The Japanese Institute of
Certified Public Accountants
4-4-1, Kudan-Minami, Chiyoda-ku, Tokyo 102-8264, Japan
Phone: 81-3-3515-1130 Fax: 81-3-5226-3356
E-mail: international@jicpa.or.jp
http://www.jicpa.or.jp/n_eng

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: 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
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