Exposure Draft 69
August 2019
Comments due: December 31, 2019

IPSAS®

Proposed International Public Sector Accounting Standard ®

Public Sector Specific Financial Instruments: Amendments to IPSAS 41, *Financial Instruments*

IPSASB International Public Sector Accounting Standards Board®

International Public Sector Accounting Standards Board®

This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating their adoption and implementation, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective the IPSASB sets IPSAS™ and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants® (IFAC®).

REQUEST FOR COMMENTS

This Exposure Draft, *Public Sector Specific Financial Instrument: Amendments to IPSAS 41, Financial Instruments*, was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by December 31, 2019.**

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 file and a Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

Objective of the Exposure Draft

The objective of this Exposure Draft (ED) is to propose improvements to the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about monetary gold, currency in circulation, IMF quota subscriptions and Special Drawing Rights. Following the publication of IPSAS 41, *Financial Instruments*, the IPSASB decided to provide guidance for Public Sector Specific Financial Instruments through amendments to IPSAS 41 proposed in this ED.

Guide for Respondents

The IPSASB would welcome comments on all matters discussed in this ED. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale, and, where applicable, suggest alternative wording.

The Specific Matter for Comment requested for the ED is provided below.

Specific Matter for Comment 1:

Do you agree with the proposed amendments to IPSAS 41, *Financial Instruments*?

If not, what changes would you make to the proposals?

Amendments to IPSAS 41, *Financial Instruments*

New text is underlined, and deleted text is struck through.

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 41.

Introduction

…

BC3. The IPSASB acknowledges that there are other aspects of financial instruments, insofar as they relate to the public sector, which are not addressed in IFRS 9. The IPSASB has undertaken separate projects on *Public Sector Specific Financial Instruments*, and *Revenue and Non-exchange Expenses,* to address:

(a) Certain transactions undertaken by monetary authorities; and

(b) Receivables and payables that arise from arrangements that are, in substance, similar to, and have the same economic effect as, financial instruments, but are not contractual in nature.

Public Sector Specific Financial Instruments

BC3A. In developing IPSAS 28, *Financial Instruments: Presentation*, IPSAS 29, *Financial Instruments: Recognition and Measurement*, and IPSAS 30, *Financial Instruments: Disclosures*, the IPSASB identified several items which have public sector specific characteristics. The items identified during the initial financial instruments project as "Public Sector Specific Financial Instruments" were:

- Monetary gold;
- Special Drawing Rights;
- International Monetary Fund (IMF) quota subscriptions;
- Currency in circulation;
- Statutory receivables / payables;
- Concessionary loans; and
- Financial guarantee contracts.

BC3B. Two public sector specific issues—concessionary loans and financial guarantee contracts issued through non-exchange transactions—were addressed in the application guidance in IPSAS 41. Both instruments meet the definition of a financial instrument. As statutory receivables and payables are not contractual, the IPSASB agreed to address these instruments in a separate project.

BC3C. The IPSASB agreed to address the remaining issues through a Public Sector Specific Financial Instruments project.

BC3D. In considering responses to its Consultation Paper, *Public Sector Specific Financial Instruments* (issued in July 2016), the IPSASB agreed, where possible, that Public Sector Specific Financial Instruments should be addressed in the current financial instruments standards.

BC3E. The IPSASB developed additional implementation guidance for monetary gold, currency in circulation and Special Drawing Rights. The IPSASB noted the features of IMF quota subscriptions are consistent with those in Illustrative Example 32 and decided that additional guidance was not required. The IPSASB concluded that the additional illustrative examples and augmented implementation guidance provide appropriate guidance for accounting for these instruments.

…

Gold Bullion

BC18. Gold bullion does not meet the definition of a financial instrument as defined in IFRS 9. Given the IPSASB proposals in its Public Sector Specific Financial Instruments project related to monetary gold, the IPSASB considered whether this was appropriate. The IPSASB noted that gold bullion has a wider meaning than monetary gold, and for entities that are not monetary authorities, the guidance is appropriate. The IPSASB therefore agreed to include Implementation Guidance B.1. ~~The IPSASB will reconsider this matter when it concludes its Public Sector Specific Financial Instruments project.~~

Monetary Gold

BC18A. As part of the Public Sector Financial Instruments project, the IPSASB considered accounting for gold held by monetary authorities as reserve assets that are available to monetary authorities in carrying out their mandates, i.e., monetary gold. Some constituents indicated the scope of IPSAS 41 should be expanded to include monetary gold as it shares several characteristics with a financial asset. For example, monetary gold is:

a. Readily convertible into cash;

b. Quoted globally in US dollars;

c. Easily traded with willing counterparties (durable, divisible and portable);

d. Accepted as a form of payment by some central banks; and

e. A store of wealth.

Furthermore, monetary gold can be held:

a. For its contribution to financial capacity because of its ability to be sold in the global liquid gold trading markets; and

b. For an indeterminate period of time, because it provides confidence in the monetary authority's financial strength and ability to carry out its activities.

