



**The Japanese Institute of
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October 4, 2019

Mr. John Stanford
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, Ontario, Canada M5V 3H2

Comments on Consultation Paper “Measurement”

Dear Mr. Stanford,

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 Consultation Paper “Measurement” (hereafter “CP”). Our comments to CP are as follows.

Introduction

We agree with the development of application guidance on measurement bases common to all the IPSAS standards, as mentioned in Chapter 2 of this CP. We believe that the development of such application guidance would help users more fully understand the general measurement bases applied in the public sector and would also reduce the inconsistencies in applying the IPSAS standards. We also believe that the IPSASB should provide clearer and more detailed explanations in developing an exposure draft (hereafter “ED”) going forward. Certain improvements are required to the description of the measurement basis for historical cost included in the current proposed application guidance. Several terms should be added to the list of definitions. Please see the individual comments below for further detail.

We do not support the proposal that borrowing costs be accounted for as expenses in all cases in chapter 3 of the CP. As a result of considering government accounting practices in Japan and consistency between those accounting treatment in IFRS, we believe that an entity should be allowed to elect to expense or capitalize some borrowing costs. For the transaction costs, as described in Chapter 3, we believe that it is more practical to apply the “initial measurement” and “subsequent measurement”, which reflects the transaction costs at the commencement date of transaction and reporting date, rather than the measurement of transaction costs when commencing and exiting the transaction.

The flow chart in Chapter 4 of the CP would be useful. In addition to the chart, we propose that the IPSASB should develop a figure to help readers better understand the election of measurement bases on initial measurement.

The “Introduction” and “Illustrative ED” that the IPSASB has recently attempted to develop provide useful reference to us in our discussions of the issues contained in the CP. When the IPSASB develops CPs going forward, we encourage the Board to consider using a format like that of the CP.

Preliminary View 1—Chapter 2

The IPSASB’s Preliminary View is that the fair value, fulfillment value, historical cost and replacement cost measurement bases require application guidance.

Do you agree with the IPSASB’s Preliminary View?

If not, please provide your reasons, stating clearly which measurement bases should be excluded from, or added to, the list, and why.

Comment:

We agree. But we think the IPSASB should consider following points.

1. Figure 2.1 on the measurement bases used in the existing IPSAS seems to represent only part of the IPSASs that clearly refer to the measurement bases. As such figures would be helpful for constituents, these should also be included in an ED.

We think the figure should include the whole suite of relevant IPSASs including the IPSASs that refer to the measurement bases only implicitly.

IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*, for example, is only identified as a standard prescribing the fulfillment value. It would not be persuasive that a measurement basis with only one description as a representative measurement basis and link it to the development of an application guidance. Under IPSAS 39 *Employee Benefits* or IPSAS 42 *Social Benefits*, a relatively vast amount of liabilities would be recognized in financial statements. However, we cannot find any description of these IPSASs in the figure 2.1, and it does not necessarily reflect the practical materiality of the line items.

2. The CP proposes the development of an application guidance only for the fulfillment value among five measurement bases described in the Conceptual Framework. Reading the descriptions in BC10 and BC 11, we cannot clearly identify how the IPSASB has determined that the needs of four measurement bases, including the fulfillment value, are high and the descriptions in the BCs seem to be insufficient. Descriptions in the BCs should be detailed, like the descriptions in the Project Overview of the CP.
3. We think that the BCs of the illustrative ED should clearly explain why some of the measurement bases in the Conceptual Framework were excluded from the CP.

4. The illustrative ED does not divide the chapter on measurement into separate sections for the initial measurement and subsequent measurement. In practice, the initial measurement and subsequent measurement are clearly distinct, and the measurement bases applied may differ. We recommend that the ED include separate sections covering the initial measurements and subsequent measurements.

Preliminary View 2—Chapter 2

The IPSASB's Preliminary View is that the application guidance for the most commonly used measurement bases should be generic in nature in order to be applied across the IPSAS suite of standards. Transaction specific measurement guidance will be included in the individual standards providing accounting requirements and guidance for assets and liabilities.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and state what guidance should be included, and why.

Comment:

We agree. But see our Comment 4 concerning PV1.

Preliminary View 3—Chapter 2

The IPSASB's Preliminary View is that guidance on historical cost should be derived from existing text in IPSAS. The IPSASB has incorporated all existing text and considers Appendix C: Historical Cost—Application Guidance for Assets, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

Comment:

We do not agree. We believe that improvements are needed on the following issues.

