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Mr. Ross Smith
Program and 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 "IPSASB 2025 Work Program Consultation"

Dear Mr. Smith,

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 Consultation Paper "*IPSASB 2025 Work Program Consultation*" (hereafter "CP"). Our comments to CP are as follows.

Specific Matter for Comment 1

Which financial reporting projects should the IPSASB prioritize? For each financial reporting project you suggest, please clearly explain the project scope and your reasoning, using the IPSASB's project prioritization criteria outlined on the previous page, to support its priority. Respondents are encouraged to use the format in the Optional Template illustrated in the Instructions for Respondents on the following page for each project suggested.

Comment:

We propose the following five projects:

- Linkages between RPG 2, *Financial Statement Discussion and Analysis*, and non-financial information
- Disclosure of financial instruments
- Emissions trading
- Disclosure of confidential information
- Opportunity costs

Linkages between RPG 2, ***Financial Statement Discussion and Analysis***, and non-financial information	
This project aims to enhance the usability of the public sector's *Financial Statement Discussion and Analysis* (hereinafter "FSD&A") by better aligning with the needs of the primary users of IPSAS. Issues that have been raised regarding many FSD&A prepared by the public sector include insufficient information on preparations against fiscal risk, the outcomes of budget injection measures, and the interrelationship between financial and non-financial information, as well as the extreme verbosity of the reports and the formulaic descriptions contained therein. Private sector companies are currently on the cusp of standardizing and mandating disclosures on sustainability information, and are being required to disclose sustainability information in the context of financial information. Given that public sector entities are responsible for determining and implementing policies to address sustainability issues, including environmental and social challenges, and solutions for future debt repayment arising from the aging of social infrastructure and the issuance of government bonds, we believe that it is crucial that such entities clarify the relationship between financial and non-financial information and fulfill their accountability. However, at present, financial and non-financial information are, for example, being published as separate reports for the entities, and there is insufficient explanation on the relationship between financial and non-financial information in a way that would aid the decision-making of the primary users. This has made it increasingly difficult for the primary users of IPSAS to grasp the big picture. As we transition to a decarbonized society, sustainability-related challenges, such as anticipated future investments and shifts in industrial structure, are expected to have a significant impact on the financial conditions of various countries. In such an environment, it is hoped that financial analysis underpinned by non-financial information in the framework of FSD&A will shed light on public-sector strategies on sustainability challenges and the impact such challenges have on the public sector's financial position and risk management, and ultimately enhance their accountability.	
Prioritization Criteria	Analysis
Prevalence	Medium: This issue is believed to affect many public-sector entities preparing FSD&A.
Consequences	High: Emphasis on future risks based on non-financial information that can directly impact accounts in the financial statements and the consequences of relevant policies, as well as the clarification of the relationship between financial and non-financial information, will enhance the accountability of the FSD&A and enable the offering of information useful to the decision-making of the primary users of IPSAS going forward.
Urgency	High: With the publication of IPSASB SRS 1 and the anticipated progress in the development of SRS, we believe that now is an opportune

	moment to commence this project. As reporting volume increases, FSD&A, which is responsible for summary and analysis, will become a critical concern for financial statement readers. To ensure consistent reporting, it will be effective to consider, at the same time, the development of sustainability reporting standards for the public sector and the improvement of FSD&A from the standpoint of ensuring consistency in a format that is easy for primary users to understand, while being predicated on recognizing the differences in user perspectives.
Feasibility	Medium: Making improvements based on existing RPG 2 and making references to the IASB *Management Commentary* are feasible solutions. However, when making references, it will be necessary to make adjustments to both the IASB and the IPSASB, as well as to financial statements and non-financial information, considering the differences in their primary users.

Disclosure of financial instruments
This project, aiming to improve accountability and public-sector financial management, proposes the disclosure of financial instruments. IFRS 9 *Financial Instruments* sets forth comprehensive requirements, such as the recognition, measurement, improvement, and hedge accounting of financial instruments. However, in the existing IPSAS 41 *Financial Instruments*, sufficient consistency has not been ensured, as illustrated by its limited risk information, among others. This project aspires to set more detailed and more transparent disclosure requirements regarding financial instruments traded and held by the public sector. In recent years, the outstanding balance of financial instruments held by Japan's public sector (including government-affiliated financial agencies and government-backed funds) has been increasing, and the importance of risk management and accountability of financial instruments has also grown. The types of financial instruments held have also become diversified. In terms of green bonds, the issue and investment of which are becoming increasingly prevalent as a means of financing environmental projects, it will become necessary to add disclosure requirements different from that of conventional financial instruments, such as specifying the use of such financing, showing consistency of such financing with the environmental objectives of the project, providing after-the-fact reporting on its environmental impact, etc. In the private sector, whether the green bond "can be reasonably justified to the investors" serves as the primary accountability criterion. However, in the public sector, given that the source of financing and investments consists of public funds, it entails accountability to not only investors but also to the public, the legislature, and regulatory bodies. Furthermore, when public sector entities become the issuers of financial instruments, the disclosure of policy outcomes and other matters that align with policy objectives, unique to the public sector, will also be required. Therefore, disclosure of environmental policies and the degree of the entity's contribution to Sustainable Development Goals (SDGs), along with financial information, is expected to become useful information for primary users.

