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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

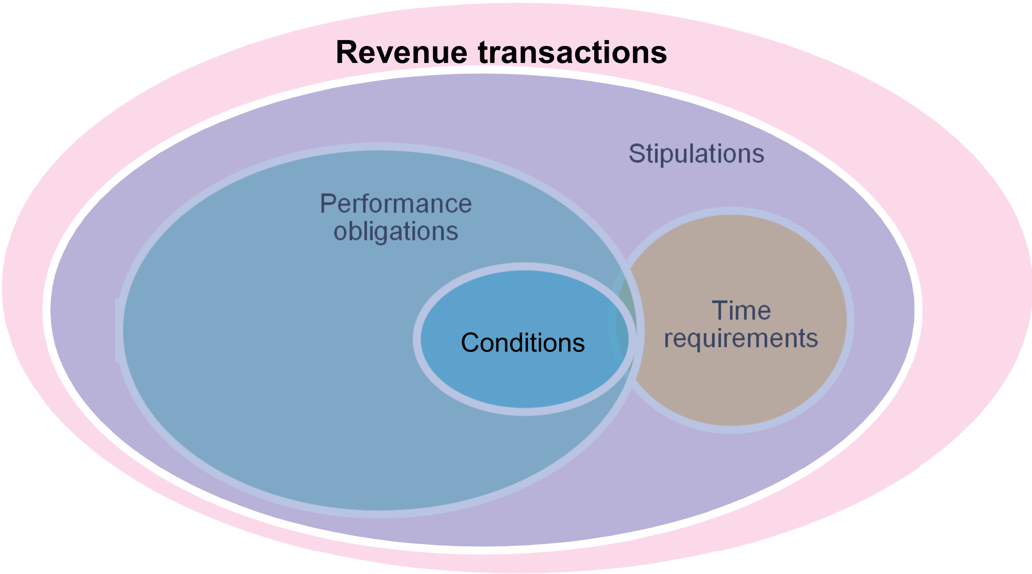
Comments on Consultation Paper "*Accounting for Revenue and Non-Exchange Expenses*"

Dear Mr. Stanford,

The Japanese Institute of Certified Public Accountants (hereafter "JICPA") highly respects the International Public Sector Accounting Standards Board (hereafter "IPSASB") for its continuous effort to serve the public interest. We are also pleased to comment on the Consultation Paper, *Accounting for Revenue and Non-Exchange Expenses* (hereafter "CP"). On the very last page of our comment is the "Other" section, where we have additionally shared our comments other than those already discussed in Preliminary Views and Specific Matters for Comments.

Firstly, we understand the concepts discussed in the CP are related to each other as shown in the following diagram. That being said, we suggest that revenue transactions for which performance obligations can be identified should apply a Public Sector Performance Obligation Approach (hereafter "PSPOA"), representing the IPSASB-proposed Category C and also part of Category B transactions, including those with conditions on transferred assets. All other revenue transactions, which represent the IPSASB-proposed Category A transactions and also part of Category B transactions, should apply an updated IPSAS 23, *Revenue from Non-Exchange Transactions* (hereafter "IPSAS 23").

We agree with the IPSASB's view to categorize revenue transactions into three, namely Category A, B, and C, for discussion purposes. However, we are concerned that the three-category concept could become too complicated for preparers when implementing a new standard. We recommend that the finalized standard should simply require revenue transactions to be accounted for under two categories instead of three depending on whether or not an arrangement contains a performance obligation. See the following for detailed discussions.



Preliminary View 1 (following paragraph 3.8)：

The IPSASB considers that it is appropriate to replace IPSAS 9, *Revenue from Exchange Transactions*, and IPSAS 11, *Construction Contracts* with an IPSAS primarily based on IFRS 15, *Revenue from Contracts with Customers*. Such an IPSAS will address Category C transactions that: (a) Involve the delivery of promised goods or services to customers as defined in IFRS 15; and (b) Arise from a contract (or equivalent binding arrangement) with a customer which establishes performance obligations. Do you agree with the IPSASB's Preliminary View 1? If not, please give your reasons.

