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October 25, 2021

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 77 “Measurement”**

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 77 “Measurement” (hereafter “ED”). Our comments to ED 77 are as follows.

Specific Matter for Comment 1 :

Do you agree an item that qualifies for recognition shall be initially measured at its transaction price, unless:

- That transaction price does not faithfully present relevant information of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes; or
- Otherwise required or permitted by another IPSAS?

If not, please provide your reasons, stating clearly what principles are more appropriate, and why.

Comment:

We agree.

However, it should be clearly stated in the core text that no measurement hierarchy and measurement techniques are applied in the initial measurement. In addition, it would prevent confusion among readers if IPSASB adds a statement that deemed cost is applied when a transaction price is not applicable, as well as an easy-to-understand chart showing the relation between deemed cost and the present value measurement technique applied in calculation of the deemed cost.

Specific Matter for Comment 2 :

Do you agree after initial measurement, unless otherwise required by the relevant IPSAS, an accounting policy choice is made to measure the item at historical cost or at its current value? This accounting policy choice is reflected through the selection of the measurement model. If not, please provide your reasons, stating clearly what principles are more appropriate, and why.

Comment:

We agree.

Specific Matter for Comment 3 :

In response to constituents' comment letters on the Consultation Paper, Measurement, guidance on historical cost has been developed that is generic in nature (Appendix A: Historical Cost). Do you agree the guidance is appropriate for application by public sector entities? If not, please provide your reasons, stating what guidance should be added or removed, and why.

Comment:

We agree.

However, it is stated in paragraph A2 of Appendix A that historical cost is categorized in three types, which differs from the discussion in the other Appendices (B to D). We believe it would prevent misunderstanding among the users of ED 77 if IPSASB clearly indicates that the procedures and concepts of measurement do not differ among these three types. We recommend that IPSASB add a note to the chart of measurement hierarchy.

Specific Matter for Comment 4 :

Do you agree no measurement techniques are required when applying the historical cost measurement basis in subsequent measurement? If not, please provide your reasons, stating which measurement techniques are applicable to the subsequent measurement of an asset or liability measured at historical cost, and why.

Comment:

We agree.

However, while paragraph BC28 states that amortized cost "is considered to be a form of historical cost," paragraph A6 of Appendix A, an authoritative section, has mentioned measurement at amortized cost without providing any detailed explanation, which we believe could confuse readers. IPSASB should also note that historical cost includes amortized cost in the authoritative section.

Specific Matter for Comment 5 :

Do you agree current operational value is the value of an asset used to achieve the entity's service delivery objectives at the measurement date? If not, please provide your reasons, stating clearly what principles more appropriate for the public sector, and why.
The Exposure Draft includes an Alternative View on current operational value.

Comment:

We agree.

We believe the definition of current operational value in ED 77 is superior to the proposed definition of the Alternative View in that it covers current use and current service level.

However, while the term “service delivery objectives” is used in the definition, “objective” is not referred to in the descriptions of other measurement bases. Further, since the term "objective" is used broadly in phrases such as measurement objectives and financial reporting objectives, we concern if its interpretation would vary between constituents. We believe that IPSASB should revise the terms in order to ensure consistency between definitions. For IPSASB consideration of terms, we prefer “service potential” or “operational capacity” to “service delivery objectives,” because those terms are already used in other paragraphs in ED77. This would clarify that current operational value is a measurement basis for assets and gives weight to operational capacity rather than financial capacity.

Also, we note that the paragraph AV4 of Alternative View in ED 76 states that the meaning of “value of assets” is unclear. In this regard, we agree that the meaning of the term needs to be clarified to avoid variations in interpretation, although we do not feel it necessary to change the definition itself.

Specific Matter for Comment 6 :

Do you agree the proposed definition of current operational value and the accompanying guidance is appropriate for public sector entities (Appendix B: Current Operational Value)?

If not, please provide your reasons, stating clearly what definition and guidance is more appropriate, and why.

Comment:

We agree except for the followings:

(1) Definition

For the definition, please refer to the comments on SMC 5.

(2) Surplus capacity

Paragraph B11 states that current operational value assumes the asset is used to its full capacity.

By applying the capacity currently in use rather than full capacity from the beginning, current operational value can be derived from the value after impairment. We believe current operational value assume applying the capacity currently in use from the viewpoint of efficiency. As described in ED 77, the value derived based on a measurement basis is further adjusted for impairment, etc.

We are concerned that users who do not understand this procedure may be confused as to how current operational value should be interpreted. We propose IPSASB should take measures such as clarification of descriptions in the BC section and adding easy-to-understand descriptions using charts.

Specific Matter for Comment 7 :

Do you agree the asset's current operational value should assume that the notional replacement will be situated in the same location as the existing asset is situated or used?

If not, please provide your reasons, stating clearly why the asset should be measured at a different value.

Comment:

We agree.

Specific Matter for Comment 8 :

Do you agree the income approach is applicable to estimate the value of an asset measured using the current operational value measurement basis?

If not, please provide your reasons, stating clearly why the income approach is not applicable for measuring current operational value.

The Exposure Draft includes an Alternative View on current operational value.

Comment:

We agree.

Specific Matter for Comment 9 :

In response to constituents' comment letters on the Consultation Paper, *Measurement*, guidance on fair value has been aligned with IFRS 13, *Fair Value Measurement* (Appendix C: Fair Value). Do you agree the guidance is appropriate for application by public sector entities?