1. Paragraphs C12 to C13 and C15 to C17 all address the issues of incidental costs. A single requirement for them should be developed. C12(b), for example, refers to specific examples related to costs incidental to purchase. C15 includes an example of the costs that should be included in consideration attributable to purchase and/or development (that is, incidental costs). The descriptions are redundant.
2. C16 states that costs are excluded from the consideration (they are not incidental costs) if they:
 - (a) are not directly incidental to the asset's acquisition and/or development; or
 - (b) do not contribute to the ability to create the asset's service potential and/or future economic benefits.

This may imply that an incidental cost can be excluded only if condition (b) is met. The reference to (a) should be retained, but (b) only relates to the introduction of examples. Condition (b), accordingly, is not a criterion independently applicable, and should be moved to

C17.

Thus, C16 should thus be revised as follows:

C16. Costs not directly incidental to the asset’s acquisition and/or development are excluded from the consideration that forms a part of an asset’s historical cost.

Preliminary View 4—Chapter 2

The IPSASB’s Preliminary View is that fair value guidance should be aligned with IFRS 13, taking into account public sector financial reporting needs and the special characteristics of the public sector. The IPSASB considers Appendix A: Fair Value–Application Guidance, to be complete.

Do you agree with the IPSASB’s Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

Comment:

We agree but recommend that the following clarification be added.

1. A6 of Appendix A of the CP states that “A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions”. An asset or liability “exchanged in an orderly transaction between market participants” could be interpreted to exclude non-exchange transactions. Non-exchange transactions are quite common in the public sector. As described in Paragraph 27 of IPSAS 16 *Property, Equipment and Plant*, non-exchange transactions are commonly entered in the public sector and must be measured at fair value. Therefore, we propose that the IPSASB should clarify that the requirements concerning fair value include “non-exchange transactions.”
2. To help constituents consider the preliminary view, we request that the ED include a cross reference to the requirements of IFRS 13 that are relevant, in addition to AG. The Basis for Conclusion should clarify why the requirements in Paragraphs 34 to 56 and Paragraphs 70 to 71 were excluded.

Preliminary View 5—Chapter 2

The IPSASB’s Preliminary View is that fulfilment value guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix B: Fulfilment Value–Application Guidance, to be complete.

Do you agree with the IPSASB’s Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

Comment:

We agree with the IPSASB’s Preliminary View.

Preliminary View 6—Chapter 2

The IPSASB's Preliminary View is that replacement cost guidance should be based on the concepts developed in the Conceptual Framework, expanded for application in IPSAS. The IPSASB considers Appendix D: Replacement Cost—Application Guidance, to be complete.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider needs to be changed.

Comment:

We agree with the IPSASB's Preliminary View.

Specific Matter for Comment 1—Chapter 2

Definitions relating to measurement have been consolidated in the core text of the Illustrative ED.

Do you agree that the list of definitions is exhaustive?

If not, please provide a listing of any other definitions that you consider should be included in the list and the reasons for your proposals.

Comment:

We do not agree.

The measurement bases for market value are described in the definitions of terms presented in Paragraph 6 of the ED. BC9 includes explanations of the cost of release and the assumption price which are excluded from the application guidance of this standard. We therefore believe that they should be added to the definitions.

Specific Matter for Comment 2—Chapter 3

Guidance in International Valuation Standards (IVS) and Government Financial Statistics (GFS) has been considered as part of the Measurement project with the aim of reducing differences where possible; apparent similarities between IPSAS, IVS and GFS have been noted. Do you have any views on whether the IPSASB's conclusions on the apparent similarities are correct?

Do you agree that, in developing an Exposure Draft, the IPSASB should consider whether the concepts of Equitable Value and Synergistic Value should be reviewed for relevance to measuring public sector assets (see Addendum B)?

Comment:

We agree with the IPSASB's Preliminary View.

Preliminary View 7—Chapter 3

The IPSASB's Preliminary View is that all borrowing costs should be expensed rather than capitalized, with no exception for borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.

Do you agree with the IPSASB's Preliminary View?

If not, please state which option you support and provide your reasons for supporting that option.

Comment:

We do not agree. We support Option 3.

The CP objects to the capitalization of borrowing costs of a public sector entity, mainly because such borrowing costs cannot be clearly tied to a qualifying asset (due to the nature of the asset) and an allocation would therefore be arbitrary. As indicated in CP 3.13, however, borrowing costs could be attributed to qualifying assets in a good number of cases.

In Japan, local public enterprises (one of the departments of municipalities and operate water supply business) apply private sector accounting. As far as the local public enterprises, each individual borrowing can be tied to a relevant qualifying asset. In the accounting practices adopted by some Independent Administrative Corporations controlled by the Japanese national government, interests on borrowings during construction are included in the historical cost of qualifying asset during the construction of infrastructure assets funded by the borrowings. We therefore cannot accept a treatment that automatically accounts for borrowing costs as expenses.

