December 28, 2017

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 the Exposure Draft 62 “Financial Instruments”

Dear Mr. Stanford,

The Japanese Institute of Certified Public Accountants (JICPA) is pleased to comment on the Exposure Draft 62 “Financial Instruments” as follows.

We comment not only on the Specific Matters for Comment but also on additional concerns in “Other Matters”.
Specific Matter for Comment 1:

Consistent with the relief provided in IFRS 9, the IPSASB has agreed in [draft] IPSAS [X] (ED 62) to allow an option for entities to continue to apply the IPSAS 29 hedging requirements. Do you agree with the IPSASB’s proposal?

We agree with the IPSASB’s proposal. It is possible that in some jurisdictions controlled entities of economic entities include financial institutions that apply macro hedge. Since IPSASs do not prescribe any requirements on macro hedge, the IPSASB should allow entities to continue to apply provisions for hedge accounting in the existing IPSAS 29, “Financial Instruments: Recognition and Measurement.”

Specific Matter for Comment 2:

The IPSASB recognizes that transition to the new standard [draft] IPSAS [X] (ED 62) may present implementation challenges as a result of the number of significant changes proposed. Therefore, the IPSASB intends to provide a 3 year implementation period until [draft] IPSAS [X] (ED 62) is effective (early adoption will be permitted). Do you agree with the proposed 3-year implementation period before [draft] IPSAS [X] (ED 62) becomes mandatory? Please explain.

We agree with the IPSASB’s proposal.

Specific Matter for Comment 3:

Do you agree with the proposed transition requirements in paragraphs 153-180, consistent with those provided in IFRS 9? If not, what specific changes do you recommend and why?

We agree with the IPSASB’s proposal.
Other Matters

1. Paragraph 45(d), AG118–AG124 in the Exposure Draft

The Exposure Draft stipulates that commitments to provide a loan at a below-market interest rate (paragraph 45(d), described as a concessionary loan in and after AG 122) be subsequently measured at the higher of:

(i) (negative) fair value in the initial recognition, and subsequently the amount of the loss allowance determined in accordance with the expected credit loss model (paragraphs 71–90)

(ii) The amount initially recognized less, when appropriate, the cumulative amount of amortization recognized in accordance with the principles of IPSAS 9, “Revenue from Exchange Transactions” (hereafter IPSAS 9)

On the other hand, AG 122 and 123 provide the accounting treatment at the time of granting or receiving a concessionary loan (i.e. “after” the issuance of a commitment): an entity is required to assess whether the substance of the concessionary loan is in fact a loan, a grant, a contribution from owners or a combination thereof.

Considering that a loan is granted or received after the commitment is issued, the accounting treatment of breaking down into the above components should be adopted after the reversal of the loss allowance (paragraph 45(d) in the Exposure Draft) recognized when the commitment is issued. From the practical point of view, we regard the above accounting treatments are highly cumbersome and not realistic.

Consequently, we propose that the treatment of concessionary loans provided in AG118–AG124 should be integrated into paragraphs, including 45(d), and that the treatment of breaking down into the above components when the loan is granted or received be not adopted.


(1) In connection with reclassification adjustment, IPSAS 1, “Presentation of Financial Statements (hereafter IPSAS 1)” is referred to in paragraph 108 in the Exposure Draft. However, pertinent paragraphs in IPSAS 1 are not specified. It should be explicitly articulated in this Standard whether all or part of paragraph 125(a)–125(c) proposed in the Exposure Draft correspond to them.
(2) It is stipulated in paragraph 108 in the Exposure Draft that the cumulative surplus or deficit previously recognized in net assets/equity be reclassified to surplus or deficit as a reclassification adjustment. We would like to confirm that items recognized in net assets/equity are to be recycled into items of a statement of financial performance. We also consider that, in cases where such recycling is adopted, recycling should be prescribed in the body text of this Standard with its treatment clearly illustrated with examples or other means.

3. Paragraph 123 (b) in the Exposure Draft

In order to clarify the context of the below paragraph 123 (b) in the Exposure Draft, the IPSASB should reexamine whether “the investments of a controlled investment entity” needs to be replaced with other expressions, such as “its subsidiaries.”

【Textual Quotation】

(b) The consolidated financial statements of a controlling entity of an investment entity, as defined in IPSAS 35 that is not itself an investment entity, where transactions between a controlled investment entity and the investments of a controlled investment entity measured at fair value through surplus or deficit will not be eliminated in the consolidated financial statements.

4. Paragraph 131 in the Exposure Draft

The underlined part in the below paragraph 131 in the Exposure Draft seems to be an omission. We consider it needs to be examined.

【Textual Quotation】

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio (see paragraph 126(c) (iii)) but the risk management objective for that designated hedging relationship remains the same, an entity shall adjust the hedge ratio of the hedging relationship so that it meets the qualifying criteria again (this is referred to in this Standard as ‘rebalancing’—see paragraphs AG297–AG311).

5. Paragraph 137 (d) (ii) With Regard to the Recycling of Cash Flow Hedges

(1) In connection with reclassification adjustment, IPSAS 1, “Presentation of Financial Statements” is referred to in paragraph 137 (d) (ii) in the Exposure Draft. However, the
pertinent paragraphs in IPSAS 1 are not specified. It should be explicitly articulated in this Standard whether all or part of paragraph 125(a)–125(c) in the Exposure Draft correspond to them.

