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Technical Director

International Public Sector Accounting Standards Board

International Federation of Accountants

277 Wellington Street West

Toronto, Ontario, Canada M5V 3H2

**Comments on the Consultation Paper “Reporting on the Long-Term
Sustainability of Public Finances”**

Dear Sir:

The Japanese Institute of Certified Public Accountants (“JICPA”) is pleased to comment on the Consultation Paper “Reporting on the Long-Term Sustainability of Public Finances”, as follows:

On “Request for Comments, Preliminary View 1 to 7”

1. The presentation of information on long-term fiscal sustainability is necessary to meet the objectives of financial reporting (accountability and decision-making), as proposed in the IPSASB’s Consultation Paper, “Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities,” issued in September 2008

(Section Two).

We agree with this preliminary view because of the following reasons.

The accountability and decision-making objectives of financial reporting are closely related with the information requirements of users of financial reports. In our view, information related to long-term fiscal sustainability is one of the most important to fulfill the objectives of financial reporting. This is due to the fact that the information is required by a potentially wide range of users to determine whether or not a government has the ability to meet its service delivery and financial commitments, both now and in the future.

We consider that the information related to long-term fiscal sustainability should be provided to the extent required to meet the qualitative characteristics of financial reporting. In our view, further discussion is required to clarify the actual period of “long-term”. IPSASB should consider whether the length of the period determines the extent to which would meet the qualitative characteristics of financial reporting, especially relevance and faithful representation, and reach a conclusion on whether a single report on the long-term sustainability of public finances or a greater number of such reports separated by the length of the period are required.

2. IPSASB guidance should recommend that long-term fiscal sustainability information in GPFRs be presented either through:
 - additional statements providing details of projections; or
 - summarized projections in narrative reporting (Section Three).

We agree with this preliminary view because of the following reasons.

Information concerning long-term fiscal sustainability is vitally important information to be disclosed in terms of fulfillment of governmental accountability, decision-making by citizens, etc.; therefore, governments should provide users of financial reports with its own reports on projections, rather than just providing cross-reference information.

We agree that long-term fiscal sustainability information in GPFRs be permitted to be presented through summarized projections in narrative reporting, as well as through additional statements providing details of projections because of the following reasons.

- (a) It is sometimes difficult for some local governments, public sector entities, and other organizations where revenue depends on grants from higher-ranking governments, to prepare their own long-term detailed fiscal projections.
 - (b) In countries and regions that are not used to disclosure of fiscal sustainability information, long-term and detailed fiscal projections by governments may be misunderstood as showing definite commitment, similar to that of formal budgets.
3. IPSASB guidance should be based on the concept of the reporting entity and should provide recommended practice for consolidated reports presented by all levels of government (Section Four).

We do not agree with this preliminary view because of the following reasons. Based on the concept of the reporting entity, if the scope of long-term fiscal sustainability reporting and that of general financial reporting were to be the same, this may help users' understanding of financial reports. We consider that more discussion is required to determine whether or not consolidated reports, based on the concept of the reporting entity and presented by all levels of government, meet the information needs of users, and fulfill the accountability and decision-making objectives of financial reporting. We want to stress the need for a requirement of combined long-term fiscal sustainability reports of the central government and local governments, in case of countries that are not producing consolidated financial reports of the central government and local governments, because the central government does not control the local governments, with respect to accountability and decision-making.

4. IPSASB guidance should recommend that long-term fiscal sustainability indicators be selected based on (a) their relevance to the entity, (b) the extent to which the indicators meet the qualitative characteristics of financial reporting, and (c) their ability to describe the scale of the fiscal challenge facing the entity. It should also recommend that comparative information be provided and that the reasons for ceasing to report indicators, if this occurs, are disclosed (Section Five).

Regarding the preliminary view, we do not agree to include the ability to describe the scale of the fiscal challenge facing the entity in the the selection of long-term fiscal sustainability indicators.

One reason for our objection is that this is not included in the qualitative characteristics of information in the “Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities”; therefore, the basis for the inclusion is not clear. A second reason is that, despite the fact that long-term fiscal sustainability is defined as the ability of a government to meet its service delivery and financial commitments both now and in the future, if long-term fiscal sustainability indicators be selected based on their ability to describe the scale of the fiscal challenge facing the entity, only the financial commitment will be emphasized, and information related to service delivery commitment will not be disclosed.

We agree with the remainder of this preliminary view.

5. IPSASB guidance on long-term fiscal sustainability reporting in GPFRs should recommend that the entity disclose:
 - any deviations from the principle that long-term fiscal sustainability projections are based on current policy;
 - the basis on which projections of inflows from taxation and other material revenue sources have been made;
 - any other key assumptions underpinning long-term fiscal sustainability projections; and
 - details of key aspects of governing legislation and regulations, and the underlying macro-economic policy and fiscal framework (Section Six).

We agree with this preliminary view.

The IPSASB should consider the recommendation of disclosure of projections based on more than one scenario. This is because long-term fiscal sustainability reports are based on several assumptions; therefore, disclosure of projections assuming only one scenario may not meet the qualitative characteristics of faithful representation.

The IPSASB should also recommend disclosure of long-term fiscal sustainability projection for each major policy.

6. IPSASB guidance on long-term fiscal sustainability reporting in GPFRs should recommend that the entity disclose:
 - time horizons for fiscal sustainability projections presented or discussed in the GPFRs, as well as the reason for modifying time horizons and any published plans to modify those horizons;
 - discount rates, together with the reason for their selection;
 - results of key sensitivity analyses; and
 - steps taken to ensure that projections are reliable (Section Seven).

We agree with this preliminary view.

The IPSASB should recommend disclosure of the following information.

- (a) In addition to the results of key sensitivity analyses, information should be disclosed that enables users of financial reports to conduct sensitivity analyses. The reason for this is that for fiscal sustainability reports, which contain a lot of projections, the provision of information that enables critical analyses and recalculations is considered to be more important than the reliability of projections.
- (b) There should be inclusion of results of comparison between historical and current projections and the analyses. The reason for this is that if the results of comparison between historical and current projections and the analyses of such are disclosed, in addition to current projections, users of financial reports

will be able to understand the causes of the changes in the projections, thus providing more relevant information.

7. IPSASB guidance on long-term fiscal sustainability reporting in GPFRs should recommend that (a) the underlying projections should have been prepared or updated within five years of the reporting date, and (b) the date of preparation or update should be disclosed (Section Seven).

We agree with this preliminary view.

Yours sincerely,

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