IPSASB®

Consultation Paper Summary: Public Sector Specific Financial Instruments

This summary provides an overview of the Consultation Paper (CP), *Public Sector Specific Financial Instruments.*

Project objectives:	The Consultation Paper considers the issues related to public sector specific financial instruments and approaches to accounting for them. The objective is to initiate a debate about matters such as: • The types of instruments considered to be in scope of the project; and • Approaches to recognition and measurement of those items included in the project. This Consultation Paper is the first step in determining these requirements.
The project and stage:	The IPSASB issued this Consultation Paper in July 2016.
Next steps:	The IPSASB seeks feedback to guide it in further developing the principles of recognition and measurement for social benefits.
Comment deadline:	The Consultation Paper is open for public comment until December 31, 2016.
How to respond:	Respondents are asked to submit their comments electronically through the IPSASB website, using the "Submit a Comment" link on the CP page. Please submit comments in both a PDF and Word file. All comments will be considered a matter of public record and will ultimately be posted on the website.

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Why is the IPSASB Undertaking this Project?

The purpose of the IPSASB's project is to initiate a discussion about matters such as definitions of items considered to be public sector specific financial instruments; and the approaches to the recognition and measurement of such items.

A number of important monetary items (which the IPSASB has termed "public sector specific financial instruments") are unique to the public sector. IPSASs currently do not provide requirements or guidance on how to account for these items, which could lead to reporting that is inconsistent between entities and may be inappropriate. As a result, users may not have the information they need for accountability and decision-making purposes. This lack of guidance is a significant gap in the IPSASB's literature.

Several items with public sector specific transactions were identified during the IPSASB's project to develop IPSASs 28–30, *Financial Instruments*. Some of these items were addressed in IPSAS 28–30, because these items satisfied the definition of a financial instrument. These items included:

- Concessionary loans; and
- Financial guarantees contracts issued through non-exchange transactions

This left a number of items to be dealt with in later projects.

This CP covers transactions related to "monetary authorities", which include:

- Currency in circulation;
- Monetary gold; and
- The IMF quota subscription and special drawing rights (SDRs).

This CP is an important step in determining the appropriate reporting for these public sector specific financial instruments.

The CP has been influenced by more recent developments in the IPSASB's literature, including:

- *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities; and*
- Policy Paper, *Process for Considering GFS Reporting Guidelines during Development of IPSASs*

The objective of the CP is to initiate a debate about matters such as:

- The definitions of items considered to be in scope of the CP; and
- Approaches to recognition and measurement.

General Definitions

Chapter 2 includes the definitions which relate to all topics included in the Consultation Paper.

Monetary Authority is the entity or entities, including the central bank or a department(s) of the central (national) government, which carry out operations usually attributed to the central bank.

Reserve Assets are those external assets held by monetary authorities that are readily available for balance of payments financing needs, intervention in the currency markets to affect exchange rates and maintaining confidence in the currency and the economy.

Examples of reserve assets are:

- Monetary gold
- Special Drawing Rights (SDRs)
- Foreign currency
- Highly liquid investments

Currency in Circulation

The key definition for this chapter is:

Currency in Circulation is physical notes and coins with fixed and determinable values that are legal tender issued by, or on behalf of the monetary authority, that is, either that of an individual economy or, in a currency union to which the economy belongs.

What is Currency in Circulation?

Physical notes and coins issued as legal tender are a medium of payment, recognized by a legal system as a valid form of payment. Currency in Circulation includes those physical notes and coins issued by the monetary authority for that economy.

"Dollarization"—the adoption of a foreign currency, i.e., currency issued by foreign monetary authority—does not give rise to Currency in Circulation.

Notes and coins issued by a regional body with the authority to issue legal tender for the area, is considered to be domestic currency for all countries of such a currency union.

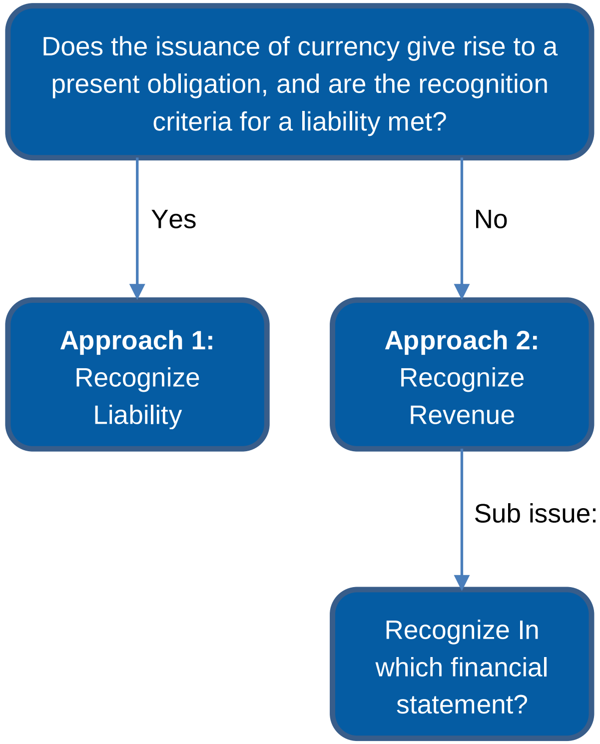
Accounting Approaches Proposed

The Consultation Paper considers approaches to accounting for currency in circulation in the context of the *Conceptual Framework.*

The accounting decisions that need to be answered in determining appropriate accounting approaches are summarized in the diagram to the right.