Comment:

JICPA agrees with the IPSASB's view.

To provide users with the information that they need for decision-making and accountability purposes, it is essential that the financial statements based on IPSAS converge with IFRSs with any unnecessary differences being diminished.

As IFRS 15, *Revenue from Contracts with Customers* (hereafter "IFRS 15") is a revenue recognition standard significantly different from IAS 18, *Revenue*, we believe it would be useful to replace the existing revenue recognition standards with a new IPSAS primarily drawn from IFRS 15.

In practice, however, we assume that it would be quite difficult to determine whether a transaction falls under Category B or Category C simply based on commercial terms. If a PSPOA were applied to Category B transactions in a new standard, we believe there would be no accounting difference and no need for drawing a distinction between Category B and Category C.

Based on above, we highly recommend that the finalized standard should simply require revenue transactions to be accounted for under two categories instead of three depending on whether or not an arrangement contains a performance obligation.

Preliminary View 2 (following paragraph 3.9) :

Because Category A revenue transactions do not contain any performance obligations or stipulations, the IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23. Do you agree with the IPSASB's Preliminary View 2? If not, please give your reasons.

Comment:

JICPA agrees with the IPSASB's view in general.

We further suggest certain transactions under Category B should also be put into Category A, provided that a PSPOA is applied to Category B transactions. Such transactions represent those that contain stipulations but no performance obligations under the PSPOA.

This is based on our understanding that restrictions, particularly time requirements, subcategorized under stipulations generally do not create legally-binding enforceable rights and obligations, meaning that performance obligations are not identified in such revenue transactions. In such cases, revenue would be recognized when resources are received or the right to receive resources are established. However, if we put such revenue transactions in Category B, application issues with IPSAS 23 will still remain unsolved under the PSPOA when time requirements are imposed on a transaction. Therefore, we highly recommend that transactions with restrictions be included in Category A instead of Category B and IPSAS 23 be updated accordingly in order to resolve the accounting treatment issue for time requirements.

Note that we agree with the IPSASB's view to categorize transactions with conditions, the other sub-category of stipulations, in Category B, given that they contain a return obligation and thus would generally create legally-binding enforceable rights and obligations. In other words, as performance obligations can be identified in transactions with conditions, we believe it would be appropriate to categorize them under Category B.

Specific Matter for Comment 1 (following paragraph 3.10)：

Please provide details of the issues that you have encountered in applying IPSAS 23, together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for: (a) Social contributions; and/or (b) Taxes with long collection periods. If you believe that there are further areas where the IPSASB should consider providing additional guidance in an updated IPSAS 23, please identify these and provide details of the issues that you have encountered, together with an indication of the additional guidance you believe is needed.

Comment:

N/A

Preliminary View 3 (following paragraph 4.64) ：

The IPSASB considers that Category B transactions should be accounted for using the Public Sector Performance Obligation Approach. Do you agree with the IPSASB's Preliminary View 3? If not, please give your reasons.

Comment:

JICPA agrees with the IPSASB's view in general.

We believe public sector's revenue recognition should draw on the IFRS 15 performance obligation approach to the extent possible in order to address the on-going convergence issue with the IASB literature as well as to align with the IPSASB, *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (hereafter "IPSASB Conceptual Framework").

If an updated IPSAS 23 were applied to Category B transactions, issues of ambiguity in making the exchange/non-exchange determination would still remain unsolved. Even if an additional guidance were provided for IPSAS 23, entities would still have to go through the process of exchange/non-exchange determination each time. Needless to say, the accounting for revenue recognition would be considerably different depending on the exchange/non-exchange distinction.

