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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 Consultation Paper “Conceptual Framework for General
Purpose Financial Reporting by Public Sector Entities”**

Dear Sir:

The Japanese Institute of Certified Public Accountants (JICPA) is pleased to comment on Comments on the Consultation Paper “Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities”(the “CP”), as follows:

On “Request for Comments, Preliminary View 1 to 9”

***Preliminary View 1 - The Authority of the IPSASB Framework (following
paragraph 1.7)***

The IPSASB Framework will not establish new authoritative requirements for financial reporting by public sector entities that adopt IPSASs, nor will it override the requirements of existing IPSASs.

In selecting accounting policies to deal with circumstances not dealt with in IPSASs or other guidance issued by the IPSASB, public sector entities will refer to, and consider the applicability of, the definitions, recognition criteria, measurement principles, and other concepts identified in the IPSASB Framework.

Response/Comment:

We agree with this preliminary view.

However, we think that the IPSASB should consider how to examine whether existing IPSASs and other documents apply within this framework, and they require revision, and whether it is necessary to form a related organization outside of the IPSASB.

Preliminary View 2 - General Purpose Financial Reports (GPFRs) (following paragraph 1.15)

GPFRs are financial reports intended to meet the common information needs of a potentially wide range of users who are unable to demand the preparation of financial reports tailored to meet their specific information needs.

Response/Comment:

We do not agree with this preliminary view. In our view, the definition of GPFRs should be as follows.

“GPFRs are financial reports intended to meet the common information needs of a potentially wide range of users.”

The reason is as follows.

It is right that the IPSASB defines GPFRs from the standpoints of users and their information needs. We assume that users of GPFRs are not only users outside the government who cannot access its financial information, but also the legislature, which can access it (see Preliminary View 3). If users are limited to the people “who are unable to demand the preparation of financial reports tailored to meet their specific information needs”, then “users” as mentioned in Preliminary View 3 cannot use GPFRs.

Consequently, we think IPSASB has only to define GPFRs as financial reports intended to meet the common information needs of a potentially wide range of users.

Preliminary View 3 - The Users of GPFRs (following paragraph 2.7)

As a mechanism for focusing on their common information needs, the potential users of GPFRs of public sector entities are identified as:

- recipients of services or their representatives;
- providers of resources or their representatives; and
- other parties, including special interest groups and their representatives.

The legislature is a major user of GPFRs. It acts in the interest of members of the community, whether as recipients of services, providers of resources, or citizens with an interest in, or need for, particular services or activities.

Response/Comment:

We agree with this preliminary view.

The reason is as follows.

Since public sector entities are accountable to those who provide them with their resources, it is right to define the providers of resources and their representatives as users of GPFRs. Also, since public sector entities are accountable to those who benefit from the resources provided, it is right to define the recipients of services and their representatives as users of GPFRs.

However, some mentions, since citizens are both “recipients of services” and “providers of resources”, the IPSASB should define primary users in order to clarify the information needs.

Since the legislature plays an important role as the allocator of resources to public sector entities as the representative of the recipients of the services and the providers of the resources and it is right to define the legislature as a major user of GPFRs.

Preliminary View 4- The Objectives of Financial Reporting (following paragraph 2.22)

The objectives of financial reporting by public sector entities are to provide information about the reporting entity useful to users of GPFRs for:

- accountability purposes; and

- making resource allocation, political and social decisions.

Response/Comment:

We agree with this preliminary view.

The reason is as follows.

As we mentioned in Preliminary View 3, public sector entities are accountable both to those who provide them with resources and to those who receive their services.

Therefore, the objectives of financial reporting by public sector entities are to provide useful information not only for users to make decisions, but also to discharge public sector entities from accountability.

However, since “making resource allocation” means “public sector entities deciding how to allocate the resources provided,” and “providers of resources deciding how to allocate their resources (economic decision making)”, we think the IPSASB should clarify the definition.

Preliminary View 5 - The Scope of Financial Reporting (following paragraph 3.18)

The scope of financial reporting encompasses the provision of financial and non-financial information about:

- economic resources of the reporting entity at the reporting date and claims to those resources;
- the effect of transactions, other events, and activities that change the economic resources of the reporting entity and claims to those resources during the reporting period, including cash inflows and outflows and financial performance;
- the reporting entity’s compliance with relevant legislation or regulation and legally adopted or approved budgets used to justify the raising of monies from taxpayers and ratepayers;
- the reporting entity’s achievement of its service delivery objectives; and
- prospective financial and other information about the reporting entity’s future service delivery activities and objectives, and the resources necessary to support those activities.

It also encompasses explanatory material about: (a) the major factors underlying the financial performance of the entity, the achievement of its service delivery and other objectives and the factors which are likely to influence its performance in the future; and (b) the assumptions underlying and major uncertainties affecting the information included in GPFRs.

