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

Comments on "Public Sector Specific Financial Instruments"

Dear Mr. Stanford,

The Japanese Institute of Certified Public Accountants (JICPA) appreciates the continued efforts of the International Public Sector Accounting Standards Board on this project, and is pleased to comment on Consultation Paper "Public Sector Specific Financial Instruments" as follows.

I Comments related to Chapter 2 of this CP

Preliminary View - Chapter 2 (following paragraph 2.9)

Definitions are as follows:

(a) **Monetary authority** is the entity or entities, including the central bank or a department(s) of the central (national) government, which carry out operations usually attributed to the central bank.

(b) **Reserve assets** are those external assets held by monetary authorities that are readily available for balance of payments financing needs, intervention in the currency markets to affect exchange rates and maintaining confidence in the currency and the economy.

Do you agree with the IPSASB's Preliminary View – Chapter 2?

(a) We agree with the IPSASB's preliminary view on the definition of "Monetary authority."

(b) As Balance of Payments and International Investment Position Manual Sixth Edition (BPM6) notes in paragraph 6.64 "and serving as a basis for foreign borrowings," which underlies the proposed definition of "Reserve assets." Why is this wording omitted from the proposed definition of "Reserve assets"?

II Comments related to Chapter 3 of this CP

Preliminary View - Chapter 3-1 (following paragraph 3.10)
Definition is as follows: (a) **Currency in Circulation** is physical notes and coins with fixed and determinable values that are legal tender issued by, or on behalf of the monetary authority, that is, either that of an individual economy or, in a currency union to which the economy belongs. Do you agree with the IPSASB's Preliminary View ‐ Chapter 3-1?

We agree with the IPSASB's preliminary view.

Preliminary View - Chapter 3-2 (following paragraph 3.30)
(a) Notes and coins (currency) derive value because they are legal tender and accepted as a medium of exchange and therefore serve the same purpose and function in the economy. As the purpose and function of notes and coins is the same, the IPSASB s view is the accounting treatment should be consistent for both (as noted in paragraph 3.12), with the recognition of a liability when issued. Do you agree with the IPSASB's Preliminary View ‐ Chapter 3-2?

We agree with the IPSASB's preliminary view.

Specific Matters for Comment - Chapter 3-1 (following paragraph 3.43)
(a) When the monetary authority assesses that a present obligation does not exist as a result of the issuance of currency, because of the absence of a legal or non-legally binding obligation (approach 1), it results in the recognition of revenue (approach 2), please explain your view and your thoughts on what is the appropriate financial statement in which to recognize revenue: (i) Statement of financial performance; or (ii) Statement of net assets/equity? Please provide the reasons for your support of your preferred option, including the conceptual merits and weaknesses; the extent it addresses the objectives of financial reporting and how it provides useful information to users.

Considering the merits and weaknesses mentioned below, we place more weight on the merit of the approach to recognize revenue from the issuance of currency in the statement of financial performance as it would satisfy the qualitative characteristics of faithful representation and achieve consistency with the other IPSASs. We therefore believe that it would be appropriate to recognize revenue in the statement of financial performance.

The following table enumerates the respective merits and weaknesses we find with respect to the statement of financial performance and statement of net assets/equity.

	Merits	Weaknesses
Statement of financial performance	- Faithful representation would be achieved by presenting revenue items which meet the definitions prescribed in the Conceptual Framework. - As other revenue items are presented in the statement of financial performance, it would be consistent with the requirements of the other IPSASs. - It would be consistent with the accounting treatment by which currency manufacturing costs are recognized as an expense in the statement of financial performance.	- A currency authority may intentionally increase the volume of currency issued to pretend the financial performance better. - This may reflect the revenue from issuance of currency in politically unusual scenarios without binding obligations in the statement of financial performance.
Statement of net assets/equity	- The ordinary operational results of an entity would be presented in the statement of financial performance by excluding the revenue from the issuance of currency from the current performance results, thus improving both the understandability and comparability of the statement of financial performance. - A faithful representation may be achieved as the arbitrary influence of a currency authority over performance results would be eliminated.	- If revenue was presented in the statement of net assets/equity, consistency with the other IPSASs would not be achieved. - It would not be consistent with the accounting treatment by which currency manufacturing costs are recognized as an expense in the statement of financial performance.

III Comments related to Chapter 4 of this CP

Preliminary View - Chapter 4 (following paragraph 4.14)

Definitions are as follows:

(a) **Monetary gold** is tangible gold held by monetary authorities as reserve assets.

(b) **Tangible gold** is physical gold that has a minimum purity of 995 parts per 1000.

