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Ms. Stephenie Fox

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 47 “Financial Statement Discussion and
Analysis”***

Dear Ms. Fox,

The Japanese Institute of Certified Public Accountants (JICPA) is pleased to comment on the Exposure Draft (ED) 47 “Financial Statement Discussion and Analysis,” as follows.

Comments on Specific Matters for Comments

Specific Matter for Comment 1:

Do you agree that the material presented in this Exposure Draft should be developed as an IPSAS, with the same level of authority as the accrual based IPSASs, which applies to all entities that prepare financial statements in accordance with IPSASs?

1. We agree with the view that the material presented in this Exposure Draft (ED) should be developed as an IPSAS, with the same level of authority as the accrual based IPSASs, for the reasons described in the following paragraphs 2 and 3.
2. BC 2 of the ED points out that the IFRS Practice Statement on Management Commentary (hereinafter referred to as “IFRS Practice Statement”) identifies investors as the users of financial statements. On the other hand, public sector entities are expected to meet various information needs for financial statements, as specified in IPSAS 1 “Presentation of Financial Statements” (see IPSAS 1.3).
3. For those entities in the public sector, amounts shown on their financial statements alone may not necessarily provide sufficient information to the users, as compared to those in the private sector. Preparers of financial statements in the public sector need to understand the amounts reported in their statements, and interpret them to the users. We believe that the work of explaining the amounts reported on financial statements would not be a burden to reporting entities that adopt accrual IPSASs, and in most cases, benefits of the clarification to users will exceed the costs incurred.

Specific Matter for Comment 2:

Do you agree that IPSAS 1 should be amended to clearly indicate that financial statement discussion and analysis is not a component of the financial statements?

4. We agree to amend IPSAS 1 as proposed by the ED.
5. The contents of financial statement discussion and analysis proposed in the ED include information such as, an overview of the entity, the entity’s objectives and strategies, and its risks and uncertainties. It would be difficult to conduct audits of the financial statement discussion and analysis in comparison with the financial statements, since the information contained therein is often subjective and influenced by management.

6. Therefore, it is desirable to clarify that, for entities that adopt accrual IPSASs, the financial statement discussion and analysis is not a component of the financial statements, and auditors can express their opinions only on the financial statements.

Specific Matter for Comment 3:

Is the scope of financial statement discussion and analysis clearly defined so as to distinguish it from other issues being addressed by the IPSASB (e.g., financial statements, service performance reporting, reporting on the long-term sustainability of public finances)?

7. We suggest that the IPSASB should clarify how the requirements in this ED relate to other IPSASs that have similar requirements (e.g., contingencies and events occurring after reporting date in paragraph 21, and IPSAS 19.100, 19.105 and IPSAS 14.30).
8. We suggest stating in the ED that, when contingencies and events occurring after reporting date are closely connected to the financial statements, they should be described primarily in the notes in accordance with IPSAS 19 and IPSAS 14. And for additional explanatory information, including background information and the analysis, or other contingencies and events occurring after reporting date that are outside the scope of IPSAS 19 and IPSAS 14, it should be described in the financial statement discussion and analysis.
9. We believe that paragraph 3 of the ED should exemplify other public documents as underlined below, in order to distinguish the material presented in this ED from other reporting requirements and guidelines.

Proposed revision to the ED (underlined)

3. This Standard ...analysis. It does not apply to other information included in public documents issued in conjunction with the financial statements such as:

(a) service performance information

(b) information on the long-term sustainability of a public sector entity's finances

Specific Matter for Comment 4:

Is the required content for financial statement discussion and analysis appropriate?

Information about the Entity's Objectives and Strategies (paragraphs 19 and 26)

10. Paragraph 19 of the ED states that financial statement discussion and analysis should also explain how the achievement of the entity's financial objectives will be measured. In addition to the requirement relating to the information on variances between actual results and the budget stated in paragraph 26, we suggest that entities should also explain the actual results of their fiscal management, by first clarifying how both goal and results of their fiscal management and their financial statements relate to each other.
11. Information on the goal and the results of fiscal management would help users to assess entities' fiscal management performance, in relation to the amounts shown on the financial statements.

Risks and Uncertainties (paragraphs from 27 to 32)

12. In paragraphs 27 to 32 of the ED, disclosure of the risks and uncertainties is required. On the other hand, in the IFRS Practice Statement, disclosure of entity's principal risk exposures and changes is required.
13. With respect to this, we suggest that the entities should only be required to disclose their principal risks, rather than requiring them to list all possible risks.
14. We believe that IPSASB should also follow the requirement in paragraph 29 of the IFRS Practice Statement, which also requires entities to disclose their most important resources. By requiring entities to disclose not only the negative information such as risks, but also the positive information, we believe that the neutrality in information, that is an essential component of faithful representation, would be achieved.

Amendments to Other IPSASs (Appendix A)

15. Paragraph 24 of IPSAS 1 encourages those entities to include, in their financial statements, a comparison between the amounts shown on the financial statements and the budgeted amounts for the reporting period (IPSAS 1 does not require these entities to include this comparison). This provision is applied to the entities that do

not make their approved budgets publicly available, and their financial statements and the budget are on the same basis of accounting.

16. However, paragraph 26 of the ED states that “financial statement discussion and analysis should include information about significant positive and negative variances between: (a) Actual results and the budget.” The ED requires the explanation of the significant variances regardless of whether the entities disclose their approved budgets.
17. Therefore, we suggest that the following underlined sentences be added in paragraph 26 of the ED:

Proposed revision to the ED (underlined)

26. To the extent such information is not included in the financial statements, financial statement discussion and analysis should include information about significant positive and negative variances between:

- (a) ...
- (b) ...

This provision does not apply to entities that do not make their approved budget publicly available. However, they are encouraged to include this information in their financial statement discussion and analysis.

18. Revised paragraph 14(c) of IPSAS 24 “Presentation of Budget Information in Financial Statements” states that when the entities do not explain the significant variances between actual results and the budgets in their notes to financial statements, they can explain them in either the financial statement discussion and analysis or other public documents issued in conjunction with the financial statements.
19. Since it is important for the users of financial statements to be informed of the significant variances between actual results and the budgets, we suggest that the contents of those significant variances should be explained in the financial statement discussion and analysis, when they are not explained in the notes to financial statements. We believe that entities should not be permitted to explain those significant variances in other public documents.

Specific Matter for Comment 5:

Do you agree with the transitional provisions?

20. We agree with the transitional provisions proposed in the ED.

Specific Matter for Comment 6:

Is the Implementation Guidance useful to understanding the requirements of the proposed IPSAS?

21. We suggest that the timeliness for the users of financial statements discussion and analysis should also be considered with regard to the qualitative characteristics stated in section A.IG1. of Implementation Guidance.

Specific Matter for Comment 7:

Is the Illustrative Example a useful way of illustrating the requirements of the proposed IPSAS?

22. We do not have further comments on the illustrative example.

Comments on the comparison with the IFRS Practice Statement

23. Although paragraph BC 6 of the ED states that, “this Standard has been developed from a principles-based perspective,” there is no statement on the purpose or principles of developing the Standard in the ED. Therefore, we suggest that paragraphs explaining the purpose and the principles should be included in the ED with reference to the paragraphs 9 to 14 of the IFRS Practice Statement.

Yours sincerely,

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Executive Board Member - Public Sector Accounting and Audit Practice

Tadashi Sekikawa

Executive Board Member - Public Sector Accounting and Audit Practice