As a practical example, sewage treatment in Japan is usually operated by a single entity, which treats both rainwater and raw sewage. The treatment cost for rainwater is publicly funded whereas that for raw sewage is paid by beneficiaries. As revenue transactions for rainwater treatment and raw sewage treatment somehow contain performance obligations or stipulations, both transactions would fall into Category B. That being said, if an updated IPSAS 23, or Approach 1, were applied to the entity, the rainwater treatment would be accounted for as a non-exchange transaction, whereas the raw sewage treatment as an exchange transaction. Furthermore, revenue would be recognized at a point in time for rainwater treatment transactions, as public funds received for the treatment usually do not impose a return obligation. On the other hand, revenue would be recognized over time as performance obligations are satisfied for raw sewage treatment transactions.

We believe that the sewage treatment entity's performance obligation to provide water treatment services over a certain period is the same for both rainwater and raw sewage, regardless of whom the treatment is funded from. Therefore, we do not think it is appropriate to apply Approach 1, which will lead to different accounting treatments between rainwater and raw sewage transactions just because they are funded from different sources. We believe Approach 2, the PSPOA, better represents the nature of the revenue transaction, as revenue would recognized over time as performance obligations are satisfied for both rainwater and raw sewage transactions.

Specific Matter for Comment 2 (following paragraph 4.64) :

The IPSASB has proposed broadening the requirements in the IFRS 15 five-step approach to facilitate applying a performance obligation approach to Category B transactions for the public sector. These five steps are as follows: Step 1 – Identify the binding arrangement (paragraphs 4.29 - 4.35); Step 2 – Identify the performance obligation (paragraphs 4.36 - 4.46); Step 3 – Determine the consideration (paragraphs 4.47 – 4.50); Step 4 – Allocate the consideration (paragraphs 4.51 – 4.54); and Step 5 – Recognize revenue (paragraphs 4.55 – 4.58). Do you agree with the proposals on how each of the IFRS 15 five-steps could be broadened? If not, please explain your reasons.

Comment:

<u>Step 1 – Identify the binding arrangement</u>

JICPA agrees, in general, with the IPSASB's view to broaden the term "contract" and relabel it to "binding arrangement."

We further recommend that binding arrangements in a public sector referred to in the CP should be limited to those with resource providers. This is because if all binding arrangements are to be included, this may cause unnecessary confusion among preparers in determining the scope of binding arrangements for revenue recognition purposes. In case of the beneficiary being the resource provider, the beneficiary should be scoped in as the resource provider. As descried as "contracts with customers," IFRS 15 requires the identification of a "customer" to determine the scope of contractual arrangements. However, given the nature of transactions in the public sector, we do not think the term "customer" is appropriate. Therefore, we suggest the term "resource providers" be included in the requirement for the purpose of identifying binding arrangements.

We agree with the IPSASB's proposal, insisting that not only all conditions but also certain stipulations meet the definition of performance obligations. Provided that identifying whether or not a performance obligation has substance would be extremely difficult in practice for preparers, we highly recommend the IPSASB put together all the issues identified and considered through the development of the CP into illustrative examples. However, we do not recommend explicitly addressing the interpretation of enforceability as a requirement in IPSAS, as each jurisdiction may have different interpretations of enforceability or the ability of taking remedies.

For the same reason, we would like to comment on paragraph 4.33, which says that enforceability would not extend to reputational risk. We do not think this sentence should be included in the requirement due to the following: Assume there is an NPO, as an example, whose main resource is provided from a specific sponsor in the form of donation. If the NPO used donated resource in a way not intended by the sponsor, who then decided to call a halt to further donation resulting in the NPO's ability to continue as a going concern, we understand that there would lie a constructive obligation, if not a legal obligation, in such circumstances.

Step 2 – Identify the performance obligation

According to paragraph 4.45, a time requirement in and of itself does not create a performance obligation and therefore transactions with time requirements should be included in Category A. On the other hand, according to paragraph 3.3(b), transactions with time requirements have to be categorized under Category B, given that time requirements are also part of stipulations. As the IPSASB's views seem to contradict each other, we suggest that the IPSASB clarify the categorization for transactions with time requirements.