Do you agree with the IPSASB's Preliminary View ‐ Chapter 4?

(a) We agree with the IPSASB's preliminary view on the definition of "Monetary gold."

(b) BPM6 notes in paragraph 6.78 "unallocated gold accounts with nonresidents that give title to claim the delivery," which underlies the proposed definition of "Tangible gold". Why is this wording omitted from the proposed definition of "Tangible gold"?

Specific Matters for Comment - Chapter 4-1 (following paragraph 4.50)

(a) Should entities have the option to designate a measurement basis, based on their intentions in holding monetary gold assets (as noted in paragraphs 4.5-4.6)?

Please provide the reasons for your support for or against allowing an option to designate a measurement basis based on intentions.

As described in paragraph 2.4 of CP, monetary authorities have various intentions in holding of monetary gold assets under the mandate they burden. We believe that it would be an adequate measure for the monetary policy to allow monetary authorities to select a measurement basis based on the substance of holding monetary gold assets, rather than their intentions in holding them.

To preclude arbitrariness, we believe that measurement basis should not be changed unless the substance of holding monetary gold assets is changed. International Financial Reporting Standard (IFRS) 9, *Financial Instruments* uses the reference to the "business model" of an entity for the management of financial assets. Note that the IFRS 9 avoids any reference to "intention" (IFRS 9 paragraph 4.1.2A and paragraph B4.1.2).

Specific Matters for Comment - Chapter 4-2 (following paragraph 4.50)
(a) Please describe under what circumstances it would be appropriate to measure monetary gold assets at either: i. Market value; or ii. Historical cost? Please provide reasons for your views, including the conceptual merits and weaknesses of each measurement basis; the extent to which each addresses the objectives of financial reporting; and how each provides useful information. If you support measurement based on intentions as discussed in SMC 4-1, please indicate your views about an appropriate measurement basis for each intention for which monetary authorities may hold monetary gold, as discussed in paragraph 4.5 (i.e., intended to be held for its contribution to financial capacity because of its ability to be sold in the global liquid gold trading markets, or intended to be held for an indeterminate period of time).

We believe that the measurement bases should be divided into the following categories according to the substance of holding monetary gold assets:

(1) Market value would be appropriate when monetary gold assets are held for market interventions or when monetary gold assets are the assets which support convertible paper money, even if held on a long-term basis.

(2) Historical cost could be permitted when monetary gold assets are held on a long-term basis and there are no corresponding liabilities.

The following table enumerates conceptual merits and weaknesses we find with respect to the market value and historical cost bases.

	Merits	Weaknesses
Market value	- Easily available. - Objective. - Comparable with other countries.	- Financial performance is affected by fluctuations in the market value of gold assets.
Historical cost	- Comparable with different periods within a country. - Financial performance is not affected by fluctuations in the market value of gold assets.	- Incomparable with other countries - Deviation from market value.

IV Comments related to Chapter 5 of this CP

Preliminary View - Chapter 5-1 (following paragraph 5.12) Definitions are as follows: (a) The **IMF Quota Subscription** is the amount equal to the assigned quota, payable by the member on joining the IMF, and as adjusted subsequently. (b) **SDR Holdings** are International reserve assets created by the IMF and allocated to members to supplement reserves. (c) **SDR Allocations** are obligations which arise through IMF member`s participation in the SDR Department and that are related to the allocation of SDR holdings. Do you agree with the IPSASB's Preliminary View ‐ Chapter 5-1?

We agree with the IPSASB's preliminary view.

Preliminary View - Chapter 5-2 (following paragraph 5.33) The IPSASBs view is that: (a) The IMF Quota Subscription satisfies the Conceptual Framework definition of an asset and should be recognized, with initial measurement at historical cost. Subsequent measurement may be at historical cost when the translated value of the quota subscription equals the cumulative resources contributed to the IMF, when it does not it should be measured at net selling price. (b) SDR holdings satisfy the Conceptual Framework definition of an asset and should be recognized, with measurement at market value. (c) SDR allocations satisfy the Conceptual Framework definition of a liability and should be recognized, with measurement at market value. Do you agree with the IPSASB's Preliminary View ‐ Chapter 5-2?

(a) We assume that in many countries the translation value of the IMF Quota Subscriptions might differ from the cumulative resources contributed to the IMF. This point needs to be confirmed. When they are different, the net selling price should be uniformly used as the measurement basis for the subsequent measurement.

(b)&(c) We agree with the IPSASB's preliminary views on SDR holdings and SDR allocations.

Yours sincerely,

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