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Technical Director

International Public Sector Accounting Standards Board

International Federation of Accountants

545 Fifth Avenue, 14th Floor

New York, NY 10017 USA

**Comments on the Proposed Amendment to International Public Sector
Accounting Standard, “Financial Reporting Under the Cash Basis of Accounting
— Disclosure Requirements for Recipients of External Assistance”**

Dear Sir:

The Japanese Institute of Certified Public Accountants (JICPA) is pleased to comment on the Proposed Amendment to International Public Sector Accounting Standard, “Financial Reporting Under the Cash Basis of Accounting — Disclosure Requirements for Recipients of External Assistance” (the “ED”), as follows:

Overall Opinion

We are supportive of this proposed standard. Clear disclosure requirements about external assistance will contribute to the improvement of financial management for recipient countries. Donor agencies are expected to accept disclosures prescribed in an IPSAS to be developed based on the ED, and to provide necessary information to recipient countries.

On “Specific Matters for Comment”

1. Whether the designation of certain disclosures as required and other disclosures as

encouraged is appropriate. If the proposed designation is not considered appropriate, please identify the amendments and/or reclassifications you consider appropriate.

We believe that distinguishing disclosure items into requirements and encouragements is appropriate as proposed in the ED, being consistent with other sections of the cash basis IPSAS.

2. Whether the Cash Basis IPSAS “Financial Reporting Under the Cash Basis of Accounting” should be amended to include the additional required and encouraged disclosures, or whether the required and encouraged disclosures should be issued as a separate “stand alone” Cash Basis IPSAS.

We support an amendment to the existing cash basis IPSAS as proposed in the ED, because a comprehensive cash basis IPSAS is a preferable approach.

3. Whether the proposed definition of “external assistance” in paragraph 1.9.1 is sufficiently broad to encompass all official resources received.

We believe the definition of “external assistance” is a tautology. “External assistance” is defined using the expression “official resources”, and “official resources” is defined using the term “multilateral external assistance agencies”, which itself is defined as “external assistance”.

We propose that “multilateral external assistance agencies” be defined avoiding the expression “external assistance” as follows:

Multilateral External Assistance Agencies are all agencies established under international agreement or treaty for the purpose of, or including the purpose of, providing ~~external~~ assistance **such as grants and concessional loans**.

We suggest that “bilateral external assistance agencies” be redefined in the same manner.

Also of concern to us is that the current definition of “external assistance” does not limit assistance to assistance received from overseas. If we interpret the current definition literally, “external assistance” may include transfer from the central

government to a local government. It is probably not the intention of the IPSASB to include such an interpretation. Therefore, we propose the inclusion of “received from overseas” in the definition of “external assistance”.

Further, we suggest that “external assistance” be changed to “official external assistance” or similar, to clearly indicate the official nature of the current definition. (Please refer to point 5 below)

4. Whether the separate disclosures of the amount of external assistance should be required on the face of the Statement of Cash Receipts and Payments as is currently required in paragraph 1.9.6, or whether the IPSAS should allow such disclosure to be made either on the face of the Statement of Cash Receipts and Payments or in the notes thereto.

We think that disclosure on the face of the Statement of Cash Receipts and Payments as required in the ED is appropriate, given other disclosure requirements on the face of the Statement of Cash Receipts and Payments in the cash basis IPSAS.

5. Whether other sources of assistance, such as assistance provided by nongovernmental organizations (NGOs), should also be included in the definition of “external assistance”. Currently, the proposed Standard requires that entities disclose all official resources received. Official resources as defined in paragraph 1.9.1 would exclude certain assistance received from NGOs.

We see little theoretical justification to exclude unofficial assistance such as that from NGOs. However, we support limiting “external assistance” to official resources as in the ED, on the ground of cost-benefit. Furthermore, as we described in point 3 above, we propose a wording clarifying the official nature, such as “official external assistance”.

6. Whether the Standard should encourage the disclosure of specific categories of external assistance or only the disclosure of external assistance by “significant classes” without further specification. Paragraph 2.1.60 encourages the disclosure of external assistance by significant classes. Paragraph 2.1.61 includes a description of some such classes.