That being said, we believe that transactions with time requirements should be included in Category A as per paragraph 4.45 and should be discussed for their accounting outcomes within this category. As noted in paragraph 4.45, a time requirement in and of itself generally does not create a performance obligation. Therefore, even if under Category B, revenue with only time requirement limitation should be recognized immediately when receivable in accordance with the PSPOA requirement, which would be of little help in solving time-requirement-related issues identified under the existing IPSAS 23.

Step 3 – Determine the consideration

JICPA agrees with the IPSASB's view.

Step 4 – Allocate the consideration

JICPA agrees with the IPSASB's view.

Step 5 – Recognize revenue

JICPA agrees with the IPSASB's view.

Specific Matter for Comment 3 (following paragraph 4.64)：

If the IPSASB were to implement Approach 1 and update IPSAS 23 for Category B transactions, which option do you favor for modifying IPSAS 23 for transactions with time requirements (but no other stipulations): (a) Option (b) – Require enhanced display/disclosure; (b) Option (c) – Classify time requirements as a condition; (c) Option (d) – Classify transfers with time requirements as other obligations; or (d) Option (e) – Recognize transfers with time requirements in net assets/equity and recycle through the statement of financial performance. Please explain your reasons.

Comment:

JICPA is in favor of Option (e).

We do not think Option (b), which requires enhanced display/disclosure, would be appropriate enough to provide certain users of the financial statements with the information that they need. Especially, when multi-year grants are provided in a number of arrangements, we assume not only users would have a hard time analyzing and digesting information only through enhanced display/disclosure, but also preparers could find it burdensome to keep track of numerous transactions with time requirements.

Option (c) should not be adopted either, because the proposed requirement would give rise to a liability, which would then not meet the liability definition in the IPSASB Conceptual Framework, causing further confusion among users and preparers.

We recommend due consideration be given to Option (d), which proposes classifying transfers with time requirements as other obligations. Although the concept of "other obligation" has been introduced in the IPSASB Conceptual Framework, it is a fairly new concept and has never been used at a standards-level. Once we accept the use of other obligation, such circumstance can fuel random use, which may significantly impair the understandability of users of the financial statements.

Further, as noted in paragraph 4.4 of the IASB, *Conceptual Framework for Financial Reporting* (hereafter "IASB Conceptual Framework"), the definition of net assets/equity is "the residual interest in the assets of the entity after deducting all its liabilities," meaning that whatever remains after deducting all liabilities should be accounted for as net assets/equity. Thus, for the purpose of converging with the IASB literature, net assets/equity rather than other obligations would better be used for the classification of transfers with time requirements.

In addition, Exposure Draft 62, *Financial Instruments* proposes that subsequent changes in cash flow hedges or financial assets measured at fair value through net assets/equity should be recognized in net assets/equity and subsequently recycled through the statement of financial performance. Given such circumstances, we are afraid that if the CP is the only place where other obligations are used, it may lack consistency with other IPSASB literature.

That all being said, we believe Option (e) is the best available option. Option (e) suggests that transfers be recognized in net assets/equity, meaning that if not meeting the liability definition, it would directly go to net assets/equity. We understand that this option does not go against the IPSASB Conceptual Framework and also ensures the alignment with the IASB Conceptual Framework. Furthermore, as revenue is recognized in the time period in which the resource provider intended them to be used through the recycling process, we understand that the accounting outcome is consistent with the requirements under IPSAS 1, *Presentation of Financial Statements.*

Lastly, we recommend that the IPSASB restart the discussion of introducing the notion of other comprehensive income, which is not yet explicitly approved for use under the IPSASB Conceptual Framework. This is because a number of IASB literature have recently been developed based on the concept of "other comprehensive income," and with an objective of convergence with IFRS, it appears that the IPSASB is also starting to implicitly introduce the notion into IPSAS, including the newly published Exposure Draft 62, *Financial Instruments*.