The IFRS states that the cost of assets should include all the costs incurred until the asset is ready for its intended use. This means that the borrowing costs are also included in the cost. The CP does not seem to clearly deny this concept of the IFRS.

The CP denies capitalizing borrowing costs because diminishing comparability and consistency of GFS. We consider that reason is not robust.

Preliminary View 8—Chapter 3

The IPSASB's Preliminary View is that transaction costs in the public sector should be defined as follows:

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an asset or liability and would not have been incurred if the entity had not acquired, issued or disposed of the asset or liability.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and provide an alternative definition for the IPSASB to consider.

Comment:

We agree with the IPSASB's Preliminary View.

Preliminary View 9—Chapter 3

The IPSASB's Preliminary View is that transaction costs should be addressed in the IPSAS, Measurement, standard for all IPSAS.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would address the treatment of transaction costs in IPSAS, together with your reasons for supporting that treatment.

Comment:

We agree with the IPSASB's Preliminary View.

Preliminary View 10—Chapter 3

The IPSASB's Preliminary View is that transaction costs should be addressed in the IPSAS, Measurement, standard for all IPSAS.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would address the treatment of transaction costs in IPSAS, together with your reasons for supporting that treatment.

Preliminary View 11—Chapter 3

The IPSASB's Preliminary View is that transaction costs should be addressed in the IPSAS, Measurement, standard for all IPSAS.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and state how you would address the treatment of transaction costs in IPSAS, together with your reasons for supporting that treatment.

Comment:

We do not agree.

Transaction costs would be more readily understood if initial measurement and subsequent measurement are adopted, rather than measurement of transaction costs reflecting the timing of occurrence of transactions (when commencing and exiting the transactions). The initial measurement and subsequent measurement would also be more consistent with the timing of the accounting treatment in practice. It would be more useful to clearly describe the relationship between each measurement basis and transaction cost by developing illustrative examples. One of concerns is that with only the descriptions in the proposed ED provided, a journal entry including a transaction cost in a fulfillment value could potentially give rise to diversity in accounting practices.

Costs related to asset retirement obligations are incremental costs that are directly attributable to the acquisition of assets and would not be incurred if the entity had not acquired the asset. These costs could be transaction costs, as described in the CP.

IPSAS 17. 30(c) (cost relating to asset retirement obligations) states that, "the cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period." Under the current IPSAS, the asset retirement obligations are effectively determined to be an element of historical cost. This would be inconsistent with this Preliminary View, which excludes transaction costs incurred in existing transaction from the historical cost.

Specific Matter for Comment 3—Chapter 4

Do you agree that the measurement flow charts (Diagrams 4.1 and 4.2) provide a helpful starting point for the IPSASB to review measurement requirements in existing IPSAS, and to develop new IPSAS, acknowledging that other matters need to be considered, including:

- The Conceptual Framework Measurement Objective;
- Reducing unnecessary differences with GFS;
- Reducing unnecessary differences with IFRS Standards; and
- Improving consistency across IPSAS.

If you do not agree, should the IPSASB consider other factors when reviewing measurement requirements in existing IPSAS and developing new IPSAS? If so, what other factors? Please provide your reasons.

Comment:

We agree, provided that the following issues should be further considered.

1. Flow chart would significantly be changed depending on the conclusions reached on fair value and market value in PV4.
2. The proposed measurement flow chart mainly discusses the subsequent measurement. In some cases, a relevant measurement basis must be determined for an initial measurement. We propose that the IPSASB should develop a flow chart for the initial measurement in the CP to summarize and confirm the discussions of the initial measurement.

Other comments

BC18 of the proposed ED excludes the measurement of items held for sale from the scope of the proposed ED, noting that consistent with IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*, the issues relating to the measurement of items held for sale are like issues relating to the measurement of impaired assets.

The issues relating to the measurement of impaired assets are excluded from the measurement project, as Figure 2.1, Note 14 of the CP notes that the project should include guidance on generic measurement issues and the detailed guidance on the use of value-in-use is included in the impairment standard.

If no IPSAS corresponding to IFRS 5 exists, we are not of the view that the issues addressed in the Illustrative ED are “similar to issues relating to the measurement of impaired assets.”. While IFRS 5 is IPSASB’s potential project to ensure consistency between the IPSAS and IFRS, it is not regarded as a priority project. We think the IPSAB should clarify the reasons and background on this issue in BCs.

Yours sincerely,

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The Japanese Institute of Certified Public Accountants