Prioritization Criteria	Analysis
Prevalence	High: In both developing and industrialized nations, many public sector entities hold and trade large sums of financial instruments (bank deposits, bonds, derivatives, etc.). Green bonds are also increasingly issued and used for investments.
Consequences	High: Inappropriate disclosure of financial instruments, considering its increasing monetary significance, could lead to a misunderstanding of the entity's financial position and difficulties in risk assessment, which, in turn, could adversely impact public interest and accountability. Furthermore, ensuring the transparency of the status of green bond issues and investments has been gaining qualitative significance from the standpoint of the reliability of environmental measures and social

	responsibility. This project offers solutions to these issues.
Urgency	High: Whereas IFRS 9, under the Expected Credit Loss (ECL) model, requires detailed disclosures of the fluctuating factors of credit risk and the assumptions of estimates, the status of risk management, and the like, in IPSAS 41, the disclosure of credit risk and sensitivity analysis is limited. Even in terms of green bonds and other financial instruments in which the environmental objectives are integrally related to the use of funds, IPSAS 41 fails to present a disclosure framework reflecting the instruments' distinct characteristics. These discrepancies are problematic from the standpoint of international comparability of public sector financial positions and risks across countries, as well as accountability regarding policy objectives, and harmonization with international standards is urgently needed.
Feasibility	Medium: By utilizing the existing international framework, we can go forward with studies within a practical and feasible scope. Guidelines such as the disclosure principles of IFRS 9 and the IMF Manual on Fiscal Transparency will serve as useful references for IPSASB, and it will be possible to focus on enhancing disclosures without making significant changes to recognition and measurement. Additionally, in the public sector, due to the presence of not only investors but also a wide range of stakeholders, including the public, the legislature, and regulatory bodies, disclosures elucidating the relationships between risk management, use of funds, and policy objectives will be required. This challenge may be addressed by sorting and organizing the disclosure objectives. Furthermore, in terms of green bonds, practical guidelines based on the ICMA Principles and similar standards already exist, and it will be possible to reference them when drawing up a framework.

<table>
<tr><th colspan="2">Emissions trading</th></tr>
<tr><td colspan="2">As for emissions trading of greenhouse gases, despite the global growth of the market each year, there are currently no standards in place for its accounting. Consequently, not only is the comparability of financial statements across entities compromised, but because the obligations imposed on entities are not clarified, it is possible that the emission reduction measures the government expects from these entities will not be fully achieved. Furthermore, there is the possibility that the public sector will become involved in the trading market as an issuer of emission allowances. Therefore, it may become necessary to consider the accounting and disclosures of such issuers.
Accordingly, in December 2016, the IPSASB STAFF PAPER EMISSIONS TRADING SCHEMES STAFF BACKGROUND PAPER was published, which categorized by type the emissions reduction schemes in existence at that time and examined the potential economic impacts on the entities involved. However, the STAFF PAPER only categorized the available information and did not provide any guidance on accounting or disclosures.
This project aims to take a deeper dive into the discussions of the STAFF PAPER and provide guidance on the ideal accounting and disclosures of each emissions reduction scheme applicable to the public sector.</td></tr>
<tr><th>Prioritization Criteria</th><th>Analysis</th></tr>
<tr><td>Prevalence</td><td>Medium: As each nation faces the need to reduce emissions, emissions trading schemes continue to be viewed as a crucial measure for reaching these reduction targets. The emissions trading market has grown each year and is expected to continue its growth in the future. Clarification of the accounting of this system is thought to be essential for the government to appropriately promote its policies.</td></tr>
<tr><td>Consequences</td><td>High: The clarification of accounting of emissions trading is expected to enhance the comparability across entities while also reducing uncertainty when the public sector participates in emissions trading markets as part of its policy initiatives, by clarifying the relevant accounting issues. Furthermore, it will lead to the appropriate recognition of assets and liabilities generated when the public sector is involved as the issuer of emission allowances.</td></tr>
<tr><td>Urgency</td><td>High: As prompt measures against global warming are being called upon, the clarification of accounting for emission reduction systems is believed to be a matter of utmost urgency.</td></tr>
<tr><td>Feasibility</td><td>Medium: Given that accounting for emissions trading has not been clarified under IFRS following the withdrawal of IFRIC 3, we believe it is possible to proceed with its development in conjunction with standard-</td></tr>
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	setting activities under IFRS. Furthermore, we believe that the content of the *EMISSIONS TRADING SCHEMES STAFF BACKGROUND PAPER*, published in December 2016, may be utilized in this project.