Although some jurisdictions account differently for notes and coins, the IPSASB's view is that the accounting treatment should be consistent, with a liability recognized for both notes and coins issued.

Diagram: Accounting Approaches



Monetary Gold

The key definitions for this chapter are:

Monetary Gold is tangible gold held by monetary authorities as reserve assets.

Tangible Gold is physical gold that has a minimum purity of 995 parts per 1000.

Why is Monetary Gold Important?

The unique characteristics of gold make it an important reserve asset, for the following reasons;

Economic security. Gold does not deteriorate or decay. It has a high density, with small amounts having high value. It is physical and therefore is not a liability of another party;

Risk diversification. Gold is transacted in a large global market, but a unique market to those of other reserve assets (gold markets often move inversely to key global currency markets, such as the US dollar);

Confidence. Currency is no longer backed or exchangeable for gold. However, confidence in currency and monetary authorities often can be linked to gold holdings; and

Asset available for unexpected liquidity needs. In periods of uncertainty, high inflation or large negative economic events, gold becomes a critical asset as it can be sold for foreign currency reserves, used directly for international payments or as collateral for borrowings.

What is Considered Monetary Gold?

Monetary gold includes any gold assets which satisfy the proposed monetary gold definition, for example:

- Gold held directly by monetary authorities, or in allocated and unallocated gold accounts
- Commemorative and legal tender gold coins
- Some financial instruments which allow for physical settlement in gold on demand and for which monetary authorities have the intention of taking physical delivery.

Measurement of Monetary Gold

Two measurement approaches are identified, linked to the intentions monetary authorities have in holding such assets:

Approach 1. Measurement at *market value* linked to the intention to hold gold because it *can be traded* in the global liquid markets; and

Approach 2. Measurement at *historical cost* when the intention is to hold gold for an *indeterminate period* of time to support economic stability.

The IPSASB is seeking views as to whether the measurement basis should be prescribed or whether a monetary authority should be able to designate a measurement basis, based on their holding intentions.

International Monetary Fund: Quota Subscription and Special Drawing Rights

The key definitions for this chapter are:

IMF Quota Subscription is the amount equal to the assigned quota, payable by the member on joining the IMF, and as adjusted subsequently.

Special Drawing Rights (SDR) Holdings are International reserve assets created by the IMF and allocated to members to supplement reserves.

SDR Allocations are obligations which arise through IMF member's participation in the SDR Department and that are related to the allocation of SDR holdings.

The IMF is a key institution to the public sector, and specifically to monetary authorities, which is why accounting for the IMF quota subscription and SDRs are important issues.

On joining the IMF, member countries are assigned a quota based on their relative position in the world economy and pay a subscription equal to the value of the quota. The quota is also the key determinant of the voting power, amount of financial assistance available to the member from the IMF, and the member country's allocations of SDRs.

The IMF quota subscription is a requirement for membership in the IMF and provides its main source of funding. IMF membership provides benefits to members through its lending facilities, oversight of the international monetary system and capacity building services for developing countries. All of these IMF activities provide benefits that impact the global economy by helping to promote economic growth and stability.

SDRs were created by the IMF to supplement other reserve assets and help ensure growth in international trade through increased global liquidity.

Recognition and Measurement—IPSASB's View

The IPSASB's view of the appropriate recognition and measurement, informed by the *Conceptual Framework*, for each item is as follows:

The IMF Quota Subscription. Satisfies the *Conceptual Framework* definition of an asset and should be recognized initially at historical cost. Subsequent measurement may be at:

- Historical cost (when the translated value of the quota equals the cumulative resources contributed to the IMF)
- Net selling price (when the translated value of the quota does not equal the cumulative resources contributed to the IMF)

SDR Holdings. Satisfy the *Conceptual Framework* definition of an asset and should be recognized, with measurement at market value.

SDR Allocations. Satisfy the *Conceptual Framework* definition of a liability and should be recognized with measurement at market value.

Next Steps

The deadline for comments is December 31, 2016.

During the comment period, IPSASB members are available to discuss the proposals with a wide range of parties.

How can I comment on the proposals?

The CP requests comments on both, the Preliminary Views of the IPSASB and the Specific Matters for Comment.

Respondents may choose to provide comments and answers on all the Preliminary Views and all Specific Matters for Comment or just selected views or matters for comment. They are also welcome to comment on any other matter they think the IPSASB should consider in forming its views.

Respondents are asked to submit their comments electronically through the IPSASB website, using the "Submit a Comment" link. Please submit comments in both a PDF and Word file.

All comments will be considered a matter of public record and will be posted on the IPSASB website.

The IPSASB will carefully consider all feedback and discuss responses at its public meetings after the comment period has ended.

Stay informed

The IPSASB's website will indicate the meetings at which feedback on the CP will be discussed. The dates, and, where known, the locations of 2016 and 2017 meetings are available at:

http://www.ipsasb.org/meetings

To stay up to date about the project, please visit:

http://www.ipsasb.org/projects/public-sector-specific-financial-instruments