Response/Comment:

We agree with this preliminary view.

The reason is as follows.

The scope of financial reporting has to encompass the information needs of users and to achieve the objectives of financial reporting derived from those information needs. It is right that the scope of financial reporting by public sector entities as described above is broader than that of private sector entities (decided by the IASB), and extends to include the reporting entity's compliance with legally adopted or approved budgets, the reporting entity's achievement of its service delivery objectives, prospective financial and other information about the reporting entity's future service delivery activities and objectives, and explanatory material about the major factors underlying the financial performance of the entity and the achievement of its service delivery, and the assumptions underlying and the major uncertainties affecting the information included in GPFRs, because it responds to users' information needs, consistent with the objectives of financial reporting.

However, since "cash flows" is different from "changes in net assets" in the process of generating information, we consider that the second item, that is financial flow information, should be separated into two aspects of financial flow information:

- financial performance and other change in net assets as a result of the transactions, other events, and activities that change the economic resources of the reporting entity and claims to those resources during the reporting period; and
- cash inflows and outflows during the reporting period.

Preliminary View 6 - Evolution of the Scope of Financial Reporting
(following paragraph 3.22)

The scope of financial reporting should evolve in response to users' information needs, consistent with the objectives of financial reporting.

Response/Comment:

We agree with this preliminary view.

The reason is as follows.

The IPSASB proposes that financial reporting includes prospective or non-financial information, not only historical financial information. Although the scope of financial reporting is extended to discharge public sector entities from accountability and to help users to make decisions, not all users need all of the prospective and non-financial information, and not all the preparers are used to disclosing that information at present. Therefore, the IPSASB should set standards as need arises after preparers disclose that information on a voluntary basis in response to users' information needs in each jurisdiction.

Preliminary View 7 - The Qualitative Characteristics of Information Included in GPFs (following paragraph 4.40)

The qualitative characteristics of information included in GPFs of public sector entities are:

- relevance, which encompasses confirmatory value, predictive value, or both;
- faithful representation, which is attained when depiction of economic or other phenomena is complete, neutral, and free from material error;
- understandability;
- timeliness;
- comparability; and
- verifiability (including supportability).

Constraints on financial reporting are materiality, cost, and achieving an appropriate balance between the qualitative characteristics.

Response/Comment:

We agree with the qualitative characteristics mentioned above.

However, we presume relevance and faithful representation to be fundamental qualitative characteristics, and understandability, timeliness, comparability and verifiability to be enhancing qualitative characteristics.

The reason is as follows.

If information provided is not relevant or is not a faithful representation, we cannot discharge public sector entities from accountability and make information useful for decision making. Therefore, we presume relevance and faithful information to be fundamental qualitative characteristics.

On the other hand, we presume the other characteristics to be enhancing qualitative characteristics, since those characteristics are useful to discharge public sector entities from accountability more effectively, and improve the usefulness of financial information.

Preliminary View 8 - Characteristics of a Reporting Entity (following paragraph 5.10)

The key characteristic of a reporting entity is the existence of users who are dependant on GPFRs of the entity for information for accountability purposes, and for making resource allocation, political, and social decisions.

A public sector reporting entity may be an entity with a separate legal identity or other organisational structure or arrangement.

Response/Comment:

We agree with this preliminary view.

Preliminary View 9 – The Composition of a Group Reporting Entity
(following paragraph 5.35)

A group reporting entity will comprise the government (or other public sector entity) and other entities when the government (or other public sector entity):

- has the power to govern the strategic financing and operating policies of the other entities (a “power criterion”); and
- can benefit from the activities of the other entities, or is exposed to a financial burden that can arise as a result of the operations or actions of those entities; and can use its power to increase, maintain, or protect the amount of those benefits, or maintain, reduce, or otherwise influence the financial burden that may arise as a result of the operations or actions of those entities (a “benefit or financial burden/loss” criterion).

Response/Comment:

We agree with this preliminary view that the whole of government group reporting entity will comprise the government and other entities when a “power” criterion and a “benefit or financial burden/loss” criterion are satisfied.

However, we think the IPSASB should not narrow the scope of a group reporting entity.

- Concerning a “power” criterion, the IPSASB should think of factors that provide power broadly, and consider the difference between private sector entities and public sector entities by judging whether the government has the power to govern the other entities.
- Concerning a “benefit or financial burden/loss” criterion, the IPSASB should describe not only legal obligations such as loan guarantees, but also constructive obligations.

Also, the IPSASB should clarify that the government consider the scope of a group reporting entity based on the legal rights and obligations under the legislation at the reporting date.

Yours sincerely,

Yasuo Kameoka

Takao Kashitani

Executive Board Member

Chair of the Public Sector Committee

The Japanese Institute of Certified Public Accountants