Disclosure of confidential information	
In the disclosure of financial and non-financial information, the prospect that such information is classified as confidential information is a real possibility. In the private sector, when the information requested for disclosure is classified as confidential information, in many circumstances, certain practices are thought to exist that exempt disclosure under certain conditions. IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* articulates that disclosure is exempted when the information to be disclosed constitutes a trade secret. Under IPSAS, there are also standards, such as IPSAS 51 *Tangible Natural Resources Held for Conservation*, that explicitly state that disclosure of information is not required in cases where disclosure could lead to endangerment or degradation of tangible natural resources held for conservation. It is generally thought that the public sector holds more confidential information across a wider range of fields than the private sector. Therefore, we believe it would be better to establish general standards that articulate the conditions under which disclosures of confidential information are exempt from public sector disclosures, rather than to establish individual standards such as IPSAS 51.	
Prioritization Criteria	Analysis
Prevalence	High: We generally assume that all public sector entities hold classified information in line with their respective responsibilities. However, at the national level in particular, it is believed that they hold a large amount of classified information, such as political and military secrets, and it is thought that many countries have established legal frameworks to protect such information.
Consequences	Medium: Clarification of conditions under which the disclosure of confidential information will be exempt is expected to mitigate the uncertainties that will entail the adoption of IPSAS, as well as removing impediments to its adoption.
Urgency	Medium: The number of countries applicable under IPSAS is growing each year, and this guidance is expected to be useful in increasing the number of such countries in the future.
Feasibility	High: This will only set forth exemptions in cases where confidential information that meets certain conditions is involved and is therefore considered highly feasible.

Opportunity costs	
In the public sector, due to policy constraints, services may be offered to counterparties at lower-than-usual prices or loans may be provided under conditions that are more favorable than usual. Losses incurred by the public sector as a result of these differences between conventional conditions and favorable conditions constitute opportunity costs and should be recognized as such in IPSAS 42 *Social Benefits* and IPSAS 48 *Transfer Expenses*. However, neither of these standards provides explicit stipulations. Clarifications should be given to the effect that opportunity costs fall under "social benefits" and "transfer expenses," and accordingly, that they should comply with the disclosure requirements of the respective standards.	
Prioritization Criteria	Analysis
Prevalence	High: It is believed that opportunity costs are frequently incurred by the public sector due to policy constraints. Therefore, we believe that it would be useful to categorize the accounting of opportunity costs.
Consequences	Medium: The disclosure of appropriate activities that more accurately reflect the actual status regarding the policies executed by the public sector will become possible.
Urgency	Medium: Guidance is believed to be necessary, as the public sector is engaged in a wide range of transactions, including those involving opportunity costs. As for opportunity costs described above, it is possible to disclose this information not only through financial disclosures but also through the disclosure of policy-specific inputs and outputs based on RPG 3.
Feasibility	Medium: As the concept of opportunity costs described above has not necessarily been clearly defined, it is believed that, in developing relevant accounting standards, we will need to start with the categorization of the concepts. It should also be noted that since the concept of opportunity costs does not necessarily allow for reliable measurement, the concepts should be categorized keeping measurability in mind.

Specific Matter for Comment 2

Which IPSAS Standards do you think are the highest priority for the IPSASB to undertake a post implementation review? For each post implementation review you suggest, please clearly explain the issues with the existing IPSAS Standard and your priority reasoning using the IPSASB's project prioritization criteria outlined on the previous page. Respondents are encouraged to use the format in the Optional Template illustrated in the Instructions for Respondents on the following page for each PIR suggested.

Comment:

We propose a post-implementation review of the following IPSAS standard.

- IPSAS 35 *Consolidated Financial Statements*

<table>
<tr><th colspan="2">IPSAS 35 Consolidated Financial Statements</th></tr>
<tr><td colspan="2">IPSAS 35 Consolidated Financial Statements calls for the harmonization of accounting policies of controlling and controlled entities. In the consolidated financial statements of public sector entities that apply IPSAS, the controlled entities, regardless of their corporate form, are required to apply the same IPSAS-based accounting policies as the reporting entity. On the other hand, discrepancies still exist between private accounting standards and IPSAS, and it is believed that there may be cases where it may be difficult, time-wise, to apply IPSAS or accounting policies consistent with IPSAS to private-sector controlled entities that are newly included in the scope of consolidation. For example, in the process of the public sector providing support for the restructuring of private companies, there may be cases in which a controlled entity that has a significant impact on the public sector's consolidated financial statements suddenly becomes a state-owned enterprise. In such cases, it may not be possible to harmonize accounting policies in time to meet the financial reporting deadlines required by IPSAS, and thus making it impossible for the consolidated group to claim compliance with IPSAS.
As shown above, when a public sector entity is required to make a private sector company a controlled entity in a timely and urgent manner, it is conceivable that the private sector company will not have enough preparation time to comply with IPSAS. We propose the establishment of guidance (for example, articulating cases and the scope in which exemptions from IPSAS 35 are permitted) that allows the group to claim compliance of its consolidated financial statements with IPSAS even in cases described above.</td></tr>
<tr><th>Prioritization Criteria</th><th>Analysis</th></tr>
<tr><td>Prevalence</td><td>Medium: Emergency situations in which a public sector entity acquires control over a private sector company are conceivable in any country. It is also assumed that discrepancies exist between the accounting standards applied to the private sector and the IPSAS.</td></tr>
<tr><td>Consequences</td><td>High: Providing guidance in the handling of situations in which the</td></tr>
</table>