We are supportive of the ED on disclosure by “significant class” without specification. The concrete classification rests with the recipient, since the composition of external assistance varies among the recipients.

7. The proposal to require disclosure of the balance of undrawn external assistance loans and grants (paragraph 1.9.16), and encourage disclosure of changes therein during the period (paragraph 2.1.65(c)).

We support the proposal of the ED. It is appropriate to require disclosure of the balance while encouraging disclosure of changes. However, since disclosure of the terms and conditions of external assistance is merely encouraged rather than required in ED 24, there is the concern that disclosure of undrawn external assistance without disclosure of the associated terms and conditions will mislead readers of financial statements into believing that such undrawn external assistance is available unconditionally. To dispel such a concern, we propose that when undrawn external assistance is subject to conditions, this fact is required to be disclosed.

We believe that the proposal in paragraph 2.1.68 that requires an entity to apply the exchange rate of each applicable “transaction” is inappropriate. Changes in undrawn external assistance do not represent cash flow during the period, nor are they “transactions” in an accounting sense. Undrawn external assistance indicates future possible external assistance to be received. More useful information would be presented if the exchange rates at fiscal year-end were to apply not only to the balance, but also to the changes during the period, in order that the translated amount would represent the most reasonable estimate of future possible cash flow. Further, most recipients seem to record such changes only in foreign currency without translation into their reporting currency during the period. It would be troublesome and too great a burden for recipients to translate individual changes by the exchange rate of the date when such change occurs only for the purpose of financial disclosure.

8. Whether the disclosure of the terms and conditions of external assistance agreements that determine or effect access to, or limit the use of, external assistance which is currently encouraged (paragraph 2.1.69), should be reclassified as a required disclosure.

We support the encouragement as proposed in the ED. However, as described in point 7 above, required disclosure is appropriate when disbursement of undrawn external assistance is subject to conditions.

9. Whether it is appropriate to encourage disclosure of the value of external assistance received in the form of non-cash goods and services (paragraph 2.1.85) and, if an entity elects to make such disclosure, to require disclosure of the basis on which that value was determined (paragraph 1.9.18).

We support the proposal in the ED.

10. Whether the transitional provisions in paragraphs 1.9.26 and 1.9.27 are appropriate:
 - (a) Paragraph 1.9.26 provides for a transitional period of two years for disclosure of the balance of undrawn external assistance; and
 - (b) Paragraph 1.9.27 provides an exemption from the requirement to disclose comparative figures during the first year of application of the requirements relating to external assistance.

The IPSASB would welcome comments on whether other requirements of this Standard should also be subject to transitional provisions.

We support the transitional provisions as proposed in the ED. We do not think that other requirements in the ED need any transitional treatments.

11. Whether there are additional disclosures that have not been dealt with and should be required or should be encouraged.

- 1) Paragraph 1.9.22 “Disclosure of Non Compliance with Significant Terms and Conditions”

The ED requires disclosures of non compliance with significant terms and conditions only when such non compliance results in cancellation of the associated assistance.

We believe that it is appropriate to expand the range of situations which trigger disclosure by modifying the paragraph as follows:

An entity shall disclose in the notes to the financial statements significant terms and conditions associated with external assistance loans, grants or guarantees that have not been complied with, when non compliance results in punitive action by the donor, such as cancellation of the assistance, cessation of scheduled disbursement, or halting further provision of assistance.

In many cases, non compliance with terms and conditions does not cause immediate cancellation of the associated assistance, even if such non compliance is significant. Significant non compliance more frequently causes the cessation of the disbursement of undrawn assistance or other actions (eg. halting further assistance) to prompt the recipient to return to compliance with the breached terms and conditions. Given such practices in the donor community, we believe that the conditions to trigger disclosure in the ED are much too limited.

2) Paragraph 2.1.80

We believe that disclosure of the outstanding balances of the external assistance debt itself needs to be encouraged as well as the repayment terms and conditions of the debt. It is a disparity that disclosure of the outstanding balances themselves is not encouraged while disclosure of the repayment terms and conditions of such loans is encouraged.