(2) It is stipulated in paragraph 137(d) (ii) in the Exposure Draft that the cumulative surplus or deficit previously recognized in net assets/equity be reclassified to surplus or deficit as a reclassification adjustment. We would like to confirm that items recognized in net assets/equity are to be recycled into items of a statement of financial performance. We also consider that, in cases where such recycling is adopted, recycling should be prescribed in the body text of this Standard with its treatment clearly illustrated with examples and other means.

6. **Paragraph 146 in the Exposure Draft**

Although, in paragraph 146 in the Exposure Draft, the financial statement where hedged risk is recorded is described as “the statement of surplus or deficit and net assets/equity,” we think it should be restated “the statement of financial performance” and “the statement of changes in net assets/equity.”

【Textual Quotation】

146. For a hedge of a group of items with offsetting risk positions (i.e., in a hedge of a net position) whose hedged risk affects different line items in the statement of surplus or deficit and net assets/equity (skip the rest)

7. **AG33 in the Exposure Draft “Securitization Schemes”**

While AG33 in the Exposure Draft stipulates that securitization schemes be treated in accordance with IPSAS 9, we consider it appropriate that they be addressed within the Exposure Draft if they would be traded in the securities markets after securitization. We also consider that it should be confirmed that the securitization schemes are examined in the revenue project.

8. **AG125—AG127 in the Exposure Draft “Equity Instruments Arising from Non-Exchange Transactions”**

(1) The above articles in the Exposure Draft require that, at initial recognition of equity instruments arising from non-exchange transactions, an entity assesses whether the cash
provided in full or in part is in substance a grant. However, as the definition of “grant” might vary depending on jurisdictions, we propose that the IPSASB should provide explanation as to in which cases a transaction corresponds to a grant, or is not a capital transaction.

(2) It is appropriate to provide guidance as to the classification of equity instruments that are characteristic of public sector accounting, such as investments without equity interest. We can exemplify Japanese contribution to public interest incorporated foundations. Although the contribution does not arise equity interest, it may be classified as equity instruments. Because on the dissolution of the foundation, it is to be transferred to the other relevant foundations or to be refunded to the national treasury. We consider it useful to provide guidance on these investments from the viewpoint of increasing their comparability.


In the below example in the Exposure Draft, it is provided that the difference between the amount of borrowing and the discounted present value be booked as liability or non-exchange revenue. As we consider that the difference does not satisfy the definition of liability, it needs to be examined whether the difference is to be booked as liability. Further, if the difference is booked as revenue, we consider that its appropriateness should be examined in conjunction with the Consultation Paper, “Accounting for Revenue and Non-exchange Expenses”.

IE155. The journal entries to account for the concessionary loan are as follows:

1. On initial recognition, the entity recognizes the following:

<table>
<thead>
<tr>
<th>Dr</th>
<th>Bank</th>
<th>5,000,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cr</td>
<td>Loan (refer to Table 2 below)</td>
<td>4,215,450</td>
</tr>
<tr>
<td>Cr</td>
<td>Liability or non-exchange revenue</td>
<td>784,550</td>
</tr>
</tbody>
</table>

10. IE161 Example 21 in the Exposure Draft The Revision of the Example of “Concessionary Loan”

(1) With reference to the exercise in the fair value model in IE161 Example 21 in the Exposure Draft, we think the IPSASB should add supplementary explanation for the
assessment process of classifying the financial asset. We concern that the current description might cause misunderstanding as if all the financial instruments under the same conditions would apply Scenario 2: “Fair Value through Surplus/Deficit”.

(2) As what should be entered in the debit (credit) column is entered in the credit (debit) column in the below journal entry in IE161 Example 21 in the Exposure Draft, it should be reversed.

\[
\begin{align*}
\text{Dr} & \quad \text{Loan} & \quad 2,766,221 \\
\text{Cr} & \quad \text{Fair value adjustment} & \quad 2,766,221 \\
\end{align*}
\]

Fair value adjustment (CU231,058,918 – CU235,493,398 – CU27,081,741 + CU28,750,000)

11. IE163 Example 22 in the Exposure Draft Revision of the Example of “Financial Guarantee Contract Provided at Nominal Consideration”

As the underlined part in the below example in the Exposure Draft is considered to be 1,000,000 CUs, it should be examined.

“Government A measures the loss allowance at an amount equal to the 12 month expected credit losses. Government A calculates the amount of loss allowance to be less than the amount initially recognized. Government A therefore does not recognize an additional liability in its statement of financial position. Government A makes the disclosures relating to fair value and credit risk in IPSAS 30, Financial Instruments: Disclosures in respect of the financial guarantee contract. In its statement of financial performance Government A recognizes revenue of 100,000 CUs in respect of the initial fair value of the instrument (total consideration of 5,000,000 CUs / 5 years).”

Yours sincerely,

Shuichiro Akiyama
Executive Board Member – Public Sector Accounting and Audit Practice
The Japanese Institute of Certified Public Accountants