The Japanese Institute of
Certified Public Accountants
4-4-1 Kudan-Minami, Chiyoda-ku, Tokyo 102-8264, Japan
Phone: +81-3-3515-1129 Fax: +81-3-3515-1167
Email: hieirikaikei@jicpa.or.jp

October 30, 2020

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 Exposure Draft 72 “Transfer Expenses”

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 the Exposure 72 “Transfer Expenses” (hereafter “ED”). Our comments to ED 72 are as follows.

Specific Matter for Comment 1 :

The scope of this [draft] Standard is limited to transfer expenses, as defined in paragraph 8. The rationale for this decision is set out in paragraphs BC4–BC15. Do you agree that the scope of this [draft] Standard is clear? If not, what changes to the scope or definition of transfer expense would you make?

Comment:

We agree.

However, we propose the addition of the following for a better understanding of the scope.

1. Clarification that ordinally transactions between seller and buyer are outside of the scope of this standard

While paragraphs 3 and 11 mention that transactions which result in the entity receiving goods, services or other assets directly in return for the resources the entity transfers to the counterparty are outside the scope of this draft (ordinally transactions between seller and buyer), there is no mention of this type of transaction in paragraph 5, which lists the transactions outside of the scope of this standard. Listing these exceptions separately runs the risk of misinterpreting the standard as including regular bilateral transactions in its scope, especially among non-English-speaking readers. To avoid such misunderstanding, we ask that this point is clarified in the Preface or through the addition of diagrams and the like.

2. Clarification of the reason for excluding taxes from the scope

With regard to the exclusion of taxes from the scope of this ED, BC 12 through BC 14 explains that the definition of "transfer" is based on the definition given by GFSM (Government Finance Statistics Manuals and Guides) but as far as the reason for the exclusion of taxes from the scope is concerned, the explanation is insufficient, as it only states that it is adhering to IPSAS 23 which excludes taxes from the scope of transfers. We believe that a more theoretical explanation, at least to the extent that it explains why taxes were excluded from the scope of IPSAS 23, is required.

Specific Matter for Comment 2 :

Do you agree with the proposals in this [draft] Standard to distinguish between transfer expenses with performance obligations and transfer expenses without performance obligations, mirroring the distinction for revenue transactions proposed in ED 70, *Revenue with Performance Obligations*, and ED 71, *Revenue without Performance Obligations*? If not, what distinction, if any, would you make?

Comment:

We agree to the proposal of the distinctions of transfer expenses with performance obligations and transfer expenses without performance obligations mirroring the distinction for revenue transactions of the revenue standards (in ED 70 and ED 71). However, we believe that the following points require clarification.

1. Clarification of the scope

One of the items in ED 72 that does not mirror ED 71 is tax expenses. While the definition of transfer expenses in paragraph 8 in ED 72 excludes tax expenses (including levies) from its scope, we believe that it requires clarification. We propose, for example, providing clarification in a Preface, or stating exclusions to the scope of ED 72 such as taxes in parentheses in the far-right column of the diagram in IG2.

2. Hybrid transactions

BC14 explains that ED 72 complements ED 70 and ED 71. If this is correct, guidance on the accounting treatment of expenses should be provided for transactions with components with performance obligations and components without performance obligations, similarly to AG70 of ED 70.

Specific Matter for Comment 3 :

Do you agree with the proposal in this [draft] Standard that, unless a transfer provider monitors the satisfaction of the transfer recipient's performance obligations throughout the duration of the binding arrangement, the transaction should be accounted for as a transfer expense without performance obligations?

Comment:

We partially agree and believe following two responses are needed.

1. Definition of “monitoring”

   We request a clarification of the definition and the criteria of monitoring. To “monitor” is a general term and in terms of IPSASB, it can also be applied to such initiatives as the surveillance carried out by the PIC (Public Interest Committee).

2. Examples to determine cases in which monitoring is not possible

   In determining the presence or absence of performance obligations, whether the criteria for monitoring the satisfaction of performance obligations of paragraph 13(d) have been met depends on the transfer provider’s capabilities and the provisions of the “binding arrangement.” The wording of ED 72 may lead to divergences in judgment. We, therefore, request sufficient examples to support the preparer in determining cases where the degree of satisfaction can/cannot be monitored.

Specific Matter for Comment 4 :

This [draft] Standard proposes the following recognition and measurement requirements for transfer expenses with performance obligations:

(a) A transfer provider should initially recognize an asset for the right to have a transfer recipient transfer goods and services to third-party beneficiaries; and

(b) A transfer provider should subsequently recognize and measure the expense as the transfer recipient transfers goods and services to third-party beneficiaries, using the public sector performance obligation approach.

