Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

NZASB EXPOSURE DRAFT 2022-4

Public Sector Specific Financial Instruments

(Proposed Non-Authoritative Amendments to PBE IPSAS 41)

Issued [date]

This [draft][1] Standard was issued on [Date] by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This [draft] Standard is a disallowable instrument for the purposes of the Legislation Act 2019, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [Date].

Reporting entities that are subject to this [draft] Standard are required to apply it in accordance with the effective date, which is set out in Part D.

In finalising this [draft] Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This [draft] Tier 1 and Tier 2 PBE Standard is based on amendments issued by the International Public Sector Accounting Standards Board to clarify the accounting treatment of public sector specific financial instruments, including some instruments with characteristics similar to financial instruments.

1 References to "this Standard" throughout this Exposure Draft should be read as referring to "this draft Standard".

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CONTENTS

Part A – Introduction

This Standard sets out non-authoritative amendments to PBE IPSAS 41 *Financial Instruments*.

The amendments clarify the accounting treatment of public sector specific financial instruments, including some instruments with characteristics similar to financial instruments.

Tier 1 and Tier 2 public benefit entities are required to comply with all the requirements in this Standard.

Part B – Scope

This Standard applies to Tier 1 and Tier 2 public benefit entities.

Part C – Amendments

Amendments to PBE IPSAS 41 *Financial Instruments*

In the NZASB Basis for Conclusions, paragraphs BC17-BC19 and the related heading are added. New text is underlined.

Basis for Conclusions

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

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Public Sector Specific Financial Instruments

BC17. In December 2020, the IPSASB issued *Non-Authoritative Amendments to IPSAS 41, Financial Instruments* which amended the non-authoritative Illustrative Examples and Illustrative Guidance accompanying IPSAS 41, *Financial Instruments*. The aim of those amendments was to clarify the accounting treatment of the following items that may be held by public sector entities:

(a) Monetary gold;

(b) Currency in circulation;

(c) International Monetary Fund special drawing rights; and

(d) IMF quota subscriptions.

BC18. The NZASB considered that some public sector PBEs in New Zealand could also find these clarifications helpful and proposed equivalent amendments to PBE Standards. In April 2022 the NZASB issued for comment NZASB ED 2022-4 *Public Sector Specific Financial Instruments* (Proposed non-authoritative amendments to PBE IPSAS 41). The NZASB noted that the clarifications would ensure that PBE IPSAS 41 continues to be aligned with IPSAS 41.

BC19. The IPSASB had concluded as part of these non-authoritative amendments to IPSAS 41 (BC3E of IPSAS 41) that "*IMF quota subscriptions share a number of features with those in Illustrative Example 32 in IPSAS 41*". The NZASB considered Illustrative Example 32 and concluded it was not useful when determining how to account for IMF quota subscriptions because it does not include all the features that are specific to this arrangement. The NZASB noted that each jurisdiction will need to apply the principles and requirements of IPSAS 41 when determining how to account for IMF quota subscriptions, which will be based on their individual facts, circumstances and how they manage IMF transactions and arrangements.

BC20. In [Date] 2022 the NZASB finalised the amendments and issued *Public Sector Specific Financial Instruments* (Amendments to PBE IPSAS 41).

In the Illustrative Examples, paragraph IE211 is amended. Deleted text is struck through and new text is underlined.

Illustrative Examples

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

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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 organisation, Federal Government B ~~invests~~ invested and ~~acquires~~ acquired a fixed number of subscription rights in International Development Bank A, based on Federal Government B's proportional share of global Gross Domestic Product. Each subscription right costs CU1,000, which provides Federal Government B with the right to put the subscription rights back to International Development 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.

…

In the Implementation Guidance, sections B.1.1 to B.1.2.3 and the related headings are added. New text is underlined.

Implementation Guidance

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

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Section B Definitions

Section B provides non-authoritative guidance on whether certain items meet the definitions in PBE IPSAS 41.

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 a highly liquid asset, 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 shares several characteristics with a financial asset, applying the principles set out in PBE IPSAS 41 is generally appropriate under the hierarchy set out in paragraphs 9–15 of PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*. It may however be appropriate for an entity to consider other PBE Standards 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 recognised 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. Where no financial liability exists, an entity should consider whether an obligation is created in accordance with paragraphs 22–43 of PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*. 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 PBE 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 (SDR) Holdings meet the definition of a financial asset?

Yes. SDR holdings represent a claim on the currencies of members of the International Monetary Fund (IMF). SDRs 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 (SDR) 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.

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Part D – Effective Date

This amending Standard shall be applied for annual periods ending on or after [proposed date is 1 January 2023]. Earlier application is permitted.