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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 Proposed International Public Sector Accounting Standard,  
“Financial Instruments: Presentation”**

Dear Sir:

The Japanese Institute of Certified Public Accountants (JICPA) is pleased to comment on the Proposed International Public Sector Accounting Standard, “Financial Instruments: Presentation” (the “ED”), as follows:

**On “Specific Matters for Comment”**

1. ED 37 allows entities to treat financial guarantee contracts issued through an exchange transaction as insurance contracts if the issuer elects to recognize and measure them in accordance with the international or national accounting standard dealing with insurance contracts. However, all financial guarantee contracts issued at no or nominal consideration are required to be treated as financial instruments. Do you agree with this approach? Please state your reasons for either agreeing or disagreeing with this approach.

We agree with this approach. The reason is as follows.

Firstly, it is consistent to treat financial guarantee contracts issued through an exchange transaction as insurance contracts if the issuer elects to recognize and

measure them in accordance with the international or national accounting standard dealing with insurance contracts, by electing to apply either IAS39 or IFRS 4 to financial guarantee contracts at paragraph 2 in IAS39 “Financial Instruments: Recognition and Measurement”, and it is not necessary to depart from IAS39 because a public sector specific reason does not exist.

At paragraph 15 in IFRS4, an insurer shall assess at the end of each reporting period whether its recognized insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If the national accounting standard dealing with insurance contracts does not require that an insurer apply such a liability adequacy test, an insurer’s recognized insurance liabilities may not be adequate. Therefore, when an insurer elects to recognize and measure financial guarantee contracts in accordance with the national accounting standard dealing with insurance contracts, IPSASs require that an insurer shall apply a liability adequacy test.

Secondly, if an insurer elects to recognize and measure financial guarantee contracts issued at no or nominal consideration in accordance with the national accounting standard dealing with insurance contracts, the national accounting standard allows an insurer to treat them differently in different jurisdictions because there is no consensus about the accounting treatment, compared with those of financial guarantee contracts issued through an exchange transaction. This is the reason why it is rational to treat such financial guarantee contracts as financial instruments. Also, the so-called “law of large numbers”, which in effect states that as the number of exposure units increases, the actual results are increasingly likely to become close to expected results, is applicable to insurance contracts, and according to the “law of large numbers”, an insurer estimates the amount paid out in claims and the amount of premiums collected during the insurance term. This isn’t the case for financial guarantee contracts issued at no or nominal consideration by public sector entities. Therefore, it is rational that an insurer of such a contract shall recognize a provision and measure the expenditure required to settle the present obligation on the reporting date at paragraph 49 in ED38.

However, in order to make the accounting treatment clear, it is defined as “a financial guarantee contract not through an exchange transaction” rather than “a financial guarantee contract issued at no or nominal consideration”.

2. The transitional provisions to ED37 do not provide any relief for entities initially adopting accrual accounting from preparing and presenting comparative information. Do you support this proposal? If additional transitional provisions are necessary, please

indicate what these should be and state your reasons.

We support this proposal.

Yours sincerely,

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