Specific Matter for Comment 4 (following paragraph 4.64)：

Do you consider that the option that you have identified in SMC 3 should be used in combination with Approach 1 Option (a) – Provide additional guidance on making the exchange/non-exchange distinction?

(a) Yes

(b) No

Please explain your reasons.

Comment:

JICPA's answer is (a).

We expect that appropriate additional guidance would make the exchange/non-exchange distinction much easier. In Japan, for example, there are difficulties in making the exchange/non-exchange categorization in the following transactions:

・Service is directly provided to a customer by an entity, but the entity is not expected under a practice to collect the entire cost for the service from the customer. Should this revenue transaction be accounted for as an exchange or a non-exchange transaction? (e.g. amount collected from preschool users, admission fees and tuition fees for public schools)

・Service is directly provided to a customer by an entity, and the entity is expected under a practice to collect the entire cost for the service from the customer. However, revenue from customers is actually not enough for the entity to cover entire costs, and thus the entity has to receive funding from taxation or other resources to compensate for the unfavorable balance. Should this revenue transaction be accounted for as an exchange or a non-exchange transaction? (e.g. public hospitals receiving copayments and medical fees from patients and insurers, water supply entities and sewage treatment entities receiving usage fees)

・An entity receives budgets from local governments, not for compensating the loss-making but for the funding of specific items, such as the entity's fixed costs and capital expenditure. These budgets together with payments from beneficiaries for direct costs are essential to ensure the entity's breakeven. Should these revenue transactions be accounted for as an exchange or a non-exchange transaction? (e.g. railways and highways whose laying costs for rail tracks and roads are funded by local governments and the operation, including maintenance and fee collection, is conducted by a third-sector organization)

・Would there be a difference in the accounting of payments received for medical costs depending on the type of resources, such as when they are fully out-of-pocket, partially covered by public insurance, partially covered by private insurance (i.e. contract between a patient and an insurer), and publicly funded.

・When an entity achieves breakeven through payments from beneficiaries as well as investment income from its own fund, would the payments from beneficiaries be accounted for as an exchange transaction? Further, if the entity is below the breakeven point in a lower interest environment, would there be a difference in accounting treatments in the following circumstances: when the entity draws down from its own fund without receiving compensation; and when the entity receives compensation for the shortage, representing the difference between actual and presumed interest rates stipulated in a program?

・If a loss-making business on a consolidated basis consists of a business which successfully finances its operation entirely through beneficiary payments and another business which continues to receive funding in order to compensate for the unfavorable balance, can we separate the businesses and account for one of them as exchange transactions? (e.g. Japan National Railways separated into Honshu, which is the main island, and the other three islands)

In addition to above, an entity is required to "directly give" "approximately equal value" to another entity in order to recognize an exchange transaction. As our last point, we recommend specific guidance be provided to address the issue of "directly giving." For example, if there are two separate entities within a consolidated group and one collects service fees and the other provides services, would this mean revenue is accounted for as non-exchange transactions on a stand-alone basis and exchange transactions on a consolidated basis?

Preliminary View 4 (following paragraph 5.5)：

The IPSASB considers that accounting for capital grants should be explicitly addressed within IPSAS. Do you agree with the IPSASB's Preliminary View 4? If not please give your reasons.

Comment:

JICPA does not agree with the IPSASB's view, assuming that a PSPOA is applied to Category B transactions.

If capital grants are considered to be revenue transactions, not capital transactions, we believe such transactions should fall into Category B in the context of the CP discussion. Further, if a PSPOA were applied to Category B transactions, capital grants would generally contain identifiable performance obligations, such as "acquire capital assets" and "acquire capital assets for the use of delivering specific services to beneficiaries." That being said, we recommend that capital grants should be accounted for under general principles of performance obligations rather than by setting capital grants aside from other revenue transactions in Category B and applying different rules.

