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

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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 the Exposure Draft 74, *IPSAS 5*, Borrowing Costs – *Non-Authoritative Guidance*

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 Draft 74 "*IPSAS 5*, Borrowing Costs – *Non-Authoritative Guidance*" (hereafter "ED"). Our comments to ED 74 are as follows.

Specific Matter for Comment 1：

Do you agree with the proposed additional implementation guidance and illustrative examples? If not, what changes would you make?

Comments:

We agree with the IPSASB decision to retain the accounting policy choice to capitalize borrowing costs for a qualifying asset as part of the cost of the asset when they are directly attributable to the construction or production of the asset.

The proposed guidance is also in line with the comments submitted by the JICPA in October 2019 in response to the Preliminary View 7 in the Consultation Paper "Measurement."

In Japan, there are practical examples for capitalizing borrowing costs as described below. Therefore, we have no particular difficulty in applying such practice and believe that it is rather appropriate.

- A Local Public Enterprise, which adopts the accounting practice similar to private sector accounting as one of the departments of municipalities, operates water supply business, etc. A Local Public Enterprise can tie each individual borrowing to a relevant qualifying asset.

- Certain Independent Administrative Agencies controlled by the Japanese national government adopt accounting practices by which interests on borrowings incurred during construction are included in the cost of a qualifying asset when construction of an infrastructure asset is funded by borrowings.

Other comments

1. A.3 Asset Funded through Transfers

In our view, the answer does not directly respond to the question. We suggest that the second sentence of the question should be reworded to reflect "When the acquisition, construction, or production of a qualifying asset is fully funded through a transfer," as described in the answer. For instance, we propose the following revision.

(Proposed revision)

Question: "In many jurisdictions, the acquisition, construction, or production of the qualifying asset is funded through a transfer from another public sector entity. Does the entity acquiring, constructing, or producing the qualifying asset apply the allowed alternative treatment, as described in paragraphs 17-18, <u>and capitalize the borrowing cost even when the acquisition, construction, or production of a qualifying asset is fully funded through a transfer?</u>

2. IE2 Qualifying Asset Constructed Over a Period of Time

The second sentence of IE2, "In determining the borrowing costs that can be included in the cost of the tunnel, the Municipality is limited to capitalizing the borrowing costs incurred during the period less any investment income on the temporary investment of those borrowing." explains the portion where the deduction is made in the formula of IE3. This sentence could confuse the readers as it does not support the first sentence of IE2. We contend that the second sentence of IE2 should be made a separate section or included in IE3.

3. IE14 Specific Borrowing – Borrowing for Part of Qualifying Asset's Amount

We suspect that the first sentence stating that "At December 31, 20X1, State Government C has incurred expenditures of CU200 million" and the second sentence stating that "These expenditures were transferred … on January 1, 20X1" is incompatible in chronological order. We recommend either assuming that the two transactions were entered into on the same date or specifying that the expenditures were transferred as an advance payment on January 1, 20X1.

Yours sincerely,

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