Other Comments

1. Paragraph 1.9.1 “Definitions”

We think that the following definitions are not necessary since these terms are not used in important context of the ED.

- Assigned External Assistance
- Re-Lent External Assistance loans
- Non-Government Organizations (NGOs)

If the IPSASB elects to keep the definition of NGOs, given the fact that many NGOs assist private sector organizations, we propose that the definition be changed to

“NGOs are all foreign or national agencies established independent of control by any government for the purpose of providing assistance to government(s), government agencies, private organizations or to individuals.”

2. Paragraph 1.9.5

We suggest that paragraph 1.9.5 clearly indicates the fact that in-kind goods or services are one of the major forms of external assistance. Our proposed wording, to be appended after paragraph 1.9.5(c), is as follows:

(d) Provision with goods or services in-kind that the external assistance agency directly procures.

Provision with good or services in-kind may include cases when an external assistance agency contracts with an NGO to provide a recipient with goods or services. ~~External assistance agreements may also include provision of goods or services in-kind to the recipient.~~

3. From paragraphs 2.1.73. to 2.1.75.

We have some difficulty understanding these paragraphs, so we propose clarification. The difficulty arises by describing two different matters in the same paragraph: the guarantee of repayment of external assistance loans, and the guarantee of accomplishment of the terms and conditions associated with the external assistance.

We suggest that the description of the guarantee of repayment, currently in paragraph 2.1.73(a), is placed after paragraphs 2.1.80 – 2.1.84 that describe disclosure of terms and conditions of repayment of external assistance debts, and that description of the disclosure of a third party “guarantee” of the accomplishment of some terms and conditions associated with the external assistance is placed after paragraphs 2.1.68 – 2.1.72 that describe the disclosure of the terms and conditions of external assistance. We also suggest replacing the word “guarantee” in the latter case with “commitment” or a similar word.

4. Consideration of events after the fiscal year-end

We hope that the IPSASB will consider whether events occurring after the fiscal year-end but before the preparation of financial statements need to be disclosed when such events significantly affect the availability of external assistance. The following are examples which the IPSASB should consider:

- Cancellation of a significant portion of undrawn external assistance
- Decision to reschedule or cancel a significant portion of external assistance debt

11. Other editorial matters

- 1) Paragraph 1.9.17, line 8, “opening and closing balances will be....”

We suggest the deletion of “opening and” since disclosure of the opening balance is not required in paragraph 1.9.16.

- 2) Appendix 1, page 22

We suggest the following amendment since “Other Grants and Aid” cannot be part of External Assistance by definition.

External Assistance

Multilateral Agencies

Bilateral Agencies

Other Grants and Aid

Other Borrowings

- 3) Appendix 1, page 24, the last three lines “External assistance loans of X....”

We suggest deleting this sentence since such disclosure is not required in the ED.

- 4) Appendix 1, page 25

We suggest deleting the example of disclosure of undrawn external assistance by currency since such disclosure is not required in the ED.

5) Paragraph 2.1.67, line 5 – 6

We suggest the addition of “or expired” in the following sentence since a major reason for extinguishing undrawn external assistance is that the time limit for the disbursement of such assistance has expired.

“...the total amounts of loans and grants cancelled or expired during the period,”

We also suggest amending the table in page 35 on the same ground.

“Loans cancelled and expired”

“Grants cancelled and expired”

6) Appendix 2, page 34

We suggest changing “Loan funds” in the table below to “Borrowed funds” to be consistent with the table above in the same page.

7) Appendix 2, the last paragraph of page 41

We suggest the addition of “and services” as follows:

“Goods and services in-kind received during the year....”

8) Basis for Conclusion, paragraph BC1

Paragraph BC1. states “providers of external assistance, particularly development assistance, require recipients to follow accounting principles acceptable to them for the use of the funds provided.” The statement may be true, but it is irrelevant as the basis for conclusion since the ED stipulates the disclosure of funds received or receivable but does not stipulate the disclosure of the use of the funds.

Yours sincerely,

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Executive Board Member

Chair of the Public Sector Committee

The Japanese Institute of Certified Public Accountants