BC18B. In considering the responses to the Consultation Paper, *Public Sector Specific Financial Instruments*, the IPSASB confirmed its view that monetary gold is not a financial instrument. Although monetary gold is highly liquid, there is no contractual right to receive cash or another financial asset.

BC18C. The IPSASB also confirmed that the scope of IPSAS 41 should not be expanded. Nevertheless, the IPSASB noted that applying the principles in IPSAS 41 to monetary gold may be appropriate under the hierarchy set out in paragraphs 9–15 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

BC18D. The IPSASB concluded that, while monetary gold shares many characteristics with a financial asset, as noted in paragraph BC18A, the hierarchy set out in IPSAS 3 requires an entity to assess all facts specific to the circumstances related to the holding of monetary gold. Should an entity account for monetary gold using principles consistent with those applied to financial assets, the IPSASB expects all classification and measurement requirements set out in IPSAS 41 to be applied.

…

Illustrative Examples

These examples accompany, but are not part of, IPSAS 41.

…

Example 32—Capital Subscriptions Held with Redemption Features

IE211. In order to participate in and support the activities of International Development Bank A, or similar international organization, Federal Government B invests and acquires a fixed number of subscription rights in International Development Bank A, based on Government B's proportional share of global Gross Domestic Product. Each subscription right costs CU1,000, which provides Government B with the right to put the subscription rights back to Bank A in exchange for the initial amount invested (i.e., CU1,000 per subscription right). International Development Bank A has no obligation to deliver dividends on the subscription rights.

…

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 41.

…

Section B Definitions

B.1 Definition of a Financial Instrument: Gold Bullion

Is gold bullion a financial instrument (like cash) or is it a commodity?

It is a commodity. Although bullion is highly liquid, there is no contractual right to receive cash or another financial asset inherent in bullion.

B.1.1 Definition of a Financial Instrument: Monetary Gold

Is monetary gold a financial instrument (like cash)?

No. Similar to gold bullion, monetary gold is not a financial instrument as there is no contractual right to receive cash or another financial asset inherent in the item. However, given that monetary gold has many of the characteristics of a financial asset, applying the principles set out in IPSAS 41 is generally appropriate under the hierarchy set out in paragraphs 9–15 of IPSAS 3, *Accounting Policies, Changes in Accounting*

Estimates and Errors. It may however be appropriate for an entity to consider other IPSAS depending on the facts and circumstances related to its holding of monetary gold.

B.1.2 Public Sector Specific Financial Instruments

B.1.2.1 Definition of a Financial Instrument: Currency Issued as Legal Tender

Does issuing currency as legal tender create a financial liability for the issuer?

It depends. Currency derives its value, in part, through the statutory arrangement established between the issuer and the holder of the currency whereby currency is accepted as a medium of exchange and is recognized legally as a valid form of payment. In some jurisdictions, this statutory arrangement further obligates the issuer to exchange currency when it is presented by holders and may explicitly indicate that currency is a charge on government assets.

For the purposes of this Standard, an entity considers the substance rather than the legal form of an arrangement in determining whether there is a contractual obligation to deliver cash. Contracts are evidenced by the following:

- Willing parties entering into an arrangement;
- The terms of the contract create rights and obligations for the parties to the contract; and
- The remedy for non-performance is enforceable by law.

When laws and regulations or similar requirements enforceable by law, such as a banking act, set out the requirements and responsibilities of an entity to exchange outstanding currency, a “contract” exists for the purposes of this Standard. A financial liability is created when an entity issues currency to the counterparty as, at this point, two willing parties have agreed to the terms of the arrangement. Prior to currency being issued, there is no transaction between willing parties. Unissued currency does not meet the definition of a financial instrument. An entity applies paragraph 13 of IPSAS 12, *Inventories,* in accounting for any unissued currency.

B.1.2.2 Definition of a Financial Instrument: Special Drawing Rights (SDR) Holdings

Do Special Drawing Rights Holdings (SDR) meet the definition of a financial asset?

Yes. SDR holdings represent a claim on the currencies of members of the International Monetary Fund (IMF). SDR’s can be used in transactions with the IMF or can be exchanged between participants of the IMF’s SDR Department. Liquidity is guaranteed by a mechanism requiring participants to deliver cash in exchange for SDRs. Accordingly, SDR holdings are regarded as a financial asset.

B.1.2.3 Definition of a Financial Instrument: Special Drawing Rights (SDR) Allocations

Do Special Drawing Rights Allocations meet the definition of a financial liability?

Yes. SDR allocations represent the obligation assumed when SDR holdings are distributed to members. IMF members must stand ready to provide currency holdings up to the amount of their SDR allocation. This represents a contractual obligation to deliver cash. Accordingly, SDR allocations are regarded as a financial liability.

…

Published by: IFAC International Federation of Accountants®

International Public
Sector Accounting
Standards Board®

529 Fifth Avenue, New York, NY 10017
T + 1 (212) 286-9344 **F** +1 (212) 286-9570
www.ipsasb.org