At the same time, we think it would be useful for constituents if the IPSASB could provide illustrative examples, not an IPSAS standard, to address accounting issues for capital grants. One of the major issues is when funders of capital grants specify that services should be provided over a certain period using capital assets acquired through the provided capital grant. An illustrative example would be extremely helpful in such cases to understand how performance obligations can be identified for services provided after acquiring the capital asset.

Specific Matter for Comment 5 (following paragraph 5.5)：

(a) Has the IPSASB identified the main issues with capital grants? If you think that there are other issues with capital grants, please identify them. (b) Do you have any proposals for accounting for capital grants that the IPSASB should consider? Please explain your issues and proposals.

Comment:

(a) In addition to the issues identified by the IPSASB in the CP, JICPA believes that there is an issue of determining whether capital grants are revenue transactions or capital transactions, referred to as ownership contributions.

In Japan, we see some capital grants being provided by a controlling entity to its controlled entity. In such cases, capital grants are usually accounted for as capital transactions instead of revenue transactions and recognized in net assets.

As noted in paragraph 5.33 of the IPSASB Conceptual Framework, ownership contributions are defined as "inflows of resources to an entity, contributed by external parties in their capacity as owners, which establish or increase an interest in the net financial position of the entity." Based on this definition, we can argue that all grants and donations provided by a controlling entity to its controlled entity are capital transactions.

We highly recommend that the IPSASB explicitly address the issue within IPSAS, given that different accounting treatments are applied dependent on whether a transaction is a revenue transaction or a capital transaction.

(b) We understand that capital grants provided by a controlling entity to its controlled entity are practically the same in nature with properties contributed in-kind provided by a controlling entity to its controlled entity. Therefore, we recommend that the IPSASB develop a new requirement or guidance for the accounting treatment of capital grants, which aligns with the accounting treatment of properties contributed in-kind.

Specific Matter for Comment 6 (following paragraph 5.9) :

Do you consider that the IPSASB should:

(a) Retain the existing requirements for services in- kind, which permit, but do not require recognition of services in-kind; or

(b) Modify requirements to require services in-kind that meet the definition of an asset to be recognized in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information; or

(c) An alternative approach.

Please explain your reasons. If you favor an alternative approach please identify that approach and explain it.

Comment:

JICPA suggests the IPSASB should apply (a).

We think services in-kind differ from goods in-kind, given that services in-kind are consumed immediately when received by a recipient entity, except for certain transactions. That is to say, accounting outcomes for services in-kind are quite different from those for goods in-kind because even when services in-kind are immediately recognized as revenue, the same amount of expense will often be recognized, offsetting any impact on surplus or deficit and the statement of financial position. Although we agree with the argument that the existence of options reduces comparability between entities, the disadvantage of such comparability issue is minimal provided that there is no impact on surplus or deficit and the statement of financial position on a net basis.

Another issue is that if we require all services in-kind to be recognized, there may be difficulties in obtaining reliable measurements as acknowledged in IPSAS 23.BC 25. In such cases, it is more likely that the cost of obtaining such information is greater than the benefit to users of the information. Further, if we take the approach of restricting services in-kind to be recognized to those that "would have been purchased if they had not been donated," we may be able to diminish the measurement difficulties to some extent; however, judgement will be required to determine the type of services that "would have been purchased if they had not been donated." In such cases, we are afraid the comparability issue will still remain unsolved.

Based on the above, we recommend that the IPSASB should retain the existing requirements for services in-kind and address the comparability issue by introducing enhanced disclosures for services in-kind.

Preliminary View 5 (following paragraph 6.37) :

The IPSASB is of the view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient. These non-exchange transactions should therefore be accounted for under The Extended Obligating Event Approach. Do you agree with the IPSASB's Preliminary View 5? If not, please give your reasons.

Comment:

JICPA agrees with the IPSASB's view on collective services.

