance contracts, and according to the "law of large numbers", an insurer estimates the amount paid out in claims and the amount of premiums collected during the insurance term. This isn't the case for financial guarantee contracts issued at no or nominal consideration by public sector entities. Therefore, it is rational that an insurer of such a contract shall recognize a provision and measure the expenditure required to settle the present obligation on the reporting date at paragraph 49 in ED38.

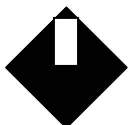
However, in order to make the accounting treatment clear, it is defined as "a financial guarantee contract not through an exchange transaction" rather than "a financial guarantee contract issued at no or nominal consideration".

2. The transitional provisions to ED37 do not provide any relief for entities initially adopting accrual accounting from preparing and presenting comparative information. Do you support this proposal? If additional transitional provisions are necessary, please

indicate what these should be and state your reasons.
We support this proposal.

Yours sincerely,

Yasuo Kameoka
Executive Board Member ― Public Sector Accounting and Audit Practice
The Japanese Institute of Certified Public Accountants
Takao Kashitani
Executive Board Member ― Public Sector Accounting and Audit Practice
The Japanese Institute of Certified Public Accountants



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July 31, 2009

Technical Director
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277 Wellington Street West
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Comments on the Proposed International Public Sector Accounting Standard, "Financial Instruments: Recognition and Measurement"

Dear Sir:

The Japanese Institute of Certified Public Accountants (JICPA) is pleased to comment on the Proposed International Public Sector Accounting Standard, "Financial Instruments: Recognition and Measurement" (the "ED"), as follows:

On "Specific Matters for Comment"

1. Do you agree with the Application Guidance relating to the issuer of concessionary loans (paragraphs AG83 to AG89), in particular:
(a) The requirement that any difference between the transaction price of the loan and fair value of the loan at initial recognition should be expensed;
(b) The distinction between concessionary loans and the waiver of debt?
If you do not agree with the Application Guidance please give your preferred alternative approach and state your reasons.

We agree with this Application Guidance. The reason is as follows.

If only the interest arising from a concessionary loan, which is granted by an entity at below market terms, is recognized as a revenue and the cost related to a concessionary loan is not

recognized as an expense, such an accounting treatment does not reflect the fact that an entity grants a concessionary loan to deliver social benefits, compared with a grant.

However, the IPSASB should consider the substance of this cost, which is the difference between the transaction price of the loan and the fair value of the loan at initial recognition.

This cost admits of two interpretations. Firstly, this cost may be considered as an impairment loss because an entity grants a concessionary loan at below market terms, which corresponds to the credit risk of the borrower, and the interest rate of this loan does not correspond to the credit risk of the borrower. Secondly, this cost, which is the difference between the transaction price of the loan and the fair value of the loan at initial recognition, may be considered as a social benefit because an entity grants a concessionary loan at below market terms rather than make a grant in order to achieve the policy target. In the latter interpretation, when a borrower continuously meets a requirement to lend a concessionary loan at below market terms during the loan period, it may be rational that the entity shall recognize this cost as an expense on a systematic basis over the loan period.

Therefore, the IPSASB should consider the substance of the cost, which is the difference between the transaction price of the loan and the fair value of the loan at initial recognition, and whether it is necessary for an entity to recognize this cost as an expense on a systematic basis over the loan period.

Consider that a public institution grants a concessionary loan at below market terms and the national government makes a grant to make up for the amount between the market rate of interest and the loan's interest rate. In this case, the IPSASB should consider whether a public institution shall determine the fair value of the loan at initial recognition, with a grant received by the national government, or a public institution shall distinguish between granting a concessionary loan at below market terms and receiving a grant from the national government, and, in which case, IPSAS 23 "Revenue from Non-Exchange Transactions (Taxes and Transfers) applies to this grant.

2. Do you agree with the Application Guidance relating to financial guarantees provided for nil or nominal consideration (paragraphs AG91 to AG96), in particular that entities should apply a mathematical valuation technique to obtain a fair value where this produces a reliable measure of fair value? Alternatively, where a fair value cannot be obtained through observation of an active market, do you think that initial recognition should be in accordance with IPSAS 19, "Provisions, Contingent

Liabilities and Contingent Assets"? Please state your reasons.

We agree with the Application Guidance relating to financial guarantees provided for nil or nominal consideration (paragraphs AG91 to AG96). Also, we agree with this proposal that entities should apply a mathematical valuation technique to obtain a fair value where a fair value cannot be obtained through observation of an active market and a mathematical valuation technique produces a reliable measure of fair value. The reason is as follows.

When financial assets or financial liabilities other than financial guarantees provided for nil or nominal consideration are recognized initially at a fair value, entities should apply a mathematical valuation technique to obtain a fair value where a fair value cannot be obtained through observation of an active market. We cannot think of any positive reason why entities need not apply a mathematical valuation technique to determine the fair value of financial guarantees provided for nil or nominal consideration.

3. Do you agree with the transitional provisions in paragraphs 114 to 123? If you do not agree with these transitional provisions please indicate further transitional provisions that are necessary, or those transitional provisions that are unnecessary. Please state your reasons.

We agree with the transitional provisions in paragraphs 114 to 123.

Yours sincerely,

Yasuo Kameoka
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The Japanese Institute of Certified Public Accountants
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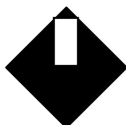

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Comments on the Proposed International Public Sector Accounting Standard, "Financial Instruments: Disclosures"

Dear Sir:

The Japanese Institute of Certified Public Accountants (JICPA) is pleased to comment on the Proposed International Public Sector Accounting Standard, "Financial Instruments: Disclosures" (the "ED"), as follows:

On "Specific Matters for Comment"

1. The IPSASB considered all of the required disclosures in IFRS 7 to assess whether any disclosures should be deleted for public sector specific reasons. Examples of disclosures specifically considered include sensitivity analyses and collateral. The IPSAS concluded that there is no public sector specific reason to depart from the requirements of IFRS 7 by deleting any disclosures. Do you agree?

We agree with this proposal.

Yours sincerely,

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