	private sector cannot comply with IPSAS is likely to have the effect of removing the psychological impediments involved when a public sector entity acquires control over a private sector company.
Urgency	Medium: The number of countries applicable under IPSAS is growing each year, and this guidance is expected to be useful in removing psychological impediments to continue increasing the number of applicable countries in the future.
Feasibility	Medium: It is believed that for this project to be a success, we need to proceed by first grasping the details and the impact of the discrepancies between the accounting standards of the private sector and the IPSAS in the countries applicable under IPSAS. Such an endeavor, while not unfeasible, will require a certain level of resources.

Specific Matter for Comment 3

Which sustainability reporting projects should the IPSASB prioritize? For each sustainability reporting project you suggest, please clearly explain the project scope and your reasoning, using the IPSASB's project prioritization criteria outlined on the previous page, to support its priority. Respondents are encouraged to use the format in the Optional Template illustrated in the Instructions for Respondents on the following page for each project suggested.

Comment:

We propose the following sustainability reporting project.

- General sustainability-related disclosures

General sustainability-related disclosures	
We anticipate a growing need for the public sector to disclose useful sustainability information. As groundwork for further study of specific issues, this project aims to clarify the principles of sustainability-related disclosure and the roles and objectives of public sector entities. Without consensus among countries and regions on the principles and objectives of disclosure, as well as the roles that the public sector should play, inconsistencies are likely to emerge in the disclosures and ensuing policy decisions. Even within countries, if different ministries or entities have jurisdiction over different sustainability issues, comprehensive guidelines on disclosures will be required to achieve consensus among domestic organizations. Furthermore, when setting forth the general requirements for sustainability-related disclosures, clarification of the concept of materiality in the selection of objectives and the content to be disclosed will enable the provision of information that is both transparent and useful to users. Consequently, guidance on materiality in particular should be developed as soon as possible.	
Prioritization Criteria	Analysis
Prevalence	High: Sustainability-related disclosures will become a requirement for public sector entities of every nation. Therefore, establishing a common framework could serve as groundwork for future discussions.
Consequences	High: A common framework will eliminate inconsistencies in disclosure content and ensure comparability. Establishment of disclosure standards in specific fields without consensus could compromise the integrity of standards as a whole.
Urgency	High: A general framework for disclosures must be established and agreed upon before moving on to the study of specific topics. Additionally, while it is believed that, in many cases, disclosures by the public sector currently draw on standards for corporate reporting (such as IFRS S1 *General Requirements for the Disclosure of Sustainability-*

	Related Financial Information), without a common framework for the public sector, the utility and comparability of the information for users could be compromised.
Feasibility	High: Despite the difference between public sector entities and private sector companies, pioneering frameworks for corporate reporting, such as IFRS S1 *General Requirements for the Disclosure of Sustainability-Related Financial Information,* exist that can be utilized in the development of general sustainability-related disclosure standards tailored specifically to the public sector. To implement this project, we must consider the potential connection between the project and other existing sets of guidance, including the RPG 1 and RPG 3. If this project is expanded to consider incorporating guidance from RPG 1 and RPG 3, such public sector specific guidance could be leveraged in the development of the general sustainability-related disclosures standard. However, if RPG 1 and RPG 3 were made into authoritative guidelines, the heavy burden to be borne by entities that can disclose information in accordance with these guidelines, as well as entities that have previously declared compliance with IPSAS, will become a concern. Furthermore, considering the significant differences and diversity of fiscal systems and policy objectives of each country, the application of the provisions of RPG 1 and RPG 3 uniformly on an international basis is not practical. Considering these various factors, we should not rush into the discussion of making RPG 1 and RPG 3 authoritative guidelines, but instead engage in careful consideration that fully takes into account practical feasibility and institutional diversity.

Yours sincerely,

Soichiro Yamazaki
Executive Board Member - Public Sector Accounting and Audit Practice
The Japanese Institute of Certified Public Accountants