

Final Pronouncement  
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IPSAS®

*International Public Sector Accounting Standard®*

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Non-Authoritative  
Amendments to IPSAS 41,  
*Financial Instruments*

IPSASB

International Public  
Sector Accounting  
Standards Board®

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

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## Non-Authoritative Amendments to IPSAS 41, *Financial Instruments*

### Basis for Conclusions

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

#### Introduction

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- BC3. When developing IPSAS 41, the IPSASB ~~acknowledges~~ acknowledged that there are other ~~aspects of financial instruments and items with some financial instruments' characteristics as defined in IPSAS 41 so far as they relate to that relates~~ specific to the public sector, and which are not addressed in IFRS 9. The IPSASB has undertaken separate projects on *Public Sector Specific Financial Instruments*, and *Revenue and Non-exchange Transfer 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. The Public Sector Specific Financial Instruments (PSSFI) project arose because, 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 with characteristics that might make them public sector specific financial instruments (PSSFIs). These items were:

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

BC3B. Of the items listed in BC3A, two public sector specific items — concessionary loans and financial guarantee contracts issued through non-exchange transactions — meet the definition of a financial instrument and thus were addressed in the application guidance in IPSAS 41. Neither statutory receivables nor payables are contractual, and so do not meet the definition of a financial instrument. The IPSASB agreed to address these instruments in a separate project.

BC3C. The IPSASB agreed to address the remaining public sector specific items in a PSSFI project. In July 2016, the IPSASB issued a Consultation Paper (CP), *Public Sector Specific Financial Instruments* which provided a detailed analysis of these items. This analysis included definitions, which were developed to reflect the substance of these items as well as conventions included in IPSAS and discussions by the IPSASB related to the transactions in an accounting context. The

IPSASB intended for these definitions to have the same substance as guidance included in the various Government Finance Statistics manuals referenced.

BC3D. Respondents to the CP agreed that:

- (a) Several of the items meet the definition of a financial instrument in IPSAS and therefore should be addressed in existing guidance; and
- (b) Items that meet the IPSAS definition of a financial instrument should be accounted for in accordance with existing IPSAS accounting principles.

In considering these responses to the CP, the IPSASB concluded, where possible, that PSSFIs should be addressed in the current financial instruments standards and the scope should be retained. This eliminated the need to incorporate the detailed analysis and definitions from the CP in non-authoritative amendments to IPSAS 41 as sufficient principles exist in IPSAS 41 to account for PSSFI items.

BC3E. The IPSASB noted that additional non-authoritative guidance would help users identify these specific financial items that are (or share characteristics of) financial instruments, and developed additional implementation guidance for monetary gold, currency in circulation, and SDRs. However, the IPSASB noted IMF quota subscriptions share a number of features with those in Illustrative Example 32 in IPSAS 41 and decided that additional guidance for quota subscriptions was not required. The IPSASB concluded that the additional illustrative examples and augmented implementation guidance provide appropriate guidance for accounting for monetary gold, currency in circulation, and SDRs.

BC3F. The IPSASB issued Exposure Draft (ED) 69 in August 2019 that proposed non-authoritative amendments to IPSAS 41 to illustrate the application of IPSAS 41 to PSSFIs. These amendments included the non-authoritative guidance noted in BC3E. Respondents to the ED supported the additional non-authoritative guidance provided by the IPSASB and the amendments proposed in the ED.

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### **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~~ PSSFI 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 may be 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 PSSFI project, the IPSASB considered accounting for gold held by monetary authorities as reserve assets that are available to them 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 for:

- a. Its contribution to financial capacity because of its ability to be sold in the global liquid gold trading markets; and
- b. 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 CP, the IPSASB confirmed its view that monetary gold is not a financial instrument. Although monetary gold is a highly liquid asset, there is no contractual right to receive cash or another financial asset inherent in monetary gold.

BC18C. The IPSASB also confirmed that the scope of IPSAS 41 should not be expanded. Nevertheless, the IPSASB considered whether applying the principles in IPSAS 41 to monetary gold might 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 several 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.

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### **Illustrative Examples**

These examples accompany, but are not part of, 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 organization, 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.

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## **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 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 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. Where no financial liability exists, an entity should consider whether an obligation is created in accordance with paragraphs 22-43 of 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 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). 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 (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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