The rationale for this decision is set out in paragraphs BC16–BC34.

Do you agree with the recognition and measurement requirements for transfer expenses with performance obligations? If not, how would you recognize and measure transfer expenses with performance obligations?

Comment:

We generally agree.

In cases where the transfer provider does not monitor the performance of obligations, the resulting revenue is considered revenue without performance obligations, and consequently, the transfer provider rarely applies a PSPOA (Public Sector Performance Obligation Approach). We agree with the accounting treatment proposed in the ED, as long as the PSPOA is applied. However, in order to apply a PSPOA, especially to the recognition of revenue for a given period, we believe that there are two prerequisites (See also comments on SMC 5);

(a) an indication of information in the initial arrangement allowing for the confirmation of the progress of the performance; and

(b) prompt and verifiable communication of necessary information between the transfer provider and the transfer recipient from the performance of the obligations.

Specific Matter for Comment 5 :

> If you consider that there will be practical difficulties with applying the recognition and measurement requirements for transfer expenses with performance obligations, please provide details of any anticipated difficulties, and any suggestions you have for addressing these difficulties.

Comment:

1. Restrictions on the system required for monitoring

   In cases where the transfer provider monitors the performance of obligations by the transfer recipient, a relative shortage of monitoring manpower could impair the timeliness and verifiability of the information obtained from the transfer recipient.

2. Criteria relating to whether monitoring is possible

   When monitoring is obstructed after the commencement of the transaction, the transfer provider will no longer be able to obtain the necessary information to monitor the status of performance obligations – such as in cases where the status of performance of obligations is conventionally reported until a certain point and ceases. We propose criteria of "monitoring impossible cases" by stating that "the arrangement between transfer provider and recipient does not warranty the system in which the status of performance can be timely obtained".

Specific Matter for Comment 6 :

> This [draft] Standard proposes the following recognition and measurement requirements for transfer expenses without performance obligations:
>
> (a) A transfer provider should recognize transfer expenses without performance obligations at the earlier of the point at which the transfer provider has a present obligation to provide resources, or has lost control of those resources (this proposal is based on the IPSASB's view that any future benefits expected by the transfer provider as a result of the transaction do not meet the definition of an asset); and
>
> (b) A transfer provider should measure transfer expenses without performance obligations at the carrying amount of the resources given up?
>
> Do you agree with the recognition and measurement requirements for transfer expenses without performance obligations?
>
> If not, how would you recognize and measure transfer expenses without performance obligations?

Comment:

We agree.

Specific Matter for Comment 7 :

> As explained in SMC 6, this [draft] Standard proposes that a transfer provider should recognize transfer expenses without performance obligations at the earlier of the point at which the transfer provider has a present obligation to provide resources, or has lost control of those resources. ED

71, *Revenue without Performance Obligations*, proposes that where a transfer recipient has present obligations that are not performance obligations, it should recognize revenue as it satisfies those present obligations. Consequently, a transfer provider may recognize an expense earlier than a transfer recipient recognizes revenue.
Do you agree that this lack of symmetry is appropriate? If not, why not?

Comment:
We agree.

Specific Matter for Comment 8 :

This [draft] Standard proposes that, when a binding arrangement is subject to appropriations, the transfer provider needs to consider whether it has a present obligation to transfer resources, and should therefore recognize a liability, prior to the appropriation being authorized. Do you agree with this proposal?
If not, why not? What alternative treatment would you propose?

Comment:
We agree.

In Japan, expenditures are under the provision of budget approval. However, the budget has different implications depending on the country, and the relationship between budget approval and the time of recognition of a liability will require deliberation.

Specific Matter for Comment 9 :

This [draft] Standard proposes disclosure requirements that mirror the requirements in ED 70, *Revenue with Performance Obligations*, and ED 71, *Revenue without Performance Obligations*, to the extent that these are appropriate.
Do you agree the disclosure requirements in this [draft] Standard are appropriate to provide users with sufficient, reliable and relevant information about transfer expenses? In particular,
(a) Do you think there are any additional disclosure requirements that should be included?
(b) Are any of the proposed disclosure requirements unnecessary?

Comment:
We agree.

However, regarding the disclosure requirements of transfer expenses without performance obligations stated in paragraph 146 (a) and paragraph 149 (a), paragraph 146 states “(a) A reconciliation of the opening and closing balances of payables from binding arrangements for transfer expenses without performance obligations, if not otherwise separately presented or disclosed;” which overlaps with the disclosure requirement of paragraph 149 (a) of “The opening and closing balances of payables arising from transfer expenses without performance obligations, if not otherwise separately presented or disclosed.” Thus, we believe that the inclusion of paragraph 146 (a) will suffice.

Yours sincerely,

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