If not, please provide your reasons, stating what guidance should be added or removed, and why.

Comment:

We agree.

Specific Matter for Comment 10 :

In response to constituents' comment letters on the Consultation Paper, *Measurement*, guidance on cost of fulfillment has been aligned with existing principles in the Conceptual Framework and throughout IPSAS (Appendix D: Cost of Fulfillment). Do you agree the guidance is appropriate for application by public sector entities?

If not, please provide your reasons, stating what guidance should be added or removed, and why.

Comment:

We agree.

Specific Matter for Comment 11 :

Do you agree measurement disclosure requirements should be included in the IPSAS to which the asset or liability pertains and not in ED 77?
If not, please provide your reasons, stating clearly where the measurement disclosure requirements should be included, and why.

Comment:

We disagree.

In Appendix E: Amendments to Other IPSAS, it is proposed that measurement disclosure requirements be incorporated in respective IPSASs; these requirements are based on IFRS 13 and thus generally the same with only slight differences from each other. We believe, however, that this has made it difficult for users to understand the disclosure requirements. For example, descriptions about “observable/not observable” or “recurring/non-recurring” differ among IPSASs, making it extremely difficult to understand how they differ from each other.

It would be very difficult for IPSASB to ensure a high level of consistency as to these requirements, and we are concerned that preparers of financial statements and users (including auditors) might also find it difficult to recognize such slight differences in descriptions among IPSASs.

We believe it would be easier and more practicable to include the disclosure requirements shared across IPSAS in ED 77, rather than including the guidance based on and thus similar to IFRS 13 in each IPSAS; insert a reference to these disclosure requirements in each IPSAS; and then make adjustments such as deleting unnecessary items and amending items as needed.

Specific Matter for Comment 12 :

Are there any measurement disclosure requirements that apply across IPSAS that should be included in ED 77, *Measurement*?
If yes, please provide your reasons, stating clearly what the disclosures are, and why.

Comment:

We believe that requirements based on the disclosure requirements set forth in IFRS 13 (paragraphs 91 through 99) should be included in ED 77. The reason is stated in our comment for SMC 11.

Specific Matter for Comment 13 :

Do you agree current value model disclosure requirements should be applied consistently across IPSAS? For example, the same disclosure requirements should apply to inventory and property, plant, and equipment when measured at fair value.
If not, please provide your reasons, stating clearly which IPSAS require more or fewer measurement disclosures, and why.

Comment:

We agree.

However, fair value is defined respectively in IPSAS 13 and IPSAS 32, which are outside the scope of ED 77.

If IPSASB decides not to cover disclosure requirements in ED 77, we request that IPSASB should clarify whether IPSASB would ensure consistency with disclosure requirements in IPSAS 13 and IPSAS 32.

Specific Matter for Comment 14 :

Do you agree with the proposal disclosure requirements for items remeasured under the current value model at each reporting date should be more detailed as compared to disclosure requirements for items measured using the current value model at acquisition as proposed in Appendix E: Amendments to Other IPSAS.

If not, please provide your reasons, stating clearly why disclosure requirements should be consistent for recurring items and non-recurring items measured using the current value model.

Comment:

We agree.

Specific Matter for Comment 15 :

Do you agree fair value disclosure requirements should include requirements to disclose inputs to the fair value hierarchy?

If not, please provide your reasons, stating clearly why disclosure requirements for inputs in the fair value hierarchy are unnecessary.

Comment:

We agree.

Other comments

The followings are editorial comments on Appendix E:

(1) Amendment to IPSAS 1

There are two paragraph 143 but the first one is actually paragraph 141.

(2) Amendment to IPSAS 12 (the same applies to IPSAS 16, 27, 31, and 38)

As paragraph 50C (g) consists only of (i) and without (ii), (i) and (ii) are unnecessary.

(3) Amendment to IPSAS 26

Although amendment to paragraph 120 is proposed, the description in (f) before the proposed amendment is different from the corresponding description in 2021 IPSASB Handbook. We believe (i) through (iii) are added for the first time in ED 77.

(4) Amendment to IPSAS 33

In the second line of paragraph 152C, a parenthesized reference to paragraph 152D is missing after "assets or liabilities." The parenthesized reference is seen in amendments to other IPSAS.

As to "Levels of the current operational value" mentioned in paragraph 152C (b), it is unclear whether three levels like those for the fair value hierarchy are applied to current operational value.

(5) Amendment to IPSAS 34

In paragraph 23F, "paragraph" is overlapped.

(6) Amendment to IPSAS 39

The paragraph "Terms defined in other IPSAS are used in this [draft] Standard with the same meaning as in those Standards, and are reproduced in the Glossary of Defined Terms published separately" on page 122 is missing in IPSAS 39 in 2021 Handbook. The paragraph is necessary and thus must be added with underline to ensure readers understanding.

(7) Amendment to IPSAS 41

The title "Subsequent Measurement" on page 126 is missing in IPSAS 41 in 2021 Handbook. Referenced document mentioned in AG143S should be IPSAS 28, not IPSAS 29.

Yours sincerely,

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Executive Board Member - Public Sector Accounting and Audit Practice

The Japanese Institute of Certified Public Accountants