

May 31, 2022

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 81 “Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements in Financial Statements”**

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 81 “*Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements in Financial Statements*” (hereafter “ED”). Our comments to ED 81 are as follows.

#### **Specific Matter for Comment 1: Prudence**

In paragraphs 3.14A and 3.14B, the IPSASB has provided guidance on the role of prudence in supporting neutrality, in the context of the qualitative characteristic of faithful representation. Paragraphs BC3.17A-BC3.17E explain the reasons for this guidance. Do you agree with this approach?

If not, why not? How would you modify these paragraphs?

Comment:

We agree.

#### **Specific Matter for Comment 2: Obscuring Information as a Factor Relevant to Materiality Judgments**

In discussing materiality in paragraph 3.32 the IPSASB has added obscuring information to misstating or omitting information as factors relevant to materiality judgments. The reasons for this addition are in paragraphs BC3.32A and BC3.32B.

Do you agree with the addition of obscuring information to factors relevant to materiality

judgments? If not, why not?

Comment:

We agree with the proposal to add obscuring information to factors relevant to materiality judgments discussed in paragraph 3.32.

On the other hand, however, we disagree with the addition of “Where an entity judges that a material item is not separately displayed on the face of a financial statement (or displayed sufficiently prominently) an entity considers disclosure.” to the end of paragraph 3.32 for the following two reasons:

(i) It is inconsistent with IASB’s approach.

IASB is currently undertaking a project on General Presentation and Disclosures to replace IAS 1, *Presentation of Financial Statements*. Agenda Paper 21A (Primary Financial Statements) reported in IASB Update April 2021 describes the Board’s approach as follows:

The Board tentatively decided:

- a. in relation to the principles of aggregation and disaggregation to:
  - i. state the purpose of disaggregation more clearly—items shall be disaggregated if the resulting disaggregated information is material. All 13 Board members agreed with this decision.
  - ii. ...

As shown above, IFRS requires that if items in the financial statements are material, such items shall first be disaggregated and separately presented. This is inconsistent with the procedure (of considering disclosure where a material item is not separately displayed) described in the sentence proposed to be added to paragraph 3.32. We do not believe this matter requires additional considerations specific to public sector entities.

(ii) It is inappropriate to provide guidance on presentation in chapters other than Chapter 8.

Paragraphs 8.25 through 8.35 of the IPSASB’s Conceptual Framework provide guidance on what information needs to be displayed and on the selection of information to be disclosed. We believe the guidance given in the current Chapter 8 provides sufficient information. However, if the guidance on presentation needs to be amended in terms of materiality, such amendments should be made in Chapter 8 rather than in paragraph 3.32.

### **Specific Matter for Comment 3: Rights-Based Approach to a Resource**

Paragraphs 5.7A-5.7G reflect a rights-based approach to the description of resources in the context of an asset. The reasons for this approach are in paragraphs BC5.3A-BC5.3F.

Do you agree with this proposed change? If not, why not?

Comment:

We agree with the proposal except for the following:

Paragraph 5.7C describes goods or services that are received and immediately consumed (e.g., services-in-kind). Paragraphs 5.7A through 5.7G are proposed to be added to give detailed descriptions of “rights;” however, in paragraph 5.7C, the term “capacity” is used instead of “rights.” This gives the impression of inconsistency. Meanwhile, the term “rights” is used in paragraph BC5.3F which supplements paragraph 5.7C. We believe that the term “rights” should also be used in paragraph 5.7C so that it is consistent with the other proposed paragraphs in terms of wording.

### **Specific Matter for Comment 4: Definition of a Liability**

The revised definition of a liability is in paragraph 5.14:

*A present obligation of the entity to transfer resources as a result of past events.*

The reasons for the revised definition are in paragraphs 5.18A-5.18H.

Do you agree with the revised definition? If you do not agree with the revised definition, what definition do you support and why?

Comment:

We agree.

### **Specific Matter for Comment 5: Guidance on the Transfer of Resources**

The IPSASB has included guidance on the transfer of resources in paragraphs 5.16A-5.16F of the section on Liabilities. The reasons for including this guidance are in paragraphs BC5.19A-BC5.19D.

Do you agree with this guidance? If not, how would you modify it?

Comment:

We agree.

### **Specific Matter for Comment 6: Revised Structure of Guidance on Liabilities**

In addition to including guidance on the transfer of resources, the IPSASB has restructured the guidance on liabilities so that it aligns better with the revised definition of a liability. This guidance is in paragraphs 5.14A-5.17D. Paragraph BC5.18H explains the reasons for this

restructuring.

Do you agree with this restructuring? If not, how would you modify it?

Comment:

We agree.

#### **Specific Matter for Comment 7: Unit of Account**

The IPSASB has added a section of Unit of Account in paragraphs 5.26A-5.26J. The reasons for proposing this section are in paragraphs BC5.36A-BC5.36C.

Do you agree with the addition of a section on Unit of Account and its content? If not, how would you modify it and why?

Comment:

We agree.

#### **Specific Matter for Comment 8: Accounting Principles for Binding Arrangements that are Equally Unperformed**

The IPSASB took the view that guidance on accounting principles for binding arrangements that are equally unperformed should be included in the Conceptual Framework, but that a separate section on accounting principles for such binding arrangements is unnecessary. These principles are included in paragraphs 5.26G-5.26H of the section on Unit of Account. The explanation is at paragraphs BC5.36D-BC5.36F.

Do you agree that:

- (a) Guidance on principles for binding arrangements that are equally unperformed is necessary; and if so
- (b) Such guidance should be included in the Unit of Account section, rather than in a separate section?

If you do not agree, please give your reasons.

Comment:

We agree.

Yours sincerely,

Shiina Hiroshi

Executive Board Member - Public Sector Accounting and Audit Practice

The Japanese Institute of Certified Public Accountants