However, we recommend that considerable deliberation be given on universally accessible services. As defined in paragraph 6.7, universally accessible services are "those that are made available by a government entity for all individuals and/or households to access, and where eligibility criteria (if any) are not related to social risk." Under this definition, we understand that beneficiaries who wish to receive service have the right to receive one provided by public sector entities. In other words, public sector entities cannot refuse to provide services to beneficiaries as long as beneficiaries are willing to receive one, which means that public sector entities have an obligation to provide services to beneficiaries.

For example, in Japan, there are cases where both government schools and some private schools are providing the same education program. We generally assume that a performance obligation is imposed on private schools to provide education services. If we say that no performance obligations are imposed on government schools providing the same program, this we believe would contradict the accounting for private schools. Therefore, we disagree with the IPSASB's view, which insists that none of universally accessible services impose performance obligations in any case.

Preliminary View 6 (following paragraph 6.39)

> The IPSASB is of the view that, because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of nonexchange transactions should be expensed as services are delivered.
> Do you agree with the IPSASB's Preliminary View 6? If not, please give your reasons.

Comment:

As commented on Preliminary View 5, JICPA disagrees with the IPSASB's view, insisting that universally accessible services impose no performance obligations in any case. However, if the Extended Obligating Event Approach were applied to such transactions, we would agree with the IPSASB's Preliminary View 6, proposing that there is no obligating event and thus resources applied should be expensed as services are delivered.

We also agree with the IPSASB's view on the accounting treatment for collective services.

Preliminary View 7 (following paragraph 6.42)：

> The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue.
> Do you agree with the IPSASB's Preliminary View 7? If not, please give your reasons.

Comment:

JICPA does not agree with the IPSASB's view.

We agree with the IPSASB's view that grants, contributions and other transfers that contain performance obligations or stipulations should be included in Category B transactions. However, we do not agree with the IPSASB's view of applying a mirrored approach for such Category B non-exchange expenses, even when a PSPOA is adopted for Category B revenue transactions. This is because, practically speaking, it would be quite difficult for resource providers to determine whether resource recipients have satisfied performance obligations. That being said, if we force preparers to use the PSPOA as a mirrored approach to account for Category B non-exchange expenses, it is more likely that the cost for preparers will exceed the benefit to users of the information.

Another point to be discussed regarding the PSPOA is about issue of asset recognition. Unlike the Extended Obligating Event Approach, a resource provider may not be able to say under the PSPOA that it still controls an asset already transferred to a resource recipient, satisfying the recognition criteria as an asset in the statement of financial position, just based on the fact that the resource recipient has not yet fulfilled performance obligations. We highly recommend that the IPSASB carefully consider this point throughout the deliberation.

We do not believe that it is ensured under the IPSASB Conceptual Framework that the determination of a liability for a resource recipient (i.e. whether it meets the liability recognition criteria) always mirrors that of an asset for a resource provider (i.e. whether it meets the asset recognition criteria).

Preliminary view 8 (following paragraph 7.18)：

The Board considers that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectible identified as an impairment. Do you agree with the IPSASB's Preliminary View 8? If not, please give your reasons.

Comment:
JICPA agrees with the IPSASB's view.

As proposed in paragraph 7.18, we believe option (b) promotes accountability and is in the public interest. We also agree that when uncollectible amounts are significant, prepares need to provide explanations somehow. Sovereign power is exercised through the use of constitutionally and legally sanctioned authority and taxation receivables are receivables based on legislation. Therefore, it can be argued that tax payers and fines-payers are obligated to pay the amount levied. Based on above, we believe that the initial fair value of receivables arising from the exercise of sovereign power should be the amount owed.

We have our own practice in Japan where tax payments receivable is separately accounted for as receivables in the statement of financial position with any amount expected to be uncollectible identified as an allowance for doubtful accounts. We believe our current practice is aligned with the IPSASB's proposed approach.

Preliminary View 9 (following paragraph 7.34)：

The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach. Do you agree with the IPSASB's Preliminary View 9? If not, please give your reasons.

Comment:
JICPA disagrees with the IPSASB's view to use the Fair Value Approach.

The Amortized Cost Approach should be applied instead, provided that taxation receivables will still be "receivables" that are based on legislation, even if the receivables do not meet the definition of a financial instrument as they are non-contractual in nature. That is to say, we do not think there need be any accounting differences in subsequent measurements of receivables, dependent on whether a receivable is based on legislation or commercial laws.

Further, many of the non-contractual receivables in the public sector, including taxation receivables, are held solely for the purpose of collecting payments of principal and interest on the principal amount outstanding, not for the purpose of trading or exchange. Thus, we can argue that taxation receivables and other receivables based on legislation should be accounted for in the same way as for receivables based on commercial laws, which represent those that meet the definition of a financial instrument under IPSAS 28, *Financial Instruments*: Presentation. In the same context, we can further argue that the accounting for subsequent measurements should also be treated in the same way for both receivables based on legislation and those based on commercial laws, provided that both meet the recognition criteria for financial assets carried at amortized cost under the principles in IPSAS 29, *Financial Instruments: Recognition and Measurement*. That being said, we do not support the IPSASB's proposal requiring preparers to fair value receivables at each reporting date, as the cost of obtaining such fair value information will likely be higher than the benefit to users of the information.

We do not agree with Approach 3, using principles in IPSAS 26, *Impairment of Cash-Generating Assets* for subsequent measurements of non-contractual receivables, as we do not think it is appropriate to differentiate the accounting for receivables based on legislation and those based on commercial laws for subsequent measurement purposes.

Specific Matter for Comment 7 (following paragraph 7.46)：

For subsequent measurement of non-contractual payables do you support:

(a) Cost of Fulfillment Approach:

(b) Amortized Cost Approach;

(c) Hybrid Approach; or

(d) IPSAS 19 requirements?

Please explain your reasons.

Comment:

JICPA recommends applying Approach (b) – the Amortized Cost Approach.

As we commented on Preliminary View 9, we suggest applying the Amortized Cost Approach for non-contractual receivables. Thus, we believe a mirrored approach should be used to account for non-contractual payables by applying the same approach.

Other

1. Comments on Chapter 2

- In paragraph 2.26(c), it is stated "but the entity has an enforceable right." Please confirm whether it should be reworded as "and the entity has an enforceable right."
- Please note that illustrative indicators for the principal or agent determination as noted in paragraph 2.30 need to be updated to reflect the clarifications made to IFRS 15 regarding the principle versus agent guidance. Please see detail at IFRS 15.B27.

2. Comments on Chapter 4

- According to paragraph 4.30, the CP states that "IFRS 15 provides that a performance obligation approach is only appropriate when a contract explicitly states the goods or services an entity has promised to transfer to a customer (the performance obligations)." We appreciate if you could refer to the actual IFRS 15 paragraph number that supports your statement. It is our understanding that IFRS 15 provides that performance obligations identified in a contract may not be limited to the goods or services explicitly stated in the contract.
- The definition of a transaction price under IFRS 15 is provided in paragraph 4.47. According to IFRS 15, though, we understand a transaction price is not limited to the amount of "consideration in a contract," but should also consider facts and circumstances other than the terms of the contract, such as circumstances where an entity has to accept a price concession based on its customary business practices.

3. Comments on Chapter 5

- In paragraph 5.5, it is stated "for delivery of those assets." Please confirm whether it should be reworded as "for delivery of those services."

4. Comments on Appendix A

- Provided as a comment for one of the issues regarding "Resolves difficulty with exchange/non-exchange determination," it is stated as "the current requirement to distinguish between a restriction and a condition." In the context of the discussion, please confirm whether it should be reworded as "the current requirement to distinguish between an exchange and a non-exchange transaction."

Yours sincerely,

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